How have impact bond-funded projects in low- and middle-income countries fared during COVID-19?

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Introduction

For more than a year and a half, the COVID-19 pandemic has upended life around the world, with outsized impacts on vulnerable populations in particular. With lockdowns and stay-at-home orders, many have been unable to regularly attend school or find work. Those already struggling to afford the basics have been hit by unstable and rising commodity prices and faltering formal and informal economies. Amid these challenges, social services programs intended to help vulnerable populations address many of these issues have themselves struggled due to safety concerns, inability to access populations in need, decreases in staff, and contractual or financial constraints.[1] These challenges have been particularly acute in many lower- and middle-income countries, which have faced the additional obstacles of access to vaccines and other life-saving medical technology.

Since many social service programs globally are implemented by independent organizations via public-private partnerships, the flexibility and adaptability of these programs are usually determined by the structure of their contractual and/or financial arrangements. While there have been some studies[2] of how social services have adapted delivery in response to various crises, there is little to no empirical research exploring how different contractual and financial arrangements for social services programs impact their resilience in a crisis. We hypothesize that different approaches to contracting and financing social service delivery would produce varying responses in a crisis, and thereby directly impact the ability of these programs to achieve social outcomes.

In this study, we examine how a particular type of results-based contracting for social services—social and development impact bonds—has weathered the COVID-19 crisis. We surveyed stakeholders of impact bond-funded projects in low- and middle-income countries (LMICs) about their experiences and challenges during the pandemic, and how those compared (in theory or practice) to more traditionally funded programs.

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[1] The U.S. Federal Emergency Management Agency. (2020). COVID-19's Impact on the Human and Social Services Sector. Washington, D.C.: FEMA. https://www.fema.gov/sites/default/files/2020-11/fema_covid-19-impact-human-social-services-sector_best-practice_11-16-20.pdf

[2] Britwum, K., Catrone, R., Smith, G.D. et al. A University-Based Social Services Parent-Training Model: A Telehealth Adaptation During the COVID-19 Pandemic. Behav Analysis Practice 13, 532–542 (2020). https://doi.org/10.1007/s40617-020-00450-x

What sets impact bonds apart?

What is an impact bond?

In an impact bond, private investors (often impact investors) provide upfront capital for social services and are repaid by an outcome funder contingent on the achievement of agreed-upon results. In a social impact bond (SIB), the outcome payer is the government. In a development impact bond (DIB), the outcome payer is a third party, such as a donor.

According to the Brookings Institution Global Impact Bond Database, as of December 2021, 219 impact bonds have been contracted in 37 countries, with about a quarter of these completed. The vast majority of those contracted are SIBs, and only 15 are DIBs. Globally, the key sectors are social welfare (75) and employment (67), and nearly 2 million total beneficiaries are served.

For more information, see the Brookings website on impact bonds and outcomes funds.

Projects contracted as impact bonds differ from traditionally contracted projects, such as fee-for-service or fixed-cost contracting, in several ways, each of which we would expect to have specific implications in a time of crisis. In this section, we explore these differences across five elements: service delivery, monitoring and evaluation (M&E), outcome metrics and achievement, and contracts, investments, and repayments. These five elements framed our research questions examining impact bond adaptability and resilience in crisis, and we posit the potential response to shocks caused by COVID-19 based on those factors (summarized in Figure 1).

Figure 1. Potential advantages/disadvantages of impact bonds in response to COVID-19 shocks

Project element & description		Covid-19 shock	Potential advantages & disadvantages
Service delivery	Service providers have the autonomy to decide which services; how to deliver them; and the frequency and dosage of services	Program delivery unsafe or infeasible due to safety and health restrictions	• Flexibility in service delivery could allow impact bond projects to adapt to new operating environments • Projects may alter the populations with whom they work due to issues posed by COVID-19
Monitoring & Evaluation	Service providers often receive support to improve their systems of data collection and adaptive management capacity during implementation	Traditional in-person methods unsafe or infeasible; implications for data quality and reliability/validity	• Just as for service delivery, projects have the flexibility to innovate M&E methods as their projects require
Investment	Investors provide capital to service providers upfront and bear operational risk Upfront capital gives service providers the liquidity needed to deliver services and flexibility to innovate over the course of the project	Changes to operating environment, beneficiary needs, etc. affect capital needs	• Investors may adjust investments to meet projects' need for higher funding levels or for more flexible disbursement
Outcomes metrics	Third-party verification of data or evaluation is a critical part of the impact bond structure	Otherwise-successful outcome metrics may be distorted due to health and economic strain from covid-19; traditional verification methods may be unsafe or infeasible to pursue	• The ability of service providers to adapt their delivery increases the chance of achieving outcomes despite covid-19 health and economic strain • Limited flexibility to change outcome metrics, as they are specified in the initial contract. Depending on the project's contract, the full consortium must deliberate and sign off on changes
Outcome payments	Payments to investors are only triggered once specified outcomes are achieved	The uncertainty produced by the pandemic makes the original contract difficult to retain, as well as terms of potential renegotiation difficult to nail down	• Without prefinancing, the project cannot be launched as an impact bond • Investors may become unwilling to take on financial risk of project due to heightened risk sensitivity

Source: Authors' analysis.

Investments and repayments

Investors in impact bonds range from traditional investors seeking a market-rate financial return, to impact investors, who are primarily interested in the social outcomes and comprise the majority of investors in the impact bonds market.[3] On the positive side, these types of investors, when faced with the COVID-19 induced challenges to service delivery, monitoring, and outcomes verification, might be more likely to provide flexibility or support to service providers in a time of crisis when it comes to investments

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[3] Gustafsson-Wright, E., Massy, M., & Osborne, S. "Are impact bonds delivering outcomes and paying out returns?" Brookings (2020). https://www.brookings.edu/research/are-impact-bonds-delivering-outcomes-and-paying-out-returns/

and repayments than traditional public service funders, or finance-first investors. On the other hand, it is possible that during a crisis, even these types of investors are more sensitive to risk, making them unwilling to engage in impact bond transactions.

