ife
Innovative Finance for Education

Case Study

Financing Early Childhood Development

The Impact Bond Innovation Fund, South Africa

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NORRAG
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ABOUT BERTHA CENTRE

The Bertha Centre is the first academic centre in Africa dedicated to advancing social innovation and entrepreneurship. It was established as a specialised facility at the University of Cape Town's Graduate School of Business in late 2011 in partnership with the Bertha Foundation, working with inspiring leaders who are catalysts for social and economic change and human rights.

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CONTENTS

1

LAUNCHING A SOCIAL IMPACT BOND

In November 2017, in Cape Town, South Africa, a group of unlikely partners came together to launch a financial experiment. The partners included an international NGO, a local community-based organisation, a financial consultancy, two corporate foundations, a local investment house, a Swiss-based private bank, and a provincial government department.

Together, these partners were testing a hypothesis: that a Social Impact Bond (SIB), utilising funding from private investors and, if successful, repaid with interest by the government, could deliver more effective and efficient funding for early childhood development (ECD) than traditionally-funded programmes. The pilot project for this financing mechanism was a home-based ECD programme delivering services to a target of 2,000 children in two underserved communities near Cape Town.

Initiated in 2013 by the Bertha Centre for Social Innovation & Entrepreneurship at the University of Cape Town, Graduate School of Business (the Bertha Centre), the design and setup of the SIB was initially expected to take six months. This timeframe proved wildly ambitious. Instead, the process to launch the bond took four years and the implementation another three years, involving nearly 20 organisations and more than 150 individuals.

In 2020, as the three-year SIB was coming to maturity, the stakeholders were keen to reflect on the process. Critical questions needed answering to determine whether the SIB could be deemed successful: Was additional private capital contributed to public services through the bond? Did the bond deliver more effective and efficient services than the traditional means of funding government services? Did the process create opportunities for collaboration, innovation and flexibility? Most importantly, if they launched a follow-on SIB, what learnings would they carry forward?

Early vision

The project had come a long way since inception. In 2013, the Bertha Centre had a hunch that SIBs could change the funding landscape for social services in South Africa. With funding from the Government of Flanders (see Appendix 1 for a full list of funding sources), the Bertha Centre and local consultancy Genesis Analytics developed a policy paper for the South African National Treasury to determine whether SIBs could be appropriate for enterprise development services in the country. The report concluded that, while these services were not appropriate for a SIB, other areas of government service delivery could be promising, including ECD.

By this time, SIBs had piqued the interest of several other government entities, in particular the Public Policy Unit (PPU) for the provincial government of the Western Cape. As one member of the PPU noted:

> ***"What interested me was how to get outcomes that were measurable and impactful. In my job, my responsibility was developing policy and then helping with integrating implementation. The strategic plan was always tied to particular outcomes. [But] departments would count workshops or number of people attending and that wasn't the intention. [SIBs] came across to me as a very innovative way of being able to encourage outcomes on projects, [and] also to potentially get additional financing for the work that we were doing."***

When the Bertha Centre findings were presented to the Head of Policy at the PPU, they found a receptive audience. One of the Premier's highest priorities was determining how to coordinate delivery of ECD to all young children in the Western Cape. This involved two large departments, the Department of Health (DOH) and the Department of Social Development (DSD). Recognising the potential of this new financing mechanism, the PPU offered a Bertha Centre project manager a desk at their offices, with the promise of personal introductions to the departmental representatives to get started.

One of the Western Cape's health policymakers described her enthusiasm:

"I actually thought it was a wonderful idea, the whole notion that you could have an investor investing in a service provider to provide a service, and government only pays for outcomes…because for government this would be absolutely amazing for us to only pay for outcomes. I mean, which government wouldn't want to do that?"

Social impact bonds

The first SIB was launched in Peterborough, England in 2010 to reduce reoffending among prisoners leaving Peterborough prison. This SIB is widely acknowledged to have been extraordinarily successful, exceeding its targets. By 2013, 25 SIBs had been launched globally, however, SIBs were still relatively new especially in emerging markets such as South Africa.

SIBs are a specific type of financing mechanism within a larger movement toward innovative financing for public services, defined as "non-traditional ways to raise new funds and to spend existing funds in more efficient and effective ways through the use of market-like practices".[1] Since the 2000s, interest has grown in these mechanisms to bridge the gap between government budgets and the resources necessary to deliver quality social services.

SIBs allow private investors to provide upfront capital for social projects. If projects are successful, investors receive repayment plus interest from *outcomes payers* – usually government departments or development agencies.[2] If the programme fails to meet targets, payers do not have to pay or pay less. SIBs ostensibly allow service providers to be more flexible in their implementation and shift the risk of social projects to private investors, giving government and development agencies the leeway to invest in multiple projects and *service providers* with a guarantee of social return.

Proponents of innovative financing cite three potential benefits of these new funding mechanisms: (1) an infusion of new capital, primarily from the private sector; (2) improvement in cost-efficiency, service delivery and performance management, with a focus on outcomes rather than outputs; and (3) 'market-like' mechanisms that drive collaboration, innovation and flexibility, enabling private sector actors to share in the risks and social returns of public services.

Determining what success looks like

SIBs are contingent on several features. They need significant political support and agreement among stakeholders about what constitutes successful outcomes. They also require capable service providers to deliver strong, evidence-based programmes, often with support from *intermediaries*, specialist organisations that provide financial and technical expertise to SIBs. Finally, they need robust data to determine appropriate payouts for meeting social outcomes targets, ensuring that outcomes payers are receiving value for their money.

Teams designing SIBs need to determine how outcomes will be validated or evaluated to ensure that payers are only paying for outcomes that have been met. The 'gold standard' of evaluation is considered to be the randomised control trial (RCT). RCTs require comparison between cohorts receiving interventions and comparable cohorts *not* receiving services (control groups). However, RCTs are notoriously difficult to design and costly to carry out. As a substitute, evaluations can be designed using counterfactuals (a group showing what would happen without the intervention) other than control groups.

