ICRC Humanitarian Impact Bond:

A case study produced as part of the FCDO DIBs pilot Evaluation

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Contents

1. Summary 1
   - 1.1 About this report 2
   - 1.2 Summary of learning from the set-up phase 2
   - 1.3 Summary of learning from the implementation phase 3
     - 1.3.1 Update on delivery 3
     - 1.3.2 HIB effects observed 3
     - 1.3.3 Lessons learnt 4
     - 1.3.4 Conclusion 4
2. Information on the intervention and HIB model 5
   - 2.1 HIB Model 5
3. Learning from setting up the HIB 9
   - 3.1 Reasons for using an impact bond 9
   - 3.2 Designing the intervention 9
   - 3.3 Identifying outcome funders 9
   - 3.4 Identifying investors 10
   - 3.5 Negotiations 10
   - 3.6 Enablers and challenges to launching the HIB 12
4. Learning from HIB delivery (July 2017 to March 2020) 16
   - 4.1 Update on delivery 16
   - 4.2 HIB effects 17
     - 4.2.1 Observed HIB effects attributable to the HIB 19
     - 4.2.2 Effects somewhat observed and somewhat attributable to the HIB 19
     - 4.2.3 HIB effects not observed or observed but not attributable to the HIB 20
     - 4.2.4 HIB effects – too early to say 21
   - 4.3 Other interesting aspects of the HIB 21
   - 4.4 Lessons learnt 23
5. Conclusion 25
   - 5.1 Overall conclusions 25
6. Annex 26

1. Summary

This case study report covers the ICRC Humanitarian Impact Bond (HIB) for Physical Rehabilitation, which funds the building of three new physical rehabilitation centres in Mali, Nigeria and Democratic Republic of Congo (DRC). As a part of the HIB, ICRC is also piloting efficiency improvement measures testing and building a Digital Centre Management System (DCMS).

The ICRC HIB launched in July 2017 and will conclude in July 2022. The funders have committed a maximum of 26.09 m CHF to the intervention, the majority of which is payable in 2022 depending on the results of the programme. The social investors provide the working capital to launch the centres, paying a total of 18.6 m CHF. The final amount payable by the outcome funders depends on the Staff Efficiency Ratio, calculated by the number of beneficiaries having regained mobility thanks to a mobility device, divided by the number of local rehabilitation professionals. The returns are scaled to incentivise efficiency savings. If the new centres operate less efficiently than past centres, the investors will make a loss on their investment and ICRC will be liable to make a loss payment; however, if the centres deliver more efficiently, then the investors will recover their investment and can make a moderate return.

ICRC HIB summary

TIME PERIOD:
July 2017 – July 2022

THEMATIC AREA:
Physical rehabilitation in humanitarian contexts

COUNTRIES:
Mali, Nigeria, and the Democratic Republic of Congo

TARGET POPULATION:
Persons with physical disabilities in Mali, Nigeria, and the Democratic Republic of Congo

OUTCOME METRIC:
Staff Efficiency Ratio (SER), calculated by the number of beneficiaries having regained mobility thanks to a mobility device, divided by the number of local rehabilitation professionals.

TOTAL VALUE:
Outcome funding: 26.09 million CHF

Loan value: 18 million CHF

SERVICE PROVIDER:
International Committee of the Red Cross

OUTCOME FUNDERS:
The Swiss Confederation ('Switzerland')
The Kingdom of Belgium ('Belgium')
The Republic of Italy ('Italy')

The United Kingdom ('UK')

La Caixa Banking Foundation ('La Caixa')

INVESTORS:
Munich Re and its subsidiary New Re, Lombard Odier pension fund and charitable foundations and others

1.1 About this report

This in-depth review is a series being produced as part of the FCDO (formerly DFID) DIBs pilot programme evaluation, commissioned by the Foreign, Commonwealth and Development Office and undertaken by Ecorys. More information about the FCDO DIBs pilot programme evaluation, including other in-depth reviews, can be found at: https://golab.bsg.ox.ac.uk/knowledge-bank/resources/ecorys-evaluation-dfid-dibs/

The case study report covers the findings from our first and second research wave. The case study primarily focuses on the use of the impact bond mechanism and to examine the 'HIB effect', i.e. how the design, delivery, performance, implementation and impact of the intervention has been affected because it has been funded through a HIB.

DIBs are understood by FCDO as one type of payments by results (PbR), or a type of funding whereby payments are made after the achievement of pre-agreed outcomes (FCDO, 2014). In a standard PbR contract, there are four actors: i) an outcome funder who funds the outcomes; ii) the service provider delivering the intervention; iii) the target population, benefiting from the services; and iv) a validating agency that validates the results on which the payments are based. DIBs involve two additional agents: i) the investor(s), which provide(s) the working capital to deliver the intervention and may be able to make a return on their investment, calibrated to the level of outcome achieved; and (sometimes) ii) the intermediary, which can assist with the development and commercialisation of the DIB, and/or with the monitoring and support of the delivery of the intervention. DIBs are typically implemented in developing countries, where the outcome funder is a donor agency or foundation often operating in a different country. Humanitarian Impact Bonds are essentially DIBs operating in humanitarian situations.

The report compiles the findings from the set-up phase of the HIB and has been updated to include findings from the implementation phase. The first wave of research was conducted between October and November 2018 and the second wave was conducted between April and June 2020 and involved consultations with the main stakeholders involved in the design and implementation of the HIB. A full list of consultations is set out at the end of this case study. The case study captures early successes, the HIB effect and lessons learnt during the design and implementation phases. The report will be updated in subsequent years to provide an account of the DIB's progress.

1.2 Summary of learning from the set-up phase

ICRC led the development of the HIB. ICRC designed the HIB with the support of Kois and led the discussions with potential outcome funders. Funding from outcome funders was lower than initially expected. ICRC started approaching investors at the end of 2016. The main focus of negotiations was the outcome metric, outcome target, interest rate and capital protection and timing of payback. Contracting was a particular challenge as the legal frameworks in Switzerland and Belgium had no provisions for the HIB model.

The key enablers to the setup of the HIB was the strong leadership of ICRC and its partners, the development of a clear outcome metric, sufficient evidence for the intervention, data to build up the business case, the strong reputation and track record of ICRC and financial and private sector expertise within ICRC. Challenges included identifying outcome funders, making the necessary shifts within outcome funders and ICRC to accommodate the HIB and adapting the impact bond model to the humanitarian sector.

The key lessons learned were that:

1. HIBs should be developed to meet a specific need
2. It is important to test the legal feasibility of operating a HIB at an early stage of the process
3. Additional time and costs are required to manage multiple investors and donor requirements
4. Investors need to be involved at an early stage
5. Outcome metrics need to be designed to reflect existing data
6. There needs to be flexibility in terms of understanding what an impact bond is, in terms of the structuring of the impact bond and the roles of different stakeholders
7. There are trade-offs between undertaking negotiations in a bilateral or more collaborative fashion.

The main advantages were that the HIB provided longer term upfront capital to ICRC, brought together existing ICRC partners and new partners, and brought in private sector finance which enabled the funding of the DCMS and efficiency improvement measure testing in addition to the three new physical rehabilitation programme centres. The main disadvantages were that the HIB was complex to design and expensive to set up. There was mixed opinion about the extent to which the HIB led to a more careful and rigorous design of the intervention.