Service delivery

The impact bond focus on outcomes, rather than specific inputs or activities, theoretically means that service providers are less constrained by specific inputs and activities; details such as which services should be offered, their format, and their frequency can usually be adapted more nimbly, without any need for formal contract modifications or negotiations—in fact, impact bonds often incentivize such adaptations when outcomes are at risk of not being met. Projects funded by impact bonds tend to operate in sectors that are highly people-centric,[4] and are often focused on in-person services, which were particularly impacted by COVID-19 quarantine and stay-at-home orders. Because of their flexibility, we would expect to see impact bond projects make more substantial adjustments to service delivery, and to make them more quickly, in response to disruptions stemming from COVID-19 than their traditionally funded counterparts.

Outcome metrics and achievement

Outcome metrics specify the thresholds that an impact bond project must meet to trigger repayment of the initial investment, and possible payment of returns.[5] Impact bond-funded projects involve a diverse set of stakeholders, including at a minimum service providers, investors, and outcome payers, who work together before the launch of a project to negotiate these metrics, how they will be measured, and their openness to revision throughout the project's lifetime. As social challenges are exacerbated during a crisis and outcomes become harder to achieve, the focus on outcomes may pose a unique liability to impact bond projects. Given the severity of the COVID-19 crisis, disruptions in health, education, and economic activity may potentially greatly distort outcome achievement in a project that might otherwise have been successful. On the other hand, if there is a rigorous evaluation associated with the project, the impact bond may be protected by having a control group with which to compare outcomes.

Monitoring and evaluation

This focus on outcomes incentivizes both continuous monitoring and adaptive program management, as well as robust and independently conducted or verified overall program evaluations. Since monitoring and evaluation are both key elements of impact bond

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[4] Gustafsson-Wright, E. & Osborne, S. "Are impact bonds reaching the intended populations?" Brookings (2020). https://www.brookings.edu/research/are-impact-bonds-reaching-the-intended-population/
[5] Gustafsson-Wright, Massy & Osborne (2020).

projects, we would expect that an approach of in-person data gathering would be more constrained than other projects, which could necessitate a transition to primarily virtual data collection methods. Furthermore, depending on the evaluation design, these shifts could have considerable impacts on the validity of the final program's outcome achievement. For example, a negative shock like the COVID-19 crisis could potentially significantly reduce outcome achievement. If the payments were tied to the results of a randomized-controlled trial, the evaluation might demonstrate that relative to the control group, the treatment group remained steady or backslid less. In the absence of a rigorous evaluation, or using alternative econometric methods, these aspects are difficult to capture and may lead to significant impacts on project success and outcome payment.

Contracts

The specific terms of all of the above elements—investment, service delivery, outcome metrics, and monitoring and evaluation—are codified in a series of contractual agreements amongst the impact bond stakeholder group. These agreements are central to defining outcomes, as well as the conditions for repayment by outcome payers, including the possibility of a return. Because contracts are legally binding documents, the flexibility for modifications is largely related to the negotiating relationships between the key parties. Due to the hard work of contract negotiation and the ongoing relationship between these parties, we might expect that in a time of crisis they would be more able and willing to make necessary modifications to account for the circumstances.

Study design

For this study, we conducted a survey and key informant interviews in partnership with graduate students at Columbia University's School of International and Public Affairs (SIPA), from February to April 2021, to consider how impact bonds in LMICs fare in a crisis across the above-listed five elements. We consider performance and flexibility as compared to traditionally funded social service programs.

This was a follow up to a study that we conducted toward the beginning of the pandemic (April and May 2020), in which we surveyed a convenience sample of 20 impact bond-funded projects across 12 countries of various income levels about their initial experience with the early stages of the pandemic.[6] As in our May 2020 study, we focus on stakeholders involved in impact bond projects and do not explicitly include those working only on traditionally funded projects. Thus, we rely on stakeholders' understanding of and experience with both forms of development financing in questions that ask them to compare and contrast between the two.

Notably the study only includes projects operating in LMICs—just a fraction of the total impact bond-funded projects around the world. While impact bonds in LMICs face unique social challenges, many of the survey questions targeted in this research are likely to exist across country income levels.

Survey and key informant interviews

The survey (Appendix) was sent to all 13 impact bond programs that were operating in LMICs as of the start of the pandemic (March 2020). Our analysis captured responses from 25 different stakeholders, representing 12 of the 13 impact bond-funded projects operating in LMICs around the world (Figure 2).[7] Working across sectors such as education, the environment, social welfare, employment, and health, stakeholders' experiences ranged widely.

