MEASURING THE SUCCESS OF
**IMPACT BONDS**

Global Economy and Development at BROOKINGS

# WHAT IS THE SIZE AND SCOPE OF THE IMPACT BONDS MARKET?

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# Overview

This brief, the first in a series of five analyzing various dimensions of the success of impact bonds, examines the size and scope of the global impact bonds market. It explores impact bonds' growth trajectory since the launch of the first one in 2010, the current size of the market, and their geographic and sectoral spread. It also analyzes drivers of growth and barriers to scale, and posits the potential for the future of impact bonds and outcome-based financing more broadly. Based on the Brookings Global Impact Bonds Database, the brief explains that 194 impact bonds have been contracted in 33 countries across six sectors. This represents over $421 million in upfront investment in social services and $460 million in total outcome funding committed. A few countries stand out as the largest markets for impact bonds: the United Kingdom, the United States, the Netherlands, Portugal, and Australia; India is the developing country with the most contracted impact bonds. While it is challenging to identify an appropriate benchmark for comparison purposes in terms of size or scale of the market, relative to the outsize gaps in quality service delivery across the globe, it is quite small. Nevertheless, in high-, middle-, and low-income countries alike, efforts are underway to scale outcome-based financing more broadly through consolidation of investment and outcomes funding for a range of intractable societal challenges.

# Benchmarking size and scope

Before considering the current impact bonds landscape, it is worth briefly exploring what it means to examine the success of impact bonds with respect to the size and scope of the market. Without an obvious benchmark for comparison, it is difficult to judge whether to consider the current market large or small. A further consideration is what the optimal scale of the impact bond market would be—are more and/or larger impact bonds always desirable?

Several measures could be used for benchmarking scale—current spending or current reach in terms of beneficiaries, and the estimated funding gaps or number of individuals estimated to need services. On a country by country basis, one might consider the share of outcome funding for impact bonds or outcomes contracts relative to total spending on social services.

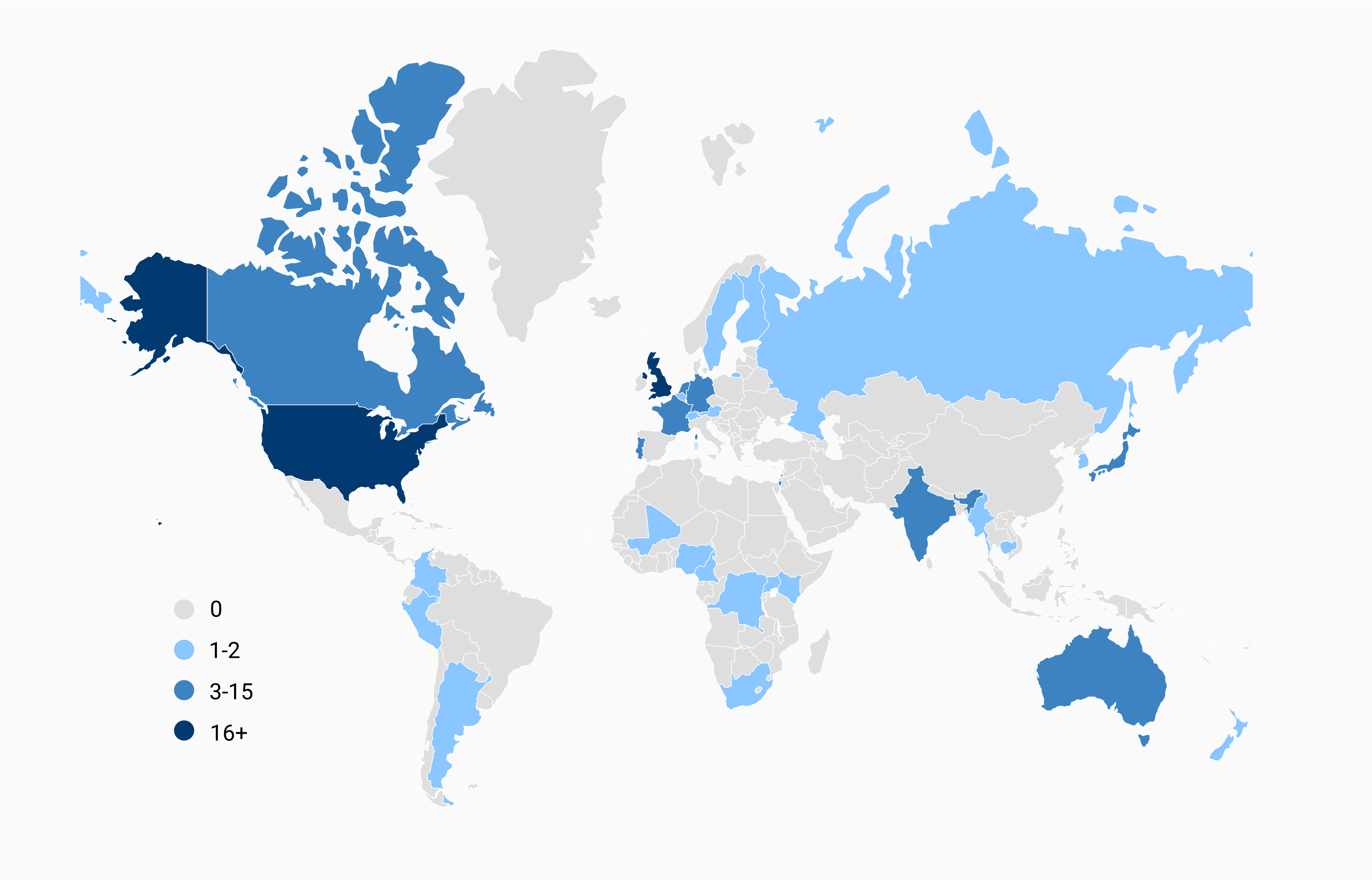
Other comparison figures in the development field might include the total net Overseas Development Assistance (ODA) from Development Assistance Committee (DAC) countries, or the size of funding from individual multilateral or bilateral organizations, such as the World Bank's International Development Association (IDA) spending figures. One could also benchmark against the level of need globally, such as the financing gap for achieving the Sustainable Development Goals (SDGs) or the potential number of beneficiaries not being served in a particular sector or issue area.

