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ICRC Humanitarian Impact Bond for Physical Rehabilitation

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

December 2022

Contents

1 Summary

This case study report covers the ICRC Humanitarian Impact Bond (HIB) for Physical Rehabilitation, which funded the building of three new Physical Rehabilitation Programme (PRP) centres in Mali, Nigeria, and Democratic Republic of Congo (DRC). As part of the HIB, ICRC also piloted efficiency measures and built a Digital Centre Management System (DCMS), which was rolled out in the HIB centres as well as non-HIB ICRC PRP test centres.

The ICRC HIB launched in July 2017 and concluded in July 2022. The funders committed a maximum of 26.09 m CHF to the intervention, the majority of which was payable in 2022 depending on the results of the programme. The investors provided the working capital to launch the centres, paying a total of 18.6 m CHF. The final amount payable by the outcome funders depended 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 were scaled to incentivise efficiency savings. If the new centres operated less efficiently than past centres, the investors would make a loss on their investment and ICRC will be liable to make a loss payment; however, if the centres delivered more efficiently, then the investors will recover their investment and can make a moderate return.

The International Committee of the Red Cross (ICRC) Humanitarian Impact Bond (HIB) for Physical Rehabilitation July 2017–July 2022

Outcomes achieved: 1.09 Staff Efficiency Ratio (SER), representing a 9% improvement in efficiency as compared to the baseline.

Geographical coverage: New centres in Mali, Nigeria, Democratic Republic of Congo (DRC). Testing of efficiency measures in Cambodia, Pakistan, Myanmar, Zinder and Niamey in Niger, Mali, Togo, Madagascar.

Target population: Persons with physical disabilities in Mali, Nigeria, and the DRC.

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: 26.1m CHF

Total outcome payments: 19.23m CHF

Investment committed: 18.6m CHF

Investor return: all capital, no interest

Activities: Build three new physical rehabilitation centres, train local staff to deliver physical rehabilitation services in these centres, pilot and assess pilot efficiency improvement measures across eight existing ICRC physical rehabilitation centres, and build a Digital Centre Management System that will be rolled out across all ICRC physical rehabilitation centres to improve efficiency and maintain patient outcomes.

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 FCDO (then DFID) 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/?query=FCDO+DIBs

The report covers the findings from three separate research waves, conducted in October-November 2018 (RW1), April-June 2020 (RW2), and June-August 2022 (RW3). 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.

Impact bonds are outcome-based contracts that incorporate the use of private funding from investors to cover the upfront capital required for a provider to set up and deliver a service. The service is set out to achieve measurable outcomes established by the outcome payer and the investor is repaid only if these outcomes are achieved. DIBs are impact bonds implemented in low- and middle-income countries where a donor agency, multilateral institution, or a foundation pays for the desired outcomes as opposed to the government (although some combination of government with third party is also possible).[1]

The report is based on a document review and consultations with key stakeholders. The first wave of research was conducted between October and November 2018, the second wave between April and June 2020, and the third wave June and August 2022. A full list of consultations is set out at the end of this case study.

1.2 DIB design and set-up

Summary of set-up phase

ICRC led the development of the HIB, designing the project with the support of Kois as well as leading discussions with potential outcome funders. Funding from outcome funders was lower than initially expected. ICRC started approaching investors at the end of 2016. Negotiations focused on the outcome metric, outcome target, interest rate and capital protection and timing of payback. Contracting was a particular challenge as the HIB did not fit into traditional funding frameworks used by any of the outcome funders; in the case of Belgium, this even required legislation change.

The key enablers to the setup of the HIB were (1) the strong leadership of ICRC and its partners; (2) the development of a clear outcome metric; (3) sufficient evidence for the intervention; (4) data to build up the business case; (5) the strong reputation and track record of ICRC; and (6) financial and private sector expertise provided pro-bono through an ex-banker at 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 main advantages of the HIB – in addition to building three new physical rehabilitation programme centres – were that it provided longer term upfront capital to ICRC, brought together existing ICRC partners and new partners as well as private sector finance. The main disadvantages were that the HIB was complex to design and expensive to set up.

1 **Source:** https://golab.bsg.ox.ac.uk/knowledge-bank/glossary/

Lessons learned – DIB design and set-up

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 and identify potential taxation implications.

3 Investors want to be involved earlier, so they can feed into the design of the impact bond's terms and conditions.

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

5 There are trade-offs between undertaking negotiations bilaterally or in a more collaborative approach.

1.3 HIB delivery

Summary of delivery

The ICRC HIB concluded in July 2022. While there were some delays, the HIB delivered against its overall timeline. The building of centres concluded in 2021, and all centres were operating by June of that year. Considering the respective weight of the different centres, the new centres were found to be 9% more efficient than the baseline, resulting in the programme's Outcome Measure of 1.09. This resulted in the investors being reimbursed but not making any profit on top of their initial investment.

During the first three years of the project, ICRC worked with eight existing centres to test a range of Efficiency Improvement Measures (EIM). Once validated, these EIMs were integrated into the operating procedures for the DIB centres as well as into the new Digital Centre Management System (DCMS). A more complex – and therefore longer – development phase as well as higher than initially planned costs for the DCMS forced ICRC to descope some parts of the system for its first version. The first version of the DCMS was nevertheless successfully deployed to the three new physical rehabilitation centres as well as one of the test centres.

HIB effects observed during delivery

We undertook an initial literature review and stakeholder consultations to understand how the project might be impacted by a DIB mechanism, both positively and negatively – what we refer to as hypothesised 'DIB effects'. During the research we tested whether these DIB effects materialised by comparing the DIB with comparable projects delivered through an alternative funding mechanism. These delivery-focused DIB Effects are summarised in Table 1 and described below.

The greatest impact of the HIB funding mechanism was bringing in funding to support large-scale and experimental elements of PFP. Donors were reluctant to fund the efficiency measures due their high costs and limited guarantee of success. Introducing an outcomes-based model, in which risk was shared between investors, ICRC and the donors, encouraged donors to fund the efficiency measures. The HIB was also very effective at shifting ICRC's focus to efficiency and supporting greater accountability with regard to efficiency specifically, although this did not represent a broader shift in focus on outcomes more generally.