The risks for getting any of these decisions wrong are significant. If success measures are developed inappropriately, outcomes payers can end up paying too much for outcomes, which is unfortunate in established markets but inexcusable in emerging markets with little funds to waste. If targets are set incorrectly, SIBs might not achieve anything of significance or investors might receive an insufficient payout, jeapordising future bonds.

The Bertha Centre team was keenly aware of these risks. In mid-2014, with the financial support of Innovation Edge and the Lego Foundation, the Bertha Centre enlisted the help of UK-based consultancy, Social Finance (SF), to help with the bond design. SF had pioneered the use of SIBs, first in Peterborough and then around the world. Based on their experience, SF recommended that the Bertha Centre develop a fund to share the upfront costs of developing several bonds, and to bring together a group of stakeholders to carry forward the concept of SIBs for ECD in South Africa.

1. Avelar, M., Terway, A. & Frotté, Marina D. (2020). Innovative financing in education: A systematic literature review (NORRAG Working Paper no.11). NORRAG.
2. When the outcome payer for the Impact Bond is a donor, i.e. a philanthropic donor or a bilateral or multilateral aid agency, it is known as a Development Impact Bond.

2

DESIGNING THE BONDS

In late 2014, the Bertha Centre and SF assembled a working group to establish a Fund named the Impact Bond Innovation Fund (IBIF). The team invited a group of 14 distinguished professionals from a wide range of sectors to sit on the IBIF Advisory Board, including representatives from national and provincial government, potential investors, ECD specialists, academia and monitoring and evaluation specialists.

At the first meeting, the group discussed four central questions: (1) What cohort of children will the fund benefit?; (2) What outcomes will the fund target?; (3) What type of interventions can achieve these outcomes?; and (4) How much are these outcomes worth? After a productive conversation, the group gave the Bertha Centre/ SF team the go-ahead to start landscape research to reach key design decisions on the following:

- **Establishing the cohort:** The bond needed to address a population of children central to the government's policy direction. The bond also needed to be attractive to investors who wanted to provide the most impact with their investment. Based on conversations with government, service providers and potential investors, the team proposed two separate bonds targeting two cohorts of low-income children: 2,000 children (0-2 years old) needing health interventions; and 2,000 children (3-5 years old) participating in an early learning programme.

- **Determining the outcomes:** The team needed to align the outcomes measures with existing government policies and ensure they were achievable and measurable by existing service providers. The team performed an extensive literature review of existing government policy documents and academic literature and consulted with more than 50 ECD academics and specialists. These activities resulted in a long list of possible measures (see Appendix 2 for this list). Consultation on outcomes stretched throughout the year and into 2016. The group finally settled on a list of 15 measures for the health bond and 3 measures for the early learning bond (see Appendix 3 for the measures). The team also decided to forego the cost of an RCT and instead use outcomes measures with standardised baselines.

- **Identifying the interventions:** To achieve the outcomes, the two age cohorts required distinct interventions. The 0-2 years cohort required health-based interventions supporting infants, pregnant women and new mothers. The 3-5 years cohort would benefit from early childhood education support for children, parents and caregivers. The team considered both clinic/centre-based and in-home programmes. Ultimately, they decided to choose home-based interventions which would reach the neediest segments of the population, but be harder to track and measure.

- **Setting payments:** The team also worked to set targets to be met by service providers and 'rates' that investors would receive for each outcome. However, the team quickly realised there was too little data to determine the true value of outcomes. The team therefore proposed to run a 'price discovery' SIB by opening a traditional bid process with service providers submitting budgets in response to a government tender. The contracts would then include a set of targets that service providers would commit to meeting over the course of the contract.

The Bertha Centre & Social Finance

The Bertha Centre and SF led the project to design the Impact Bond Innovation Fund from 2013-2016. The Bertha Centre is a specialised unit of the University of Cape Town, Graduate School of Business whose mission is to build capacity and innovation for social justice on the African continent. Social Finance is a UK-based non-profit consultancy specialising in innovative financing mechanisms for social impact. Both organisations saw the IBIF as a 'proof-of-concept' pilot project to encourage further innovative financing initiatives in South Africa. The two organisations were responsible for initiating stakeholder relationships, structuring the bond and handing the design off to the implementors.

3

APPPOINTING INTERMEDIARIES

In 2016, the team turned their attention to how to set up the fund. Based on the design decisions, two constraints were clear. First, with the rigorous quality and intense reporting necessary to support the outcomes targets, prospective service providers would likely need significant support to meet the requirements. Second, engaging investors and creating financial models for cash flow and investor returns would require substantial expertise.

As one of the team members described:

> *"In doing the scoping and feasibility study, we saw that it was unlikely that [the service providers] would be able to formalise relationships with investors to access the necessary working capital for an impact bond, and that a lot of them were in need of further capacity building as well if they were to deliver to the rigours of something like an impact bond."*

The team decided that they would follow a trend in the SIB space, securing intermediaries to serve as capacity-building support for the project. The intermediaries would add a layer of cost to the bond, but given the complexity of the reporting required by the design of the bond, this seemed to be a necessary and important expense.

To identify potential intermediaries, the team initiated a Request for Information (RFI) and received six proposals. Out of these proposals, one stood out: a partnership between two organisations, mothers2mothers (m2m) and Volta Capital (Volta). By selecting two specialist organisations, the team reasoned that they could gain the best expertise possible for the bond. The team made the decision to appoint m2m and Volta as intermediaries to carry the bond through contracting and implementation. The intermediaries would receive a service fee for their work as well as a performance bonus if the bonds were successful (see Appendix 6).

Once the intermediaries were appointed, the broader team – now including the intermediaries – began to look closely at how they should structure the bond. Importantly, the fund needed to be structured to participate in government procurement processes, meeting the contracting requirements of the National Treasury. It also needed to contract with service providers responsible for delivering outcomes. Finally, it needed to receive funds from private investors and maintain clean financial reporting for all stakeholders involved.

Looking to examples from other countries, the team decided to establish a special purpose vehicle (SPV) to act as an independent entity to participate in procurement processes, hold contractual relationships, receive investor capital and outcomes payments, and disburse funds to service providers and auditors. The SPV required a separate level of governance and allowed the deal to be structured so that no single entity carried the burden of the Fund.