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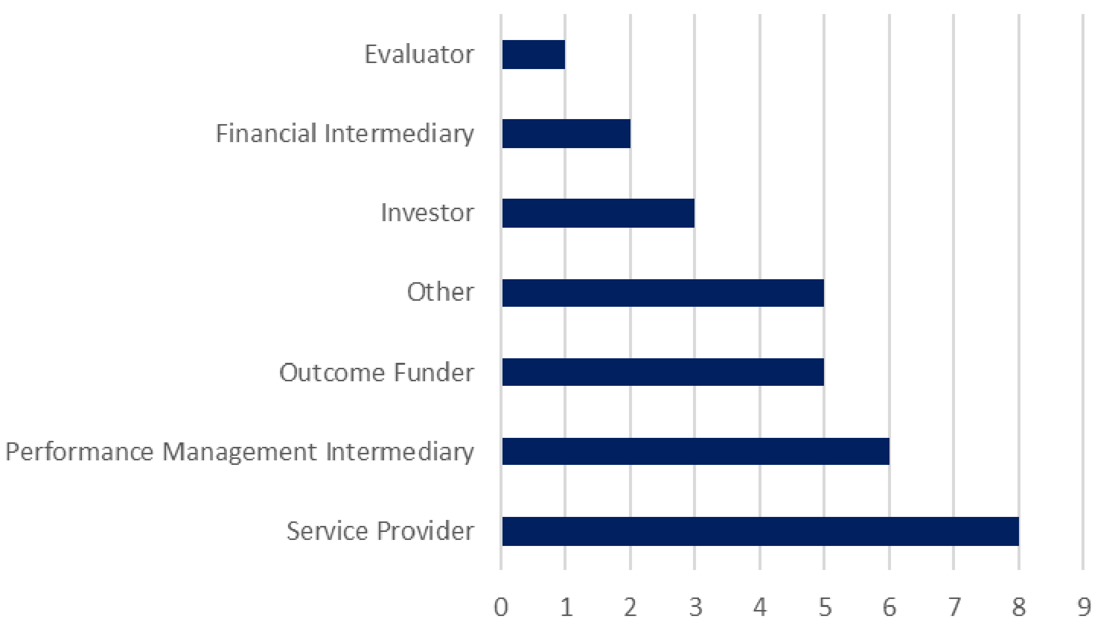
6 Gustafsson-Wright, Emily. "What Happens in an outcome-based financing model when a major crisis hits?" Brookings (2020). https://www.brookings.edu/research/what-happens-in-an-outcome-based-financing-model-when-a-major-crisis-hits/
7 One stakeholder responded in the capacity as a technical advisor for multiple impact bond-funded projects. We have omitted responses in cases where the data could not be identified with a particular project.

Figure 2. Stakeholders surveyed

Policy sector	Impact bond name	Country(ies)
Education	Impact Bond Innovation Fund	South Africa
Education	Quality Education India DIB	India
Employment	The Inclusive Youth Employment Pay-for-Performance platform	South Africa
Employment	Youth Employment SIB	Argentina
Employment	CREO, Crecemos con Empleo y Oportunidades	Colombia
Employment	Palestine (West Bank and Gaza) Employment DIB- F4J	Palestine
Environment/ Health	Cambodia Sanitation DIB	Cambodia
Health	Cameroon Cataract DIB	Cameroon
Health	Cameroon Kangaroo Mother Care DIB	Cameroon
Health	Utkrisht DIB for Maternal and Newborn Health	India
Health	ICRC Programme for Humanitarian Impact Investment ('PHII')	Mali, Nigeria, DRC
Social Welfare	Graduation Model DIB	Kenya and Uganda

The survey also benefitted from a wide array of respondents within projects, including from three investors, six service providers, eight intermediaries, one evaluator, four outcome funders, and a government agency (noting that respondents were able to select more than one role; Figure 3).

Figure 3. Role of respondents



Source: Brookings-SIPA survey, April 2021.

Survey responses were analyzed for this report primarily on the project level. In cases in which there was more than one respondent for a project, the responses were averaged such that each project is represented by one averaged figure.

Of the 25 stakeholders surveyed, eight respondents agreed to also participate in a 30-minute interview to follow up on survey responses. These interviews included some standardized questions but were customized based on the interviewee’s role in the project and responses to the initial survey questions.

Findings

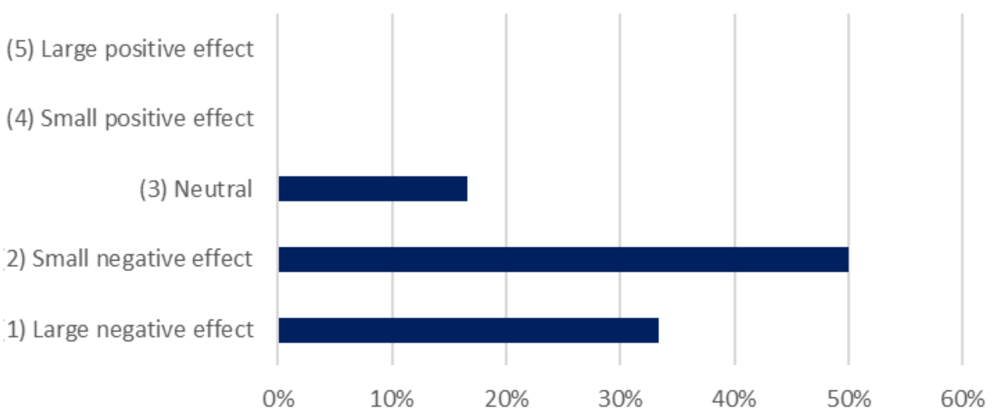
The findings provide general and anecdotal insights into how impact bond-funded projects in LMICs performed in a crisis, and how this experience compared with other programs funded by other mechanisms.

Service delivery

Regardless of contract and financing structure, the delivery of social services was dramatically disrupted across all sectors due to COVID-19. School and work closures rendered many services near-impossible to deliver as usual, though despite the health and safety challenges, all projects but one remained operational. However, though not explicitly asked in the survey, three projects noted complete pauses in service delivery in order to transition from in-person to remote methods. In other cases, programs were extended to account for these service disruptions, such as the Cameroon KMC DIB which was granted a six-month no-cost extension.

When considering the pandemic's effects on projects' overall ability to deliver services, it is unsurprising that no projects indicated a positive effect, but the gravity of impact varied by program. Half of all projects reported a small negative effect of the pandemic on the ability of the program to deliver services, with approximately a third (33%) reporting a large negative effect, and the remaining 17% of projects reporting a neutral effect, as shown in Figure 4 below.

