



HUMANITARIAN IMPACT BOND

IN A NUTSHELL

HUMANITARIAN IMPACT BOND (HIB)

The International Committee of the Red Cross (ICRC) together with its partners has created the world's first Humanitarian Impact Bond (HIB) to help find additional ways to finance vital services for people with disabilities in conflict-hit countries.

THE CHALLENGE

The 2011 *World Report on Disability* estimated that more than a billion people live with some form of disability, which corresponds to approximately 15% of the world's population (WHO, 2011).

Access to physical rehabilitation (PR) is important from both human rights and human development perspectives. Personal mobility and the availability of assistive devices are a precondition for equal participation in and being a

productive member of society. The use of assistive devices is a means of gaining mobility, opportunities for education and work, and improved health and quality of life. These outcomes are important indicators of human development. Consequently, investment in the provision of assistive devices can reduce health-care costs and economic vulnerability and increase participation in society and quality of life.

A NEW RESPONSE FROM THE ICRC

As part of its response to these needs for physical rehabilitation the ICRC has sought to increase its response from a qualitative and quantitative perspective by:

- raising more funds for physical rehabilitation activities outside of the traditional programmatic framework of the ICRC in order to serve more people;
- developing and testing new efficiency measures to improve the

efficiency of the centres providing services.

The concept of a Humanitarian Impact Bond (HIB) was identified as a means of achieving the above with the added opportunity that it enables the ICRC to test new fundraising instruments and reflect on their applicability to the humanitarian sector.