Table 1: HIB effects

DIB effect	Extent to which hypothesised DIB effects observed
Positive DIB effects	
1 Greater focus on outcomes and accountability	🟠
2 Strengthened performance management	🟢🟠
3 Adaptive management and course correction, supporting innovation	🟠
4 Greater collaboration between stakeholders	🟠🔴
Negative DIB effects	
5 Cherry picking of participants from target population	🔴
6 Level, quality, range and duration of support is reduced	🔴
7 Tunnel vision	🔴
8 Increased staff pressure affecting other DIB effects	🟠🔴
Greater outcomes	
9 Increased efficiency and effectiveness, leading to increased number of beneficiaries supported and outcomes achieved	🟠

Key: 🟢 Hypothesised DIB effect observed and attributable to the HIB; 🟠 Hypothesised DIB effect observed and/or somewhat attributable to the HIB; 🔴 Hypothesised DIB effect not observed and/or not attributable to the HIB.

Lessons learned – delivery and relevance

Key lessons learned from the delivery of the HIB include:

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. Sufficient time needs to be built into delivery to allow the outcomes to be achieved.
3. New funding mechanisms need to fit within existing systems and organisational processes.
4. The main value added by the HIB may not have to do with the impact bond mechanism itself
5. Delivery of a HIB requires high levels of both external and internal communication
6. There can be merits in supporting peer learning in innovative projects

With regard to relevance: thinking about the humanitarian aid sector specifically, the HIB is relevant in that new funding mechanisms – especially ones that divide up risk burdens – are needed in the sector due to funding constraints. However, the HIB has a number of factors that would make it challenging to implement in rapid and uncertain humanitarian response work:

- They can take a long time to design and launch.
- Once they launch, it is difficult to change their scope.
- They are difficult to design and implement for environments where there are major external factors influencing outcomes.

They are therefore better suited for work that sits at the humanitarian-development nexus, where there is more time to design the impact bond, and stability within which it can operate.

Sustainability and spillovers

Table 1: Spillover effects

Spillover effect	Extent to which hypothesised DIB effects observed
Organisation-level	
1 Rolling out of processes and learning	🟢🟠
2 Increased visibility	🟢
3 Diverting of attention	🟠
Ecosystem-level	
4 Capacity strengthening to deliver DIBs	🟢
5 Increased stakeholder interest in DIBs	🟠
6 Contribution to the evidence base	🟢

Key: 🟢 Hypothesised DIB effect observed and attributable to the HIB; 🟠 Hypothesised DIB effect observed and/or somewhat attributable to the HIB; 🔴 Hypothesised DIB effect not observed and/or not attributable to the HIB.

Several organisation-level and wider ecosystem spillover effects were also observed. This included the rolling out of processes and learning from the HIB into non-DIB delivery, including the rollout of DCMS across non-HIB PRP centres. The HIB also provided increased visibility for ICRC as a pioneer for innovative finance in humanitarian aid. This visibility resulted in increased interest in impact bonds in the humanitarian aid sector, but this interest has not yet resulted in any other HIBs.

1.4 Conclusions

The ICRC was the first humanitarian impact bond. It ran from July 2017-July 2022 and enabled the financing and development of three new PRP centres as well as training for in-country staff, testing of efficiency measures, and development of DCMS. The focus of the HIB was on increasing the efficiency of the PRP, and the outcome metric (SER) was linked to increased efficiency compared to an established benchmark rather than outcomes achieved.

While there were some delays due to COVID-19 as well as political insecurity and security challenges, the HIB delivered all components of the project within the scope of the overall timeline. The new centres were found to be 9% more efficient than the baseline, resulting in the programme's outcome measure of 1.09. This resulted in the investors being reimbursed but not making any profit on top of their initial investment.

The greatest impact of the HIB funding mechanism was bringing in funding to support large-scale and experimental elements of PFP. The HIB was also very effective at shifting ICRC's focus to efficiency and supporting greater accountability with regard to efficiency specifically, though this did not represent a broader shift in focus on outcomes more generally.

Despite the organisation-level spillovers from the HIB both for the PRP and in terms of establishing ICRC as a pioneer in innovative finance for the humanitarian aid sector, so far there has been limited ecosystem-level spillover. This could – at least in part – be linked to impact bonds having limited relevance in the humanitarian sector. Although the humanitarian sector needs new funding mechanisms, especially ones that divide up risk burdens, impact bonds appear to be best suited for work that sits at the humanitarian-development nexus and would not be appropriate for crisis response.

2 Intervention and HIB design

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) funded the following activities:

1. Constructing three 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 (DRC)).
2. Training local staff to deliver high quality physical rehabilitation services in these centres.
3. Piloting and rigorously assessing efficiency improvement measures (EIM) across eight[2] existing ICRC PRPcentres, and building a Digital Centre Management System (DCMS) with the aim of improving efficiency and maintaining quality patient outcomes.
4. Using the DCMS and improved operational protocols based on the findings from the EIM testing to operationalise the three new centres.

ICRC delivered the intervention within its PRP[3] using the same reporting structure and procedures.

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

2.1 HIB model

The ICRC HIB was the first humanitarian bond, so named because it was an impact bond operating in a humanitarian context. The HIB launched in July 2017 and concluded in July 2022.

The funders committed a maximum of 26.09m CHF, which was made up of:

- 10.0m CHF from the Swiss Confederation;
- 8.7m EUR (9.31m CHF) from the Kingdom of Belgium;
- 3m EUR (3.21m CHF) from the Republic of Italy;
- 2m GBP (2.50m CHF) from the United Kingdom; and
- 1m EUR (1.07m CHF) from La Caixa Foundation.

The final amount payable to the funders is based on the results of the programme, payable in September 2022 (see Section 4), except for La Caixa's EUR 1m funding, which was payable upon the successful construction of the centres.

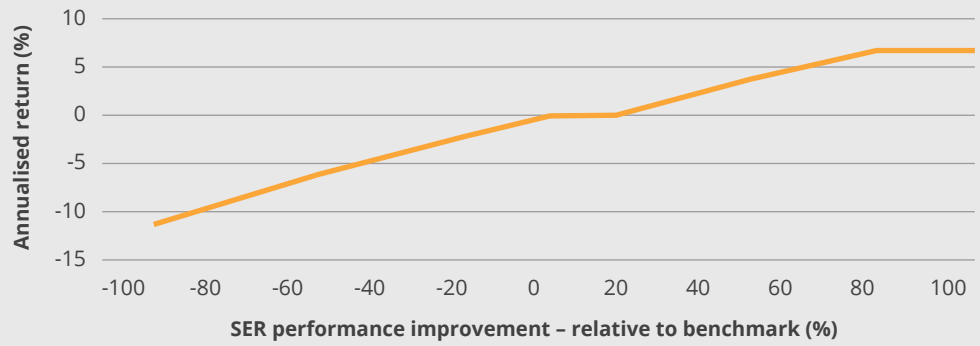
New Re (the cornerstone investor) provided 10m CHF of working capital to fund the construction of the PRP centres before outcome payments were made. The other private investors identified by Lombard Odier, the placement intermediary, provided 8.60m CHF. This total of 18.6m CHF was paid in two equal tranches, in July 2017 and July 2018.