As outlined below, by any of these measures, the impact bond market remains very small. This does not mean, however, that within each impact bond, or even within the context of each impact bond (geographic, sectoral, or system of social service delivery), impact is insignificant.

# Impact bonds landscape

As of July 2020, 194 impact bonds have been contracted in 33 countries. The majority of deals are contracted in just a few countries; those contracted in the U.K. (69), the U.S. (26), the Netherlands (15), Portugal (13), and Australia (10) make up 69 percent of the total number of impact bonds (though not, as discussed in the second brief in this series, the total number of impact bond beneficiaries). See Figure 1.

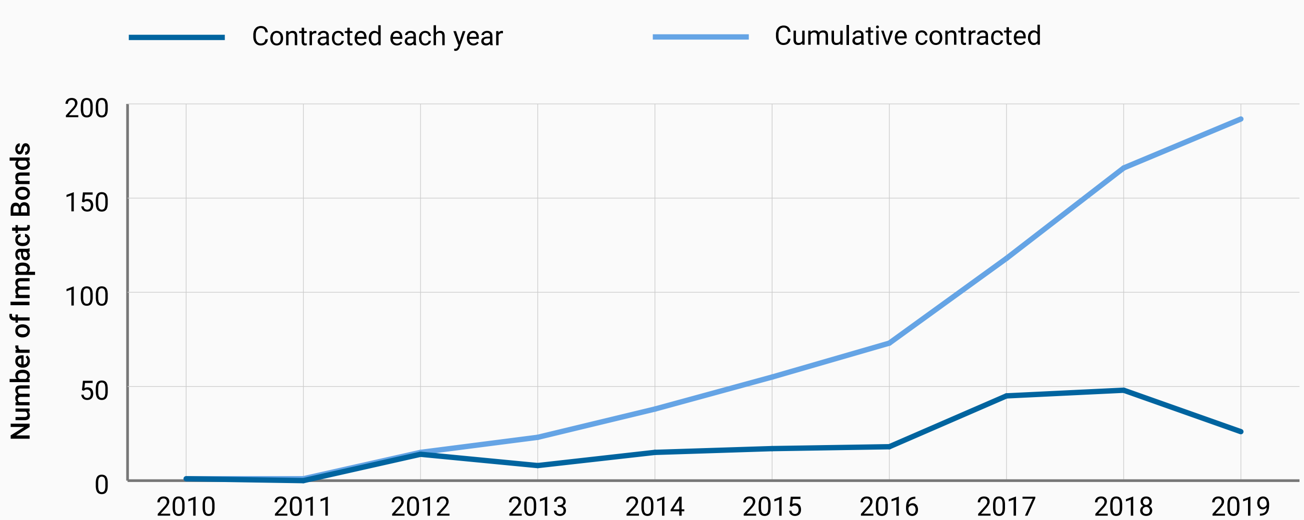
**Figure 1:** Impact bond projects by country




**Source:** Brookings Institution Global Impact Bond Database, July 2020

As Figure 2 demonstrates, the impact bonds market has grown steadily over time in terms of the number of impact bonds contracted overall, though the number contracted each year has been more unpredictable. After the first impact bond was contracted in 2010, no new deals occurred in 2011, and then in 2012 the number of new contracts jumped to 14, only to fall again in 2013. Between 2013 and 2016, the number contracted each year rose only slightly, before more than doubling in 2017 to 45 impact bonds and rising again in 2018 to reach a peak of 48 new impact bonds.

