

DESIGN GRANT CASE STUDY

CONDUCTING A FEASIBILITY STUDY FOR A REFUGEE-FOCUSED DEVELOPMENT IMPACT BOND

SEPTEMBER 2017

EXECUTIVE SUMMARY

The Syrian civil war is a major driver of the current refugee crisis—the worst since World War II. With Syrians accounting for 20% of the ~60M displaced people globally, neighboring countries—including Turkey, Lebanon, Iraq, Jordan—face intense migratory pressure and tremendous difficulties offering refugees a decent living. To shift to longer-term and sustainable outcomes for refugees affected by the Syrian crisis, KOIS Invest (KOIS) intends to launch a multi-country development impact bond (DIB) to improve the welfare of Syrian refugees and vulnerable populations in neighboring host countries.

DIBs provide upfront funding for development programs by investors, who are remunerated by donors or host-country governments—and earn a return—if evidence shows that programs achieve pre-agreed social outcomes. In April 2017, KOIS completed a seven month feasibility study to explore the design of a multi-country DIB focusing on livelihood and job integration programs for Syrian refugees and vulnerable populations in several countries in the Middle East. Through the feasibility study, KOIS confirmed the suitability of select host countries, service providers and interventions, and successfully attracted interested potential investors and outcome funders.

As a result of the positive findings, KOIS will proceed to the structuring stage with a planned launch in early 2018. The feasibility study presents several insights for other practitioners conducting feasibility studies for DIBs, including:

- A phased approach provides a clear structural roadmap, while retaining flexibility for later stages.
- Smaller service providers typically demonstrate higher willingness to absorb the costs and risks associated with a DIB.
- Tailoring communication by stakeholder types can help improve engagement strategies.
- A flexible initial DIB design allows stakeholders to be actively involved in the subsequent structuring phase.

PROPOSED VEHICLE

Project lead	KOIS Invest
Objective	To provide skills training, job placement, and entrepreneurship support to Syrian jobseekers and entrepreneurs as well as vulnerable local populations
Project status	<ul style="list-style-type: none"> • Pre-feasibility: Completed September 2016 • Feasibility: Completed April 2017 • Structuring: In progress as of September 2017 • Project Launch: Target mid 2018
Structure	Multiple DIBs housed under a single umbrella fund/special purpose vehicle
Outcome funders	To be determined; likely corporate/private foundations and/or aid agencies
Service providers	2-6 organizations providing skills training and entrepreneurship support to Syrian refugees and vulnerable populations
Investors	To be determined; likely private foundations
Investment size	USD 10-30M
Term	2-3 years
Geography	Jordan, Turkey, and Lebanon
Example impact metrics	<ul style="list-style-type: none"> • Employment: number of individuals placed, income growth • Entrepreneurship: number of businesses started and sustained, growth in revenue / net income

INTRODUCTION

The Syrian civil war is a major driver of the current refugee crisis—the worst since World War II. With Syrians accounting for 20% of the ~60M displaced people globally, neighboring countries—including Turkey, Lebanon, Iraq, Jordan—face intense migratory pressure and tremendous difficulties offering refugees a decent living. Participation in the local labour market is one of the most significant factors driving the long-term integration of refugees in host countries. However, refugees face significant barriers, real and social, to finding decent work to support their livelihoods. Efforts to improve employment opportunities, and the livelihoods of refugees more broadly, weigh heavily on the governments of host countries.

The international community is playing a significant role in supporting the refugee crisis. Unfortunately, efforts to support livelihood activities continue to face a significant funding gap. There is a particular need for long-term, results-oriented funding that can contribute to the identification of successful intervention models. According the Regional, Refugee & Resilience Plan 2017-2018 (3RP) launched in response to the Syrian refugee crisis, there is an estimated funding need of ~USD 460M for livelihood and job intervention programs for Syrian refugees alone. Current funding to such programs is only USD 30M.