1.3 Summary of learning from the implementation phase

1.3.1 Update on delivery

At the time the case study research was undertaken (April to June 2020) the ICRC HIB was in year three of five years. While there had been some delays, the HIB was still on track to deliver against its overall timeline. As a result of Covid-19, there were uncertainties about the timeline, due to delays in the building of the centre in Nigeria and uncertainty about staffing in other countries, as ministries of health understandably had other priorities. The outcome measure is based on the efficiency of delivery, rather than the number of people reached. The assumption is that the centres will reach operational capacity in the second year and as implemented efficiency measures start to take effect at the same time. Hence, the intention is for centres to operate between July 2020 to June 2022, before the Staff Efficiency Ratio is calculated and validated. As of the time of reporting, ICRC expects that centres will be able to start operations between September and October, a slight delay from the original July start date.

1.3.2 HIB effects observed

We observed a number of HIB effects that can be partly attributable to the HIB. While the HIB does represent a different approach to delivery for ICRC, and enables the funding of the DCMS and Efficiency Improvement Measures (EIM), several stakeholders noted that the intervention and effects could have been achieved without a HIB, for example, through direct or grant funding of the DCMS and EIM. Hence, the HIB effects observed cannot be fully attributed to the HIB.

We have seen a shift in focus to outcomes, increased flexibility in some areas, and increased coordination between stakeholders to some degree. It is too early to tell, but the Digital Centre Management System and Efficiency Improvement Measures is expected to improve performance management and enable ICRC to reach more beneficiaries. The HIB was also complex to design and expensive to implement, which affected staff morale to some extent. Stakeholders thought that while it may be possible to reduce costs and time required to design future HIBs, the funding model remains a complex one and there will be limitations to the extent which it is possible to streamline the process.

1.3.3 Lessons learnt

1. What is funded under the impact bond should be carefully considered, to ensure this is necessary and sufficient for the achievement of the target outcomes.
2. Development of the HIB has generated good learning about how much time it takes to design and deliver a HIB. This should be used to better plan and allocate human resources, to avoid diverting attention from other projects.
3. Delivery of a HIB requires both external and internal communication.
4. The contractual structure and governance set up of a HIB affects the timing and level of outcome funder and investor input.

1.3.4 Conclusion

The ICRC HIB is the first HIB. It successfully launched in July 2017 and enables the financing of the development of three new PRP centres, and the testing of DCMS and efficiency measures. It is one of the few impact bonds that has brought in financing from commercial, private investors. The focus of the HIB is on increasing the efficiency of the PRP, and the outcome metric is linked to increased efficiency compared to an established benchmark instead of outcomes achieved, though with increased efficiency, increased outcomes are also expected.

After two and a half years of delivery, the ICRC HIB remains on track to operationalise the centre and there are promising indications that it will be able to deliver against the outcome metric, based on the efficiency improvements that have been delivered as part of the EIM. There have been some challenges relating to the development of the DCMS system and delays to the centres primarily, but not only, as a result of Covid-19. Stakeholders agree that the project-nature of the HIB and the security of funding has enabled a greater focus on outcomes. The HIB was also complex to design and expensive to implement, which affected staff morale.

It is too early to conclude on the advantages and disadvantages of using the impact bond mechanism in this project and the humanitarian sector more broadly, as the rehabilitation centres have not yet been completed. This will be the focus of the new wave of research, scheduled for 2022. This research will also explore the extent to which the HIB has supported improved performance management and the reaching of additional beneficiaries, and the extent to which it has led to perverse incentives.

The International Committee of the Red Cross (ICRC) is an impartial, neutral and independent organisation that manages humanitarian operations in conflict zones through its national delegations in over 80 countries. The ICRC Humanitarian Impact Bond (HIB) funds the following activities.

1. Build 3 new Physical Rehabilitation Programme (PRP) centres to provide people with physical disabilities with mobility devices and physiotherapy in countries with significant unmet needs (Mali, Nigeria, Democratic Republic of Congo)
2. Train local staff to deliver high quality physical rehabilitation services in these centres
3. Pilot and rigorously assess efficiency improvement measures (EIM) across eight[1] existing ICRC PRP centres, and build a Digital Centre Management System (DCMS) with the aim of improving efficiency and maintaining quality patient outcomes
4. Use the DCMS and improved operational protocols based on the findings from the efficiency improvement measure testing to operationalise the three new centres.

ICRC is delivering the intervention within its Physical Rehabilitation Programme (PRP)[2] using the same reporting structure and procedures.

2.1 HIB Model

The ICRC Humanitarian Impact Bond is the first humanitarian bond, so named because it is an impact bond operating in a humanitarian context. The HIB launched in July 2017 and will conclude in July 2022.

The funders have committed a maximum of 26.09m CHF, which is made up of 10.0m CHF from the Swiss Confederation; 9.31m CHF (8.7m EUR) from the Kingdom of Belgium; 3.21m CHF (3m EUR) from the Republic of Italy; 2.50m CHF (2m GBP) from the United Kingdom and 1.07m CHF (1m EUR) from La Caixa Foundation. The final amount payable by the funders will be based on the results of the programme, payable in September 2022, with the exception of La Caixa's EUR 1m funding, which will be payable upon the successful construction of the centres.

As the outcome funders only pay at the end of the project, the social investors provide the working capital to launch the centres. New Re (the cornerstone investor) provided 10m CHF, and the other private investors identified by Lombard Odier, the placement intermediary, provided 8.60m CHF. This was paid in two equal tranches, in July 2017 and July 2018.

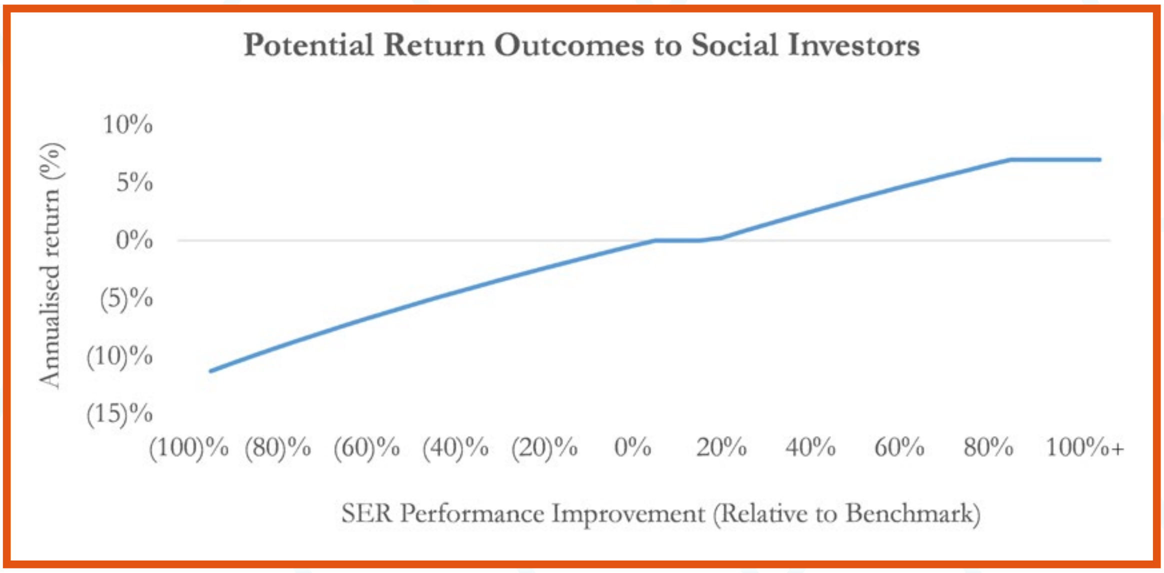
Amounts payable by the outcome funders, and therefore returns to social investors, will be based on the Staff Efficiency Ratio (SER). This is calculated by the number of beneficiaries having regained mobility thanks to a mobility device, divided by the number of local rehabilitation professionals. The SER in the final year of the programme will be compared to the baseline SER (established from historical data from other comparable ICRC centres in Africa). ICRC's self-reported results data, which will be used to calculate the SER, will be verified by an independent auditor. The auditor will visit a 5% sample of beneficiaries to confirm that they have regained mobility, based on a standardised physical functionality test used by ICRC.