Figure 4. The effects of the pandemic on impact bond projects' delivery of services



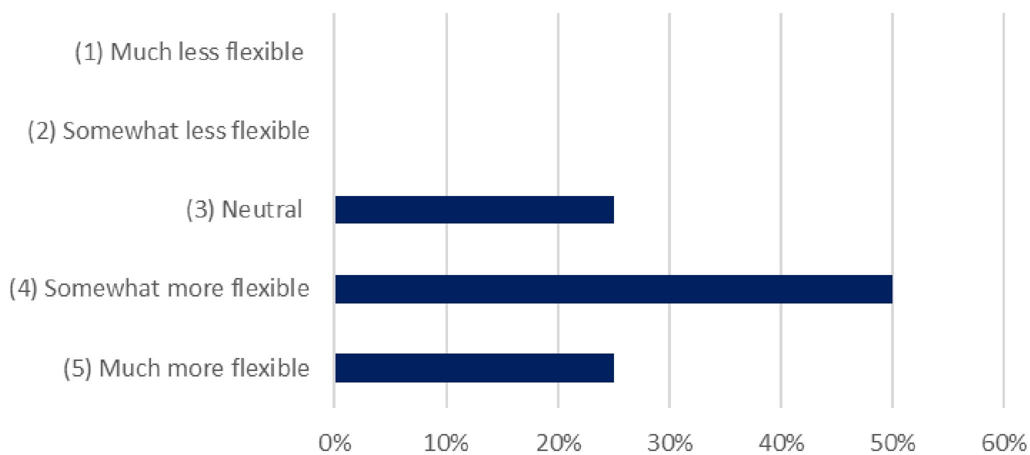
Source: Brookings-SIPA survey, April 2021.

Given the dramatic impacts of the pandemic, it came as little surprise that every single project reported modifications to service delivery since March 2020. Stakeholders reported a mix of modifications to elements such as, location, mode, or frequency/dosage of service delivery—with many citing a move to virtual services—including launches of e-learning platforms, SMS monitoring, and online training. On the whole, stakeholders were pleased with these modifications, rating their success at an average of 4.17 ("1" being very unsuccessful and "5" very successful).

In addition to adapting services, many projects developed new service delivery components in response to the pandemic. Cali Progresa Con Empleo, an employment-focused project, added several new elements, including health coverage and nutrition, transportation, and psychological support lines. Stakeholders from another project discussed their launch of a "design challenge" to develop digital solutions for issues in project implementation. In another instance, a service provider in the Cambodia Rural Sanitation Development impact bond integrated COVID-19 safety campaigns into the project's existing work, training over 400 local government officials on COVID-19 prevention.

Figure 5 shows that the majority of stakeholders thought the impact bond structure gave more flexibility to adapt service delivery compared to traditional funding.

Figure 5. Impact bonds' service delivery adaptability compared to traditional funding



Source: Brookings-SIPA survey, April 2021.

However, given the outsized impact of the pandemic on the most vulnerable populations, the high-need beneficiary populations that impact bonds serve faced particular challenges. In at least one instance, a project reported difficulties working with the target population, stating that it has "continued serving patients throughout the period, but at lower volume and limited reach to lower-income populations than pre-COVID-19." The beneficiary profile was also mentioned by a stakeholder in an employment project, saying that it could be easier for beneficiaries with strong internet connections to participate in services than ones without. While it may be too early to determine the exact impact, the DIB structure could reinforce this challenge by directing more resources to those most likely to achieve results.

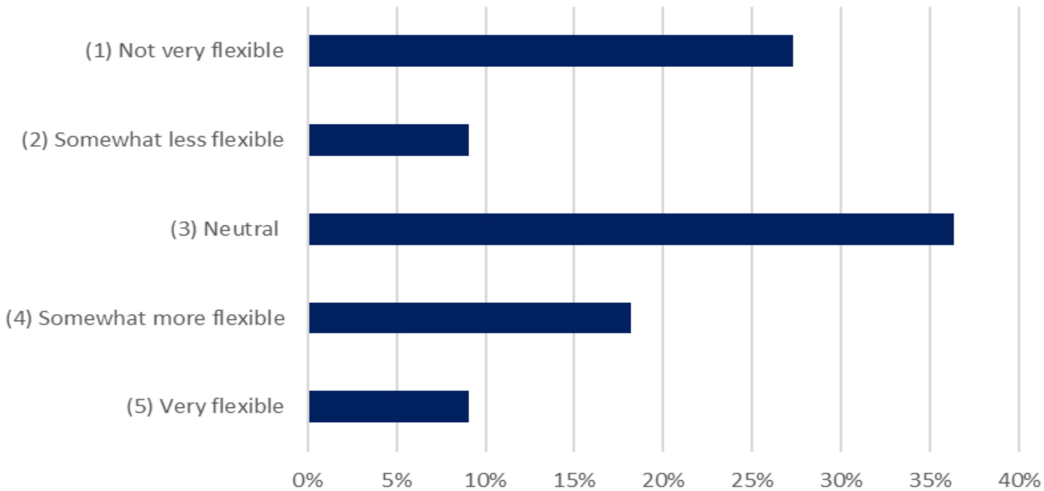
Outcome metrics and achievement

While a key feature of impact bonds is that the project’s service delivery can be adapted as necessary, the outcome metrics are designed to remain fixed throughout the project. However, a crisis such as the COVID-19 pandemic can present a challenge depending on the methodology or evaluation type used for measuring outcome achievement. The health and economic strain from the pandemic and resulting lockdowns clearly impacted the enabling environment for the projects surveyed. For employment programming, waves of layoffs and general economic uncertainty led to considerable impacts on short- and long-term outcome metrics during the pandemic, especially for under-represented groups in the formal economy, like youth and women. A stakeholder for the Cambodia Sanitation DIB remarked on the clear effect that COVID-19 has had on the ability to improve social outcomes:

“Our program relies on households having the financial resources necessary to invest in improved toilets. The public health and economic effects of the pandemic have been muted in Cambodia, but we believe the medium-term economic impact could be more severe, potentially leading to a decrease in purchasing power and/or willingness to pay.”