To shift from traditional, short-term donor assistance to long-term financing for the Syrian crisis, KOIS Invest (KOIS) intends to launch a multi-country development impact bond (DIB) to improve the welfare of Syrian refugees and vulnerable populations in neighboring host countries. KOIS is an international impact investing firm offering asset management and innovative finance services. DIBs have the potential to provide multi-year, upfront funding to programs while shifting focus from inputs and processes towards results delivery. DIBs provide upfront funding for development programs by investors, who are remunerated by donors or host-country governments—and earn a return—if evidence shows that programs achieve pre-agreed social outcomes.

In 2016, Convergence awarded KOIS a design grant to explore the feasibility of a Syrian refugee-focused DIB. Convergence offers feasibility study and proof of concept grant funding for practitioners to design catalytic blended finance vehicles that aim to attract private capital to global development at scale. Convergence has partnered with the Bertha Centre for Social Innovation and Entrepreneurship at the University of Cape Town's Graduate School of Business to share learnings from grantees' design activities.

The feasibility study process employed by KOIS provides a useful framework for practitioners who are thinking about exploring impact bonds, by using an iterative approach to identify appropriate interventions and stakeholders in complex operating contexts. The successful feasibility study has resulted in a follow-up grant from Convergence to structure the DIB.

FEASIBILITY STUDY APPROACH

KOIS employed a multi-phase, iterative approach to achieve the following outcomes: i) identify suitable host countries and interventions, ii) complete preliminary due diligence of service providers, iii) engage potential outcome funders, and iv) establish an initial design for the DIB. As many service providers in the space have just recently transitioned to longer-term solutions, there is a need to build capacity in order to be ready for a DIB. Instead of taking a rigid approach to service provider selection, KOIS prioritized the highest potential service providers first, while also providing high-level advisory support to other service providers to become DIB-ready. These service providers could be considered at a later stage.

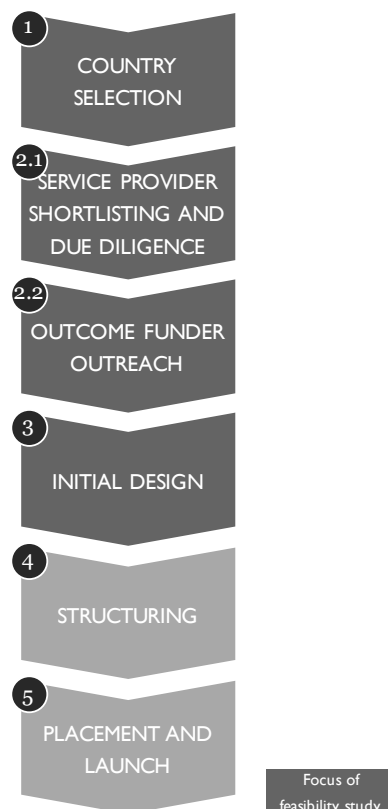


Figure 1: Key phases of feasibility study

The design process commenced in September 2016 and KOIS finalized a design concept and the feasibility study in April 2017. The largest portion of the team's time was spent investigating the service provider landscape due to a lack of

clarity around key program dimensions, operational status, and limited track record and data availability.

STAKEHOLDER SCOPING

COUNTRY SELECTION

The first phase of the feasibility study focused on analyzing and selecting host countries for the DIB. KOIS established a set of country shortlisting criteria, taking into consideration the general operating context—such as political and economic stability—and refugee-specific conditions—such as legal environment and government engagement. The country shortlisting criteria were as follows:

- **Political and economic stability:** Political and economic stability is a minimum requirement for a host country. Political stability impacts attitudes towards refugees and support from government, but most importantly, the ability to sustain a multi-year program. Economic stability is critical for an employment-focused intervention.
- **Record of development programs:** KOIS looked for countries where there was existing activity from service providers and other development actors. Existing development activities enabled KOIS to more easily identify service providers and outcome funders.
- **Political and public attitudes:** The ideal host country has government and public buy-in for refugee integration and employment. From a legal perspective, government outlook is critical for work permits, as well as access to healthcare and other social services. Social acceptance can put pressure on government and service providers to increase the life standards of refugees.
- **Employment landscape:** The highest potential host countries will have an optimistic outlook for employment opportunities, both for domestic populations and refugees. This may also include countries where entrepreneurship is supported through legislation and availability of financing.

The KOIS team screened seven Middle Eastern countries and, based on the above criteria, selected Jordan, Turkey, and Lebanon as high potential host countries.