The intermediaries worked quickly to set up the Impact Bond Innovation Non-Profit Corporation (IBI NPC), an entity to serve as the SPV (see Appendix 6). In late 2016, the process moved into a new phase. The Directors of the IBI NPC included representatives from the intermediaries with the Bertha Centre and SF no longer held formal roles in the Fund. The Bertha Centre and SF moved out of their design role and the IBI NPC took over as the lead for the Fund.

Mothers2mothers and Volta Capital

m2m and Volta were appointed in 2016, taking responsibility for governance of the Fund and implementation of the bonds. m2m is a Cape Town-based international NGO providing health services to mothers and children throughout Africa; Volta is a London and Nairobi-based consultancy providing design, structuring and investment management services to a variety of public, private and civil society actors. m2m was appointed as the technical intermediary providing programme, budgeting, capacity building and Monitoring & Evaluation (M&E) support to the Fund. Volta was named the financial intermediary, providing financial modeling, investor engagement and administrative support to the fund.

4

ASSEMBLING OUTCOMES PAYERS

While the intermediaries carried out the important tasks of setting up the Fund, the Bertha Centre navigated the other side of the equation, assembling the outcomes payers. In a SIB, outcomes payers are responsible for contracting with the Fund and repaying investors if the outcomes are met at periodic intervals. With the support of the provincial Public Policy Unit (PPU), the Bertha Centre team worked to gain the interest and support of the two government entities responsible for delivering on ECD outcomes in the province: the Western Cape Department of Health (DOH) and the Western Cape Department of Social Development (DSD).

An early issue that emerged for outcomes payers was budgeting. Provincial departments were funded with budgets allocated by the national government. It was unlikely that these budgets could be increased. To proceed with the project, the departments needed to use existing budgets for maternal health and early learning programmes. Yet, as the team analysed the prospective budget for the bonds – adding the costs of intermediation, evaluation and interest repayments – it became clear that the existing government budgets would barely cover 50% of the total cost.

SIBs are promoted as a way to deliver public services more effectively and efficiently, while bringing additional capital to social projects. This can be achieved in three ways: (1) cost-effective services that provide more outcomes for funds invested; (2) reduced payments for services that do not achieve outcomes (to be used for other services); (3) or additional funding to the government purse. The team was not surprised by the total cost since the bond was designed with additional layers of oversight and rigour. Arguably, the cost per outcome might still be less than traditional government funding, however this would be difficult to prove with a pilot project. This made the service appear to be more expensive, by a significant margin.

The team was left to work with the third option: bring new money to the table. They decided to identify matching outcomes payers to fund the bond alongside the DOH and DSD.

A Bertha Centre team member described the idea of matching outcomes payers:

> *"I think [the] leverage potential is quite promising and a key selling point for a fiscus [public budget] that is quite constrained currently. Building out mechanisms whereby government [can] provide funding and help ensure that the programme is aligned with its priorities, but then ultimately attract other private funding that helps it get more than just its contribution…that's a critical selling point."*

By early 2017, two matching outcomes payers were identified. The Discovery Foundation, a corporate trust dedicated to improving healthcare resources in South Africa, would match the DOH bond, while ApexHi Charitable Trust, a corporate foundation administered by Tshikululu Social Investments, was matched to the DSD bond. If the bond was successful, these matching contributions from two South African foundations ensured sufficient funding to repay the investors with their rate of return as well as cover the costs of intermediation to carry out the services.

Western Cape Departments Of Health and Social Development; Discovery Foundation; Apex Hi Charitable Trust

The provincial government departments, DOH and DSD, signed on as outcomes payers alongside matching funders, the Discovery Foundation and Apex Hi Charitable Trust. The government departments would be responsible for procurement and repayment upon delivery of outcomes. The matching funders would be responsible for paying matching outcomes repayments upon delivery of outcomes.

5

ENGAGING INVESTORS

A critical next step was to secure investors to join the Fund, providing upfront capital for the two contracts. In mid-2016, the Bertha Centre and SF circulated an investment memo to the potential investor community. This memo outlined the features of the bond, and set the prospective return at a maximum annualized return (IRR) of 16%. Several investors signaled their interest during this early phase, however no term sheets were drawn up or signed.

When m2m and Volta Capital came on board as intermediaries, they worked to invigorate the investor engagement process. Conversations with potential investors outlined some of the risks of the transaction:[1]

- **Exchange rate risk:** A Rand-denominated bond exposed international investors to currency fluctuations;
- **Sovereign default risk:** Governments with weak credit ratings could be unable to meet repayment obligations;
- **Long repayment term:** The three-year bond term was significantly long for a pilot investment;
- **Limited exit structure:** Investors would need to commit for the full term without special negotiations;
- **Service delivery risk:** Poor performance by service providers could limit payouts;
- **Interest rate risk:** The bond interest was not indexed to market rates.

Pressed to make a commitment, several potential investors decided not to pursue the opportunity, citing the small deal size and extended timeframe as concerns.

In late 2016, realising that new investors needed to be identified, m2m reached out to one of its long-term funders, LGT Venture Philanthropy (LGTVP), to gauge interest. At the same time, Innovation Edge introduced the intermediaries to a newly-formed corporate foundation, the Standard Bank Tutuwa Community Foundation (Tutuwa). The intermediaries also began promising conversations with a local investment house with a portfolio of social investment funds, Futuregrowth Asset Management (Futuregrowth). Each of these funds had fiduciary obligations to return capital to their clients while pursuing social return with that same capital.

One of the investors described their motivation to invest in the bond:

> *"Our sense of purpose is based on our belief that investors can make a positive difference in society while earning sound investment performance for pension fund members. We want to do good and at the same time provide a risk-adjusted return for our clients. That is part of the reason why we considered the investment when it was presented to us."*

In early 2017, the three prospective investors presented the opportunities to their respective investment committees. Tutuwa was the first investor to commit, with LGTVP following shortly thereafter. Futuregrowth, the most commercial of the investors, took the longest to commit, after many rounds with their investment committee. Despite the delays, by mid-2017, the three investors had committed (but not yet disbursed) a total of R7.5 million (US$0.5 million) to the fund.