**Figure 2:** Impact bond growth over time

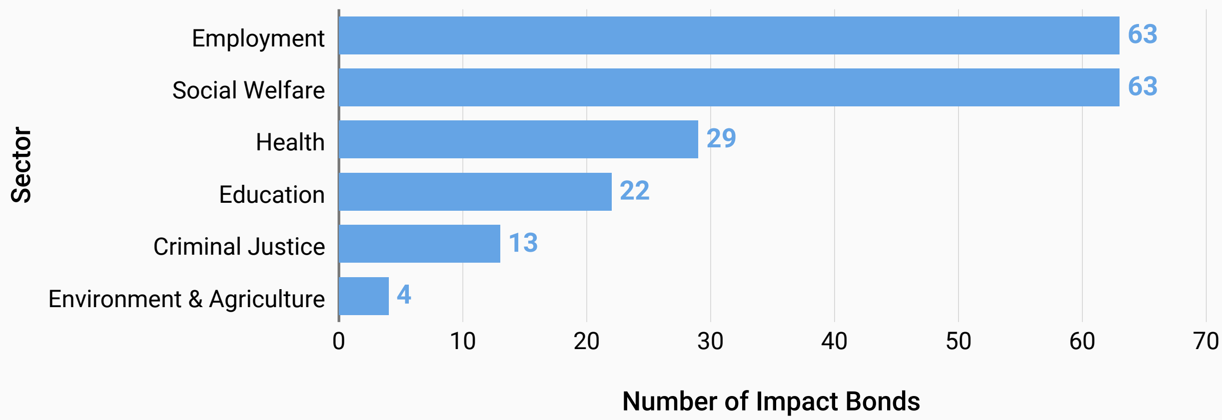



**Source:** Brookings Institution Global Impact Bond Database, July 2020

In developing countries, the growth of the impact bond market has been relatively slow compared to the global market (Gustafsson-Wright, Boggild-Jones & Nwabunnia, 2019); despite considerable interest from global development actors, there are still just 17 impact bonds contracted in low- and middle-income countries. Of these deals, 11 are development impact bonds (DIBs), where the outcome payer is a third party, such as a donor, while the remainder are social impact bonds (SIBs), where the government plays this role.

Impact bonds have been contracted across six sectors, the majority of which are in the social welfare[1] (63) and employment (63) sectors, as shown below in figure 3. In developing countries, health and employment have been the dominant sectors, with five impact bonds each.

**Figure 3:** Impact bonds by sector




**Source:** Brookings Institution Global Impact Bond Database, July 2020

The total upfront capital invested across contracted impact bonds is nearly $421 million, with an average of just $3.16 million invested upfront.[2] There are two key caveats to these figures: The first is that several impact bonds recycle capital throughout the project, with outcome measurements and payments made at key milestones, reducing the amount of capital needed upfront. The second is that, as with the beneficiary numbers cited previously, the average masks significant variation. A few projects with much higher levels of upfront capital inflate the $3.16 million average; for example, investment in the Washington, D.C. environmental impact bond with $25 million and the International Committee of the Red Cross (ICRC) Programme for Humanitarian Impact Investment at $19.42 million. Of course, as discussed above, without a benchmark, it is difficult to judge whether the $421 million