SERVICE PROVIDER SHORTLISTING AND DUE DILIGENCE

The second phase of the feasibility study was shortlisting service providers and completing due diligence. KOIS identified over 30 service providers—including large and small, both non-profit and for-profit organizations—delivering a broad spectrum of livelihood interventions in the three selected focus countries. Shortlisting occurred in two steps: pre-screening and then due diligence.

For the service providers that were conducting relevant interventions for the DIB and targeting Syrian refugees, KOIS completed pre-screening with a combination of questionnaire and one to two interviews per service provider. High level strategic fit, DIB suitability, and organizational capacity were assessed based on the information gathered. While microfinance institutions were also considered, these organizations were de-prioritized due to poor fit with the DIB model in this context.

Most organizations were not shortlisted for the due diligence phase, primarily because of a lack of track record and M&E capacity, while others proved to be potentially more suitable candidates in future iterations of the DIB.

Eight organizations passed pre-screening, demonstrating sufficient fit with the DIB model. These organizations proceeded to due diligence, where KOIS provided additional information about the DIB project and next steps. Due diligence consisted of regular, weekly engagement between KOIS and each service provider, which totaled one to two days over the course of two months, in addition to data collection and a field visit. The team generally found this time sufficient to obtain an understanding of adequate depth for each service provider.

Resource limitations meant that KOIS was unable to provide direct capacity building support, but the team provided detailed and constructive feedback to all the organizations who were engaged in the shortlisting process.

During due diligence, service providers were assessed across three main criteria: i) strategic fit, ii) DIB suitability, and iii) organizational capacity. Key considerations under strategic fit included:

- **Motivation / appetite:** Does the organization exhibit sufficient interest/commitment to a potential DIB engagement? Is there sufficient internal buy-in?
- **Target population:** Do Syrian refugees comprise a significant share of the intervention's target population? Are they explicitly targeted? Previous experience with

the target population is an important consideration to ensure the service provider has the know-how and experience to work with the target population, reducing implementation risk.

- **Service provider specific risks:** Are there significant external risks (unique to that organization or intervention)? What would be their impact on program outcomes? What is the likelihood of these risks happening?

Key considerations under DIB suitability included:

- **Strength of the intervention model:** Is the intervention based on a well-researched, clearly articulated theory of change?
- **M&E Capability:** Does the organization use metrics that are SMART (specific, measurable, attributable, realistic, and time-bound)? Does it employ sophisticated methods of collecting and verifying data? Has it undergone rigorous external evaluation?
- **Track record:** Does the organization have a sufficient track record in delivering the proposed intervention to the target group?
- **Performance management:** Is the organization outcome-oriented? Is there evidence that data is used to inform decision-making? Does the organization have appropriate mechanisms in place for managing the performance of program staff and/or its implementing partners?

Key considerations under organizational capacity included:

- **Strength of the local management team:** Is there a strong local management team in place with the relevant experience to manage risks and deliver outcomes at scale?
- **Capacity for scale:** Does the organization show sufficient capacity to handle the challenges associated with growth, including ability to absorb capital?
- **Funding sustainability:** Does the organization have a sustainable funding base (e.g., funding coming from diverse sources vs. highly concentrated)?

Most organizations were interested in exploring the DIB structure. The relatively enthusiastic responses appeared to be rooted in a general interest in results-based funding, performance culture enhancements, the opportunity to utilize the engagement to reflect on their interventions, and

develop strategies to access similar funding opportunities. Given these motivations, showcasing clear value-add in these terms will be a compelling incentive for an organization's potential participation in a DIB – even if only a subset of organizations engaged will ultimately pursue the DIB opportunity.

Smaller organizations demonstrated higher willingness to absorb the costs/risks associated with the DIB, whereas larger, more established organizations proceeded more cautiously, though they also saw the benefits and expressed willingness to participate. Larger organizations often needed to revert to their headquarters to obtain the necessary senior management buy-in to engage with the KOIS team. Further, organizations often needed to complete memoranda of understanding (MOUs) in advance of engagement, prolonging the process.

