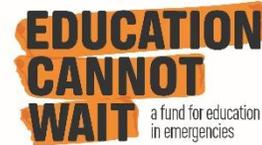


# Impact Bonds and Outcome Investing for Education in Emergencies

Draft Approach for Education Cannot Wait (ECW)  
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Education Cannot Wait, the new Global Fund for Education in Emergencies, is exploring impact bonds and related forms of outcome investing. Impact bonds have the potential to help bring new funding to education in emergencies and protracted crisis, improve the effectiveness of funds, and allow for innovation in the delivery of education programs.

This short note serves as a background document for consultations to bring together partners, identify interventions and work toward (an) impact bond(s) for education in emergencies and protracted crisis.

## Background on Impact Bonds

Impact bonds and other forms of outcome investing create a financing contract between so called “impact investors”, “outcome funders”, and “service providers” that focuses on outcomes and realigns operational/implementation risks and incentives to deliver results. Impact investors who are interested in financial return and also the social impact of their financing, provide upfront funding to service providers. Independent third party evaluators verify results and create an additional level of transparency. Outcome funders – public donors, foundations and others – return impact investors’ funding, including interest and a risk premium, if the agreed upon outcomes are achieved. If programs fail to deliver expected results, investors take a loss. So far six impact bonds were contracted in developing countries including in support of education programs and a “Humanitarian Impact Bond” for physical rehabilitation centers in Nigeria, Mali and Democratic Republic of Congo.<sup>1</sup>

Impact bonds not only change the roles and responsibilities of funders but also the way programs are developed, implemented and monitored, all of which can improve their effectiveness and can support innovation. They emphasize outcomes such as school attendance and learning instead of the often-prevailing focus solely on inputs. They can support new and innovative interventions traditional donors feel uncomfortable with because Impact investors who carry the operational risk of achieving results have a different risk appetite and follow different methods of assessing risk than traditional donors. This can allow service providers to test new modalities of implementation. Impact bonds can help introduce results-based project management practices. They demand rigor and good data for monitoring and evaluation (thereby often achieving high standards in design and delivery). They require clear and deliberate preparation and planning, as they are a binding contract between various parties.

That said, impact bonds require rigorous program design and are heavier on monitoring and evaluation, which means they often incur additional transaction costs. Therefore, they are unlikely to become the

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<sup>1</sup> For a general overview on impact bonds in developing countries see Emily Gustafsson-Wright, Izzy Boggild-Jones, Dean Segell, and Justice Durland. 2017. [“Impact bonds in developing countries: Early learnings from the field.”](#)

main financing modality in emergency situations but will complement existing programs where they can provide an additional benefit.

### Impact Bonds for Education in Emergencies

Establishing impact bonds requires bringing together a complex partnership of funders, investors, implementation partners, and independent evaluators. It also requires identifying education interventions in protracted crisis and other emergency contexts that lend themselves financing via an impact bond.

Impact bonds lend themselves to investments in education in emergencies for a range of interventions for at least two reasons. First, many education interventions allow for a sufficient level of attribution of outcomes to inputs. They have a relatively clear theory of change that describes how financial inputs (for example teacher training or upgrading facilities) lead to outputs (trained teachers or upgraded) facilities and then education outcomes (learning). Also, for many interventions the target population – the pupils – can be clearly defined and outcomes (learning of these pupils) can be measured. Attribution is important because measuring outcomes and payment for outcomes are the centerpiece of impact bonds. Second, because education in emergencies operates in unstable environments, service providers are often not in control of operational risks such as outbreak of conflict, changing politics, and a unpredictable operating environment. More traditional results-based financing instruments may not create the right incentives for improved results because service providers do not have the means to manage these risks. Under such circumstances, transferring operational risks to third party investors is a good strategy from a risk management perspective.

That said, there are also challenges associated with impact bonds and education in emergencies. Emergencies, in the most cases, mean that there is little security and capacity of service providers may be low. Investors may fear associated risks and independent evaluation (including data gathering) can be a challenge.

### Education Cannot Wait and Impact Bonds

Education Cannot Wait (ECW) is exploring impact bonds and related forms of outcome investing to address the financing challenges of education in emergencies. Education Cannot Wait (ECW) was established in 2016 to respond to emergencies and help children and youth emerge out of protracted crisis by providing education. It aims to transform the delivery of education in emergencies by inspiring political commitment, planning and responding collaboratively to crises, generating and disbursing additional funding, strengthening capacity to respond to crises, and improving accountability. ECW has an overall resource mobilization goal of more than \$3.7 billion over 5 years. It responds to emergencies – man-made conflict, violence, and displacement, natural disasters, including floods, droughts, earthquakes, tsunamis, and severe storms that can rob children of their education and all the future opportunities that depend on it. Right now, an estimated 75 million school-aged children and youth are in desperate need to not miss out on their education. Every year, millions more children lose access to education and drop out of school due to conflict and disaster.

ECW would implement impact bonds as part of its larger multi-year education programs which are designed to provide education in situations of protracted crisis.<sup>2</sup> Multi-year programs bring together humanitarian actors, donor community, and government to develop and finance comprehensive education interventions. Within these programs, impact bonds would finance a defined set of education interventions with a distinct target population, a clear theory of change and well-defined accountabilities for results.