Standard Bank Tutuwa Community Foundation, LGT Venture Philanthropy & Futuregrowth

Tutuwa, LGTVP and Futuregrowth committed to the bond as investors in 2017. Tutuwa is a South Africa-based non-profit organisation capitalised by Standard Bank. LGTVP is a charitable foundation founded by the Princely Family of Liechtenstein and LGT, the world's largest private bank. Futuregrowth is a fixed-interest asset manager, based in South Africa, managing around US$14 billion in a range of fixed asset and development funds.

1. Khan, Z., van Deventer, J., Tambo, O., Sithole, T. (2020). The Impact Bond Innovation Fund: Identifying the risks and returns of innovative financing mechanisms for social change. Intellidex.

6

CONTRACTING WITH SERVICE PROVIDERS

With the outcomes payers and investors now committed to the process, it was time to secure the service providers. The DOH and DSD required the contracts to be with service providers already registered with the department and/or receiving funding from their departments. While this narrowed the playing field substantially, it also provided clear direction.

The Bertha Centre assisted the provincial departments to prepare bid specifications to release to the public. These specifications were published on the National Treasury's tender website as specified by procurement protocols. Shortly after publication, the DOH and DSD held public briefing sessions to release the specifications of the bid and m2m and Volta were introduced as an intermediary partnership seeking service delivery collaborators. Participants had no obligation to work with the intermediaries and were welcome to submit bids through other partnerships.

Following the briefing sessions, seven service providers submitted expressions of interest to the intermediary partners. These service providers attended a series of workshops held at the m2m offices in Cape Town and presented their implementation plans, systems and budgets. Through a committee selection process, two qualified service providers were selected to join the government bid process with the IBI NPC: Western Cape Foundation for Community Work (FCW) for the early learning bond and a local community health organisation for the health bond.

In March 2017, the IBI NPC submitted their bids to the DSD and DOH. While other bids were received, the IBI NPC presented the strongest panel of partners in the government submission. Both the DSD and DOH undertook their process for public tenders and bids were awarded in March and April 2017. Once the bids were awarded, the contracting phase began. Most stakeholders assumed that pro bono legal support could be secured when they reached this stage. However, as the complexity of the Fund structure grew, it became clear that the legal support would be extensive, requiring numerous legal agreements (see Appendix 6). While local legal firms were willing to perform the work at a substantial discount, the fees would still be substantial and additional funding needed to be secured.

During this time, challenges emerged with the health bond. When finalising the DOH contract, the proposed budget was reduced to accommodate the budget allocation. The service provider became concerned that the cuts would hinder their ability to deliver upon the outcomes. After several weeks of negotiations, the service provider and intermediaries were not able to reach a resolution and the DOH released the parties from their obligations. However, the situation was irreparable: the DOH bond concluded before implementation even began.

By November 2017, with only one bond in operation, the intermediaries and FCW eagerly looked forward to implementation of the DSD contract. However, they faced a significant issue: although the three investors had verbally committed to the project, the contracts were not yet finalised. Each investor had a different contracting process and the two bonds – originally presented in single contracts – needed to be decoupled and resubmitted. This process included multiple legal reviews, negotiations and final investment committee approvals. Although the understanding was that the contracts would be signed imminently, to keep to timeframes, FCW and the intermediaries would need to start delivering services without signed contracts – and without any startup capital.

Foundation For Community Work & A Local Community Health Organisation

FCW
Foundation for Community Work
Stigting vir Gemeenskapwerk
NPO 009-882

FCW and a local community health organisation were selected to implement home-based ECD services. FCW is a NPO focused on ECD service provision in the Western Cape and founded in 1974. Both partners are well-established NPOs with previous engagements with the provincial governments and long track records of successful service projects in the region.

7

IMPLEMENTING A SOCIAL IMPACT BOND

Ramping up

In November 2017, FCW prepared to meet the IBIF ECD objectives by delivering its 'Family in Focus' (FIF) programme in two underserved areas of Cape Town, Atlantis and Delft. FCW had been in operation for nearly 50 years and was currently serving nearly 8,000 households across the Western Cape. However, the IBIF presented a significant ramp-up for their organisation. They would need to draw upon their years of experience to meet the IBIF targets:

- **Enrolment:** Recruit and retain 2,000 children aged 3-5 years over the next three years into the programme;
- **Attendance:** Ensure children receive at least 50% of home visits each year;
- **School Readiness:** Meet or exceed a score of 0.2 standard deviations above the baseline on the standardised assessment tool, the Early Learning Outcomes Measure (ELOM), used to assess the effectiveness of the early learning programme to prepare children for Grade R.

FCW worked closely with community-based organisations (CBOs) to recruit and mobilise team leaders and home visitors for specific neighborhoods. FCW received funds through a government-funded program called the Expanded Public Works Programme (EPWP) which provided stipends of approximately R1,500 (US$88) per home visitor per month. Through the IBIF, this stipend would be topped up to R3,500 (US$205) per month. Trained home visitors were expected to visit 25 families per week, spending at least 45 minutes per family to support them with strategies for parenting and early learning stimulation.

To prepare team leaders and home visitors for their roles, FCW conducted five training modules for 55 home visitors. When preparing their bid, FCW planned to hire a project manager to coordinate these tasks; however, without the investor capital, they could not recruit immediately. Instead, FCW's managerial staff oversaw the activities and carried out the program within their normal budget – a significant stretch for the small organisation.

Another challenge was the age groups prescribed by the bond. In order to match the age cohorts to the ELOM measure, FCW needed to recruit a specific age group (3-5 years old). One of FCW's managers described the issue: "The big adjustment that had to be made was that our conventional age groups were zero to six. However, for this project [the age groups] were very specific, almost pedantic in some instances. And we struggled with this." FCW home visitors had the difficult task of explaining to parents and caregivers that some children would not be enrolled in the programme, although services would still be provided to these children.