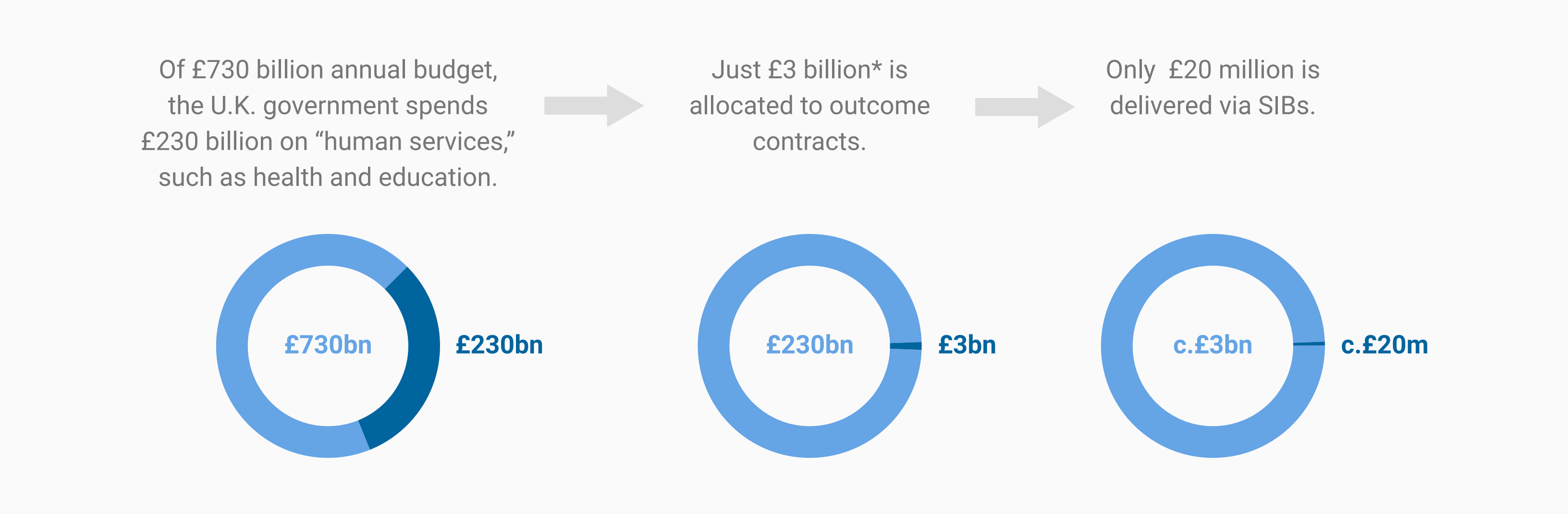
[1] Social welfare includes impact bonds addressing homelessness, poverty reduction, and child and family welfare.

[2] Based on available verified data on upfront capital from the Brookings Global Impact Bond Database for 133/194 impact bonds.

total is large or small. Relative to the size of the global impact investing market, this total is certainly small: The Global Impact Investing Network (GIIN) recently estimated that 1,340 impact investors globally manage $502 billion in impact investing assets (Mudaliar & Dithrich, 2019). In low- and middle-income countries specifically, according to the Brookings Global Impact Bonds Database, just $48 million in total has been invested across the 17 impact bonds contracted so far against an annual SDG financing gap of $2.5 trillion.

On the outcome funding side, according to available data, a total of nearly $463 million has been committed to pay for outcomes.[3] Nevertheless, impact bonds remain a very small proportion of overall government spending. In the United Kingdom for example, according to estimates by Bridges Fund Management (2019), SIBs represent just GBP20 million of an overall budget of GBP730 billion (Figure 4), despite the fact that the U.K. has contracted by far the largest number of impact bonds.

**Figure 4:** Average annual U.K. government spending on outcomes contracts, 2010-2015




**Source:** Bridges Fund Management, 2019
* Annualized figures based on spending during the last Parliament, 2010-2015

[3] Data on maximum outcome funding is currently unavailable for the majority of impact bonds, so this number underestimates the true figure.

Thus far, outcome funding for impact bonds in developing countries remains miniscule when comparing against ODA from DAC countries, which was $147 billion in 2017 (OECD, 2020), or the size of IDA totaling $121 billion (World Bank, 2020). The United States alone—the largest donor country—provided $34 billion in ODA in 2019 (SEEK Development, 2020). The U.K. Department for International Development (DFID) allocated GBP6.3 million to three projects in the DIBs pilot program[4] (Ecorys, 2019a)—a figure equivalent to less than 0.1 percent of DFID's spending in the 2017 financial year (U.K. Government, n.d.). This figure is small even in comparison with other outcome-based mechanisms. For example, from 2011-2016, DFID spent GBP249 million for the Girls' Education Challenge Fund, a payment by results investment for some of the world's most marginalized girls (ICAI, 2016).

Finally, the impact bond market pales in size in comparison to the number of beneficiaries who need services. The total number of beneficiaries targeted by impact bonds is nearly two million; though this comes to an average of over 11,788 beneficiaries per impact bond, the median is just 515 beneficiaries served per impact bond. This gap between service needs and impact bond service size is visible even in a single sector: The Education Commission estimates that just four out of 10 children in low- and middle-income countries will be on track to gain secondary level skills by 2030—leaving 825 million children without these skills (Education Commission, 2016), and just a small portion of these children are reached by impact bond projects. Further detail on beneficiary reach is discussed in the second brief.

[4] DFID is not an outcome funder in all three of these projects. For more detail on the DIBs pilot program, see Ecorys (2019a).