ECW could and potentially would fill different institutional roles in setting up impact bonds, depending on the concrete intervention funded. In line with its core mandate to generate political commitment, and establish collaboration for planning and responding to crises, ECW would facilitate the learning partnerships between funders, investors, service providers, and evaluators. When it comes to financing, ECW can take on the role of either outcome funder or impact investor:

- Outcome funder: The ECW Fund could serve as a source of finance and pay for the outcomes achieved. Likely, it would co-fund the impact bond as part of a coalition of donors – government donors, foundations, and others. ECW would pay for outcomes only,
- Impact investor: ECW could provide upfront financing and take on the role of an investor, which would be useful in situations where this would help generate additional funds. The investor role and taking on the risk of outcome delivery would send a signal potential funders that ECW is taking on accountability for its programs and their implementation. ECW would be repaid for its investments by funders only if outcomes are achieved. Likely, an investment where ECW serves as the investor would not require the full structure of an impact bond but take the shape of a similar outcome investment as ECW may not require as formal a relationship with its funders than a private impact investor.<sup>3</sup> Serving as an investor may be a good model in particular when ECW considers crowdsourcing the outcome payments.

#### Toward a Portfolio of Impact Bonds and Outcome Investments:

ECW's approach to impact bonds should be ambitious but also conscious of the fact that the application of impact bonds to humanitarian setting is new and has not been tried yet for education in emergencies. While there are good arguments for potential success, contribution to bringing in new types of funders, and increasing the efficiency and effectiveness of financing on the ground, only implementation. experience on the ground, and rigorous evaluation can prove that impact bonds are a feasible financing structure for education in emergencies. ECW is committed to testing the proposition that impact bonds and related forms of outcome investing can benefit financing education in emergencies, both in terms of bringing in additional and non-traditional funders and achieving outcomes on the ground that are supported by this financing structure. Given the novelty for education in emergencies, in the short term, ECW hopes to facilitate and fund a few promising deals in order to test the concept. In the longer term,

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<sup>2</sup> Priority countries for ECW multi-year investments are: Afghanistan, Bangladesh, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Ethiopia, Haiti, Iraq, Jordan, Lebanon, Libya, Mali, Myanmar, Niger, Nigeria, Pakistan, Palestine/West Bank Gaza, Somalia, South Sudan, Sudan, Syria, Uganda, Yemen

<sup>3</sup> Likely, ECW could pre-finance programs without a legally binding contract with outcomes investors and some parts of the financing structure, including setting up a Special Purpose Vehicle would not be required.

if successful, ECW would establish a funding window for outcome investments and manage a portfolio of impact bonds and related outcome investments.

Next steps:

An impact bond can be complex to set up as there are many different parties involved. Therefore, as a next step, ECW is in consultations with potential stakeholders on countries, interventions and programs that could be funded:

- a) Potential service providers with a focus on identifying countries, interventions and programs which could be funded (for criteria, see Annex);
- b) Outcome funders and impact investors to understand if there is appetite to co-fund an impact bond or invest in an impact bond;
- c) and more generally, experts on the feasibility of the concept in an education in emergency setting.

As soon as there is some agreement on a good pilot project and service provider on the ground, and if there is some interest by partners to finance, ECW would bring on board a financial advisor to help design the impact bond.

So far, a few interventions and concrete programs emerge as promising pilots:

- A “Cash for Learning Bond” is an impact bond that would go beyond encouraging school attendance and focus on learning. It would finance cash transfers and accompanying supply side interventions to produce vital learning outcomes. Potential applications are vouchers for vocational learning for Rohingyas in Bangladesh and cash transfers for refugees and displaced people in countries like Jordan or Lebanon.
- Crowdsourcing outcome funds from individuals – potentially accompanied by matching grants. ECW is considering running a campaign to address barriers to girls’ education in emergencies and finance interventions that allow girls to not only attend school but learn. ECW would provide upfront funding to finance the intervention. Later, after an independent evaluator confirms results, ECW would receive funds from the campaign, if and only if promised outcomes are achieved.
- Impact bond to support learning outcomes and potentially provide social-emotional support through tutoring programs and informal learning.

## **Annex 1: Criteria for identifying country, intervention, program and implementation partner:**

ECW will use the following criteria to identify interventions and programs to be financed with a Cash for Learning Bond:

- Clearly defined and measurable outcomes: As payments from Outcome Funders to Impact Investors will be contingent on outcomes, the intervention needs to lead to clearly defined and measurable outcomes
- Attribution of outcomes: Outcomes can be attributed to inputs. The intervention must have a clear theory of change that describes how inputs lead to outputs and outcomes. Ideally, evaluations have proven the validity of this theory of change and it is intuitively understandable for funders and investors. [Conversely, complex coordination and systems interventions would be hard to finance through an impact bond.]
- Clearly defined target population: Attribution is supported by a clearly defined target population.
- Computability/predictability of success and existing experience: An intervention that would, with reasonable confidence, deliver learning gains. Impact investors are willing to take risks as long as they can calculate them. This requires data on the success rate of similar interventions in similar operating environments. This criterion points to an extension of existing projects or extending project geographically.
- Service provider/implementing agency has a track record in implementing similar interventions.
- Simple evaluation: An intervention that can be evaluated relatively simply, to ensure the feasibility of verifying conditions for payment:
  - An intervention that is expected to deliver impacts on educational outcomes that can be measured cheaply.
  - A program model where expected effect sizes are large enough so that modest sample sizes are sufficient to detect impacts.
- Security: Impact bonds and outcome investing require independent third party evaluations. The operating environments need to be safe enough for third party evaluators to collect data and verify outcomes.
- Protracted crisis situation (as opposed to active conflict) where investors can evaluate the country risk.
- A ECW priority country: Afghanistan, Bangladesh, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Ethiopia, Haiti, Iraq, Jordan, Lebanon, Libya, Mali, Myanmar, Niger, Nigeria, Pakistan, Palestine/West Bank Gaza, Somalia, South Sudan, Sudan, Syria, Uganda, Yemen.