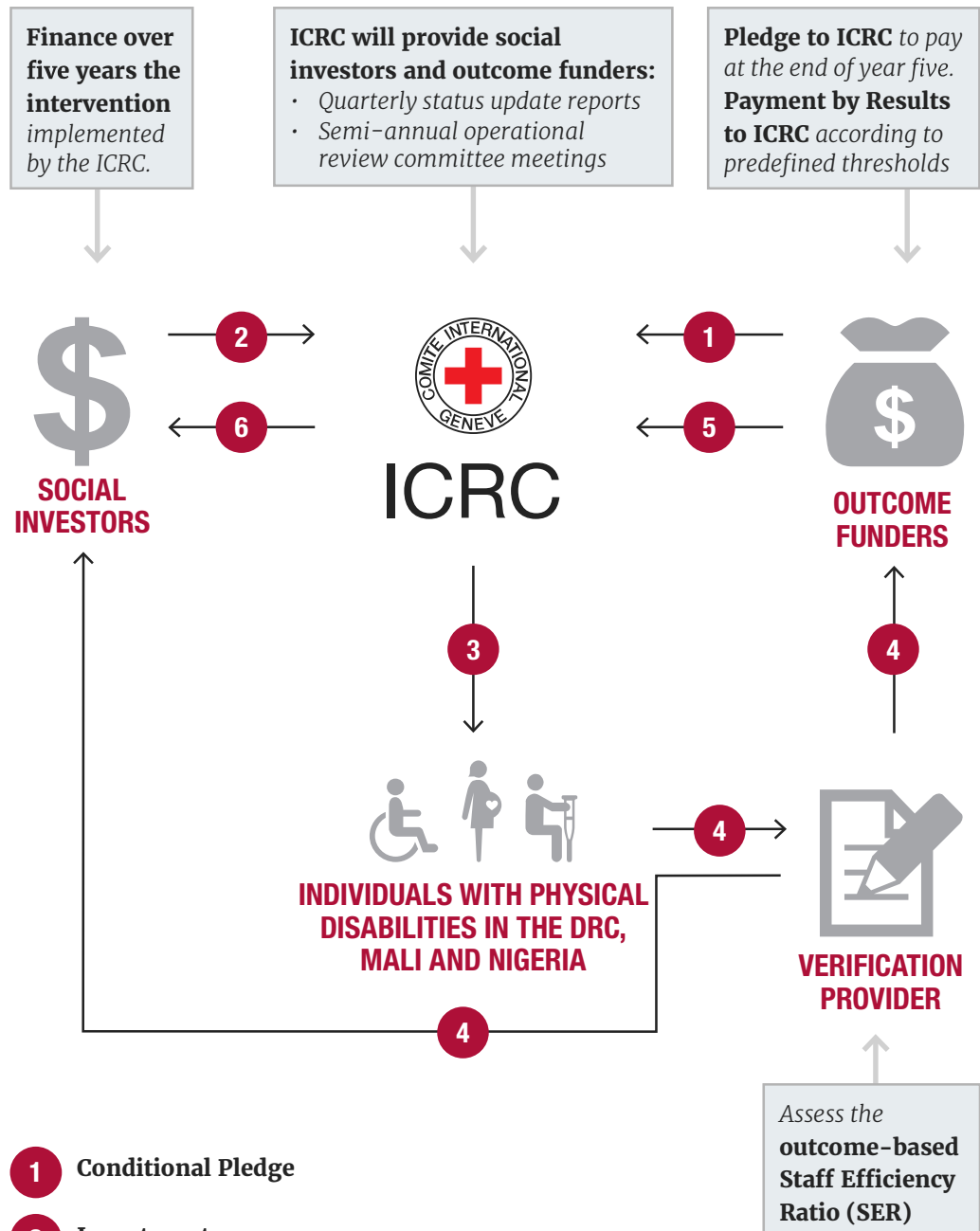
THE AIM

The aim of the bond is to increase the number of people with physical impairments gaining (or regaining) mobility – which is the first step towards enjoying such basic rights as access to food, shelter and education, finding a job and earning an income, and generally having the same opportunities as other members of society – through the provision of appropriate and quality physical rehabilitation services. In addition, the bond aims to improve the

overall operational efficiency of physical rehabilitation centres, allowing them to deliver services in the most cost- and impact-effective manner possible while still ensuring the high quality and appropriateness of services. Concretely, the capital raised will be used to build and run three new physical rehabilitation centres in Africa (Democratic Republic of the Congo, Mali and Nigeria) over a period, providing services for thousands of people.

OVERVIEW OF THE FINANCIAL MECHANICS

The schematic diagram which you see below illustrates step by step the concrete financial mechanics of the Humanitarian Impact Bond.

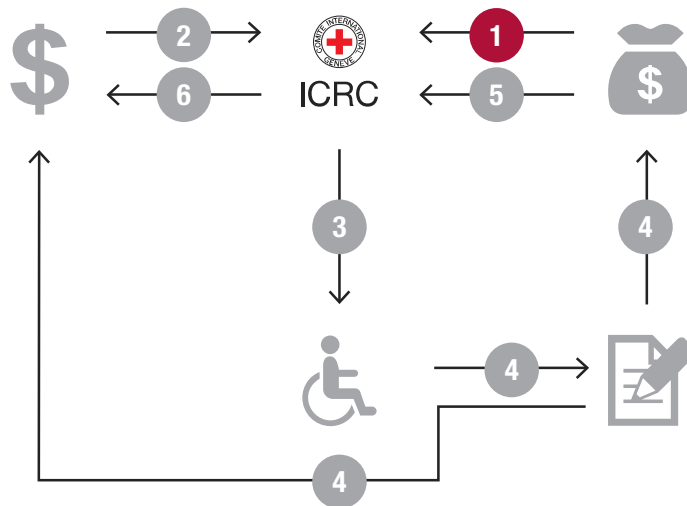


1. THE CONDITIONAL PLEDGE OF OUTCOME FUNDERS

The Outcome Funders – governments of Belgium, Italy, Switzerland, the UK and Foundation la Caixa – made a conditional pledge to pay the ICRC for concrete results achieved in five years. The outcome value of the fund is 26 million CHF. Their eventual payment varies according to the re-

sults achieved, up to the defined maximum for each Outcome Funder.

These relationships are defined in the payment for Results Agreements between the respective Outcome Funder and the ICRC.

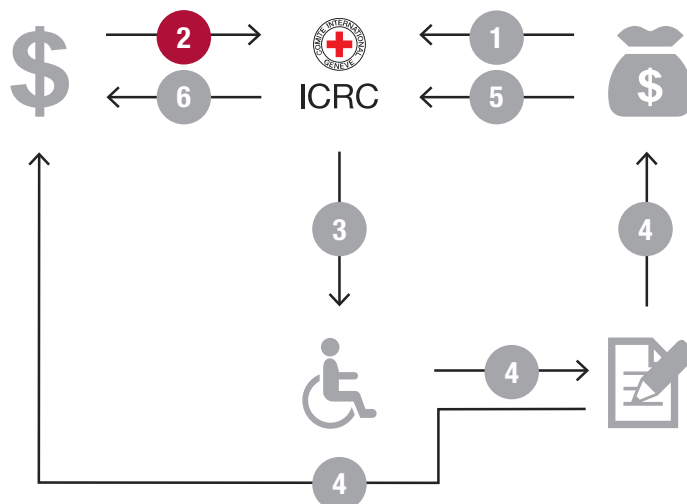


2. THE INVESTMENTS

Based on the assurance that the Outcome Funders will pay the ICRC in five years, the Social Investors (NewRe, part of Munich Re Group, amongst others) make their investments. Half is paid at the start, the remaining half after one year. That