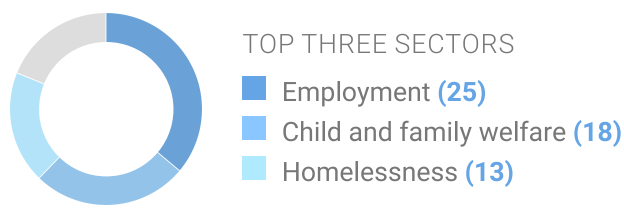
# Creating a market for outcomes: Paths to scale[5]

While 33 countries now have contracted impact bonds, most countries have just a few. However, a handful of countries, including the U.K., the U.S., the Netherlands, Portugal, Australia, and India have contracted multiple impact bond projects. Understanding some of the driving forces that have facilitated contracting multiple deals in these countries can help provide insights into the different paths to build markets for outcomes.

## United Kingdom

69
IMPACT BONDS

65,271
BENEFICIARIES TARGETED




The United Kingdom, which pioneered the impact bond model and continues to have by far the largest number of impact bonds in the world, has several characteristics that have enabled the contracting of multiple deals. The central government has played a key role in commissioning and funding SIBs (Ecorys, 2019b). Further, several outcome funds used to contract multiple impact bonds have been launched in the U.K., including the Innovation Fund, which supported 10 SIBs for education and employment for disadvantaged young people (Government Outcomes Lab, 2020). The U.K. government has also built internal SIBs capacity; the Centre for SIBs within the Department for Digital, Culture, Media and Sport provides guidance on developing

[5] This section is based on desk review of literature, figures from the Brookings Global Impact Bond Database (based on available verified data), and interviews with key sources. For more detail on the individuals interviewed for this brief, please see the acknowledgements section.

SIBs, and has partnered with the Blavatnik School of Government at the University of Oxford to establish the Government Outcomes Lab, which offers both practical support for, and publishes academic research on, outcome-based commissioning (UK Government, 2017).

Further insights into scaling drivers are summarized in a recent report, Ecorys (2019b),[6] which identifies six different routes that have been used to scale and replicate SIBs in the U.K. (Table 1). The report also outlines a range of key enabling factors for scaling and replicating SIBs in the U.K., including: use of proven methodologies or interventions, learning from previous SIB commissioning approaches, replicating aspects of the SIB commissioning process, and increased awareness of SIBs over time, as well as policy interest in particular sectors or outcome-based contracting more broadly. The report notes that, while it is not always possible to replicate entire interventions, some aspects of SIBs, such as outcome metrics, may be good candidates for replication.

**Table 1:** Routes to replication and scaling used in the U.K.

| | |
|---|---|
| 1 | Multiple SIBs developed by one commissioner simultaneously |
| 2 | Multiple SIBs developed sequentially by one commissioner |
| 3 | SIBs commissioned singly in similar policy areas based on other commissioners' example |
| 4 | Provider- or intermediary-led SIBs commissioned sequentially or simultaneously by different agencies on a common platform (i.e., with a pre-designed set of processes/contract elements) |
| 5 | SIBs locally commissioned based on a standard/previous rate card |
| 6 | Centrally commissioned SIBs based on a standard rate card |

**Source:** Ecorys, 2019b

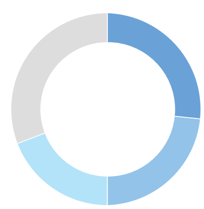
[6] The language of "commissioner" and "commissioning" is typical in the U.K. The Ecorys (2019b) report includes the following definition of commissioner: "Organisation which funds or contracts for delivery of a service. (NAO definition) NB." It is worth noting that while the Ecorys report focuses on local commissioning, several of the routes in table 1 could also apply to the central government.

The Positive Families Partnership (PFP) SIB is a particularly interesting model for scaling in the U.K. The three service providers in the SIB target young people ages 10-17 at risk of going into foster care across 10 London boroughs. The SIB started with five boroughs acting as commissioners/outcome funders and has added further commissioners over time. The SIB has just one contract between the boroughs and the PFP Special Purpose Vehicle, which in turn manages the three service provider organizations. The model was designed for scalability from the outset: In the original tender document, all London boroughs were listed, meaning that they could all join as commissioners later without negotiating a separate contract. The simplification of the contract structure is only one element that supports a streamlined process; the SIB also has a single outcome metric—payment for every seven days a young person stays out of foster care.

