



ASSET CLASS PROFILE

Social impact bonds



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Asset class trends in emerging markets

Social impact bonds (SIBs), which are often referred to as development impact bonds in the context of emerging markets, are a promising instrument to mobilise private capital for impactful social initiatives.

- Through SIBs, private investors provide upfront capital for social services and are repaid by an outcome funder (typically a government or donor) contingent on the achievement of agreed-upon results
- SIBs were first launched in the UK in 2010 to address recidivism at HM Prison Peterborough
- 137 SIBs have been contracted globally as of 2019
- In emerging markets, SIBs are a growing tool, typically attracting bilateral or multilateral donors and foundations as outcome funders
- 12 SIBs have been contracted in developing countries to date, targeting education, health access, agriculture and other sectors

Key features

- ✓ **Result-based returns:** In a SIB structure, the outcome funder repays the investors their principal plus a pre-agreed market-rate return on the investment, dependent on the achievement of impact results
- ✓ **Clear impact measurement:** A key part of SIB structuring is selecting concrete impact metrics that will determine project returns. Impact measurement is carried out by an external verifier with high levels of transparency and the results are communicated to the investors and outcome payers

Source: i) Bridgespan, "Impact Bonds in Developing Countries: Learnings from the field", 2017 ii) Brookings Global Impact Bond Database

Historical challenges

- **Exposure to possible loss:** Where outcome metrics are not achieved at the end of the project, the investors' upfront capital is at risk of non-repayment
 - **Solutions include:** Some SIBs offer capital protection measures where a portion of the principal investment is guaranteed by the service provider, incentivising quality service delivery, or the outcome funder
- **Unfamiliarity of vehicle and limited track record:** SIBs are a nascent tool with a limited track record, with only a small number of SIBs reaching completion to date. The investment terms and structure may therefore be unfamiliar to private investors

Why invest?

- **Potential for catalytic impact:** The service provider in a SIB structure is fully dedicated to achieving impact, having no commercial requirements, and can therefore deliver high levels of direct impact to stakeholders
- **Involvement of experienced local partners:** Many SIBs are serviced by local expert organisations with experience working directly in the sectors and regions targeted



Examples of social impact bonds in emerging markets include:

- ICRC Humanitarian Impact Bond