money goes into the ICRC's general accounts and allows it to carry out the five-year programme.

The Investor Agreement defines the relationship between the Social Investors and the ICRC.



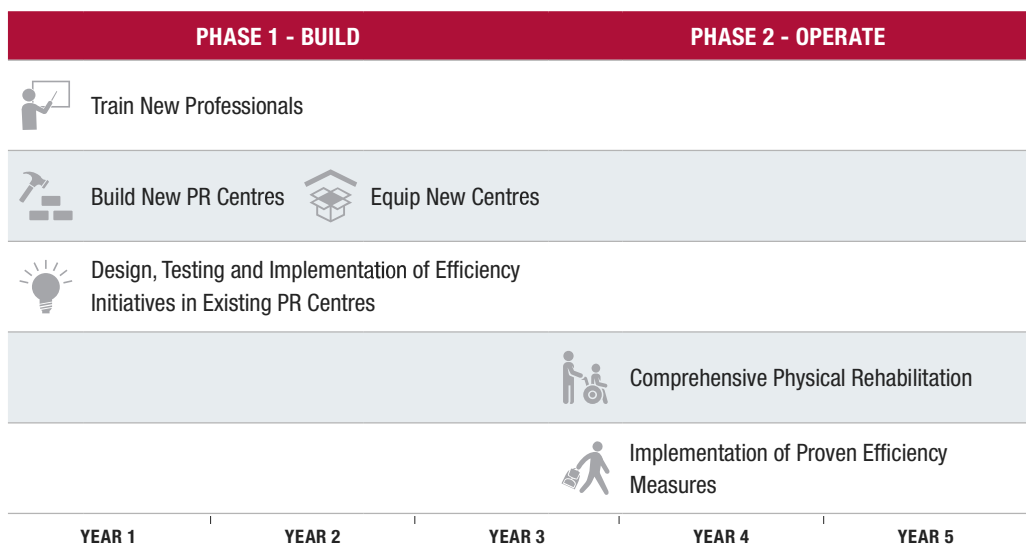
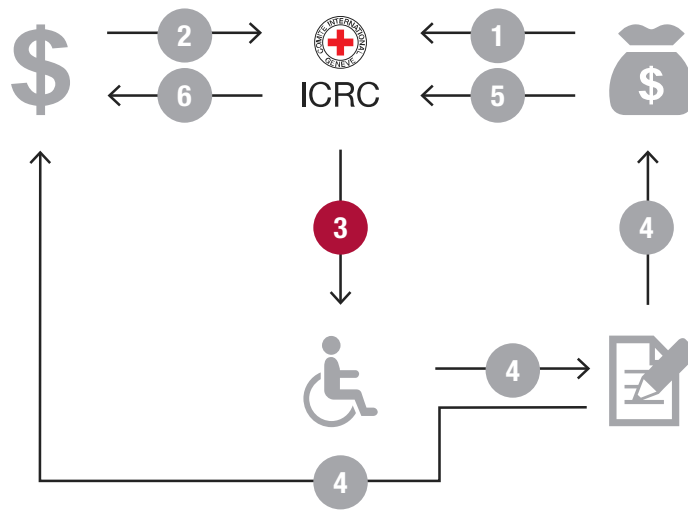
3. THE ACTUAL ICRC WORK

During the first three years, the ICRC will build and equip three new PR centres in Mopti (Mali), Maiduguri (Nigeria) and Kinshasa (DRC) as well as train the new staff for these centres.

At the same time, the ICRC tests new Efficiency Initiatives in eight existing centres in Cambodia, Madagascar, Mali,

Myanmar, Pakistan, Niger and Togo as well as designs, tests and deploys a new Management Tool.