Amounts payable by the outcome funders, and therefore returns to investors, were based on the Staff Efficiency Ratio (SER). This was 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 was compared to the baseline SER (established from historical data from other comparable ICRC centres in Africa). ICRC's self-reported results data – which was used to calculate the SER – was verified by an independent auditor, who visited a 5% sample of beneficiaries to confirm they had regained mobility based on a standardised physical functionality test used by ICRC.

The returns were scaled to incentivise efficiency savings; if the new centres operated less efficiently than past centres (or did not open), the investors would make a loss on their investment and ICRC would be liable to make a loss payment to the investors corresponding to 10% of investor capital. However, if the centres delivered more efficiently, delivering services to more people with the same resources, then the investors would recover their investment and, if SER performance improvements were over 14%, could even make a return.

The potential return to investors ranged from a loss of 11.3% per year (equating to a loss of 40% of their initial commitment) if there were to be 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 were to be an 80% performance improvement. Results were 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

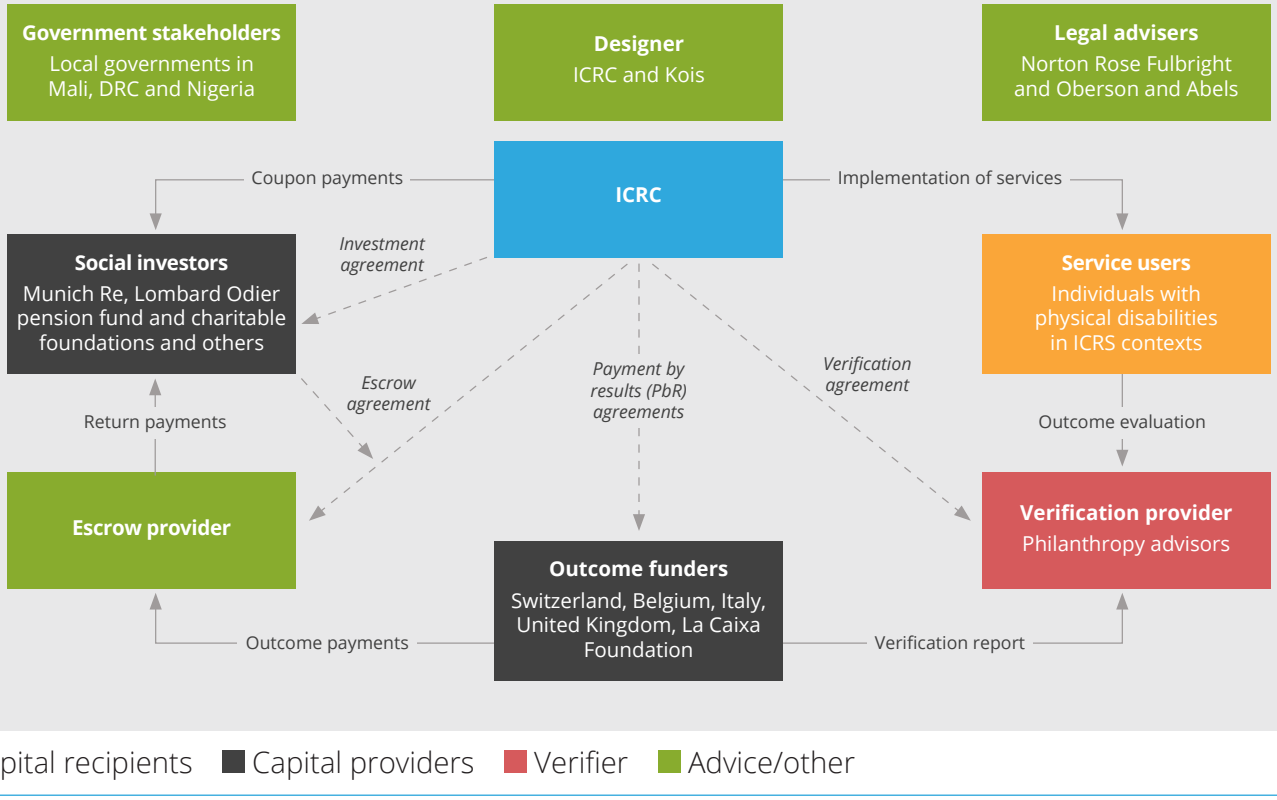


Source: ICRC Summary of the Transaction

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

The Operating Review Committee Meeting (ORCM) met twice a year for the ICRC to inform stakeholders on the progress of delivery. Additionally, ICRC reported quarterly throughout the programme on the use of funds and led on performance management of the intervention. ICRC had a direct contract with both the outcome funders and the investors. Figure 2 below summarises the contractual relationships and stakeholders involved:

Figure 2: ICRC HIB structure



3 HIB set-up

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 (based on the assumption that 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 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 consider 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)[4] 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.

4 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. HIBs are essentially DIBs operating in humanitarian situations.

Outcome target: ICRC worked with Kois 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.

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 aligned SER improvement with the interest rate, which resulted 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 max 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.

The model included an element of capital protection. This was an area of contention, as it reduced the risk transferred to investors. 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: Most of the 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 like 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 most of the deal reverted to one outcome funder payment at year 5, except for 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 an 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.[5]

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. However, the investors agreed upon one investor contract which was signed by all investors.

5 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

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

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 most 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.

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.

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 facilitated discussions with the private investors, as they 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. ICRC's ambition was to test a new financing model and explore where this could be used within the organisation. One stakeholder felt this was "constructing it the wrong way round"; that instead of deciding on the financing model first, they should have matched programmes to the most appropriate financing mechanism and responding to donor requirements. 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 were 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.

3.7 Advantages and disadvantages to using the HIB mechanism when launching an intervention

Advantages

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

The HIB de-risked outcome funds and enabled the funding of the efficiency measures improvement testing component, to bring innovation to improving the PRP's efficiency.

Outcome funders paid 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. Given this, one 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.

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 was 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 in longer-term funding for ICRC

The HIB funding was for five years, which provided 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

The main disadvantage of the HIB with regard to design and set up is that it was complex to design and expensive to set up. However, one outcome funder noted that a HIB 'externalised' certain cost 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.

3.8 Lessons learned – HIB design and set-up

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. 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.

3.8 Lessons learned – HIB design and set-up (continued)

4 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 capital protection and payments linked to milestones.

5 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.