The returns are scaled to incentivise efficiency savings; if the new centres operate less efficiently than past centres (or do not open), the investors will make a loss on their investment and ICRC will be liable to make a loss payment to the investors corresponding to 10% of investor capital. However, if the centres deliver more efficiently, delivering services to more people with the same resources, then the investors will recover their investment and can make a moderate return.

1 Cambodia, Pakistan, Myanmar, Zinder and Niamey in Niger, Mali, Togo, Madagascar
2 The PRP has been operating since 1979, formerly the Physical Rehabilitation unit

The return to the investors ranges from a loss of 11.3% per year (equating to a loss of 40% of their initial commitment) if there is a 100% deterioration in the SER compared to the benchmark, to a return of 7.0% per year (equating to 134.5% of the commitments) if there is a 80% performance improvement. Returns are calculated inclusive of the 2% annual coupon payments - that is, the annual interest paid to investors based on the amount owed. Figure 1 below sets out the range of potential returns to investors.

Figure 1: Range of Potential Returns



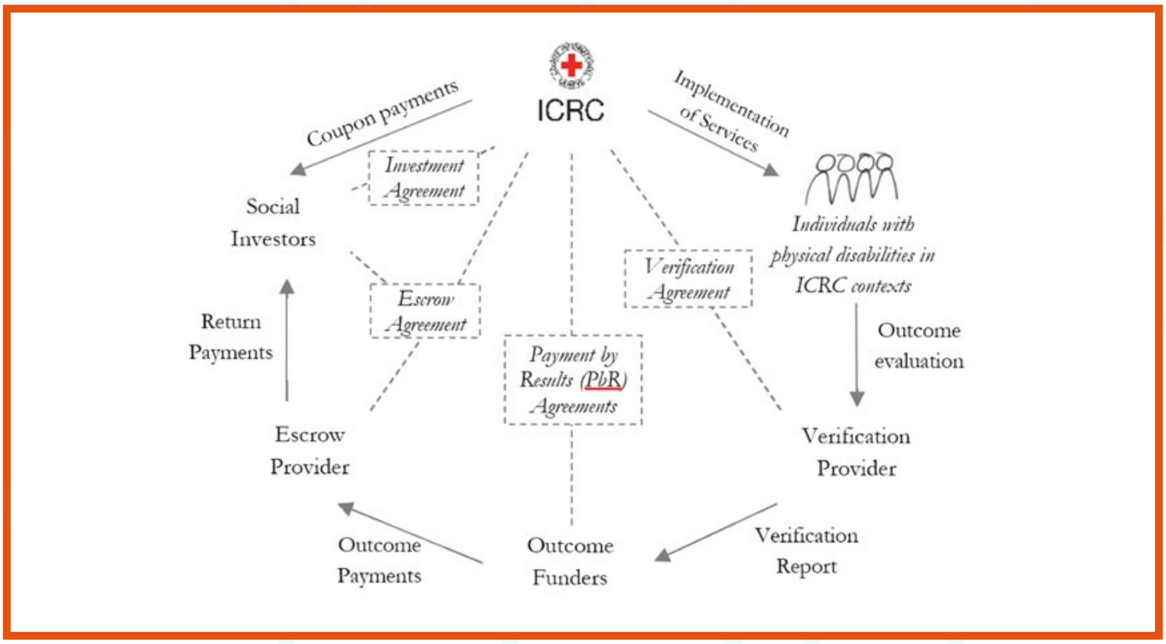
Source: ICRC Summary of the Transaction

The payment made by the outcome funders will be made to the Escrow Account, governed by the terms of the Escrow Agreement between the ICRC, the social investors and the Escrow Bank, which sets out that all withdrawals and transfers relating to the final payments will be done in accordance with the contractual agreements, as set out above.

The Operating Review Committee Meeting (ORCM) meets twice a year, for the ICRC to inform stakeholders on the progress of delivery. Additionally, ICRC reports quarterly on the use of the funds, and leads on the performance management of the intervention.

ICRC has a direct contract with both the outcome funders and the investors, and Figure 2 below summarises the contractual relationships:

Figure 2: ICRC HIB Structure



The table below sets out the roles played by the stakeholders within the ICRC HIB:

Table 1: ICRC HIB Stakeholders

DESIGNER	ICRC and Kois
SERVICE PROVIDER	ICRC
SERVICE USERS	Users of new ICRC centres, and the 8 pilot centres
GOVERNMENTS	Local governments in Mali, DRC and Nigeria
OUTCOME FUNDERS	Swiss Confederation; Kingdom of Belgium; Republic of Italy; United Kingdom; La Caixa Foundation
INVESTORS	Munich Re, Lombard Odier pension fund and charitable foundations and others
OUTCOME VERIFIER	Philanthropy Advisors
LEGAL ADVISORS	Norton Rose Fulbright and Oberson and Abels

The remainder of this case study is divided into two sections:

- Firstly, we describe the process of, and lessons learnt from, setting up the HIB. These findings are based on research undertaken between October and November 2018.
- Secondly, we describe the progress in delivering the HIB, focusing in particular on how the impact bond mechanism has affected delivery. These findings are based on research undertaken between April and June 2020.

3.1 Reasons for using an impact bond

ICRC had been exploring new ways to bring in private donors and access innovative financing, and the idea of using a HIB first arose from a discussion between ICRC and Kois. ICRC discussed this with its traditional donors and also sought new ones.

Various discussions at different levels were held with multiple governments. For example, the President of the ICRC led strategic discussions with the Swiss and Belgian governments, with whom there was already broader discussions on income diversification and innovation. The Swiss and Belgian governments were interested in supporting ICRC to test this new funding mechanism, which was seen as a potentially useful way to build stronger relationships with the private sector and contribute to the closing of the humanitarian financing gap. Building on strong, existing partnerships, the Belgian Government, followed by the Swiss Government made a political commitment to supporting ICRC. ICRC received a grant from the Government of Netherlands of 1.2m EUR to cover the costs incurred during the set-up phase.

ICRC also discussed this with new donors. The World Bank expressed interest. However, as ICRC had not previously worked with the World Bank, it proved too challenging to navigate both a new funding mechanism and a new relationship.

3.2 Designing the intervention

ICRC decided that the PRP should be the focus of the HIB, as it had strong 'measurability' and extensive amounts of historical data. Kois was commissioned to undertake a feasibility study and, following that, to support ICRC in developing the HIB instrument. Kois worked with ICRC to identify a way in which the PRP data could be used to develop an outcome metric as well as to improve the efficiency of operations. Feasibility studies for building and operation of new PRP centres was undertaken in nine locations. Within these, ICRC identified five centres which fit within the constraint of an impact bond, which were namely operationalisation within a five-year timeframe of the impact bond (investors are not normally attracted to impact bonds longer than five years due to the time they have to wait to receive a return) and security and cost constraints.