## United States

26
IMPACT BONDS

676,316
BENEFICIARIES TARGETED



TOP THREE SECTORS
- Criminal justice (7)
- Homelessness (6)
- Child and family welfare (5)

In the United States, the government and nonprofit entities have taken a variety of actions to drive the growth of impact bonds, or pay for success (PFS) projects as they are known in the U.S., which differ substantially from the U.K. paths described above. Intermediaries have played an important role in growing the impact bond market often in the initiation of a project working closely with nonprofits or with governments to design and structure initiatives. Twenty-six impact bonds have been launched in the U.S., mobilizing over $250 million in capital to serve over 25,000 beneficiaries through a broad range of social services plus the population of Washington, D.C. (650,000 as of 2016) receiving the benefits of an impact bond for the environment. Intermediaries have supported over two-thirds of the launched PFS projects in the U.S.

Another critical driver was the Social Innovation Fund (SIF), a program of the Corporation for National and Community Service with both public and private funding, which helped develop the sector by funding both project development and knowledge sharing (Nonprofit Finance Fund, 2019). SIF provided grants to organizations to develop PFS projects in 2014 and 2016, as well as committing additional funding to support administrative data use in existing projects (Corporation for National Community Service, 2016).

The Government Performance Lab at the Harvard Kennedy School of Government provided critical capacity building and technical assistance to state and local governments on nine PFS projects in the U.S. Finally, there have been important legislative efforts that have facilitated the growth of the impact bond market. The $100 million Social Impact Partnerships to Pay for Results Act (SIPPRA), passed in 2018, aims to support outcome-based financing and provide funding from the Treasury for social impact partnerships, including PFS projects. SIPPRA joins other federal efforts that enable the use of PFS strategies in conjunction with existing federal funding streams and legislation, such as the Every Student Succeeds Act, the Maternal and Early Childhood Home Visiting program, and the Department of Justice's Second Chance Act. These combined efforts could help to support future growth of the impact bond market.

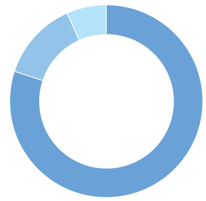
## Netherlands

15

IMPACT BONDS

4,813

BENEFICIARIES TARGETED




In the Netherlands, local governments have a responsibility for funding and delivering many social services. Municipalities have therefore played a key role in the growth of the impact bond market as the outcome payer in nine of the 15 SIBs. In the early years, the market in the Netherlands was often driven by individuals within different organizations who pushed the sector forward; within municipalities, this typically depended on both political and civil service leadership.

One of the additional factors that has influenced the development of the SIBs market in the Netherlands was the existing collaboration between the public and private sectors, including previous public-private partnerships (PPPs), as well as the appeal of SIBs to actors across the political spectrum. An additional path to scale in the Netherlands was one service provider contracting new impact bonds in multiple municipalities over time, bringing knowledge from the previous impact bond to the next one.

Although the Netherlands has a high number of contracted SIBs, key players note that the ecosystem for this pay for performance mechanism is still in an early stage. Capacity building within government is still limited, the market for specialized intermediaries is young and centred within academia, and the interest in outcome contracts is just starting to evolve.[7] Nevertheless, the future could see further growth of

[7] The Erasmus University has, for example, established the Outcomes Academy meant to provide capacity building for policymakers and other potential actors on outcome-based financing. See www.outcomesacademy.nl.

the market as the national government is exploring the potential for this model and one province in the country, Brabant province, has experimented with the country's first outcomes fund.

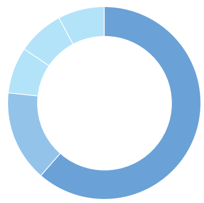
## Portugal

13

IMPACT BONDS

139,395

BENEFICIARIES TARGETED



TOP THREE SECTORS

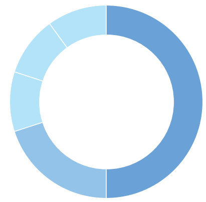
- Education **(8)**
- Employment **(2)**
- Health, Criminal Justice, Child and Family Welfare **(1 each)**

In Portugal, one of the key facilitating factors in the contracting of multiple impact bonds is the role of Portugal Social Innovation (PSI), a government unit which promotes social innovation, and has served as the outcome funder for 12 of the 13 SIBs contracted in Portugal. The organization also facilitates SIB development by supporting service providers with their applications, as well as matchmaking between different actors. In addition, PSI has streamlined the process for contracting SIBs: Applications must already have a service provider and investor, which avoids the need to raise capital later in the process. Finally, while SIBs with outcome funding from PSI cannot pay returns to investors, due to restrictions on the use of funding from the European Social Fund, they are able to receive strong tax incentives, with deductions of up to 130 percent of their investment. An area of interest is what will happen after PSI closes its call for proposals in 2020: The organization has been the key outcome funder in Portugal, and stakeholders are interested in what structures may emerge with alternative outcome funders.