4 HIB delivery (July 2017-July 2022)

4.1 Summary of delivery

Table 3: Overview of delivery

Component	Final figures
Outputs/outcomes achieved, versus expected	The SER for each of the following centres was: › Mopti, Mali: 0.67 › Kinshasa, DRC: 1.54 › Maiduguri, Nigeria: 0.80 Considering the respective weight of the different centres, the new centres are 9% more efficient than the baseline, resulting in the programme's Outcome Measure of 1.09.
Outcome payments expected)	19.23m CHF against total available of 26.09m CHF
Building of centres	› **Mopti, Mali:** although the centre was completed in 2020, the inability of the local partner to mobilise and pay the necessary human resources to staff the new centre resulted in the centre only opening in June 2021 with limited team and partial services only (the dormitories remained closed). › **Kinshasa, DRC:** opened for service users in January 2021 › **Maiduguri, Nigeria:** opened doors to service users in November 2020

Table 3: Overview of delivery (continued)

Component	Final figures
Training and staffing	› **Mopti, Mali:** 4 students received 3-year formal training in prosthetics and orthotics in Togo and all successfully completed their trainings. Although ICRC supported the national centre in charge of the regional physical reha-bilitation centres to pay for the salaries of all essential staff, the ministry of health was unable to fulfil its commitment made and employ an adequate number of staff locally. This led to the centre serving significantly fewer users than initially planned. › **Kinshasa, DRC:** 6 staff members received formal training[6] and all students, except for one who was sent to an upgrading course in Tanzania, success-fully completed their trainings. However, fewer than planned staff were em-ployed, a decision made by hospital management as the new staff was not initially included in the public salary scale. › **Maiduguri, Nigeria:** 9 staff members received formal training in prosthetics and orthotics in Tanzania (6) and Lagos, Nigeria (3) and all successfully completed their trainings. The centre in Maiduguri was adequately staffed, although security constraints prevented more service users from making the journey to the new facility, so the number of services provided remained be-low the centre's capacity. The COVID-19 pandemic forced all institutions to temporarily suspend the train-ing, resulting in the graduates returning to their home country later than initially planned, but all 18 newly trained professionals were working in different rehabil-itation centres.
Testing of efficiency measures (EIM)	During the first three years of the project, the ICRC worked with eight existing physical rehabilitation centres to test a range of EIM. Once validated, these EIM were then integrated into the operating procedures of the newly constructed centres and – wherever relevant – integrated into the new DCMS. Over the course of the three years, the average SER in these test centres increased by over 30%.
Digital Centre Management System (DCMS)	A more complex and therefore longer development phase and higher than initially planned costs forced ICRC to descope some parts of the system for its first version. The DCMS was nevertheless successfully deployed to the three new physical rehabilitation centres as well as one of the test centres (Kampong Speu, Cambodia). As at August 202I, the DCMS allowed the physical rehabilitation centres to manage its service users, workforce, and the necessary supplies with a single application. The initial feedback from users was very positive, and a 2nd version of the DCMS was expected in September 2022 with plans to roll it out across 60-80 ICRC PRP centres.

6 4 participated in a 3-year formal training in prosthetics and orthotics in Togo; 1 participated in an 18-month training in orthopaedic shoes technology; and 1 attended a 3-year upgrading training in prosthetics and orthotics in Tanzania.

Table 4: Overview of objectives and results

	Planned	Actual
Outcomes achieved	>1.00 SER[7]	1.09 SER
Outcome payments made	26.09m CHF	19.23m CHF
Investment committed	18.6m CHF	18.6m CHF
Investment return	Up to 7.0% p.a.[8]	All Capital, No Interest

As a result of COVID-19, there were uncertainties about the timeline and work across all project components was delayed by 3-4 months. The impact of COVID-19 specifically – rather than other challenges, which will be discussed later in this report – was variable depending on the country due to differences in COVID-19 prevalence as well as the type and extent of government response to COVID-19. However, there were delays with building in Maiduguri linked to the pandemic as well as uncertainty about staffing across the centres, as ministries of health had other priorities. The centres in Kinshasa and Maiduguri were completed in August and September 2020, a slight delay from the original July 2020 start date. The centre in Mopti was handed over to the local partner in March 2020.

Once centre construction was completed, there continued to be some challenges with opening and operating the centres. ICRC has a strong partnership with the Ministry of Health (MoH) in Nigeria and the centre in Maiduguri was adequately staffed, but the security situation in Maiduguri made it challenging for people with disabilities to travel to the centres for treatment. In Mali, across the programme period there were two coup d'états and strikes by civil servants on top of a general deterioration of the security situation. Moreover, although the centre in Mopti was finished in 2020, the MoH was unable to hire staff and pay sufficient salaries to staff the new centre to the level that had been initially agreed with ICRC. The centre only opened in June 2021 and only with partial services. There were challenges with the decision-making process and 'ownership' with the Kinshasa centre because the hospital attached to the centre changed from being a regional to a national hospital over the course of the programme. This meant that by the time the centre was constructed, ICRC was working with a different partner than the one who had initially agreed to the conditions around staffing. Furthermore, the new centre staff had not been included in the public salary scale and had to rely on payment of services rendered, resulting in the partner deciding to hire fewer than planned centre staff for the time being.

The later start resulted in there not being a 'pilot period' before the implemented efficiency measures started to take effect. The later start date meant that centre teams' delivery was more-or-less immediately contributing to the SER. Given that the teams included young and/or newly trained staff members working in a new centre with new equipment and new ways of working (i.e., DCMS), the SER may have been negatively affected as staff learned and adjusted. Especially in the context of having a relatively inexperienced team working in a new centre, one would expect efficiency to improve over time, but because so much of the project – in terms of total time – was dedicated to building the centres, there might not have been time for the team to reach their potential regarding efficiency.

7 Any value over 1.00 SER represents and improvement in efficiency over the baseline comparison centres
8 Equates to 134.5% of the commitment.

4.2 HIB effects

This section describes the 'HIB effects', i.e., how the design, delivery, performance, implementation, and impact of the intervention was affected because it was funded through a HIB. To understand how the HIB model affected the intervention, we use a list of potential HIB effects identified from a review of the literature and stakeholder consultations. 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 explored whether the effect materialised more strongly in the impact bond-funded project compared to the similar grant-funded project (in this case ICRC's other PFP centres), and whether stakeholders attributed 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.