3.3 Identifying outcome funders

ICRC led the discussions with potential outcome funders. The La Caixa Foundation was one of the early backers of the HIB, and represented a new donor for ICRC. Additionally, the Swiss and Belgian governments, already committed, supported ICRC with reaching out to other potential donors. A side event was held at the World Economic Forum and other bilateral donors and foundations were contacted in an attempt to recruit additional outcome funders. While there was interest in the model generally, there was limited uptake from other donors because of the concerns with the risk of using a relatively untested financing model and a model that did not necessarily fit within their existing structures and funding mechanisms.

The exceptions were FCDO, who were interested in learning lessons from the piloting of the HIB and included it within its DIBs pilot programme, and the Italian Government. The list of confirmed outcome funders was finalised towards the end of 2017, and the lower-than-anticipated level of funding from outcome funders meant that only three centres were eventually funded through the HIB, instead of the five originally planned for.

3.4 Identifying investors

ICRC started discussing the impact bond with investors at the end of 2016, when a number of the terms of the impact bond had been agreed with the outcome funders confirmed at that stage. As a 'bond' is a particular market product within Switzerland, ICRC had to call the HIB Programme for Humanitarian Impact Investing (PHII) when approaching investors. ICRC led the bilateral discussions with the investors. The names of the investors were not shared with the other actors until confirmed, for confidentiality reasons. The investors included the cornerstone investor, Munich Re and its subsidiary New Re, and other investors identified by the placement intermediary, Lombard Odier.

Investors undertook a comprehensive risk assessment and due diligence, the process through which an organisation's strengths and weaknesses are assessed by a potential investor considering investment. This was used to generate a credit rating for ICRC, which was used as a basis for the investment decision.

3.5 Negotiations

ICRC, with Kois support, designed the proposal and model, which was presented to outcome funders and investors to review. ICRC led the negotiations on the terms of the HIB. ICRC led most of the negotiations directly with the other actors, though there was some collaboration between the investors themselves and the outcome funders, in particular between the Swiss, Belgians and UK governments, to discuss contract modalities.

The following terms were the main focus of the negotiations:

Outcome metric: There was a wealth of data on the PRP, which was used to explore potential outcome metrics. The challenge was to find a metric that would take into account diversity, given the range of contexts where ICRC operates PRP centres, and which would make use of the historical data available. The metric adapted the cost-saving focus of social impact bonds (SIBs)[3] in the UK to improved efficiency, which was considered more relevant to the humanitarian sector and ICRC's operating model. A key discussion was on the trade-offs between efficiency and attribution in the design of the outcome metric, and balance between focusing on outputs and outcomes.

ICRC and Kois jointly designed the Staff Efficiency Ratio (SER). The formula was designed to make physical rehabilitation centres comparable between each other and to prevent perverse incentives. Stakeholders commented that it is a comprehensive measure, 'boiling down' something complex into a number that can be compared across centres. It also takes into account the majority of activities and outcomes funded within the PRP programme, and considers the quality of delivery by focusing on the outcome of regained mobility. Furthermore, the HIB activities are intended to make a difference not only in the three new centres, but also across the entire PRP. Hence, the outcome metric which focuses on efficiency, instead of number of outcomes reached, is useful in capturing whether the DCMS and EIM testing is leading to increased efficiency, and the likely value of the capital investment for the broader PRP. However, the SER does not capture the effects of certain ICRC activities, such as supporting beneficiaries with social inclusion and participation programmes, mental health and sport activities. The SER focuses on mobility regained and does not monitor delivery against social inclusion outcomes or longer-term social and economic inclusion outcomes.

Outcome target: ICRC worked with Kois in order to set an ambitious yet feasible maximum SER, aligned with the maximum potential rate of return. Firstly, ICRC and Kois set a benchmark SER, using historical data from comparable Africa PRP centres. The target SER was set based on the percentage improvement between the global best performing and average centres, based on 2015 PRP centre data.

3 There are three different types of impact bonds, depending on the funder and context of implementation. Social Impact Bonds (SIBs) were the first types, and inspired DIBs (DIBs) and Humanitarian Impact Bonds (HIBs). While broadly comparable in their basic principle and setup, SIBs refer to impact bonds in which the outcome funder is the Government of the country in which the intervention is implemented. These types of bonds have been developed in high, middle, and low-income countries. DIBs are impact bonds typically implemented in developing countries where the outcome funder is a donor agency or foundation often operating in a different country. HIB's are essentially DIBs operating in humanitarian situations.

Interest rate and capital protection: These two terms were discussed iteratively between the stakeholders. A balance was needed between the risk premium paid and risk taken.

The payment model aligns SER improvement with the interest rate, which results in alignment of increased efficiency (and correspondingly, beneficiaries reached) with increased return for the investor.

In terms of the maximum return corresponding to the target SER, as a starting point, Kois provided ICRC with interest rates for investments in India as a benchmark, as well as interest rates used within the existing Educate Girls DIB. The key consideration was what would be acceptable to investors, and what would be accepted by the public as ‘reasonable’ and ‘defendable’. Common ground was agreed around 7%. One outcome funder noted that 2% was too low and 15% too high, and 7% seemed to be a middle ground. Another outcome funder commented that an informal benchmark used was the 3-5% interest rate on a risk-free loan, against which the maximum 7% return seemed reasonable.

In order to balance this return with the risk, ICRC and Kois decided to introduce an element of capital protection. This was an area of contention, as it reduced the risk transferred to investors. In order to balance the different preferences of the different actors, it was agreed between stakeholders that 60% of investors’ capital would be protected, with ICRC covering the first 10%.

ICRC presented potential investors with these draft terms. To test the acceptability of the risk and return profile, investors compared the proposed 7% return with the risk profile of the investment, using insurance models to calculate acceptable levels of return, and concluded that the return proposed was acceptable.

Timing of payback: The majority of outcome funding is payable at the conclusion of the HIB, and aligned with the SER. There were many discussions on how to structure the deal. A first tranche repayment linked to the construction of the centre was proposed. There were two considerations around this. One outcome funder expressed an opinion that this detracted from the impact bond mechanism, and made it more similar to a grant. On the other hand, another outcome funder pointed that the milestone was still linked to a tangible output, and the earlier repayment would have made the deal cheaper, as it would have reduced the interest component of the repayment to investors. As not all outcome funders agreed with two payment milestones, ultimately the majority of the deal reverted to one outcome funder payment at year 5, with the exception of La Caixa’s contribution of EUR 1m, which is pledged for when ICRC meets the construction milestone.

Contracting: Contracting was a particular challenge. Challenges included legal frameworks in certain countries not having provision for the HIB model and restrictions on the ability of donors to pay interest to a social investor. These challenges required extensive time to navigate on the part of all actors. Finally, there were certain Swiss legal and tax issues affecting ICRC, including considerations of whether a non-profit organisation’s issuance of an impact bond is admissible under Swiss law or other legal sources such as the organisation’s constitution, requirements regarding the public offering of bonds and implications for withholding tax.[4]

While ICRC and Kois originally intended to have one contract, ultimately different contracts were needed for each outcome funder, due to their different requirements and respective legal frameworks. On the other hand, the investors agreed upon one investor contract which was signed by all investors.