KOIS developed four general service provider typologies, differentiated by levels of organizational flexibility, business model, and scale potential: i) innovators, ii) flexibles, iii) traditional NGOs, and iv) for-profit providers. KOIS used the typology to segment the potential service providers and identify the key risks and mitigants associated with each type. For example, the pre-eminence of *innovators* means that flexibility is likely to be a less pressing design concern than scalability, whereas the opposite applies with *traditional* NGOs.

Despite demonstrating strong appetite to engage in a DIB, most organizations required a fair amount of engagement from the KOIS team to understand the DIB opportunity. Initial service provider understanding and quality of engagement could have been improved by providing informational material tailored to the individual service provider based on the typology detailed above.

In the end, three potential service providers were shortlisted for the high-level design, but one organization opted out for several reasons: i) legal—their legal team wanted to be clear on pending structural arrangements early in the process, ii) uncertainty around the total funding amount they would receive from the DIB versus the time investment required, iii) and high perceived reputational risk, arising from lack of track record of DIBs. Outside of the three shortlisted service providers, four other service providers demonstrated strong fit with the DIB, but had limited evidence or specific improvement areas (e.g., M&E). These organizations were kept in the pipeline and KOIS aims to provide support for their DIB readiness and potential inclusion in the DIB at a later stage.

OUTCOME FUNDER OUTREACH

KOIS’ pre-feasibility work had already identified good leads for outcome funding. The team furthered these conversations as the feasibility study progressed, with a goal of securing funder pre-commitments prior to proceeding to the structuring phase.

KOIS continued to engage with prospective outcome funders throughout the feasibility study with a focus on transparency and keeping them apprised of direction and progress. This allowed potential outcome funders to better assess strategic alignment and possible funding commitments. Ensuring outcome funders are engaged with adequate lead time is critical to building buy-in—a prerequisite for any subsequent funding commitment.

DESIGN AND STRUCTURE

INITIAL DESIGN

Progress through the successive phases of the design process allowed KOIS to identify an initial design concept prior to structuring. The concept is based on employment and entrepreneurship interventions and two shortlisted service providers that possess or have significant potential to demonstrate DIB suitability.

The DIB is anticipated to have a two to three year duration, allowing organizations to benefit from multi-year funding and ensuring sufficient time to realize target outcomes. KOIS has utilized its understanding of the development challenge and engagement with funders to set the initial financial terms,

however, these terms will be further refined and finalized during the structuring phase.

Outcome metrics and measurement will be a key consideration during the structuring phase. The selected service providers do not currently monitor clearly defined outcome metrics and given limited data availability and complex operating contexts, most service providers rely on self-reported data. Further, none of the shortlisted interventions have undergone rigorous impact evaluation. Given this context, rate cards (which define the maximum payment for each type of outcome), potentially combined with past performance, are considered most feasible to implement with service providers, although a quasi-experimental approach may also be possible. Rate cards are considered the highest potential because of the ease of implementation as a comparison group is not needed.

NEXT STEPS

KOIS aims to launch the DIB by mid-2018. Key design activities currently underway include: i) structuring - financial, operational, governance, and legal, ii) stakeholder engagement, iii) fundraising with outcome funders, iv) investor roadshow, and v) continued pipeline development of potential service providers.

SUMMARY INSIGHTS FOR PRACTITIONERS

QUERY	KEY INSIGHT	BASIS FOR INSIGHT
Should I consider a broad range of vehicles besides DIBs to produce a strong feasibility study?	Pre-determining the vehicle type can help make the feasibility process more manageable.	KOIS was able to better identify prospective service providers and outcome funders based on organizations who demonstrated strong interest in and fit with DIBs. While KOIS did not rule out other potential vehicle types entirely and continued to assess comparable vehicles throughout the feasibility study (to help organizations navigate the space and problem-solve), they did not pursue these other options in detail. However, this approach requires the organization to know and be explicit about the types of problems a DIB is well-suited to solve and the types of problems that are best solved by other types of vehicles.
Which key stakeholders should I focus on for the feasibility study?	Key factors such as limited service provider clarity and track record can help determine which stakeholders (e.g., service	The largest portion of KOIS’ time was spent investigating the service provider landscape due to a lack of clarity around service provider intervention dimensions, track record, and data availability.