Despite the challenges, FCW began tracking IBIF enrolment and attendance in November 2017. Yet, the FCW Board was getting anxious – although they were receiving their usual DSD budget, they had never before outlaid such a significant amount of cash without a signed funder agreement. The intermediaries continued to push through the contractual processes and, finally, in July 2018, the full set of contracts were signed. Within a matter of weeks, IBI NPC received the first tranche from the investors and repaid FCW for their outlay above and beyond their normal DSD funding.

Setting up monitoring systems

During the ramp-up phase, FCW hired an M&E specialist to work with m2m to develop a system to collect the necessary data for reporting. Meanwhile, m2m had already allocated a Technical Lead and an M&E Specialist (who worked at the FCW offices once per week) from their team to provide capacity building and support to FCW. Without the investor funding for the mobile data collection system envisioned for the project, m2m supported FCW to build a temporary database in Google Sheets to manually enter information from improved paper data collection tools. This proved to be a big step forward for FCW, but by mid-2018, this system was proving cumbersome with duplicates and data entry errors.

In August 2018, with the infusion of investor capital and the first reporting deadline looming, the intermediaries and FCW appointed a local mobile app developer to develop a digital data collection app with back-end reporting. This new data collection system was an exciting step forward for the project. Home visitors received mobile phones to capture household visit information

in real-time. Mobile phones tracked the geographic location of home visitors when entering data and verified geo-spatial data against client addresses. Reports were available in real-time, giving FCW staff members opportunities to review progress and make programme adjustments with speed and accuracy.

However, these M&E efforts also brought a reality check. Prior to the reporting, FCW's managers were confident that they would easily meet the enrolment and attendance targets. Yet, the emerging data revealed issues. In some cases, the number of enrolled children did not match the mobile reporting. In other cases, home visitors were barely meeting the 50% visit requirement that the outcomes payers required for full repayment to the investors. With the realisation that home visitors were not always meeting FCW's standard program requirements and subsequent intensified supervision, home visitors began to feel "policed." One of the M&E managers recalled: "Home visitors were also having their own arguments in terms of why they were not reaching performance."

FCW realised that they needed to change the dynamic. With stronger communication and a performance incentive programme for home visitors, they turned the situation around. The M&E manager described the change: "Once [visitors] got to understand the system and understand how this helps them… and how much of an impact this programme would have not only on the community but the far-reaching effects…everybody was on the ball." As the first year came to a close, FCW was on-track to deliver on their first two targets: recruitment/retention and attendance.

The Early Learning Outcomes Measure (ELOM)

The third target was linked to program effectiveness for school preparedness of children enrolled in FCW's programme, making it the only true outcome measurement for the bond. The team decided to use ELOM since it is a locally-developed, standardised assessment tool for early learning programmes in South Africa. Standards for the ELOM were set in 2017, creating an important opportunity to use the tool in a home-based setting. The investor loan agreement specified that enrolled children of the right age group (pre-Grade R) should exhibit an increase of 0.2 standard deviations above the average score of children in the same quintile (see Appendix 1 for an explanation of the South African quintile system) for full repayment of the bond. This target was set in order to determine if children in the programme were performing at a slightly higher level than similar children not exposed to an early learning programme.

The DSD contract called for two reporting periods for the ELOM, at the end of 2018 and the end of 2019. In November 2018, the implementing partner and intermediaries arranged for ELOM-certified assessors to perform the first assessment. Children and caregivers were transported in buses to central venues in the community where the assessors could conduct the assessments. However, the logistics proved challenging. One stakeholder described the process:

> *"With the ELOM, it meant the child had to be removed outside of their home. We had to factor in taxiing to the venue. There was a waiting period. They were hungry, they hadn't eaten."*

The assessment also revealed challenges with the application of the tool in a home visit setting. The ELOM is designed to assess early learning program effectiveness, but to-date had not been used to assess caregiver-led home visiting programmes. Although the assessors were trained to be sensitive in their interactions, the children in the programme were not accustomed to interacting with adults outside of the home which made one-on-one interviews with assessors a new experience for them.

With the first assessment complete, the intermediaries and FCW knew they would need to strengthen their preparations for the ELOM in Year 2. Improvements would ensure that the programme was delivered with fidelity and for the strongest benefit of the enrolled children and parents. However, even with improved logistics and implementation, meeting the targets with the current programme was likely impossible. Yet, to change the target itself would make it look like they were 'moving goalposts'. To meet the contract obligations, the team would need to move forward with the ELOM, despite the questionable targets.

Validating outcomes

The validation of the first year's results was performed in February 2019. The IBI NPC selected, contracted and paid BDO Financial Services (BDO) and Development Works Changemakers (DWC) for the financial and technical audits respectively. While the financial audit was straight forward, the technical audit required DWC to design a data verification process. DWC pulled a sample of families and phoned them to confirm correct details and services received. They also interviewed FCW and m2m staff and attended a small number of home visits with home visitors. Finally, DWC interviewed the principal ELOM assessor, reviewed the assessment and verified the accreditations of the assessors. Based on these activities, DWC signed off on the outcomes reporting for Year 1, which are outlined in Appendix 7.

Year 2: Hitting a groove

In 2019, with a year's experience of managing the IBIF project, the team began to hit their stride. Importantly, FCW hired a dedicated project manager, providing much-needed capacity and expertise to the team. An FCW manager described this period:

> *"I think the IBIF project gave us a very specific niche and budget for getting the right kind of staff in for what we needed to do. We called the IBIF project our FIF [Family in Focus programme] 'on steroids'. We're doing what we used to do, but it's kind of supercharged, because we got all the additional funds and bells and whistles that made it OK to hire the staff that we needed [and] to give the home visitors a little bit more than the stipend that they were currently earning."*

With the additional funding and capacity provided by the project, the FCW team was able to strengthen important

programmatic enhancements: (1) **supportive supervision** for home visitors, including weekly team check-ins to plan and share learnings, monthly team leader observations visits, quarterly quality assurance visits and targeted site visits for resolving one-off issues; (2) **psycho-social support groups** for home visitors to improve their well-being and deal with personal challenges such as gender-based violence and gangsterism in their communities; and (3) **support groups and incentive packs** for caregivers, including stationery supplies such as paper, glue sticks, crayons, and bean bags.