Table 5: DIB effects

DIB effect	Extent to which hypothesised DIB effects observed
Positive DIB effects	
1 Greater focus on outcomes and accountability	🟠
2 Strengthened performance management	🟠🟢
3 Adaptive management and course correction, supporting innovation	🟠
4 Greater collaboration between stakeholders	🟠🔴
Negative DIB effects	
5 Cherry picking of participants from target population	🔴
6 Level, quality, range and duration of support is reduced	🔴
7 Tunnel vision	🔴
8 Increased staff pressure affecting other DIB effects	🟠🔴
Greater outcomes	
9 Increased efficiency and effectiveness, leading to increased number of beneficiaries supported and outcomes achieved	🟠

Key: 🟢 Hypothesised DIB effect observed and attributable to the HIB; 🟠 Hypothesised DIB effect observed and/or somewhat attributable to the HIB; 🔴 Hypothesised DIB effect not observed and/or not attributable to the HIB.

Positive HIB effects

Greater focus on outcomes and accountability

The HIB shifted focus to efficiency and supported greater accountability with regard to efficiency specifically, but this does not represent a shift to focus on outcomes more generally. The outcome metric for the HIB – as well as the EIMs developed as part of the HIB – focused on efficiency. Efficiency is like an outcome because it is linked to the level of performance or achievement that occurs because of an activity. However, a shift to focusing on efficiency is not the same as a shift to focusing on outcomes more generally; beyond the SER, there was not a wider emphasis on the number of patients supported or with outcome-level performance indicators like patient satisfaction or quality of services.

That said, the HIB was very effective at shifting ICRC's focus to efficiency. The structure of the HIB encouraged ICRC to focus on the efficiency outcome set as the outcome metric for the HIB. Additionally, the programme included testing a range of EIMs which – once validated – were integrated into the operating procedures for the newly constructed centres as well as into the DCMS that was also developed and piloted as part of the HIB. Moreover, the HIB required reporting on a quarterly basis, which forced ICRC to regularly focus on and consider reporting against efficiency-focused targets. The nature of the programme also enabled collaboration across PRP centres, enabling a better understanding of the drivers of efficiency and facilitating comparison; this was further facilitated by the EIM and DCMS components of the HIB. However, there does appear to be limitations in the extent to which this shift in focus was experienced across ICRC stakeholders. At the centre level, it appears that frontline staff were not always aware of the SER or how to improve it. Without this knowledge, frontline staff may not have been incentivised to work in an outcomes-focussed way to achieve the SER, even if this guided the project at a higher level.

However, ICRC stakeholders noted that this was due more to the structure of the project and could have been financed without the HIB mechanism, such as through a grant-funded project that had specified outcomes and a multi-year budget. However, it is also important to highlight that some donors only agreed to fund the project because the impact bond de-risked their expenditure).

Strengthened performance management

The HIB resulted in the development and trialling of tools that may support performance management across the PRP, but the HIB provided only limited space for performance management towards improving the SER. 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. 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."*

The HIB does appear to have accomplished this for ICRC; the DCMS and EIM appear to have improved performance management and the efficiency of systems to the extent that ICRC is rolling out both across the PRP as well as trialling a version 2 of DCMS. While this could have been funded without a HIB, ICRC stakeholders agreed that it would have been harder to fund these investments as donors often prefer to fund more 'concrete' outcomes.

Some outcome funders noted that they would have been reluctant to fund these investments without assurance that it would lead to improved efficiency, improving performance against the SER. However, the space for performance management in a way that could improve the SER was restricted because – particularly due to delays related to COVID-19 and other country-specific sources of instability – most of the time in the HIB was spent on construction and set-up of centres rather than on implementation that could be monitored with DCMS and the EIM.

Adaptive management and course correction, supporting innovation

The HIB increased flexibility in some areas compared to similar ICRC projects. but decreased it in others. There was 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. This proved to be important in the context of COVID-19 and delays in construction as well as implementation because of the pandemic and security challenges in Mali and Nigeria.

> *"With the HIB, we had the possibility to say we might need to spend a bit more to get things moving but will reduce next year to stay balanced. And we were able to do that."* (ICRC stakeholder)

Five-year guaranteed funding through the HIB provided the security to focus on bigger infrastructure and systems development activities that might not be practical in the standard humanitarian funding landscape. Typical ICRC projects operate on year-to-year plans and both budgets and staff members can be reallocated to other projects and/or regions based on need or organisational priorities; this is common for humanitarian organisations, which operate in unstable contexts and need to be able to pivot to focus on new and/or changing crises. The HIB was different because it focused on a five-year project, which gave ICRC stable funding which they could flex across the project.

However, this benefit is not unique to a HIB – it is a function of long-term funding, which could be provided under any funding mechanism.

However, there were some notable limitations to this flexibility. Firstly, the overall budget, targets, and timelines for the HIB were fixed. For example, this meant that while COVID-19 resulted in a review across all ICRC programming to determine if changes were needed, the HIB was excluded from the process as funding was already committed and ICRC were contractually bound to deliver. This was valuable at the project level, but potentially sub-optimal for PRP programming at ICRC more broadly because even as priorities shifted the DIB funds were committed; this included locking in specific ICRC staff members, whose experience and expertise could – in theory – have been more useful in other centres or roles.

> *"[The HIB] is excluded [from change reviews], which brings a certain level of safety. However, this also reduced our flexibility to adapt because we have already committed."* (ICRC stakeholder)

Furthermore, field staff on the ground in each of the HIB locations were limited in their ability to be flexible, as overall project and performance management were held by HQ in Geneva.

Greater collaboration between stakeholders

There was some increase of coordination between stakeholders but limited communication between outcome funders may have limited opportunities for learning about the impact bond mechanism. There was some increased collaboration with outcome funders and investors; they were updated on progress on a quarterly basis via the Operating Review Committee Meetings (ORCM) as compared to more standard annual basis for ICRC programming. The quarterly meetings were primarily intended to provide information but allowed for discussion and feedback as well. Stakeholders at ICRC indicated that initially they were concerned that the investors and/or outcome funders might try to dictate programming, but in the end, they felt like there was a lot of respect and consideration for how ICRC works.

Some of the outcome funders reported feeling like ICRC provided them with information but seemed to not want very much interference and therefore did not really ask for advice or suggestions in implementing the HIB. However, stakeholders did not agree on whether this reduced donor role was a benefit or not: some argued that once the metrics are agreed, donor interference should be minimal – they should step back and allow the implementing organisation to focus on how best to deliver towards the set outcome metric. Others hold the view that a core benefit of an impact bond is its potential to coalesce stakeholders (outcome funders, investors and service providers) around a shared vision – the outcomes.