Despite these unusual circumstances, just about half (five) of projects surveyed made contractual changes to outcomes or outcomes metrics due to the pandemic, while the other half (six projects) did not (and one no response). Most of the changes pertained to outcome payment structures rather than to the outcomes themselves. For example, a project temporarily de-linked outcomes payments from the year’s targets to account for limits to in-person activities due to stay-at-home orders. Stakeholders from the project explained that had the project been assessed on schedule, service providers would not have reached short-term achievement thresholds due to circumstances well beyond their control. Instead, partners shifted outcomes measurement and payment to the following year, giving service providers sufficient time to adapt their programs to the new operating environment. Responses overall were quite dispersed, with more than a third (36 percent) of responding projects holding a neutral view, and the remainder split between positive and negative responses, as shown in Figure 6.

Figure 6. Flexibility to change outcome metrics in the impact bond



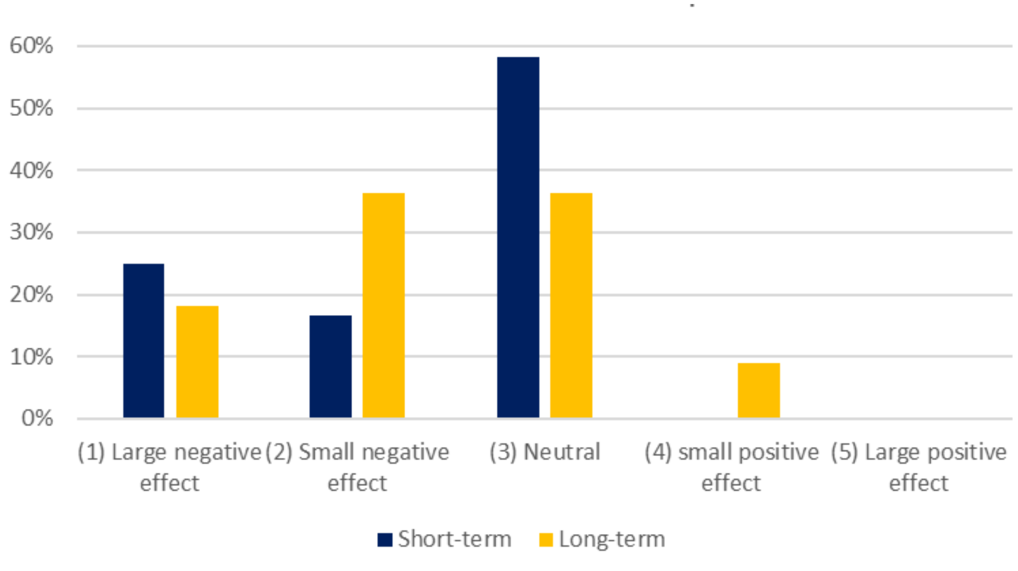
Source: Brookings-SIPA survey, April 2021.

This finding is quite interesting when considering the roles of many outcome funders. While funders of course have an interest in ensuring that outcomes are achieved, most outcome funders for impact bonds generally would like to see them succeed, whether due to a political stake in ensuring success, or due to their roles largely as philanthropy or development-funding organizations. Thus, we might have expected them to be more willing to lower targets in a time of crisis, which was not the case in practice.

We had expected to see significant impacts on programs' ability to achieve outcomes, given that many of the social challenges impact bonds were already targeting got much worse during the pandemic. However, surprisingly, a plurality (58% and 36%) of respondents reported that the pandemic had a "neutral" short- and long-term effect on outcome achievement in the impact bond (see Figure 7), and one project reported a small positive long-term effect. As theorized, the particular stage of the project when the pandemic emerged also played a role in outcome achievement. A stakeholder on the Cameroon Cataract DIB described successfully reaching outcome targets because the project had previously been performing far enough above the target to outweigh the negative impact of COVID-19.

> "The number of stakeholders and parties to a DIB certainly make it more challenging to negotiate changes to an outcomes agreement. However, I believe this drives a higher level of accountability as much more scrutiny is applied to the amendments than might be in a traditionally funded project."
>
> ~Anonymous respondent

Figure 7. Pandemic's effects on outcome achievement in the impact bond



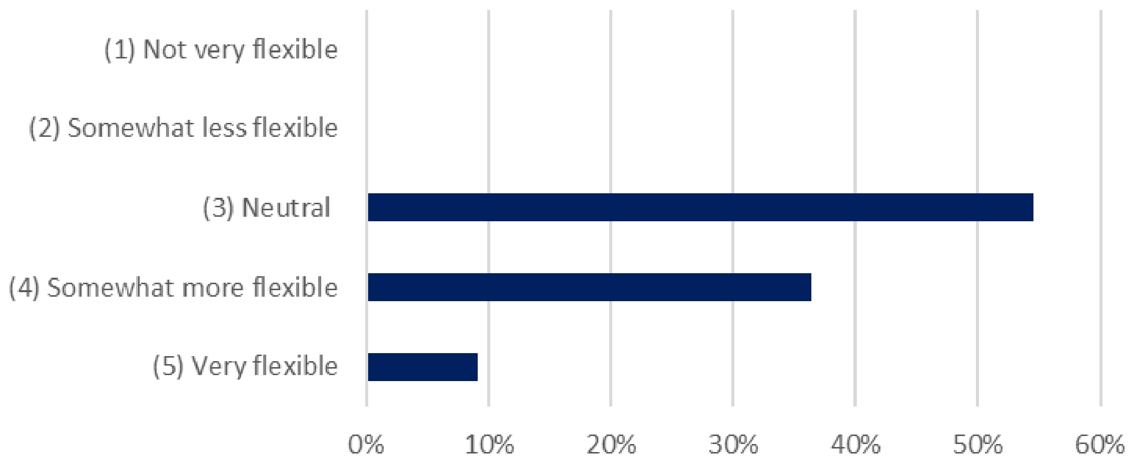
Source: Brookings-SIPA survey, April 2021.