The team also made extensive efforts to improve the ELOM assessment process. To ensure children's participation and comfort, home visitors conducted 'mock assessments' so that children were more at ease with the process. The team also changed their approach to logistics, including caregivers in the process. One of the team members described the changes: "We needed to make sure that we provided food packs for the children and their caregiver, providing transport, collecting the caregivers and bringing them to the venue so we were guaranteed that the caregivers would be present."

The continuous improvement efforts were clear in the next reporting cycle. In February 2020, DWC signed off on the outcomes reporting for Year 2, which are outlined in Appendix 7.

Year 3: Covid-19 response

In 2020, the team was presented with an even more significant challenge: a global pandemic. In late March, South Africa announced a nationwide lockdown, closing all ECD services including home visits. In a matter of weeks, the programme went from operating hundreds of home visits per week to a complete lockdown. However, the mobile data collection system proved instrumental in supporting FCW's ability to pivot its programme rapidly to remote service delivery, with a hiatus of only 2 weeks. In fact, under IBIF, FCW was one of the very few ECD organizations in South Africa able to continue delivering early learning services during the lockdown.

One of FCW's managers described their solution:

> ***"So for Delft and Atlantis, the fact that we had an initial basis from which to operate, we could overnight, from the middle of March to the 1st of April, effectively introduce an e-learning system where messaging would go out and caregivers, through WhatsApp and SMS could actually respond to the reporting that was needed. So, whilst everything else was shutting down, our programme has continued to operate and we remained in contact with all the participating caregivers and families, except for the few that didn't have phones or handsets."***

Throughout 2020, the IBIF investors and outcomes payers proved willing to adapt the programme requirements as long as the fundamental measures remained unchanged. During the lockdown period, the IBIF team rapidly shifted how attendance was measured in particular. Rather than one in-person home visit per week, the team shifted the definition of attendance to a) weekly early learning messages via WhatsApp with content that covered what they would normally cover in-person; and b) weekly phone calls lasting at least 5 minutes to discuss the activity and progress and to help solve any other issues the family was facing.

In addition to these touchpoints, WhatsApp groups were formed for caregivers to share progress, ask questions, and connect. This was a very successful engagement strategy (and very popular) that FCW plans to continue with the families it serves even after they have resumed in-person visits.

Based on this flexibility, the IBIF programme was able to continue throughout the year and the team prepared to finalise the three-year contract at the end of the year. Final outcomes reporting was delivered in October 2020 with the final analysis conducted in November. These final outcomes are outlined in Appendix 7.

Investment returns

By December 2020, investors had received three payments. The annualised return for the bond was 14%, with the shortfall due to the non-achievement of the ELOM target. Given the full repayment tranche in Year 3, the total repayment by the outcomes payers was R18.7M (US$1.24M) by the end of the programme.

Exploring IBIF 2.0

As the third year of the bond came to a close, the stakeholders recognised the need to pause and reflect. The seven-year journey was extensive, and the learnings were significant. But, as the use of SIBs continued to proliferate throughout the world, each of the stakeholders felt a responsibility to share their learnings more widely. In order to fulfill this responsibility, the IBIF team convened a virtual learning meeting in December 2020, for an invited audience of local and global stakeholders, partners, leading industry players, and funders.

In order to decide if they would move forward with a second round of the bond (dubbed "IBIF 2.0"), the team members needed to determine if their objectives had been met, and if not, what sort of changes might need to be made.

APPENDICES

APPENDIX 1: Early childhood development in South Africa

ECD is a key priority area for the South African government. Early childhood (conception to five years of age) is the single most critical period of growth and development for children, and by the time a child is five years old, almost 90% of their brain is developed. The care and support that children receive during this period is very likely to impact his or her future into adulthood.[1] Providing high quality ECD services to the entire country – not just the privileged few – is critical to ensuring prosperity for all South Africans.

In South Africa, just over a million children are born each year. As of 2017, there were close to 7 million children under the age of six in the country.[2] Households in South Africa are divided into five economic quintiles, with quintile 1 being the poorest 20% of households and quintile 5 consisting of the least poor 20%. Two-thirds of children in South Africa live in the lowest two quintiles, representing 4.7 million children under the age of six.[3]

The South African government defines ECD as a "comprehensive approach to programmes and policies for children…with the active participation of their parents and caregivers." ECD is comprised of five components:

- **Primary level maternal and child health services:** The gateway to early childhood health is antenatal care (ANC, also known as pre-natal care in some countries). While access to ANC has steadily increased, nearly half of all first visits occur in the second half of pregnancy, providing a narrower window for physical and mental health screening. After birth, immunisation coverage is another important element of early childhood health. In this area, South Africa has improved, raising immunisation rates to 79% in 2015.

- **Nutritional support:** In South Africa, almost a third of young children fall below the food poverty line and over a fifth of all children under the age of five suffer from 'stunting,' the most significant form of malnutrition. Nutrition starts during pregnancy, when poor nutrition can lead to maternal ill-health and low birth weight. Children also benefit from exclusive breastfeeding. Finally, while child hunger has decreased in the last decade, children can be well-fed but still under-nourished.
- **Support for primary caregivers:** While many young children in South Africa live with a biological parent, relatives and other caregivers also play a substantial role in child-rearing. Supporting caregivers starts with access to ANC and post-natal care (PNC), and extends to parenting support services. Coverage for PNC has increased substantially, from 5% receiving six-day follow-ups in 2009 to 71% in 2017. Unfortunately there is little data to understand how parenting support services are being delivered, which provide knowledge, capacity and practices for the development of young children.

- **Social services and income support:** Social grants are an important way of redistributing resources in South Africa. They are considered to be one of the most positive, wide-reaching programmes that the South African government provides, assisting more than 17.5 million citizens in 2018. Children under 18 years old receive the Child Support Grant (CSG), which supports more than 12 million children in the country. Other important social services for children include birth registration and child protection services.