Negative HIB effects

Cherry picking of participants from target population & level, quality, range, and duration of support is reduced:

There was no evidence of cherry-picking patients or other shortcuts that might reduce the quality of support in favour of efficiency. Generally, ICRC staff in DRC and Nigeria reflected that the HIB did not change the way they work, and that patient satisfaction was still their top priority in terms of service delivery, but that the efficiency metric was a helpful reminder to stay focused. The added value of DCMS in this area was also noted; staff reflected that the step-by-step methodology required by DCMS reduced human error by ensuring that you could not accidentally overlook components of service provision.

> *"It hasn't changed our way of working, but it has given us a good reminder not to waste time on other things."* (ICRC stakeholder)

Tunnel vision

Tunnel vision means focusing on primary outcomes which have payments attached to them, at the expense of secondary, un-monetised outcomes. **There is indication that ICRC was not only focused on the primary outcomes linked to payments but remained open to identifying opportunities for project co-benefits.** For example, ICRC used its own funds to cover unforeseen expenditure on the DCMS, even though it considered it would be possible to meet the outcome metric without the DCMS. This is because the DCMS had 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.

In part, this can be attributed to the fact that the SER is a compound metric; staff efficiency is necessarily a result of several different considerations, and the main 'outcome' is not easily separated from secondary outcomes. For example, construction of the centres was necessary to make the staff efficiency ratio happen, although it was not directly assessed through the SER. However, this also highlights that the SER may have been a sub-optimal metric, as it does not directly capture a lot of the work that was done as part of the HIB.

Increased staff pressure affecting other HIB effects

Although there were some challenges with morale, especially during the design phase, the HIB also provided unique opportunities that seem to have improved morale for some staff and there is no indication that the HIB increased staff turnover. There were some frustrations with the set-up phase, especially as there was consensus that the time required to set up the HIB was not appropriately planned for. However, ICRC stakeholders were relatively positive about the HIB, including the way that they had been able to integrate DCMS and EIM into the PRP overall, which was expected to improve efficiency more widely. Moreover, there was no indication that the HIB affected staff turnover.

There was some indication that the HIB model may have created some tension with ICRC staff working in country. The HIB represented a significant shift in terms of ways of working. ICRC staff were used to working on a yearly basis and changing location and/or role based on organisational priorities or shifts in humanitarian need. One stakeholder noted that there was some frustration among staff in DRC, who – given the usual way of working – did not understand why they were continuing to work on the particular centre and why so much effort was being invested in Kinshasa.

However, other stakeholders noted that centre staff were very keen and motivated because the outcome metric helped them understand what they were being pushed to do. The HIB also offered training, including training in different countries, which represented an opportunity for career development. Generally, stakeholders reported that staff motivation in the centres was high, but this seems linked to opportunities with the programme like training abroad, high-quality equipment, and DCMS rather than anything linked specifically to the impact bond mechanism. However, it is also unlikely that donors would have paid for these programme elements – especially development of DCMS – without the risk sharing that came from the impact bond mechanism.

It is also possible that lack of clarity about how the HIB and the SER worked created stress for centre staff. One stakeholder in DRC noted that staff did not understand how the SER was calculated, particularly in terms of how vacation, sick leave, or public holidays might affect the SER figures, which made some staff members feel bad about taking time off. Additionally, the available evidence suggests that in many cases frontline staff in the centres were not thoroughly trained on the SER or the impact bond mechanism; very few of them knew how, or even if, the project was being verified. This represents a potential missed opportunity for boosting staff morale and sense of mission.

Greater outcomes

The SER metric for the HIB was based on increasing efficiency rather than number of beneficiaries supported or outcomes achieved. Although efficiency was increased overall, it was uneven across locations. The Outcome Measure for the HIB focused on efficiency (SER) rather than increasing the number of beneficiaries supported or outcomes achieved:

Table 6: SER outcomes

	SER	Weight[9]	Delta SER
Mopti	22.55	23.6%	0.67
Maiduguri	27.00	32.5%	0.80
Kinshasa	52.19	43.9%	1.54

Considering the respective weight of the different centres, the centres are 9% more efficient than the baseline, resulting in the programme's Outcome Measure of 1.09. However, the SER was below the baseline value (1.0) in both Mopti and Maiduguri; the only reason the Outcome Measure was over 1.0 was because of high performance in Kinshasa.

Despite these mixed results, there was a general consensus that the elements introduced by the HIB – namely the DCMS – increased efficiency levels higher than they would have been had the DCMS not been introduced. These mixed efficiency results may therefore appear surprising. The core reason for this is because there were large factors outside of ICRC's control that affected efficiency – namely delays caused by COVID-19, security factors affecting the speed at which the centres could be built, and the ability to staff-up the centres. Indeed, when the DCMS was introduced into other centres is increased the efficiency by 30%.

4.3 Other interesting aspects of the HIB

Outcome funder and investor engagement

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. 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 of the ICRC HIB meant that outcome funders and investors had 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 overall, the level of engagement in the HIB was higher than other programmes, whereas for other outcome funders, the level of engagement was lower.

9 Weighting was done relative to the size of each centre

Some outcome funders indicated that they felt like opportunities for meeting and engagement had been limited by COVID-19, especially since they were unable to meet and network in-person. Moreover, there was only limited engagement and learning between the different outcome funders. Several stakeholders indicated that their only engagement with other outcome funders was with FCDO, and that it had only happened through FCDO's initiative. One outcome funder clarified that communication between outcome funders was limited to official meetings, and that they did not want to undertake additional parallel communication with the other outcome funders to discuss the impact bond out of concerns that it would look like they did not trust ICRC. FCDO was the only outcome funder who had experience with impact bonds coming into the HIB; all other outcome funders were entirely new to the mechanism. This represents a potential missed opportunity with regard to sharing learnings that might encourage the outcome funders to further explore impact bonds as a funding model and/or more confidently and effectively manage their engagement in impact bonds moving forward. However, a couple of the outcome funders mentioned that they would now be interested in engaging in more informal conversations with the other outcome funders to get their assessment of the process and crystallise lessons learned from the outcome funder perspective.

4.4 Lessons learned – delivery and relevance

This section describes the lessons learned, as described by stakeholders from their experience with the HIB.

Lessons on HIB delivery

This section describes the lessons learned, described by stakeholders from their experiences of delivering the ICRC HIB.

