

KOIS INVEST

Special Edition Newsletter – September 8, 2017

Launching the world's first Humanitarian Impact Bond with the ICRC



With its expertise in innovative social finance, KOIS Invest structured the world's first Humanitarian Impact Bond (HIB) for the International Committee of the Red Cross (ICRC). The ICRC's Program for Humanitarian Impact Investing (PHII) will scale the delivery of physical rehabilitation services in post-conflict countries. The bond will make USD27mn available for the construction of more efficient centres, the training of local staff, as well as the first two years of new centres' operations in Congo, Mali and Nigeria. It is one of the largest impact bonds ever, and the first one to include multi-country operations and several countries as Outcome Funders.

In 2015 Kois and the ICRC started their journey to structure the HIB, and have forged many partnerships along the way. Kois data analysis of ICRC's 107 historic physical rehabilitation centres allowed to identify potential efficiency gains (lower capex, lower opex, technological innovations) delivering far superior value than the cost of this bond. Once proven, the aim is to roll these efficiency gains out across all the ICRC's Physical Rehabilitation Centers,

enabling a reach of more patients with the same resources.

The HIB comes at a time when about 90 million people suffer from physical disabilities in the developing world. If funding means were unchanged, only 10 million of those would have a chance to be treated. In most cases, education, employment and even dignity have been removed from the lives of those 90 million people. Since its creation, ICRC operates in the world's most difficult geopolitical contexts. Over the last 45 years, ICRC has developed technological innovations and expertise in low-cost physical rehabilitation, making it the ideal party to deliver these services and empower this fragile section of the population.

The HIB structure is based on a 'pay-for-success' mechanism where investors provide upfront capital for the intervention, and so-called outcome founders (in this case the Development Aid of Belgium, Switzerland, Italy and the UK, as well as the La Caixa Foundation) pay back this capital along with a financial return of up to 7% if the bond reaches or outperforms pre-determined objectives. If this fails to happen, investors could lose up to 40% of their capital. ICRC has skin in the game and is aligned with social investors as it could lose up to 10% of the invested capital if performance disappoints. The success rate of the HIB will be measured according to the number of people having (re)gained mobility per rehabilitation professional at the end of the five-year period. Thousands of people are expected to regain mobility every year thanks to this financial innovation.

The HIB allows for donors and investors to do what they respectively do best: donors pay for what they value (outcomes) and investors assess risks and price them when lending to social programs. Tobias Epprecht, senior manager at the ICRC said: "For many years now the ICRC has been looking for new funding from governments that do not yet provide support, private sources, and innovative funding arrangements. This is an important learning experience for us. If it works, it will be a stepping stone to larger projects."

The mechanism increases efficiency because the rigor in data collection which is needed to trigger final payments implies more transparency than other forms of performance based funding. Ultimately this provides stronger evidence on what works and what does not, better positioning the programs for scale up and replication.

François de Borchgrave, co-founder and managing partner at KOIS Invest, explains: "the main challenge was to develop a product that would make

investors comfortable with the idea of investing in a very volatile and fragile context: post-conflict zones. And at the same time the program would have to present such an ambitious leap in service to the beneficiaries that governments would be more comfortable participating in a scheme where they pay a premium only in case of success. ICRC's expertise and reputation were obviously key factors in making this credible."

"It has been a real privilege to serve ICRC during the two years required to structure this financial instrument", Charles-Antoine Janssen, co-founder and managing partner at KOIS Invest comments, "launching this first humanitarian impact bond required great leadership and change in mindset within ICRC.

Moving from a donor driven model to one based on efficiency gains, forward planning and pay for performance is a leap that will hopefully bring new funds to the world's humanitarian needs."

Key Facts

Population concerned: **90 million** people suffer from physical disability

Money raised for the HIB: **CHF 26 million** (US \$ 27 million)

Duration of the HIB: **5 years**

Locations: **Democratic Republic of Congo, Mali and Nigeria**

[Find Out More](#)