The Opportunities and Challenges of Results-based Financing for Developing Countries

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What is an Impact Bond? – Not a Bond.

"An outcome-based contracts that incorporate the use of private financing 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 commissioning authority (or outcome payer) and the investor is repaid only if these outcomes are achieved". Go Lab Oxford

Social Impact Bond: government is outcome payer, with or without international cooperation.

Development Impact Bond: government is not involved as payer; only international cooperation or philanthropy as payers.

Through SIB Facility, 2014, IDB Lab pioneered Social Impact Bonds into Latin America. First countries: Brazil, Chile, Mexico. Second: Argentina, Colombia. Three IDB Lab programs in Argentina, Colombia and Chile.

In SIBs, all financial risk of the innovation is transferred to the private investors. Mostly social or impact-driven investors. Government DOES NOT PAY if results are not achieved.

Not just about new way to contract; new mindset and MVPs – Innovation driven.
Outcomes Fund
- Best practice internationally
- Helps overcome recurring barriers: more than one-year budgets for government. Essential for retention and service provider innovation.
- Learning by one government team embedding practice in government.
- Lowering transaction costs by structuring and launching SIBs within the same Fund.
- Government budget for Outcomes payments, Fund Team, evaluations and verifications.
Results-based financing: types

- Performance-based Contracts.
- Social Impact Bonds.
- Development Impact Bonds.
Performance Based Contracts (PBC)

The PBC is a Pay for Results instrument where the outcomes payer (government) contracts an operator to generate a pre-agreed upon results—such as job placement for vulnerable populations—and conditions part or all of the payment to reaching the targets.

Source: Instiglio, 2021
Impact Bonds

Impact Bonds are an effective way to finance and test innovations, gather best practices as input for social programs and shift mindsets to outcomes rather than activities.

If government is a payer, known as Social Impact Bonds – SIBs.

If donors or philanthropists are the payers, known as Development Impact Bonds – DIBs. In both, investors upfront funds for program development, while payers pay for outcomes.
IDB Lab’s SIB Program
First study of SIBs in Latin America concludes that:

- SIBs are a viable product in Latin America to contribute to governments paying for success and using resources more effectively.
- Can be launched and operate in a Latin American context, and they can provide the benefits seen elsewhere.
- Are driving accountability and performance management (evidence).
- For broader cultural change, may want to combine with performance-based loans or others.
- SIB ecosystem achieved but in nascent stages.
IDB Lab’s Role

- 2014 SIB Facility to develop innovations that could be rolled up into public policy (IDB Lab tests, IDB scales); SIBs in UK and US brought to LAC.
- When IDB began exploring SIBs for Latin America, there was no market for SIBs in the region. (New industry)
- Flexible role depending on each country’s context.
- The involvement of the IDB Group was a ‘seal of approval’ both for government stakeholders and for the private sector.
- IDB’s reputation has contributed to getting the right people around the table.
- IDB involvement ensures the right technical support.
IDB Lab’s Role (contd)

- As international stakeholder IDB has contributed to visibility among and access to internationally relevant stakeholders, access to good practice examples, and coordination of knowledge sharing between SIBs in the region for technical input and support.

- SIBs have presented an opportunity for increased levels of cooperation between the IDB and IDB Lab.

- IDB Lab’s role most effective when taking on programmatic long-term approaches (Colombia) and testing new refundable instruments (Argentina).
IDB Lab’s Work to Date

Projects closed:
Argentina – SIB transaction launched. IDB Lab loan to Investor trust fund - repaid. Employment low-income youth
Chile – SIB program. IDB Lab grant. Prefeasibility studies on three topics - cancelled

Projects in execution
- Colombia – SIB program – IDB Lab-SECO grant. IDB Lab/Fundación Corona Executing Agencies. 2 SIBs closed, 1 Outcomes Fund launched and operational, phase 1 of SIBs 3 and 4 launched in 2021. Phase 2, 2022. 2 Outcomes contracts implemented by the Government of Colombia directly (mainstreaming SIBs)
- Haiti Impact Fund approved in 2021 and being structured by IDB Lab Haiti with Haiti COF

Projects under design
- El Salvador – Education development Impact bond
- Honduras - Education development impact bond
- Colombia – Outcomes contract in the city of Bogotá for female employment. – financed part of the TA for structuring. (mainstreaming SIBs)

Projects for upcoming potential pitches
- Guatemala – has a finished scoping study – Andrés Rubio
- Dominican Republic – is finishing the scoping study – Smeldy Ramírez

Supported originally by SIB Facility
- Brazil – SIB did not launch, new project being designed (Svante information)
- Mexico – has not launched – new SIB being structured independent of IDB Lab

Interest from other countries
- Uruguay, Jamaica, Costa Rica
Program vs transaction. 6-years.

Objective: test better results (MVP) for formal jobs for vulnerable populations.

Component 1 - Pay for Outcomes – at least 3 SIBs.

Component 2 – Market Building and performance management System.

Component 3 – Knowledge generation and dissemination.

Executing agency: for Comp 1 – IDB Lab CCO ; for Comps 2 and 3 – Fundación Corona (employment experts).

SIB Program in Colombia: results to date

- First SIB in emerging country launched 2017- closed December 2018 (Copayers Na’l Govt-IDB). 3 cities, 3 investors.
- Outcomes Fund – Launched 2020 – overcome barriers of one-off SIBs, one-year budgets, government learning.
- Launch SIB 4 2021. 4 new investors, 3 cities, repeating intermediary, biggest numbers in least amount of time. Phase 1. Phase 2 for 2022.
- Process and Impact Evaluations for SIB 1.
- Process evaluation for SIB 2.
- First lessons learned for SIB 3 phase 1.
- Outcomes Fund has been used by national government to mainstream SIBs into two public employment programs.
Work in 2022

- **Lessons learned** from phase 1 of SIBs 3 and 4.
- **Transition with new national government** - August – December 2022.
- Design a TA facility within Component 2 to **support Outcomes Payments by demand** (building on support for Bogotá Outcomes payment contract).
- **New Outcomes Payment project with SECO** – Colombia and Perú – start March 2022.
HAITI IMPACT FACILITY (HIF)
Key role throughout history in helping alleviate some of the World’s worst crisis
Effectiveness of public funding

- SDG targets will not be reached by 2030 (as projected)
- Too much focus on activities instead of results
The Case for Haiti

- Volatile sociopolitical environment
- Low public perception on aid
- High exposure to external risks
- High level of development aid financing
- Low public perception on aid
Path to Success

Mobilizing key champions

Close collaboration and coordination with stakeholders

Leveraging lessons learned

Assessment of the country’s ecosystem readiness and maturity

Flexibility in Design
The HIF in a Nutshell

- 4 components
- 5 in-depth sector studies
- 1 pilot phase
- 10 Pay-for-Outcomes contracts
- New institutional and legal framework

IDB Lab: US$ 2,000,000
Co-financing: US$ 15,500,000
Total Budget: US$ 17,500,000
The Haiti Impact Facility: 4 core services to address market needs and build a scalable platform

Link to National SIB program in Colombia: SIBs.CO: http://www.sibs.co/

Link to the Haiti Impact Facility: https://www.iadb.org/en/project/HA-T1295