During the fourth and the fifth years, the ICRC supports the operation of the three new centres while implementing proven efficiency initiatives.



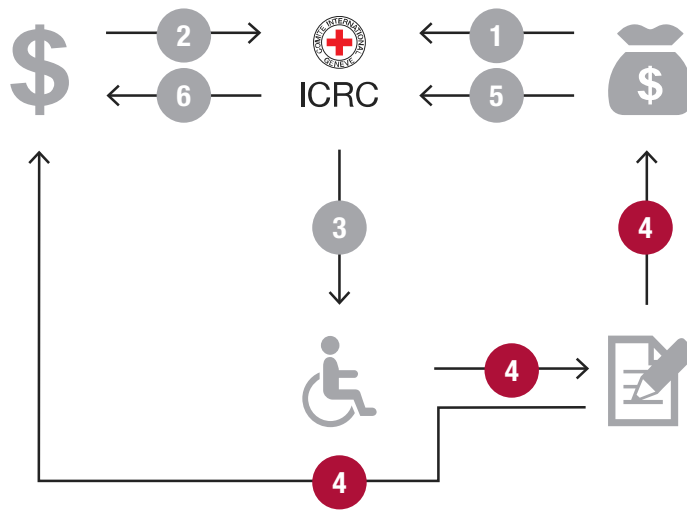
4. THE EXTERNAL VERIFICATION

While the ICRC provides quarterly reports to the Outcome Funders and Social Investors on the progress of the programme during the five years, the actual measure which determines the return to investors is only made at the end of the fifth year.

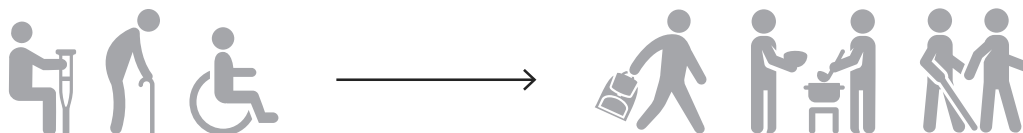
The Staff Efficiency Ratio (SER) is the number of beneficiaries regaining mobility per mobility device professional

employed in the centre (prosthetist or orthotist). The SER of the new centres is compared to the historical average of similar centres in Africa.

Philanthropy Advisors, the external Verification Provider, will verify the reported data and report the findings to the Outcome Funders and Social Investors.



$$\text{OUTCOME-BASED STAFF EFFICIENCY RATIO (SER)} = \frac{\text{\# OF BENEFICIARIES HAVING REGAINED MOBILITY THANKS TO A MOBILITY DEVICE}}{\text{\# OF LOCAL MOBILITY DEVICE PROFESSIONALS}}$$

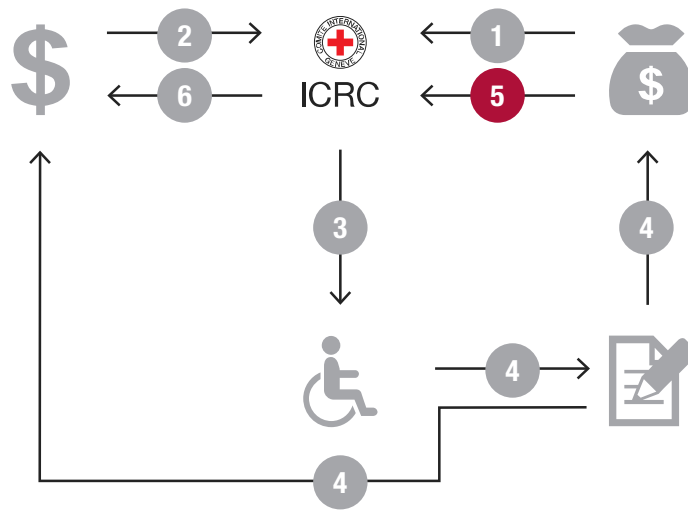


5. THE PAYMENT FOR RESULTS BY THE OUTCOME FUNDERS

The Outcome Measure (the ratio between the SER in the new centres over that of the benchmark centres) determines the payment of the Outcome Funders. The higher the efficiency in the new centres, the higher their contribution (up to the defined maximum).

The Outcome Funder will therefore only pay for what has been delivered. If the

efficiency in the new centres is below that of the benchmark centres, they will pay less than the effective costs. If the efficiency is however above and hence more people received support, their contribution is higher. This additional disbursement will be used to pay the Social Investors an interest on their capital invested.