Stakeholders provided many comments on impact bonds' emphasis on outcomes. We found wide consensus that the contract structure is relatively inflexible; whether or not this is an advantage for outcomes, however, was up for debate. A stakeholder from the Vinculo de Impacto Social Ciudad de Buenos Aires project in Argentina noted that, ideally, these types of projects are designed to operate regardless of any challenges that arise: "Focusing on results means never losing sight of the objective, despite the many unexpected curve balls that an economic crisis, a political and social crisis, a change in government, or a pandemic can throw at practitioners on the ground."

Monitoring & evaluation

Adapting M&E activities to new public health safety concerns and halts to in-person interactions has been a challenge universally but the responses across impact bond projects have varied. While some projects continued with in-person assessments under revised safety precautions, others focused on developing new virtual methods for data collection, such as telephone interviews and digital assessments. Of the 12 projects surveyed, eight reported making changes to their formal M&E design due to the pandemic, with responding projects giving an average rating of 3.63 to the flexibility to make modifications in their impact bond-funded projects (Figure 8). In comparison to traditional grant projects, programs funded by impact bonds were viewed as somewhat more flexible in making modifications to M&E activities. However, responses varied among stakeholders to a larger extent than in their responses regarding service delivery.

Figure 8. Flexibility to modify M&E activities



Source: Brookings-SIPA survey, April 2021.

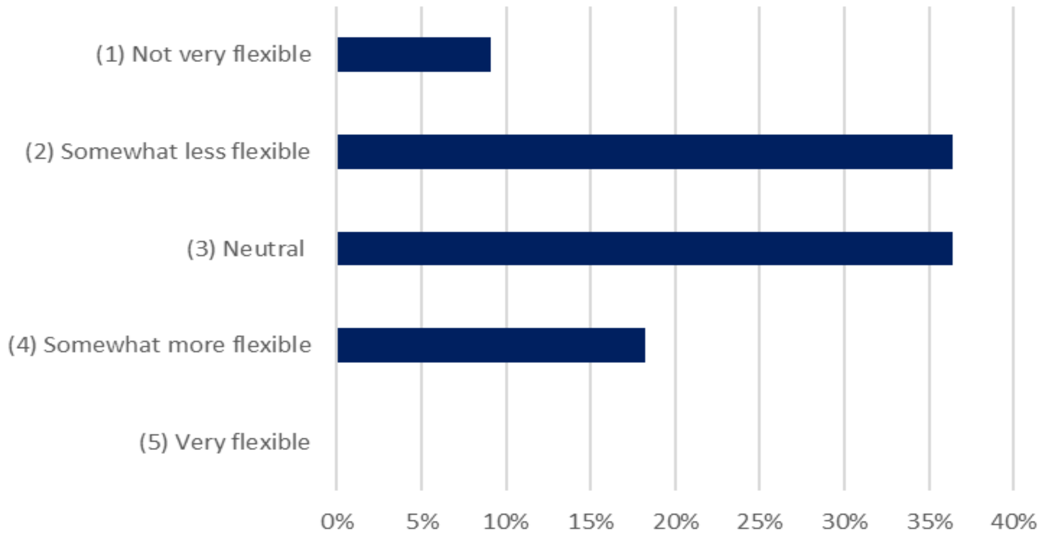
For independent evaluations in particular, adjustments were far from ideal. For one project, the first round of data collection had to be postponed for almost a year until in-person data collection could be conducted with enhanced safety protocols. The pandemic's impact on M&E activities were not entirely negative, however. One stakeholder indicated that adjustments forced by COVID-19 ultimately strengthened the project's M&E approach by making improvements that allowed them to take full advantage of their digital monitoring system.

Investments and repayment

The capital provided by private investors in an impact bond is critical to providers' ability to deliver high-quality services and achieve outcomes. When the pandemic upended service delivery, some investors stepped in with modified investment structures to ensure that outcomes were still achieved. According to survey responses, two projects made modifications to investment payments as a result of the pandemic, six made no changes, and three projects gave mixed responses among stakeholders. The two projects that made changes described the need for modified timelines, as well as changes in capital needs at various stages of the project. In one project, investment was significantly increased to match an extended timeline to "enable the DIB to remain financially viable."

Stakeholders from four projects reported that the pandemic had affected expected outcome payments and returns, seven projects reported that it had no effect, and one project gave mixed responses. However, several projects indicated that they were waiting on verifications and endline assessments to determine with certainty if expected returns would be affected. One stakeholder described a project modifying a portion of the outcome payments into fee-for-service, in part driven by the "delays in data collection and the increased risks and lower return on investment this creates for investors." Outcome payers in another project reimbursed service providers a percentage of their implementation costs until the evaluation was conducted. As shown in Figure 9, around a third each of projects indicated a neutral or "somewhat less flexible" opinion on the flexibility to change outcomes payments and returns conditions, with an average rating of 2.64 among all responding projects.

Figure 9. Flexibility to change outcomes payments and returns conditions in the impact bond



Source: Brookings-SIPA survey, April 2021.

Contracts

Survey respondents indicated a wide variety of experiences with regard to contracts and negotiations overall. The most significant contractual change was in the Bonds4Jobs project aiming to improve employment outcomes in South Africa. The project concluded implementation early, after achieving about 75% of specified targets. On the other end of the spectrum, a stakeholder from the Cambodia Sanitation DIB remarked there was "relatively little impact on our impact bond as a result of COVID-19" as of the time of the survey, and therefore they had no need to renegotiate.

There were several specific elements of impact bond structures that aided the negotiation process. One stakeholder indicated that adjustments to a project contract were made more quickly due to the strong incentive to achieve the expected results. A stakeholder from the Cameroon KMC DIB project referenced the frequent steering committee meetings for the DIB, which allowed for adjustments as the need arose.