- **Stimulation for early learning:** Children who receive mental stimulation – activities that develop cognitive, social and emotional skills – in the early years are better able to benefit from formal education when they enter school. Programmes to stimulate early learning include home visiting programmes, community playgroups and centre-based programmes such as pre-schools and daycare. In South Africa, nearly 1.1 million children do not attend any type of early-learning programme, and these children are most likely to live in the poorest households.

1. Stats SA. (2018) Investing in early childhood development is the future. Retrieved from http://www.statssa.gov.za/?p=10950.
2. Unless otherwise specified, statistics in this section are from Ilifa Labantwana. (2019). South African Early Childhood Review 2019. Retrieved from https://ilifalabantwana.co.za/sa-early-childhood-review-2019/.
3. Shung-King M, Lake L, Sanders D & Hendricks M (eds) (2019) South African Child Gauge 2019. Cape Town: Children's Institute, University of Cape Town.
4. South African Government. (n.d.) *What is early childhood development?* Retrieved from https://www.gov.za/about-sa/what-early-childhood-development.

APPENDIX 2: ECD policies, financing & service delivery

The South African government has made significant strides in developing a strong policy framework for ECD provision. According to the Constitution and the Children's Act 38 of 2005, the government has an obligation to provide ECD as part of children's rights to survival, health, protection and development. In 2010, this Act was amended to explicitly make provision for ECD, and, in 2015, the government approved a comprehensive national policy for ECD, the National Integrated Early Childhood Development Policy.

These policies confirm the South African government's commitment to ECD as a public good, ensuring access to an essential package of services for children from conception to school going age. It also reflects a transition from a 'subsidy' approach to an 'interventionist' approach, with the government assuming greater responsibility in ensuring that children are not just receiving services but also benefiting from them.

A Western Cape Department of Social Development (DSD) policy developer described this significant shift: "For a very long time, since up to 2010, we were not that much involved as interventionists. We were more into providing subsidies to ECD facilities and issuing certificates. After 2010, DSD [was] mandated to come up with stimulating programs. Ultimately, we [began] to make sure that those children that are falling within the cracks – those children that are not at the centre – how do you make sure that they are being stimulated the same as those at the centre?"

As with many well-designed policies, however, there are significant challenges to ensuring quality implementation. These challenges are largely around (1) coordination, (2) funding and (3) delivery of ECD services.

- **Coordination:** ECD services are multi-sectoral in nature. With no central agency responsible for the entire ECD 'package', it falls to many departments to deliver on the essential components of ECD. The departments included are the Department of Health (DOH), the Department of Social Development (DSD), and the Department of Basic Education (DBE). Each of these departments operates with different mandates, procedures and even cultures. These departments also have separate hierarchies at the national, provincial and municipal levels, with each level responsible for different aspects of ECD service provision.

- **Service Delivery:** ECD services are delivered by many different providers, both public and private. Generally, maternal and child primary health services are delivered in public facilities and augmented by community health workers with links to clinics and NGOs. Nutritional support, parenting support and social support services are often delivered by the non-profit sector and supported by the government. Early learning programmes, on the other hand, are largely private, run by community-based entrepreneurs who care for children in their homes. ECD practitioner training and support for managers of ECD centres are largely delivered through non-profit organizations. However, the quality of ECD services varies widely, depending on the quality of local governments and, often, proximity to urban centres.

- **Funding:** In 2018, public spending on ECD services was approximately R75 billion.[1] Of this amount, two-thirds is spent on primary healthcare and a quarter is spent on social grants. Only 6.5% (R4.9 billion) is spent on the remaining essential services, including nutrition support, caregiver support and early learning stimulation. Pregnant mothers and caregivers with infants and young children generally access the public healthcare system, funded through tax revenue. Non-profit organisations supplement these services with funding from the government, aid agencies and donors. Centre-based early learning programmes, such as creches, playgroups and daycares, are funded primarily by private payments from parents and caregivers, with extra support from government subsidies and donor funding.

Due to these challenges, ECD services are least likely to be accessed by families living in the lowest socio-economic areas. For policymakers and practitioners, these challenges are absolutely critical to overcome. As a Western Cape DOH representative described, "As a provincial government, we feel that [ECD] was a critical, critical intervention if we want to ensure the future of the people of our province."

1. DGMT (2018). *A plan to achieve universal coverage of Early Childhood Development services by 2030*. Retrieved from https://dgmt.co.za/wp-content/uploads/2018/08/ECD-Vision-2018-digital.pdf

APPENDIX 3: Design and development funding for the IBIF

Funder	Amount	Date Disbursed
Innovation Edge – Tranche 1	R 500 000	13 March 2015
Innovation Edge – Tranche 2	R 250 000	01 July 2016
Innovation Edge – Tranche 3	R 200 000	09 September 2016
Innovation Edge – Structuring Legal Fees A	R 35 000	10 June 2017
Innovation Edge – Structuring Legal Fees B	R 147 645	07 December 2017
The Lego Foundation – Tranche 1	R 1 000 950	19 June 2015
The Lego Foundation – Tranche 2	R 798 645	18 September 2015
The Lego Foundation – Tranche 3	R 199 955	21 July 2016
The Discovery Fund Trust	R 750 000	not available

Note: The Government of Flanders provided non-specific funding to the Bertha Centre's ecosystem building activities that cannot be directly attributed to the IBIF.