4 https://www.obersonabels.com/sites/default/files/articles/Jusletter_swiss-legal-and-tax-_39c1e236ee_en.pdf

3.6 Enablers and challenges to launching the HIB

Enablers

1 Collective Leadership:

- Strategic (between members of the leadership team);

Stakeholders generally agreed that ICRC built strong relationships with all actors, which facilitated the set-up of the impact bond. Furthermore, the political commitment of the Belgian and the Swiss governments to support the ICRC, and the commitment from senior leadership with the ICRC to launch the HIB, was crucial for enabling the launch of the impact bond.

- Organisational (between these leaders and their internal stakeholders)

There was strong commitment to using the HIB within ICRC and a number of outcome funders, and significant staff time was dedicated to exploring and launching the HIB. While there was originally not a set team with ICRC working on it, the roles became clearer, and a core team was set up.

There were some reservations with using the HIB within the ICRC and outcome funders. In order to gain buy-in, there was significant work done to explain the HIB model and the reasons for exploring this innovative mechanism of financing.

2 Clear outcomes – measurable outcomes and linked to overall objective of the intervention.

Kois supported ICRC with developing the SER, which enabled measurement of outcomes as well as efficiency improvements with reference to benchmark data, one of the key objectives of the intervention. The use of a physical functionality test enables a focus at the outcome level, and the quality of outcomes.

3 Shared understanding of the policy 'problem' and sufficient evidence for the intervention so that it is credible or knowledge based.

The PRP has been running since 1979, and hence there is strong evidence for the approach, and established policies, procedures and systems in place. It was noted that the majority of stakeholders were already convinced of the value of the PRP. The DCMS and efficiency improvement measures testing were the new component of the HIB. ICRC had some evidence of the potential of using efficiency initiatives, at certain 'case study' centres.

4 Data to build up a business case, including data on the eligible cohort and outcomes likely to be achieved.

Benchmark data on 163 PRP centres was used by ICRC and Kois to develop the target outcomes, as well as for the investors to calculate the risk of their investment. The PRP model and use of the physical functionality test to measure regained mobility is well established, the monitoring an evaluation system and expected outcomes clearly defined.

5 Other factors:

Service provider track record and reputation:
Another key factor that enabled the launch of the HIB was the strong reputation of ICRC. ICRC received an adequate credit score following Munich RE's due diligence review and risk assessment. Certain outcome funders thought they would not have been able to test this funding mechanism with any other service provider, given the potential reputational risk. However, ICRC's strong reputation, and the fact that they have 'everything to lose' should something go wrong, reduced the reputational risk for outcome funders

Financial and private sector expertise:
The support of an ex-banker within the ICRC team also facilitated discussions with the private investors, as he knew how to work with investment bankers and non- traditional stakeholders.

Challenges

Firstly, one stakeholder commented that a challenge was that there was already a commitment to using the HIB in the PRP programme. Instead of matching programmes to the most appropriate financing mechanism and responding to donor requirements, and taking a 'responsive process of designing', the commitment to using the HIB and PRP was 'constructing it the wrong way round'. The stakeholder commented that it would have been better to identify if there were stakeholders interested in funding this type of funding mechanism and the PRP. Instead, it proved challenging to raise the target level of outcome funding, due to reservations with taking part in the untested HIB mechanism.

Secondly, the use of a HIB involved a significant shift, especially for outcome funders and service providers, and innovative thinking of how the HIB might fit within existing frameworks and systems. This included:

- Legal and taxation frameworks:
  The different applicable legal and tax frameworks within the respective countries meant adaptations were needed to accommodate the HIB.
- Internal buy-in:
  There were concerns within some of the outcome funders and ICRC that the HIB was 'making money off the poor', and extensive discussions were needed to explain the purpose and rationale of the mechanism.
- Skill set:
  Some outcome funders noted that there was a lack of experience and expertise within their organisations in results based financing and development finance, which required a lot of learning 'on the job'.
- Systems:
  Systems within some of the outcome funders and ICRC were not set up to operate on a multi-annual budget, which was a challenge in terms of accounting and budgeting. Furthermore, ICRC rarely receives funding which is 'tightly' earmarked and generally does not operate projects directly financed by a specific donor. Accommodating the HIB required adaptation within the organisation.
- Diverse donor requirements:
  It was challenging and very time-consuming to find alignment between the requirements of the outcome funders.

Thirdly, it was a challenge to adapt the impact bond model to the humanitarian sector. There was tension between developing a 'pure' impact bond, and ensuring the HIB was adapted to the sector and needs of actors. One stakeholder commented that the development of the HIB took a long time because original models were 'textbook' impact bonds, which were not 'marketable':

- One outcome funder noted that a key internal justification for testing impact bonds was that it enabled risk transfer to the private sector. However, there were payments linked to milestones, and capital protection for investors, which reduced the risk transfer and meant the HIB was less 'pure'.
- It was challenging to adapt the impact bond to the humanitarian world and ICRC's model of operation. ICRC was wary of investors having a say in the project, something that was a pillar of the impact bond model. ICRC operates independently, and is unable to allow donors or investors to drive the selection and design of projects, or the implementation process. As such, the governance structures in place are intended to serve as a transparency mechanism and provide investors and outcome funders with information about the progress against targets, instead of as a mechanism to enable investors and outcome funders to influence delivery.
- One stakeholder also noted that ICRC led bilateral discussions, which meant the process was more efficient. However, other stakeholders noted that more collaborative discussions would have supported the development of a shared understanding of the impact bond. One outcome funder also noted that the deal was relatively finalised when they were reviewing it, and hence there was limited scope to influence the terms. A frustration noted was that for a period, outcome funders could not see the terms offered to other outcome funders and investors, and hence the outcome funder could not be certain that the terms offered were the same across the different actors.

Advantages

The following were cited by stakeholders as advantages to using the HIB during the set-up phase.

- The HIB brought in additional private sector finance, which provided upfront capital to ICRC and enabled it to participate in an outcomes based contract.
  The HIB attracted financing from private sector investors, which enabled the outcome funders to pay on results. While ICRC is also involved in other results based payment contracts, the significant upfront capital required meant it would be unlikely to enter into the HIB model had there been no investors.
- The HIB brought together existing ICRC partners, as well as new partners (La Caixa and private investors) around aligned interests..
  Private investors are brought in 'closer to delivery' through participation in the operating review committee. One outcome funder said that an ambition was for investors to change their opinion of the risk of investing in conflict and humanitarian areas. The HIB also gave ICRC the experience of working with intermediaries and new actors, and going through the due diligence process. One stakeholder commented that this was an avenue for ICRC to build relationships with the private sector and show the private sector how it could get involved in philanthropy. On the other hand, another stakeholder thought the investors were there primarily to enable the outcome funder to pay only based on results, and that engagement with philanthropic arms of private sector actors was done through different avenues and contact points.
- The HIB de-risks outcome funds and enabled the funding of the efficiency measures improvement testing component, to bring innovation to improving the efficiency of the PRP.
  Outcome funders pay on results, reducing the risk of outcome funds not delivering results. One outcome funder noted that this was especially relevant given the capital investment required for the DCMS and efficiency improvement measures testing, and the risk that these measures do not translate into increased efficiency, and increased beneficiaries reached. The outcome based contract transfers some of the risk to investors, while at the same time incentivising these components of the programme to lead to real efficiencies. Given these factors, the outcome funder stated that it was preferable to fund this using an outcomes based contract, and that they would have been unlikely to fund the programme on an input basis. This also has wider implications, and benefits funding from other donors, which can be used for less risky activities.

- The HIB brought in longer-term funding for ICRC.
  The HIB funding is for five years, which provides more flexibility in terms of transferring funds between years, and more security in committing to longer term projects (such as the DCMS and EIM).