QUERY	KEY INSIGHT	BASIS FOR INSIGHT
	providers, outcome funders, investors) to prioritize.	
How can I maximize the effectiveness of my stakeholder engagement strategy?	<p>Developing typological frameworks of key stakeholders can help improve engagement strategies.</p> <p>Smaller organizations demonstrated higher willingness to absorb the costs/risks associated with the DIB.</p>	<p>Despite demonstrating strong initial appetite, most organizations required a fair amount of engagement from KOIS to understand the DIB opportunity. The quality of engagement could have been improved by providing informational material tailored more specifically to the organization type. Understanding the key motivations and constraints of different stakeholder types can expedite early conversations.</p> <p>Larger organizations often needed to revert to headquarters to obtain the necessary buy-in from senior management to engage with KOIS. Additionally, larger organizations often needed to complete MOUs in advance of engagement—prolonging the process. To avoid similar delays, both MOU templates should be drafted and key senior contacts should be identified early in the process.</p>
What are the benefits of using a multi-phased approach for a feasibility study?	A phased approach to a feasibility study provides a clear and streamlined roadmap, while retaining flexibility.	Due to the complexities of host country selection (political risk and economic instability), lack of clarity around which service providers did what, and limited track record and data availability in target markets, KOIS initiated the feasibility study at the macro level. To maximize flexibility, KOIS prioritized—rather than cut—potential countries and service providers that were not initially selected. These countries / service providers may be considered in later stages.
When should funders be engaged?	Funders should be engaged as early as pre-feasibility work and should be kept up to date throughout the process.	For KOIS, this was particularly true for initial conversations with potential outcome funders during the pre-feasibility stage. The KOIS team then furthered conversations with prospects as the feasibility study progressed, with a goal of securing funder pre-commitments prior to proceeding to the structuring phase. KOIS focused on transparency and consistently kept potential outcome funders and investors apprised of direction and progress, allowing them to better assess strategic alignment and possible funding commitments.
How flexible should my initial DIB design be?	A flexible initial DIB design allows for potential service providers and outcome funders to be actively involved or shape the subsequent structuring phase.	KOIS’ feasibility study has largely served to identify priority service providers that the team will work with to structure the DIB. However, outcome funder buy-in and priorities should also be considered early on if possible, to mitigate potential conflicts between service providers and outcome funders with diverging priorities in the structuring and placement/launch phases.
How do I build a pipeline of DIB-ready service provider organizations?	Prioritization of high potential organizations, while building capacity for others can ensure a suitable pipeline.	KOIS realized that capacity is an issue across the entire humanitarian assistance sector. Many organizations are just transitioning to longer-term solutions and therefore need to build capacity to be ready for a DIB. Instead of taking a rigid approach, KOIS decided to prioritize the highest potential organizations first during the shortlisting stage, but support others to become DIB-ready, so that a future pipeline of DIB-ready organizations can be built in for potential future rounds.

QUERY	KEY INSIGHT	BASIS FOR INSIGHT
<p>How much time do I need to spend conducting deep dives with service providers?</p>	<p>Approximately one questionnaire per intervention and one to two calls per organization can be considered sufficient for pre-screening while higher intensity engagement is required for the due diligence phase (one to two days of focused conversations around key themes).</p>	<p>For the organizations that were conducting relevant interventions for the DIB and targeting Syrian refugees, KOIS completed pre-screening with a combination of a questionnaire per intervention and one to two calls per organization. Based on the information gathered, high-level strategic fit, DIB suitability and organizational capacity were assessed. Following pre-screening, due diligence consisted of regular weekly engagement between KOIS and each service provider, which totaled one to two days over the course of two months, in addition to data collection and a field visit.</p>

ABOUT CONVERGENCE

Convergence is an institution that connects, educates, and supports investors to execute blended finance transactions that increase private sector investment in emerging markets.

INVESTMENT NETWORK: An online platform where investors can connect with deals in emerging and frontier markets

MARKET BUILDING TOOLS: Knowledge resources to help investors improve their blended finance understanding and capabilities

DESIGN FUNDING: Grant funding for practitioners to design innovative financial instruments that would otherwise be too risky or complex to pursue
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