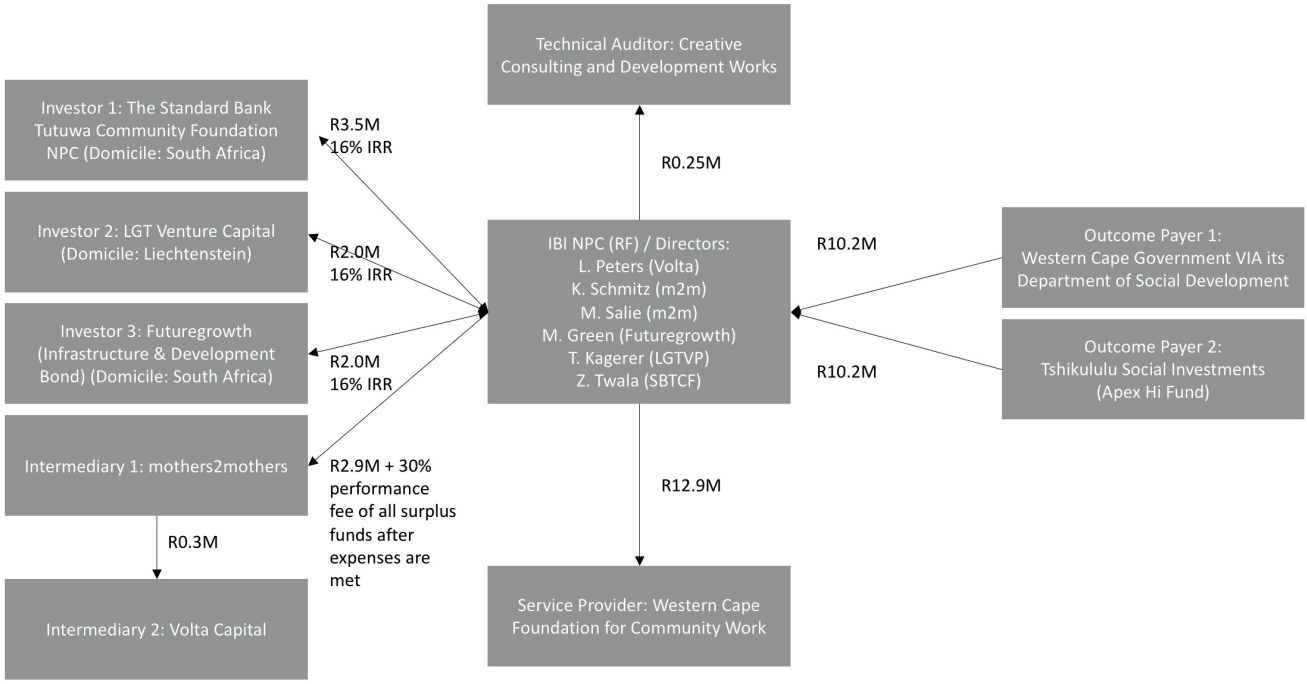
APPENDIX 4: Outcomes measurements (September 2015)

ECD Component	Proposed Metric
Maternal outcomes	Reduction in maternal depression
	Reduction in maternal alcohol consumption
	Parenting support
Nutrition outcomes	Birth weight < 2500 grams
	Weight for age
	Height/length for age
	Weight for height
	Exclusive breastfeeding
	Reduction in severe acute malnutrition
Health outcomes	Antenatal visit
	Immunisation
	Vitamin A
	Birth registration
	Child support grant
	Conversion rate of referrals
Development outcomes	Infant attachment
	Normal cognitive, language and motor skills

APPENDIX 5: Final list of outcomes and targets (April 2017)

Bond	Age Group	Metric	Target
DOH Bond	Mother-Child Unit	Service fee (enrolment)	1000 mother-baby pairs
		ANC I-V	First visit within 14 weeks Testing for HIV/AIDS, TB and syphilis Commencement of treatment, if necessary Mental health screening Infant feeding counseling at facility
		PMTCT I	Prevention of HIV transmission from mother-to-child measured at 6 weeks
		Maternal alcohol consumption	Identification of at-risk women and referral to state programme
		Birthweight	Birthweight >2500 grams at time of birth
	Age 0 – 1	Service fee (enrolment)	1000 children aged 0-1
		Exclusive breastfeeding	Exclusive breastfeeding from birth until 3 months of age
		Weight for age	Normal children remain within 1 standard deviation of WHO median , maintain weight
		Immunisation I	Received 6 Immunisations including OPV and BCG at birth
		PMTCT II	Reduction in transmission of HIV from mother-to-child measured at 9 months
		TB referral I – Test & Routine M&E	Exposed children Identified and tested and adherence to prophylaxis or treatment demonstrated
	Age 1-2	Service fee (enrolment)	1000 children aged 1-2
		Height for age	Normal children within 2 standard deviations of WHO median, maintain height
		PMTCT III	Reduction in transmission of HIV from mother-to-child measured at 18 months or 6 weeks post breastfeeding
		Immunisation II	Received all vaccinations prescribed by 18 months
		TB Referral II – Test & Routine M&E	Exposed children Identified and tested and adherence to prophylaxis or treatment demonstrated
		Parenting	Assessed to check affectionate behaviour and early stimulation
DSD Bond	Age 3-5	Service fee (recruitment + retention)	1000 children per year aged 3-5
		Attendance	Attendance at a minimum of 50% of visits
		Normal cognitive, language and motor skills	Score of 0.2 standard deviations above the Quintile 2 baseline as measured by the Early Learning Outcomes Measurement (ELOM) tool

APPENDIX 6: The impact bond innovation fund structure



*The repayment amounts represented here reflect the maximum achievement amounts related to targets, not the actual payment amounts

APPENDIX 7: Impact bond outcomes

	Target	Year 1 Results	Year 2 Results	Year 3 Results	Key Context
Recruitment & Retention: # of beneficiaries in programme	1000 children retained per year	1424	1224	1321	• FCW has **exceeded recruitment and retention targets** in all three performance years of IBIF.
Attendance: # of beneficiaries attending >50% of programme	1000 children achieve >50% of programme each year	981	1153	1027	• In Y1 there was a slight underperformance in attendance. FCW was able to catch-up on this target in Y2 and therefore **has met the attendance target in all 3 performance years.**
Development Assessment: achievement of target Early Learning Outcome Measure (ELOM) score for annual cohort	0.2 standard deviations above mean score for benchmark group	Below mean score	Below mean, but improved score from 2019	n/a	• The development target was not achieved. This is partly due to this being the first time the ELOM was used in a home visiting programme, making it very difficult to set accurate targets. • However, using year 1 results as the benchmark, there was a **statistically significant improvement in ELOM scores from 2018 to 2019**, reflecting the many programmatic improvements FCW made informed by the ELOM results in Y1.

NORRAG Case Study, December 2021

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