Disadvantages

- Complex to design and expensive to set up.
  Stakeholders cited that the HIB was complex to design and expensive to set up. However, whether this poses a true disadvantage depends on whether the benefits outweigh the costs. Stakeholders commented that one should be careful with what we are comparing with; the HIB costs can be better put into perspective if we consider how much a change management project costs. Similarly, an outcome funder noted that a HIB 'externalised' certain costs which were hidden when delivered under a normal grant, for example costs of the outcome funder to launch a call for proposal, review bids and undertake feasibility studies to explore potential topics and themes.

  There is mixed opinion about the extent to which the HIB led to a more careful and rigorous design of the intervention. There are three components of the design process, which was affected by the use of the HIB to varying degrees:

  - Selection of HIB centres and design of the PRP intervention was done using the standard PRP procedures. Feasibility studies were done in potential centres. Normally, ICRC goes on to fund all centres deemed feasible. In this case, centres more suited to the constraints of an impact bond were selected to be funded by the HIB, and ICRC sought to fund the other centres through other funding. The PRP intervention will integrate the efficiency initiatives tested during the EIM testing phase.
  - Design of outcome targets and outcome metric involved a rigorous design process. It involved the design of an outcome metric that drew on existing centre data, prevented perverse incentives and enabled comparison between PRP centres. The process also involved analysis of drivers of efficiency and analysis of the potential scale of improvements possible, which was used to develop a target outcome and return profile. The HIB provided the framework and incentives to systemise existing data management, so that it could be used for the design of the outcome targets and metric. In order to attract investors and outcome funders, ICRC was also required to present and justify these targets and metrics. One outcome funder commented that they thought ICRC was more 'business-like' and provided more detailed project reporting during the HIB process.
  - Design of the DCMS and efficiency improvement measures testing elements, which are key components of the HIB, is being undertaken during the first phase of the HIB. The testing of the measures in the eight centres before roll-out in the three HIB-funded new centres enables course correction and adaption. There is mixed opinion about the extent to which this can be attributable to the HIB. One stakeholder commented that the HIB finances these components, but that nothing is done differently in comparison to what would have been done if it were financed in another way.

4.1 Update on delivery

This section provides an update on the delivery of the HIB, covering July 2017 to March 2020 – the first three years of the five year project. As of March 2020, the HIB is still on track to deliver against its timeline, despite facing some delays.

The table below provides an overview of delivery:

Component	Start date up to March 2020
Outputs/Outcomes achieved, versus expected	The PRP centres were not yet operational. Due to delays as a result of Covid, ICRC expects that the centres will start operations in September or October[5].
Outcome payments to date (vs expected)	None as at March 2020[6]
Expenditure to date (vs budget)	CHF 11,594,755 against budget of CHF 11,454,600
Building of centres	• Mali: The building had been completed and handed over to local authorities • DRC: The centre was nearly finished, and pending completion and handover. • Nigeria: Covid-19 related restrictions had slowed down progress, and construction was progressing slowly.
Training and staffing	All training institutes had to suspend courses due to the Covid-19 pandemic. Students were nearing the end of their training. ICRC staff for the centres had been identified.
Testing of efficiency measures (EIM)	Efficiency measures had been tested across eight centres. This has generated useful learning about which measures work in terms of improving efficiency. These were ready to be rolled out into the three new centres.
Digital Centre Management System (DCMS)	Development of this system had required additional time and resources, and the deployment date had been pushed back to the second half of 2020. To ensure coherence with the ICRC ICT tool that covers its wider health programme (*PEARL*), and to mobilise the funding needed, the final phase of development will be carried out as part of *PEARL*.

5 As of December 2020, two centres were operational
6 The first payment was made by La Caixa upon the finished construction of the centres in July 2020 (EUR 1 million).

As a result of Covid-19, there were uncertainties about the timeline. There were delays with the building in Nigeria. In other centres, there was uncertainty about staffing, as ministries of health had other priorities. The outcome measure is based on the efficiency of delivery, rather than the number of people reached. The assumption is that the centres will reach operational capacity in the second year and as implemented efficiency measures start to take effect at the same time. As of the time of reporting, ICRC expects that centres will be able to start operations between September and October, a slight delay from the original July start date. At the time of research (April to June 2020) ICRC was focusing on other parts of the project, for example supporting the hospital with the development of protocols.

A key effect of using the HIB is that while Covid-19 has resulted in a review across all programmes, to determine if changes are needed, the HIB is excluded from this process as funding is already committed and ICRC are contractually bound to deliver. As one ICRC stakeholder noted, “[the HIB] is excluded, which brings a certain level of safety. However, this also reduced our flexibility to adapt because we have already committed.”

4.2 HIB effects

This section describes the ‘HIB effects’ observed to date, i.e. how the design, delivery, performance, implementation and impact of the intervention has been affected because it has been funded through a HIB. To understand how the HIB model has affected the implementation of the intervention, we use a list of potential HIB effects identified from a review of the literature and our previous work evaluating impact bonds. These potential effects are listed in the table below. Our research assesses whether the HIB effect was observed in the project and whether this can be attributed to the impact bond mechanism. It is important to distinguish between the two – just because an anticipated effect of the HIB exists in the project, does not mean the HIB itself necessarily created this effect, as it could have been caused by other factors. We have assessed whether the effect can be attributed to the HIB by comparing the HIB to a similar grant-funded project (other PRP centres). We explored whether the effect materialises more strongly in the impact bond-funded project compared to the similar grant-funded project, and whether stakeholders attribute this difference to the impact bond mechanism rather than to other factors.

For each category of HIB effect below, we have set out our findings for the effects as a RAG (Red-Amber-Green) rating, indicating the extent to which these effects were observed and the extent to which it is attributable to the HIB. The triangles indicate whether the characteristic was observed (green), observed to some degree (amber) or not observed (red). The circles indicate whether this is attributable to the HIB (green), attributable to some degree (amber) or not attributable (red).

HIB effect summary

HIB effect	Effect observed	Attributable to the HIB
Advantages		
1. Shift focus to outcomes, greater accountability	OBSERVED TO SOME DEGREE	SOMEWHAT ATTRIBUTABLE
2. Drives and improves performance management	TOO EARLY TO SAY	TOO EARLY TO SAY
3. Providers manage adaptively through continuous learning to deliver what they feel will achieve outcomes	OBSERVED TO SOME DEGREE	SOMEWHAT ATTRIBUTABLE
4. Greater collaboration and/or coordination between stakeholders as there is an alignment of interest	OBSERVED TO SOME DEGREE	SOMEWHAT ATTRIBUTABLE
5. All of the above factors leading to more beneficiaries supported, and more outcomes achieved	TOO EARLY TO SAY	TOO EARLY TO SAY
Disadvantages		
1. Expensive to implement	OBSERVED	ATTRIBUTABLE
2. Cherry picking of participants from target population	TOO EARLY TO SAY	TOO EARLY TO SAY
3. Level, quality, range and duration of support is reduced	TOO EARLY TO SAY	TOO EARLY TO SAY
4. Performance management culture lowers staff morale and increases staff turnover	OBSERVED TO SOME DEGREE	SOMEWHAT ATTRIBUTABLE
5. ‘Tunnel vision’: Focus on primary outcomes comes at the expense of secondary outcomes; opportunities for project co-benefits are missed	NOT OBSERVED	NOT ATTRIBUTABLE

4.2.1 Observed HIB effects attributable to the HIB

The HIB is more expensive to implement than a grant

While additional costs were primarily incurred during the set up phase, there have also been approximately CHF 750k of additional costs to implement the project as a HIB. This has been due to additional ICRC staff time (including a separate post focused on the HIB and additional reporting time) as well as costs related to escrow and verification. However, some outcome funders noted that the time required for them to manage the HIB was less than for comparable grants. This is due to the fact that ICRC takes the lead on management and has implemented a structured quarterly reporting cycle.