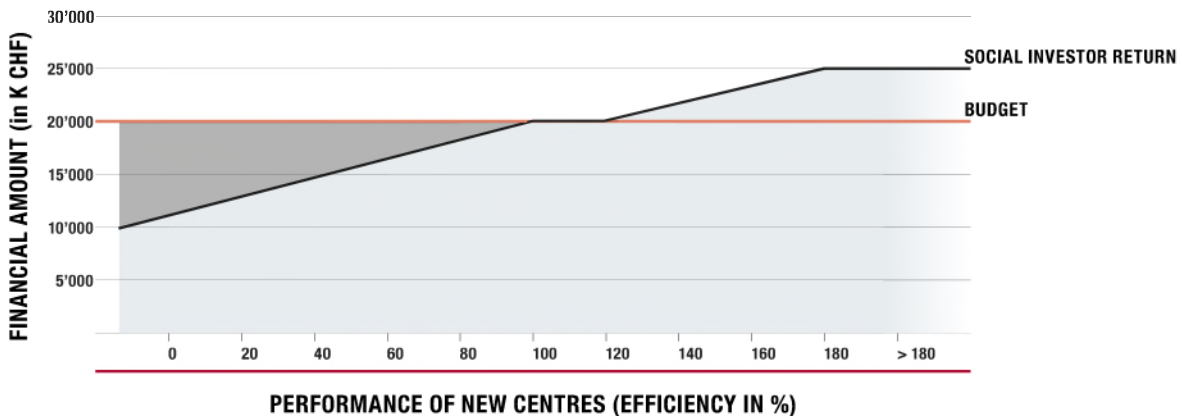
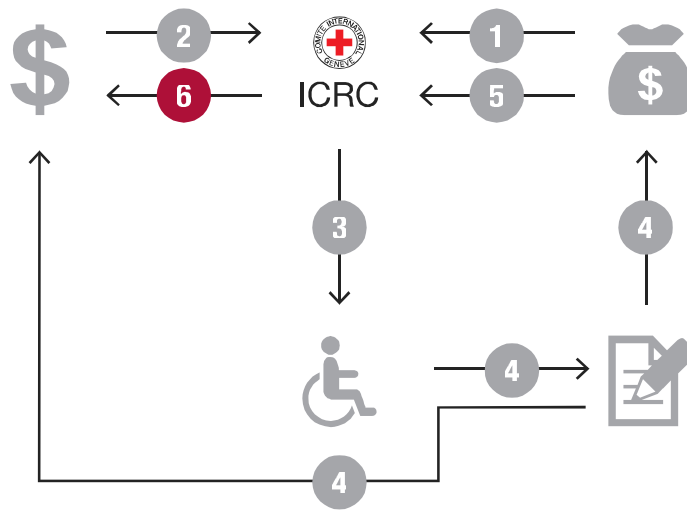


6. THE RETURN PAYMENT TO THE SOCIAL INVESTORS

The funds paid by the Outcome Funders to the ICRC in line with the results achieved will in turn be used to pay back the social investors partially, in full or with an additional return, depending on how well the ICRC performs in terms of the efficiency of the new centres.

If the efficiency in the new centres is below the benchmark, the Social Investors will

face a loss of up to 40% of the invested capital. In this case, 10% of the return payment will have to come from the ICRC regular resources. At par, the Social Investors receive their money back while at a 14-80% increase in the efficiency of the new centres, the Social Investors will be paid a variable annual return of up to 7% on their investment.



- OUTCOME FUNDER PAYMENT
- SOCIAL INVESTOR LOSS






The programme is the first ever in the humanitarian environment and draws inspiration from the movement for social impact bonds which has been gathering speed since the mid-2000s.

For the ICRC it is a “test and learn” exercise that will enable the organization to further expand its funding base to meet its growing needs in the future.

For more information, please contact:
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We help people around the world affected by armed conflict and other violence, doing everything we can to protect their dignity and relieve their suffering, often with our Red Cross and Red Crescent partners. We also seek to prevent hardship by promoting and strengthening humanitarian law and championing universal humanitarian principles.

People know they can count on us to carry out a range of life-saving activities in conflict zones and to work closely with the communities there to understand and meet their needs. Our experience and expertise enable us to respond quickly, effectively and without taking sides.

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