According to other respondents, however, revising contracts proved more onerous. One stakeholder noted the time needed to negotiate even a small change due to the number of different stakeholders at the table. Another described a lengthy and complex outcomes contract; revisions to the contracts in response to the pandemic were relatively straightforward, but nevertheless took several months to complete. According to another:

> "Contract revisions require keen stakeholder management and clear processes and contract clauses agreed upon upfront to guide stakeholders through the process. For instance, this program contract did include a force majeure clause, providing guidance on how the contract could change in the event of a pandemic. However, on the other hand, the process by which the group is to discuss and agree on the terms of invoking (or not) such a clause was less clear. The stakeholders built a strong working relationship over the course of designing and implementing the project and; thus, were committed to exploring solutions to keep the project running, while prioritizing the safety of all involved during the pandemic. With the contextual changes shifting in the face of a pandemic (e.g., household consuming assets during economic shock), stakeholders had to address the new realities and agree on the way forward, not always a simple task as each stakeholder has its own interpretation of the changes, what they mean for the project, and how best to address them."

Impact bond contracts, like most program contracts, often include stipulations for external shocks, such as force majeure clauses. More than half of the projects surveyed reported such stipulations, but did not invoke them in response to the pandemic, despite challenges several projects faced in meeting contract requirements. This may have been in large part due to the drastic nature of such clauses, which may call for the shutdown of a program given the shock and invocation of the clause. According to one respondent, "Just because a clause is there to use does not necessitate that it must be invoked." And the stakeholders should instead "do all we could collectively to keep the project and contract alive and moving."

> "[Impact] bonds are complex legal and financial constructs, involving a multitude of external partners (with diverging interests). Changing anything in such a construct is complicated, time consuming, and involves cost."
>
> ~ Survey respondent working on the ICRC Project for Humanitarian Impact Investment (PHII) Development Impact Bonds Pilot Programme

Looking Forward

As this global pandemic continues to plague much of the world, particularly its most vulnerable citizens, an examination of the resilience of social services delivery remains critical. Moreover, in light of the high probability of future health, environmental, and political crises, it is essential to have a better understanding of whether certain elements of social services contracting, and financing can lead to greater program nimbleness to better serve marginalized populations.

A key takeaway from this study is the important role of contracts in managing responses to the pandemic—many stakeholders indicated that when navigating the COVID-19 crisis, their impact bond contracts provided a clear structure for modifications. For example, stakeholders reported that outcomes and outcome metrics, set at the start of the projects, remained stable, while changes to elements like project timelines and outcomes evaluations and payments were more common. These findings highlight that impact bond stakeholders should place more focus on the contract design process in the future given a greater possibility of unforeseen events in the coming decades.

> "It does cause one to reflect on what will happen with overall investor appetite for impact bonds going forward due to COVID-19. On one hand, due to tightening fiscal space, will there be more appetite to invest in interventions that can generate proven results? Or on the other hand, will investors pull back from these relatively newer (and potentially perceived as riskier) instruments? In our case, it would have been very difficult to negotiate the DIB in the COVID-19 environment with investors, given that there was already a low tolerance for risk even in the pre-COVID-19 world."
>
> ~Anonymous respondent

While our earlier study noted that the governance structure of impact bonds could help ease the risks associated with operating during a crisis and characterized it as a safety net, the findings of this analysis were more nuanced, which pose a potential direction for future research on impact bonds. Several respondents commented that the number of parties in the impact bond (which is often higher than the number of parties in a traditionally funded project) made it difficult to modify in a time-sensitive way. There was not consensus among stakeholders over whether this feature increased accountability to achieve outcomes or limited the ability to make realistic commitments in a crisis context.

The COVID-19 pandemic has clearly served as a "stress test of the impact bond model," as one respondent put it. Several changes wrought by the pandemic are expected to continue in future generations of impact bonds, such as the use of virtual and hybrid models in program delivery and evaluation. In the Cali Progresa con Empleo SIB, the SIBs.co—a consortium of stakeholders—found that the previous approach of prescribing top-down interventions was not compatible with the changing needs in the employment sector during the outbreak of COVID-19. In the next generation of programming, service providers will be able to pitch their own interventions to SIBs.co to receive support from an “emergency innovation fund.”

Several stakeholders also indicated that there would likely be a renewed focus on governance and stakeholder alignment in future generations of impact bond-funded projects. Additionally, stakeholders said that they expected there to be more focus on the design process, so that the projects are as prepared as possible for external shocks before implementation begins. Contracts will likely reflect these shifts, and one stakeholder warned of “elaborate” risk mitigation in future impact bond contracts. Finally, some stakeholders expressed the possibility of combining outcome-based financing with minimum-guaranteed financing in projects where partners are wary of taking on outsized risks.

Conclusion

Overall, without a true counterfactual we will never know for certain whether the impact bond model performed better or worse than traditional financing in this time of crisis. However, through these surveys and interviews, we have observed a mix of different experiences across different programs, program elements, geographies, sectors, and sets of stakeholders. Some key takeaways and implications of this research are included below.

Even in a time of crisis, services were adaptable, but outcomes were not. Since in an impact bond the outcome is the key metric of success, it is therefore difficult to change or shift—even in a time of great crisis—as this research demonstrated. However, while the goals remained the same or similar, impact bonds did provide for much greater flexibility to adapt services to meet those goals; this is essentially the same advantage of an impact bond in a more stable environment but was exacerbated by the need for constant adaptations during the pandemic's service disruptions. As the social service and development sectors as a whole move toward a recognition of the importance of active, adaptive management, the COVID-19 crisis is just the latest evidence of the need for this flexibility, and the benefits which it brought to service operators in impact bond-funded projects.

Surprisingly few projects reported the pandemic having significantly negative short- or long-term effects on the impact bond. This finding surprised the research team, and points to the ability of these programs to weather the storm of the crisis—whether by nature of the adaptations made or the strength of the programming.

Contracts and decisionmaking groups are key. In some cases, impact bond projects' complexity and their stakeholder groups made it difficult to get all parties to agree about necessary changes; however, in other cases this existing relationship among stakeholders allowed for modifications.