4.2.2 Effects somewhat observed and somewhat attributable to the HIB

To some degree, the HIB has shifted focus to outcomes and greater accountability

The targets and specified timeframe have created some pressure and increased focus on the HIB-funded centres. To meet timelines, even while construction has slowed down during COVID, other activities are being delivered to continue progress. The structure of the HIB/project has enabled and ‘encouraged’ ICRC to focus on the efficiency outcome set as the outcome metric of the HIB. The longer-term nature of the funding (in comparison to ICRC’s traditional annual funding cycle) has enabled a greater security as funds have been committed to the HIB, and a greater focus on outcomes. The nature of the target outcome has also enabled collaboration across PRP centres. ICRC operates in a rather decentralised fashion and looking at data across the PRP enables a better understanding of the drivers of efficiency and facilitating comparison across centres. This is expected to be useful to improve efficiency in a systematic way.

Outcome funders also report that there is greater accountability under the HIB, through more frequent and detailed reporting to stakeholders, as compared to traditionally funded projects. The focus on outcomes has also led a stronger focus on outcomes in ICRC’s reporting to funders.

However, ICRC stakeholders note that this is due more to the structure of the project (specific outcomes, timebound, committed budget) and could have been financed without the HIB financing mechanism, such as through a grant-funded project that had specified outcomes and a multi-year budget.

The HIB has provided ICRC with some additional flexibility and autonomy to deliver what they feel will achieve outcomes and are able to deliver process innovation

The HIB has increased flexibility in some areas compared to similar ICRC projects. but decreased it in others. There has been flexibility in the budget, to repurpose things between delivery and the IT system, shift budget between years and to change things from the original concept note. The guaranteed funding for the five years also provides security. However, it also constrains flexibility, as the overall budget, targets and timeline is fixed.

The EIM and DCMS will support ‘process innovation’ and is expected to improve efficiency in the delivery of PRP, both in the funded three centres and the wider programme. The metric relies on there being improvements in efficiency, so necessitates innovation to improve efficiency. However, similar initiatives have and are being delivered by ICRC without a HIB.

There is some increase of coordination between stakeholders, though it is unclear how this has affected project delivery

There is some increased collaboration, with outcome funders and investors updated on progress on a quarterly basis via the Operating Review Committee Meetings (ORCM), compared to the more standard annual basis for ICRC programming. The quarterly meetings are primarily to provide information but allow for discussion and feedback. Funders have valued the ICRC's transparency on the challenges in delivery. While there is agreement that the ORCM is not steering or driving changes, some ICRC stakeholders note that feedback and discussion is useful, as stakeholders bring in new perspectives. One outcome funder noted that there is a sense that discussions have led to some changes 'on the margins' and provision of specific data/analysis at subsequent meetings.

During the set-up phase, certain stakeholders had thought that the requirement to be accountable to investors and donors, as well as the skills with the ORCM would drive efficiency. However, certain investors commented that their role on the ORCM was simply to obtain an update to ensure the investment was accurately valued in their accounts, and to monitor delivery. Other stakeholders also noted that the investors involved did not bring experience of managing hospitals or rehabilitation centres.

The HIB was designed for outcome funder and investor input to primarily be at the design stage in setting the outcome and payment targets.

Performance management culture has affected staff morale but there is no indication that this has increased staff turnover

There were some frustrations with the set-up phase, especially as there is consensus that the time required to set up the HIB was not appropriately planned for. However, the PRP team are relatively positive about the HIB, and the potential for DCMS and EIM to improve the efficiency of the PRP overall. There is no indication this has affected staff turnover.

4.2.3 HIB effects not observed or observed but not attributable to the HIB

Focus on primary outcomes has not come at the expense of secondary outcomes or at opportunities for project co-benefits being missed

There is no indication this is the case. ICRC remains committed to achieving results. Stakeholders have noted that ICRC has selected very difficult sites to operate in (as opposed to easier sites where it would have been easier to achieve results). There is indication that ICRC is not only focused on the primary outcomes linked to payments but remains open to identifying opportunities for project co-benefits. For example, ICRC is using its own funds to cover unforeseen expenditure on the DCMS, even though it considers it would be possible to meet the outcome metric without the DCMS. This is because the DCMS has wider benefit for ICRC's PRP. If ICRC was focused only on primary outcomes, it may have removed components from the DCMS to deliver within the available HIB budget. Once the centres are operational, it remains to be seen whether the HIB will result in ICRC de-prioritising social outcome at the expense of the SER.

4.2.4 HIB effects – too early to say

As the centres are not yet operational, it is too early to comment on a few of the HIB effects.

The HIB is expected to drive performance management, but it is too early to say

One of the expected advantages during the set-up phase was that the HIB would require and enable ICRC to look at its data and explore how it can be used to increase efficiency in its PRP. The newly developed Digital Centre Management System and the tested Efficiency Improvement Measures are expected to improve performance management and the efficiency of systems. This is a core component of the HIB design. While this could have been funded without a HIB, ICRC stakeholders agreed it would have been harder to fund these investments as donors often prefer to fund more 'concrete' outcomes. Some outcome funders noted they would have been reluctant to fund these investments without assurance that it would lead to improved outcomes.

One ICRC stakeholder noted, "[the] interesting thing in this exercise, not so much the funding mechanism, not building the new centres, not sending people to school, what was new and will be beneficial, to develop the efficiency measures, develop services – that is really the key element… to provide better quality and benefit the wider PRP, that is the aim of the HIB."

It is too early to say if the ICRC HIB model enables more effective and efficient services leading to more beneficiaries supported and outcomes achieved.

However, the HIB has enabled the funding of focused activities to improve efficiency, which is expected to support the three funded HIB centres to reach more beneficiaries, and ultimately enable the wider PRP to do the same.

As the PRP centres are not yet operational, it is too early to say if the model incentivises cherry picking to date, or the reduction of the level, quality, range and duration of support.

4.3 Other interesting aspects of the HIB

Spillover effects and the wider impact of the HIB

The impact bond has encouraged ICRC to think about innovative financing and new ways of working and explore new models (including involvement in the World Economic Forum Humanitarian and Resilience Investing Initiative. ICRC has an objective by 2030 to have 5% annual income to come through new financing models, and the HIB experience is helping to build ICRC capabilities in outcome-based mechanisms. It has also helped change the narrative within ICRC on innovative financing, increasing internal support for engaging in mechanisms, though enthusiasm still varies across the organisation. There is also interest from investors in investing in more impact bonds.

Challenges in delivery

A lesson learned within ICRC is the need for the HIB to fit within existing systems and organisational processes. ICRC has an existing investment appraisal process which covers IT investments. The DCMS did not go through this process, as it was funded through the HIB. The development of the DCMS is now running over budget. While the HIB has afforded the flexibility to divert savings from other budget lines to the DCMS, this is insufficient. This has raised challenges for ICRC in terms of now finding additional funding. The inclusion of the DCMS and EIM in the HIB budget may not have been the best approach, as it is not strictly necessary to deliver the outcome metric in the three centres and straddles the HIB and the wider programme. While neither investors nor outcome funders have questioned the repurposing of funds, one stakeholder noted, ‘It was a design fault to include [the DCMS and EIM] in the HIB, because it is needed outside the project.’