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 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. **Sufficient time needs to be built into delivery to allow the outcomes to be achieved.** The majority of the programme was constructing the centres, to which only a small portion of the payments were attached. The main outcome focus was the SER, but due to delays in the programme ICRC only had a small amount of time to achieve this outcome. It was also difficult for ICRC to focus on achieving this outcome, because so much of the time and focus was on building the centres. It is possible more outcomes would have been achieved if ICRC had longer to embed the EIM and DCMS systems into delivery.
3. **New funding mechanisms need 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 ran over budget. While the HIB afforded the flexibility to divert savings from other budget lines to the DCMS, this was insufficient to cover the overspend.
4. **The main value added by the HIB may not have to do with the impact bond mechanism itself.** Secure, long-term funding appears to have been the main value added from the HIB. Stakeholders generally felt like this could be achieved without private sector investment through another outcome-based approach or even a long-term grant. However, this kind of long-term, ringfenced funding has limited applicability in the humanitarian sector.
5. **Delivery of a HIB requires high levels of both external and internal communication.** Stakeholders noted that a lot of public relations work was required both externally and internally, 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.

4.4 Lessons learned – delivery and relevance (continued)

6 **There can be merits in supporting peer learning in innovative projects.** The HIB potentially missed opportunities for communications and sharing lessons learned between outcome funders. Increased communication between outcome funders could support learning and build knowledge and/or confidence for investment in future impact bonds.

Lessons on relevance

Thinking about the humanitarian aid sector specifically, the HIB is relevant in that new funding mechanisms – especially ones that divide up risk burdens – are needed in the sector due to funding constraints. However, the HIB has several factors that would make it challenging to implement in rapid and uncertain humanitarian response work:

- They can take a long time to design and launch.
- Once they launch, it is difficult to change their scope.
- They are difficult to design and implement for environments where there are major external factors influencing outcomes.

They are therefore better suited for work that sits at the humanitarian-development nexus, where there is more time to design the impact bond, and stability within which it can operate. A HIB could be a viable option for contexts still affected by conflict but where there is enough stability to start re-building in a way that includes in-country partners; PRP fits this description, as would WASH in some cases.

The long set-up phase for an impact bond is particularly difficult to manage in departments focused on humanitarian response, which are used to quick responses and often work to annual budgets and funding commitments. At ICRC, there were challenges with managing a multi-year project using ICRC's financial processes, which tend to work with annual budgets. In the case of Belgium, legal changes needed to be made to increase funding time limits from two years to five years; if money is reserved five years into the future, the minister could be limiting the decision-making power of their successor. Outcome funders also brought up concerns about the political palatability of impact bonds in the humanitarian sector, which can be seen as putting an interest rate on human suffering.

The HIB was used in a low-risk context; it included activities that are standard for ICRC, and they know they do well. However, the risk-sharing aspect of an impact bond model has the most value added in higher risk environments where there could be a bigger success (resulting a pay-out for investors) or bigger failure (protecting the outcome funders and implementing organisation). That said, the risk with a real humanitarian crisis response would likely be too high to attract investors, or it would become too expensive because the premiums would need to be much higher to attract investment.

4.5 Sustainability and spillovers

Looking at the legacy of the HIB after its completion, several key findings were identified regarding both the sustainability of the HIB-funded centres as well as 'spillover' effects that have had wider organisation-level and ecosystem-level effects.

Sustainability of HIB centres

There is a level of in-built sustainability with the HIB in that it included activities that could have use beyond the end of the programme. DCMS and EIM were good products from a sustainability perspective for ICRC's PRP programming more generally, and at the time of the final research wave (August 2022) there were plans to roll out v2 of DCMS across a number of PRP centres. The HIB also included investment in infrastructure and training/professional qualifications that could potentially have lasting effects in the targeted countries.

However, several stakeholders raised concerns about whether the governments in these countries – ICRC's national partners in the HIB, who were responsible for recruitment, employment, and payment of centre staff – were going to be able to continue supporting the centres after the end of programming. This did vary by country, though:

- **Nigeria:** In-country stakeholders were optimistic about the government's capacity to and interest in supporting the centre in Maiduguri following the end of the HIB. One noted that the MoH had starting lobbying with the Ministry of Finance for a separate, dedicated budget for the centre.
- **DRC:** Stakeholders in DRC were pessimistic about the Ministry of Health being able to support the centre in that way that ICRC did in terms of the equipment as well as staffing, especially because the centre was very big, modern, and expensive. These stakeholders concluded that the centres would require support from other sponsors to operate once ICRC reduced their support; however, at the time of interview (August 2022) there was not enough support to fill that gap.
- **Mali:** Given the issues around government instability in Mali, it seemed likely that similar issues would arise linked to sustainability and handover to the national partner. This is supported by the fact that the centre opening was delayed at the point it was handed over to the government and that when it opened, that was only with limited staffing.

However, ICRC is committed to continue supporting all three centres for the years to come.

Spillover effects

Several 'spillover' effects from the HIB were identified at the organisation level and wider ecosystem level.

Table 7: Spillover effects

Spillover effect	Extent to which hypothesised DIB effects observed
Organisation-level	
1 Rolling out of processes and learning	🟢🟠
2 Increased visibility	🟢
3 Diverting of attention	🟠
Ecosystem-level	
4 Capacity strengthening to deliver DIBs	🟢
5 Increased stakeholder interest in DIBs	🟠
6 Contribution to the evidence base	🟢

Key: 🟢 Hypothesised DIB effect observed and attributable to the HIB; 🟠 Hypothesised DIB effect observed and/or somewhat attributable to the HIB; 🔴 Hypothesised DIB effect not observed and/or not attributable to the HIB.

Organisation-level effects

Rolling out of processes and learning

Spillover with regard to rolling out of processes and learning to non-HIB projects was built into the pilot through plans to test and then expand the DCMS and EIM to non-HIB facilities. Efficiency improvement measures and the DCMS were initially tested in HIB sites and subsequently rolled out to other PRP ICRC sites. This has enabled a better understanding of and focus on efficiency across non-HIB sites. Furthermore, one stakeholder mentioned that ICRC has wanted to scale up their PRP and have been investing in smaller projects, but the HIB was one of the first times they were able to commit to one large, longer-term investment, and that the HIB represented one of the largest PRP investments they have ever had.

Increased visibility

The wider literature on impact bonds has noted that increased visibility from involvement in impact bonds can lead to more funding and reputational benefits for service providers. ICRC already had high levels of visibility in the humanitarian aid sector; however, designing and delivering the first ever humanitarian impact bond does appear to have supported their visibility and credibility as a player in the field of innovative finance.

Diverting of attention

In the wider literature on impact bonds, there is some indication that the high stakes environment created can divert attention to impact bond-funded interventions, which may potentially have a negative impact on non-impact bond funded interventions. Looking at the HIB specifically, stakeholders noted that, especially during the design phase, the PRP team spent a lot more time on the HIB funded interventions, which would have been unsustainable if equal amounts of time were spent across the other PRP centres. Furthermore, due to the nature of the HIB, ICRC staff were committed to the specific project and could not be moved to different projects or locations. This was positive for the HIB, but potentially resulted in a limited resource (expert capacity) being used inefficiently across the PRP.