Moving forward, the possibility of future crises should be taken into account in the program design from the start. While many contracts included so-called force majeure clauses for early termination in the event of a disruption, understandably many programs did not implement them, as they did not want to close down the programs. The incorporation of clear processes for crisis-driven modifications, rather than simple termination, is key.

The pandemic is certainly not over, especially for many of the world's most vulnerable people. Unfortunately, the world will likely only see more crises going forward—not fewer—and for these and future programs it will be critical to ensure that the most marginalized populations are not only protected from the shocks to the extent possible but that over time, resilience is built up through critical systems-strengthening mechanisms.

Appendix: Survey Instrument

Brookings/SIPA Survey on Impacts of COVID-19 on Impact Bonds in LMICs

Thank you for your participation in the Columbia SIPA/Brookings Institution survey on the effects of the COVID-19 pandemic on the impact bond space. This survey covers the topic areas of a) Service delivery, monitoring and evaluation, b) Outcome metrics and achievement, c) Contracts, investment and repayments, and d) Future development of the impact bonds market. Below are key details of the survey.

Number of questions: 35

Estimated time to complete the survey: 20-25 minutes

Requested date of completion: Wednesday, March 10th, 2021

Thank you very much for your participation in this survey and we look forward to your insights.

Basic Information

1. Name(s) (First Last) of those completing or providing input to the survey:
2. Organization(s) of those completing or providing input to the survey:
3. Title(s):
4. Name of Impact Bond Project/Program:
5. What is/are your role(s) in the Impact Bond project? (select all that apply)
   - Service Provider
   - Outcome Funder
   - Investor
   - Evaluator
   - Performance Management Intermediary
   - Financial Intermediary
   - Other, please specify

Section A: Service Delivery

6. Please rate the impact of the pandemic on the ability to deliver services as planned in the impact bond.

(1) Large negative effect	(2) Small negative effect	(3) Neutral	(4) Small positive effect	(5) Large positive effect

7. Since March 2020, were any modifications made to service delivery at any point?

Yes

No

8. If yes, please select which modifications were made (select all that apply).

- Location of service delivery
- Mode of service delivery (in-person, digital, etc.)
- Frequency (how many times)
- Dosage (how long each time)
- Other, explain

9. Please describe in further detail the modifications that were made to service delivery

10. Overall, how would you rate the success of these modifications thus far?

(1) Very unsuccessful	(2) Somewhat unsuccessful	(3) Neutral	(4) Somewhat successful	(5) Very successful

11. Compared to similar projects financed by traditional grant funding, how would you rate the ability to modify services within the impact bond structure during the pandemic?

(1) Much less flexible	(2) Somewhat less flexible	(3) Neutral	(4) Somewhat more flexible	(5) Much more flexible

Section B: Monitoring and Evaluation

12. Were any changes made to the monitoring and/or evaluation design as a result of the pandemic?

Yes

No

13. If yes, what were the modifications?

14. If modifications have been made, compared to projects financed by traditional grant funding, how would you rate the flexibility to modify monitoring and/or evaluation during the pandemic?

(1) Not very flexible	(2) Somewhat less flexible	(3) Neutral	(4) Somewhat flexible	(5) Very flexible

Section C: Outcome Metrics and Achievement

15. Were there any contractual changes to the program outcomes or outcome metrics as a result of the pandemic?

Yes

No

16. If yes, what changes were made and why?

17. How would you rate the flexibility to change outcome metrics in this impact bond (due to the pandemic)?

(1) Not very flexible	(2) Somewhat less flexible	(3) Neutral	(4) Somewhat flexible	(5) Very flexible

18. Please describe any key differences (strengths/weaknesses) between impact bond funded and traditionally funded projects in terms of flexibility in the COVID-19 crisis with regards to outcome definition and achievement.

19. Please rate the short-term effect (before March 2021) of the pandemic on outcome achievement in the impact bond.

(1) Large negative effect	(2) Small negative effect	(3) Neutral	(4) Small positive effect	(5) Large positive

20. Please rate the expected long-term effect (after March 2021) of the pandemic on outcome achievement in the impact bond.

(1) Large negative effect	(2) Small negative effect	(3) Neutral	(4) Small positive effect	(5) Large positive

21. Please describe the effect of the pandemic on expected outcome achievement (agreed upon metrics) in the project.

Section D: Contracts, Investments, and Repayments

22. Up to this point, have there been any modifications in investment payments into the project as a result of the pandemic?

Yes

No

23. If yes, please describe how the pandemic affected the investment payments into the project?

24. Up to this point, has the pandemic affected expected outcome payments and returns?

Yes

No

25. If yes, how has the pandemic affected expected outcome payments and returns?

26. How would you rate the flexibility to change outcomes payments and returns conditions in this impact bond (due to the pandemic)?

(1) Not very flexible	(2) Somewhat flexible	(3) Neutral	(4) Somewhat flexible	(5) Very flexible

27. Please describe any key differences (including both strengths and weaknesses) between the impact bond and other projects in terms of contracts overall?

28. Did any of the contracts in this impact bond have any stipulations regarding external shocks (e.g. force majeure clause)?

Yes

No

29. If yes, what did these stipulations consist of?

Section E: General and Future Development

30. Is there anything else that you would like to share about how the COVID-19 crisis has impacted the project?

Given your specific role in the project, please answer the following two questions as they pertain to you:

31. How do you think the experience of the COVID-19 crisis will affect future impact bonds in terms of project design, contracts and implementation?

32. In your opinion, what, if any, improvement is required to the impact bond contracts, to make these projects more resilient during a major crisis? Please note any specific elements of the mechanism.

Section F: Confidentiality and Attribution

33. Do you consent to the publication of the information you provided in your responses in an aggregate/non attributed way?

Yes

No

34. Do you consent to the publication of the information you provided in your responses in disaggregated/attributed way?

Yes

No

35. If you selected No in the previous question, please indicate which questions you would prefer not be shared.

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