Outcome funder and investor input

The ICRC HIB is one of the few impact bonds involving private, commercial investors. In other impact bonds investments have primarily come from philanthropic sources. The structure and contractual mechanisms meant that outcome funder and investor input was primarily at the design stage in setting the outcome and payment targets. This means that the outcome funder and investors have limited ability to influence the delivery of the project. One investor noted that the level of input was comparable to other investments. Some outcome funders noted that the level of engagement in the HIB was higher than other programmes, whereas for other outcome funders, the level of engagement was lower.

Preliminary reflections on the value of the HIB and future opportunities

Key objectives for outcome funders for funding the HIB and incurring the potential additional interest payments, was to fund improvements in efficiency to generate savings for ICRC in the long run, support ICRC to attract new funding and donors and attract private investors with useful experience in the sector and to. There are positive indications that the HIB is funding efficiency improvements. However, it remains to be seen whether the HIB will support ICRC with attracting new funding and private expertise, for example, through future impact bonds.

The motivation for many stakeholders in participating in the HIB was to test the model and generate learning. While there is some interest from stakeholders in continuing to fund and finance innovative funding modalities to leverage the significant time and resources invested during the set up phase, there are also some challenges. For example, the long set up phase is difficult to manage in departments used to quick responses and often annual funding commitments. There continues to be challenges finding ‘investible’ projects and engaging with private sector investors. Additionally, there have been some challenges with managing a multi-year project using ICRC’s financial processes, which tend to work with annual budgets. Some stakeholders suggested that changes to financial systems and introduction of results-based management in other areas of ICRC would increase the opportunity for ICRC to better engage with innovative funding and modalities. There is interest from some stakeholders to use the meetings on the HIB also to discuss and support ICRC on considering how it can attract innovative financing.

4.4 Lessons learnt

This section describes the lessons learned, described by stakeholders from their experiences of delivering the ICRC HIB. These lessons are relevant both to the HIB design, as stakeholders reflect on design decisions made initially, and to the execution of the HIB.

HIB design

1 HIBs should be developed to meet a specific need:

In the case of the ICRC HIB, ICRC first decided to use a HIB, and then the project was designed. Rather, the HIB should be considered if it enables service providers to access funding in a sector where outcome funders are interested in funding using an outcomes based approach. This will enable the matching of programmes to the right funding mechanism.

2 It is important to test the legal feasibility;

of operating a HIB at an early stage of the process, and identify potential taxation implications.

3 Use of a financing structure or pooled funding mechanism;

that enables investors and/or outcome funders to finance/fund an intermediary may reduce inefficiencies arising from the need to manage multiple investor and donor requirements.

4 Investors want to be involved earlier;

so that they are still able to feed into the design of the terms and conditions of the impact bond.

5 Outcome metrics need to be designed to reflect data;

and returns to the investor and outcome funder should be aligned. Historic data is needed to model risk, for impact bonds to be 'investible'. Calculation of risk is crucial for putting a price tag on the investment.

6 The 'textbook' impact bond needs to be tailored to suit different contexts.

Not all components of the impact bond will be applicable to all contexts and organisations. Organisations take part in impact bonds for different reasons, and the impact bond needs to be adapted with this in mind. For this HIB to launch, it was necessary to reformulate the role of the investor and governance structures, and modify the impact bond structure to introduce non-private investors, capital protection and payments linked to milestones.

7 There are trade-offs ;

between undertaking negotiations bilaterally or in a more collaborative approach. A more bilateral approach, with defined terms, can make the process more efficient, but can result in a lack of a shared understanding of the objectives of the impact bond.

HIB execution

1 What is funded under the impact bond should be carefully considered, to ensure this is necessary and sufficient for the achievement of the target outcomes.

The inclusion of the DCMS in the HIB funding envelope has led to some challenges with securing additional funding to complete the DCMS. Especially in larger organisations, it is useful to consider how the HIB fits into the wider organisation.

2 Development of the HIB has generated good learning about how much time it takes to design and deliver a HIB.

This should be used to better plan and allocate human resources, to avoid diverting attention from other projects.

3 Delivery of a HIB requires both external and internal communication.

Stakeholders noted that a lot of public relations work was required both externally and internally, in order to get the necessary buy-in, and that these costs were not budgeted for. One ICRC stakeholder noted that a HIB is complex by nature and ‘needs to be properly communicated, because people don’t understand it.’ Strong public relations and communications are needed to manage reputational risks.

4 The contractual structure and governance set up of a HIB affects the timing and level of outcome funder and investor input.

The HIB has been designed such that outcome funders and investors are primarily involved during the set-up phase. During implementation, outcome funders and investors have been more hands-off.

5.1 Overall conclusions

The ICRC HIB is the first HIB. It successfully launched in July 2017, and enables the financing of the development of three new PRP centres, and the testing of DCMS and efficiency measures. It is one of the few impact bonds that has brought in financing from commercial, private investors.

The focus of the HIB is on increasing the efficiency of the PRP, and the outcome metric is linked to increased efficiency compared to an established benchmark instead of outcomes achieved, though with increased efficiency, increased outcomes are also expected. The HIB aligns outcome funders, investors and ICRC incentives to improve efficiency.

The main challenges to developing the HIB was the difficulty with contracting due to the applicable legal and taxation frameworks in place in the countries of the outcome funders, the lack of expertise at the start of the project within ICRC and the outcome funders, and the difficulty of adapting the SIB model to the humanitarian sector and ICRC's operational model. Furthermore, some compromises on the terms have been necessary, which some outcome funders are uncomfortable with, for example, the element of capital protection.

The ICRC HIB was nonetheless able to launch due to the strong commitment of ICRC to testing the HIB, and the strong support of key outcome funders throughout the development. Additionally, the PRP had a large amount of historical data which was crucial for developing the outcome metric and target outcomes and enabling the calculation of risk and return.

After two and a half years of delivery, the ICRC HIB remains on track to operationalise the centre and there are promising indications that it will be able to deliver against the outcome metric, based on the efficiency improvements that have been delivered as part of the EIM. There have been some challenges relating to the development of the DCMS system and delays to the centres primarily, but not only, as a result of Covid-19. How Covid-19 will affect the operationalisation of the HIB remains to be seen.

Stakeholders agree that the project-nature of the HIB and the security of funding has enabled a greater focus on outcomes. The HIB was also complex to design and expensive to implement, which affected staff morale to some extent.

It is too early to conclude on the advantages and disadvantages of using the impact bond mechanism in this project and the humanitarian sector more broadly, as the rehabilitation centres have not yet been completed. This will be the focus of the new wave of research, scheduled for 2022. This research will also explore the extent to which the HIB has supported improved performance management and the reaching of additional beneficiaries, and the extent to which it has led to perverse incentives. The extent to which outcome funders and investors remain hands off should timelines slip will also be interesting to cover. A key intended spillover effect is that the HIB demonstrates the viability to investors of investing in the humanitarian space, and this will also be examined.

Stakeholders consulted are as follows:

- ICRC
- Munich Re
- UK Foreign, Commonwealth and Development Office

RW1 only

- Kois
- Swiss Agency for Development and Cooperation
- Belgian Development Agency

RW2 only

- La Caixa