Ecosystem-level effects

Capacity strengthening to deliver DIBs

Given the novelty of the HIB structures and the challenges with bringing stakeholders up to speed with the impact bond approach due to its complexity, organisation-level capacity-building could have ecosystem-level effects moving forward. This is true of DIBs, but particularly relevant with HIB because the impact bond is even more novel in humanitarian aid than it is in international development.

Stakeholders at ICRC believed that the HIB really started the conversation for ICRC on innovative financing and more generally about how to diversity funding by engaging new partners. Although this likely overstates the impact of the HIB specifically, the HIB encouraged ICRC to think about innovative financing and new ways of working and explore new models. ICRC has an objective by 2030 to have 5% annual income to come through new financing models, and the HIB experience helped to build ICRC capabilities in innovative financing. It also helped change the narrative within ICRC on innovative financing, increasing internal support for engaging in mechanisms, though enthusiasm still varies across the organisation. At the time of the final research wave (August 2022) there was a New Financing Models Unit at ICRC, which was tasked with sculpting ICRC's approach to innovative finance moving forward.

Increased stakeholder interest in DIBs

The HIB sustained stakeholder interest in innovative financing mechanisms; however, some stakeholders remained unconvinced about the unique value added of impact bonds. HIB outcome funders indicated that their experience with the HIB convinced them about the potential of outcome-based funding and added to institutional interest in innovative financing mechanisms, especially as decreasing aid budgets build interest in opportunities for risk distribution.

However, neither outcome funders nor ICRC themselves appear to be convinced about the unique value of impact bonds specifically. Some stakeholders indicated that they really valued working alongside private sector investors because of their 'obsession to have an impact' but were not convinced that the hands-off model used for managing the HIB was the best way to capitalise on that benefit. Other stakeholders felt that they had not seen enough evidence about the value of private sector involvement and the pay-off for resources spent attracting private sector capital. As one outcome funder put it:

> *"ICRC hasn't given us a justification for the added value of private sector inclusion. What were the additional costs of attracting private capital – when is that justified? They haven't been able to come up with a clear answer about the criteria for choosing impact bonds as a model that justify the additional cost."*

It is worth noting that although the HIB seems to have attracted interest from investors in investing in more impact bonds, to date this has not resulted in additional impact bonds with ICRC.

Contribution to the evidence base

As the first ever humanitarian impact bond, the ICRC has contributed valuable information to the evidence base on this innovative financing mechanism. In addition to project reporting and evaluation, ICRC has invested time and resources into sharing learnings from the HIB with other service providers as well as potential outcome funders and investors. However, since the idea of a humanitarian impact bond is still incredibly novel, there remains a need to continue expanding the evidence base and clarify attribution of observed benefits and outcomes.

5 Conclusion

The ICRC HIB was the first ever humanitarian impact bond. The HIB focused on increasing the efficiency of the PRP, and the outcome metric (SER) was linked to increased efficiency compared to an established benchmark instead of outcomes achieved. It was assumed that through increased efficiency, increased outcomes could be expected. The HIB aligned outcome funder, investor, and ICRC incentives to improve efficiency. The PRP had a large amount of historical data, which was crucial for developing the outcome metric and target outcomes as well as enabling risk and return calculations.

The main challenges in setting up the HIB were: (1) difficulty with contracting due to the applicable legal and taxation frameworks in place for the outcome funder countries; (2) the lack of expertise at the start of the project within ICRC as well as the outcome funders; and (3) the difficulty in adapting the ISB model to the humanitarian sector and ICRC's operating model. Furthermore, some compromises on terms were necessary – for example, the element of capital protection – which some outcome funders were comfortable with. 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.

The HIB launched in July 2017 and concluded in July 2022; while there were some delays, the HIB delivered against its overall timeline and enabled the financing and construction of three new PRP centres as well as testing of efficiency measures and development of a new DCMS. Overall, the new centres were found to be 9% more efficient than the baseline, resulting in the programme's Outcome Measure of 1.09. This resulted in the investors being reimbursed but not making any profit on top of their initial investment.

The greatest impact of the HIB funding mechanism was bringing in funding to support large-scale and experimental elements of PFP. Donors were reluctant to fund the efficiency measures due their high costs and limited guarantee of success. Introducing an outcomes-based model, in which risk was shared between investors, ICRC and the donors, encouraged donors to fund the efficiency measures. The HIB was also very effective at shifting ICRC's focus to efficiency and supporting greater accountability with regard to efficiency specifically, though this did not represent a broader shift in focus on outcomes more generally.

There was something of a mismatch between what was funded under the HIB and the SER, meaning that the actual impact of programming might not have been meaningfully captured by the outcome measure. This is particularly highlighted by the spillover effects of the EIM and DCMS on ICRC's PRP more broadly – both during the HIB and continuing after the end of HIB funding. Despite the organisation-level spillovers from the HIB both for the PRP and in terms of establishing ICRC as a pioneer in innovative finance for the humanitarian aid sector, so far there has been limited ecosystem-level spillover. There was a lot of desire to hear about the HIB from other organisations in the sector, but this interest has not resulted in anything concrete: there have been no other humanitarian impact bonds.

This could – at least in part – be linked to impact bonds having limited relevance in the humanitarian sector. Although the humanitarian sector needs new funding mechanisms, especially ones that divide up risk burdens, impact bonds appear to be best suited for work that sits at the humanitarian-development nexus and would not be appropriate for crisis response due to having long set-up phases and limited capacity for scope change once implementation has started. However, as the first ever humanitarian impact bond, ICRC has made an incredibly valuable contribution to the evidence base on this innovative financing mechanism.

Annex

The following stakeholders were consulted during the evaluation. The research was conducted in three waves, with Research Wave 1 (RW1) and Research Wave 2 (RW2) consultations feeding into the previously published case study report in 2021. This report is now updated with the Research Wave 3 (RW3) consultations.

Stakeholder/Organisation	RW1	RW2	RW3
ICRC	✔	✔	✔
FCDO	✔	✔	✔
Munich Re	✔	✔	
Swiss Agency for Development and Cooperation	✔		✔
Belgian Directorate-General for Development Cooperation and Humanitarian Aid/ Humanitarian Aid Unit »	✔		✔
La Caixa		✔	✔
Kois	✔		

ECORYS
Answering tomorrow's challenges today

5th Floor, Queen Elizabeth House
4 St Dunstans Hill
London
EC3R 8AD
United Kingdom

E: london@ecorys.com