## Australia

**10**
IMPACT BONDS

**9,598**
BENEFICIARIES TARGETED



TOP THREE SECTORS

- Child and Family Welfare **(5)**
- Criminal Justice **(2)**
- Employment, Health, Homelessness **(1 each)**

In Australia, one of the driving forces behind the development of impact bonds, or social benefit bonds as they are known in Australia, has been interest in the instrument from state treasury departments: since these departments are not tied to a particular Ministry they can often bring an outsider perspective, as well as a desire to save money, and provide additional funding to departments with limited budgets. The New South Wales Treasury department was the first to act, with others observing their example and following sometime later. Most states in Australia have now undertaken an outcome-based contract. It is not clear, however, whether all states will continue with these contracts, as some are currently in a period of review.

Other key factors leading to a proliferation of SIBs in Australia include a strong nonprofit sector, with many organizations receiving the majority of their funding from the government, as well as trust in the government and strong financial markets. Australia's welfare sector has a strong presence in public policy, and thus their support for this new approach has been critical to its growth. Additional funding from government, outside of existing program support, has also generated interest from prospective project proponents. Intermediaries have also been critical to the seeding and (modest) growth of SIBs in Australia. Their engagement has taken two main paths: a commercial lens focused on the investment opportunities for impact investors and a nonprofit lens focused on helping social organizations build outcome-based programs. Experts in Australia predict that a collaborative approach between the government and social organizations is likely to dominate in the coming years.

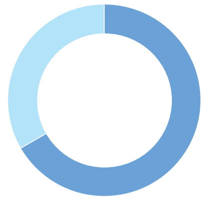
## India

3

IMPACT BONDS

807,300

BENEFICIARIES TARGETED



TOP THREE SECTORS*

Education (2)

Health (1)

* As of July 2020, India has contracted impact bonds in only 2 sectors

India has the highest number of impact bonds contracted in a developing country, and despite the small number overall, the projects target over 800,000 beneficiaries, or nearly half of the total impact bond beneficiaries globally. No impact bond in India has yet to include a government outcome funder, so the projects have all been DIBs, with third parties playing the outcome funding role. For this reason, it is difficult to point to structural or country-specific factors that have driven market development, but rather a multitude of factors that have coalesced leading to the large number of beneficiaries and impact bonds (relative to other developing countries).

The first factor is related to having the right people, in the right place, at the right time. A few key actors have played important roles in shaping the impact bond market—for example, the UBS Optimus Foundation has provided investment funding for all three of India's impact bonds. And the British Asian Trust played an important role in building a coalition of outcome funders for the Quality Education India (QEI) DIB and partnering with four different service providers to improve learning outcomes for up to 200,000 children.

There are two additional factors that played an important role in making the three impact bonds in India possible. The first was qualified, ready, and able service providers. The service providers engaged in the QEI DIB, for example, include experienced organizations identified through rigorous selection criteria. As outlined in a recent Brookings report focused on education impact bonds in India, the preference for tried and tested service providers has the potential to reduce risk for investors and increase the likelihood of investment (Gustafsson-Wright & Boggild-Jones, 2019). Second, India has a strong market for and culture around the use of digital technology. This has facilitated the introduction of technology to support the collection and analysis of performance data within impact bonds. This includes the digital dashboard used in the Educate Girls DIB (UBS Optimus Foundation, Dalberg Advisers & Children's Investment Fund Foundation, 2018), as well as the various digital dashboards used by different audiences within the Utkrisht DIB.

# Impact bond drivers

In summary, Brookings research on the global impact bonds market, including many interviews with stakeholders, has identified a range of drivers, or facilitating factors, that have enabled countries to contract multiple impact bonds.

**Qualified service providers:**
A pool of service providers ready to contract on outcomes is crucial to building a market for impact bonds. Outcome-based financing typically demands high levels of data capacity and rigorous performance management from delivery organizations.

**Willingness of governments to engage:**
This is a broad umbrella category which includes many key elements: National, regional, or local government interest in, and capacity to, pay for outcomes; political champions who are able to drive the process forward; and civil service capacity to shift from an inputs to an outcomes focus. Also important is the establishment of a central government unit with the explicit responsibility to build knowledge and capacity for impact bonds, such as the Centre for SIBs in the U.K.

**Strong intermediaries:**
The involvement of an entity with experience in designing and structuring impact bonds is an important facilitating factor. Notably, some impact bonds have been designed without an intermediary party, and as expertise is built in house within the other parties, the types of external expertise needed, if any, may change.

**Technical assistance for project development:**
Funding and support for feasibility studies, technical assistance, and capacity building, which, for example, the Social Innovation Fund in the United States provides.

