

The world's first Humanitarian Impact Bond

by Natalya Wells

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National Orthopedic Equipment Centre, Mali
(Taoffic Toure/International Committee of the Red Cross)

Around the world, humanitarian organisations are struggling to meet growing needs with dwindling funds and are seeking innovative ways to source funding. The International Committee of the Red Cross (ICRC), with some far-sighted partners and intrepid investors, is testing out the success – or otherwise – of a new funding mechanism. The **Humanitarian Impact Bond** (HIB) is a conflict-zone variation of the Social Impact Bond or Development Impact Bond, through which private investors finance a social benefit/development program and receive a return according to the program's results from a donor.

Formally known as the Program for Humanitarian Impact Investment, this payment-for-success financing is a **humanitarian world-first** that ICRC hopes will encourage increased investment from the private sector in conflict-affected countries.

Launched in July 2017 and running for five years, the HIB will directly fund the building of three new physical rehabilitation centres for people with disabilities in Nigeria, Mali and Democratic Republic of the Congo.

How does it work?

The funding mechanism relies on outcome funders (donors), who pledge funds for a project's success, and on social investors, who invest capital up-front and receive repayment at the end based on the verified results of the project. The funds are used to implement the project according to the agreed proposal, and progress is measured both internally and independently. At the end of the project, the outcome funders pay only for the results. If the project under-delivers then the investors will lose some of their capital but if the project over-delivers then the investors will receive a return on their capital. The risk is therefore carried by the investors and the organisation. Apart from the financial loss, avoiding reputational risk is a huge incentive for the organisation to succeed. ICRC's expertise and reputation has enabled it to attract private investors who are seeking a lower risk opportunity to

make a socially responsible investment.

In this case, ICRC has secured \$26 million Swiss Francs in pledges and more than \$18 million Swiss Francs in investment capital. The ratio of people regaining mobility through the fitting of prostheses or orthoses per staff member in the physical rehabilitation centres will be assessed to measure efficiency, benchmarked against similar centres operating in the African continent. After five years, the higher the efficiency achieved, the more the outcome funder pays (up to the maximum pledge) and the higher return the investor receives.

Why physical rehabilitation?

More than a billion people live with some form of disability. Armed conflict is both a direct and indirect cause of disability, and also creates barriers for people with existing disabilities to access treatment and services. Regaining mobility has long-term benefits for people with disabilities who might otherwise be prevented from playing a full and productive part in society.

The ICRC has more than three decades of experience in providing physical rehabilitation services to developing and fragile states, and has seen firsthand how providing someone with a new limb and the ability to live independently leads directly to better economic opportunities and quality of life for individuals and their families.

Access to physical rehabilitation services is severely limited in the conflict-plagued states of Nigeria, Mali and Democratic Republic of the Congo. These three sites were chosen as they also lack social safety nets, particularly for the more vulnerable population such as people with disabilities. The new centres will have capacity to provide services to over 6000 people each year.

Moreover, this type of humanitarian response – and associated infrastructure – is perfectly suited to HIB characteristics of set, long-term goals and predictable multi-year funding. The impact of disabilities lasts years and physical rehabilitation takes time and investment, as does building and equipping centres and training personnel. In contrast, other humanitarian responses such as food aid, shelter, or emergency surgery, must be able to adapt to rapidly changing needs in fluid contexts. Unfortunately it does not appear likely that the high demand for mobility devices and physical rehabilitation will diminish or change in the next five or ten years.

What's the objective?

The HIB has three main objectives. First, it aims to increase the number of people

with physical impairments gaining mobility through the provision of appropriate and quality physical rehabilitation services. This will be achieved by building, staffing and running three new centres to complement the network of ICRC-run or -supported physical rehabilitation centres around the world.

The second aim – to improve and streamline processes and products – will contribute to the first. The HIB funds will be used to test measures designed to improve efficiency in eight existing centres. If successful, these measures will be implemented in all ICRC physical rehabilitation centres to enable the provision of services to more people. The **flexibility** to design and test innovative techniques or processes is one of the benefits of an impact bond, as payments are linked to outcomes not to defined activities or methods.

Finally, the HIB itself aspires to initiate the ICRC into the innovative finance sector, providing a platform for testing, learning, experimenting and understanding how innovative finance can contribute to the humanitarian sector.

The humanitarian financing system is seeking more predictable funding and a more diverse donor base. The HIB is a mechanism that can pave the way for both. **Traditional donors** may be more willing to pledge funds for long-term programs where the risk of funding unsuccessful programs is removed. And more non-traditional donors, such as philanthropic foundations, may be more confident about new financing mechanisms, such as HIBs.

Construction planning of the three new buildings in Mali, Nigeria and Democratic Republic of the Congo is already underway, as is the training of orthotists and prosthetists. The ICRC is looking forward to seeing the fruits of the HIB in 2022, as will be many other actors in the humanitarian and aid sector.

Natalya Wells is Policy and Political Affairs Officer at the Australian Mission of the International Committee of the Red Cross.

Author/s:

Natalya Wells

Natalya Wells is Policy and Political Affairs Officer at the Australia Mission of the International Committee of the Red Cross. Prior to joining this role in 2013, she was an Inquiry Secretary with the House of Representatives Committee Office of the Australian Parliament. Natalya graduated with a Bachelor of Arts and Diploma of Modern Languages (Arabic) from the University of Melbourne and completed a Master of Arts (Middle Eastern and Central Asian Studies) in 2009 at the Australian National University.

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