**Standardization of procedures:**
This could be through the use of rate cards, as pioneered in the U.K.'s outcomes funds, or the standard process for contracting SIBs used by PSI in Portugal.[8]

**Existing experience with PPPs:**
This may influence the ease with which impact bonds are contracted, as it was a facilitating factor in the Netherlands.

**Technology for data collection, analysis, and action:**
Given the high demand for data to track progress toward outcomes in impact bonds, there is considerable potential for technology to facilitate real-time data gathering and analysis. Where technology is more developed and utilized, this could help facilitate impact bond success.

[8] Ecorys (2019b) explores the use of "common platforms" in the U.K. or "a set of processes and contract elements that have been pre-designed and put in place as a structure that can be offered to commissioners with appropriate local adaptation" (p.10), which can make the process of replication more straightforward.

# Barriers to scale

In addition to facilitating factors, there are also some key barriers to scale for impact bond markets. Some of the barriers identified in the U.K. (Ecorys, 2019b) include misunderstanding of the SIB model, the need for adaptations to local context, staff turnover and loss of SIB knowledge in commissioning organizations, constrained commissioner organizational capacity, and lack of data on SIB success.

Other barriers identified in interviews with stakeholders around the globe include access to data, and challenges associated with the more rigorous evaluation methodologies, which often require the identification of a counterfactual group. A similar barrier is whether the success of interventions can be measured with simple metrics, since more complex metrics may be less suitable to impact bonds which ties repayment to these measured outcomes. Impact bond development may also be held back by a lack of experience, and/or a lack of government interest in capacity building around the instrument itself.

A further challenge may be restrictions placed on the use of outcome funding. For example, in Portugal, where much of the outcome funding has come from the European Social Fund, it is not currently possible to reimburse directly on outcomes - instead investors receive tax breaks if metrics are achieved.

# Future of the market

While national impact bond markets will continue to operate with their unique features, there are several innovations and design elements that will be interesting to watch, particularly as they relate to the scale of the market. First, following the model of the U.K., streamlining the process of contracting multiple impact bonds with the use of outcomes funds has attracted interest elsewhere. The Education Outcomes Fund (EOF) for Africa and the Middle East recently launched a design guide (EOF Africa and the Middle East, 2019), outlining their plans to build outcomes funds at scale. This work has started in 2020 with two countries, Sierra Leone and Ghana. Designing contracts with the ability to add in further parties later on is also a potential model for scale, as demonstrated by the PFP SIB in London. The timing and frequency of outcome payments through the contract is another consideration: As highlighted above, having multiple payment points through the impact bond can allow funds to be recycled and therefore reduce the amount of capital required upfront. Pooled investment funds are another element that could grow the market in the future.

A final overarching consideration is whether stakeholders within the impact bond field should aim for more and/or larger impact bonds? Notably, some of the countries with the largest number of impact bonds are still serving a small number of beneficiaries, as each of the impact bonds are quite small. Or, should success instead be measured by the strengthening of systems that may emerge from impact bonds, and the lessons that can be applied to other types of contracting? These alternative metrics of success are addressed in the other briefs of this series.

## Box 1:

### Implications of COVID-19 for the impact bonds market

In early 2020, the virus causing COVID-19 began to spread across the globe, leading governments to put in place measures to ensure the health and well-being of the populations they serve. While, at the time of this publication, the long-term impacts of the pandemic on the economy are only being modeled, the short-term effects are already devastating. Mandated stay-at-home orders and business closures have led to unprecedented disruptions in economic activity and dramatic shifts in the delivery of critical social services around the world.

Brookings has conducted some initial analysis[9] on the effects of the pandemic on the services delivered through impact bonds, as well as impacts of the crisis on various components of the impact bond model itself. Capturing learnings for the management of ongoing impact bonds (144 projects serving 1.2 million individuals in the 1st quarter of 2020), as well as for the design of future impact bonds, will be critical to ensure effective and efficient service delivery in the future.

With respect to impacts on market size and scope, it is still early in the crisis to see any major developments. Nevertheless, given constrained budgets and an increased interest among policymakers to invest in systems change, it is plausible that impact bonds will gain greater attention. Brookings research shows that impact bonds have the potential to focus spending on what works, incentivize collaboration, and build systems of monitoring evaluation so that decisionmakers can rapidly and efficiently address challenges in service delivery. A further likely development could be an effort to consolidate investor funds, as well as funding for outcomes, in the form of outcome funds focused on particular issue areas or regions, and even perhaps in locations where COVID-19 has had the greatest negative impact.

9 https://www.brookings.edu/research/what-happens-in-an-outcome-based-financing-model-when-a-major-crisis-hits/

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