POLICY BRIEF Issue 03/25

Learning from Impact Bond Pilots in Humanitarian and Displacement Contexts: Insights for Future Financing

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Brief Summary

Although humanitarian needs are at record levels, public funding for humanitarian action is shrinking, with major donor governments cutting aid budgets and deepening an already vast funding gap. In this context, traditional funding models – predominantly short-cycle grants from a small pool of Western donors – are increasingly seen as inadequate, not only in scale but also in quality. As a result, humanitarian actors are turning to innovative financing mechanisms in an effort to unlock both additional resources and more flexible, multi-year funding.

One such mechanism is impact bonds, in which private investors provide upfront capital to implementing organisations, with repayment by outcome funders contingent on the achievement of predefined results. This policy brief draws on a comparative case study of two pioneering applications of impact bonds in humanitarian and refugee response. The study found that while impact bonds can support adaptive management, operational flexibility, and longer programme timelines, they do not generate new funding when outcome funders are established humanitarian donors, serving more as a *financing* tool than a *funding* solution. Additionally, they do not necessarily deliver superior outcomes compared to conventional models, despite their complex structures and significant costs.

Based on these findings, the brief recommends that humanitarian agencies, donors, and intermediaries adopt financing instruments suited to the specific challenges identified. The brief also recommends exploring simpler alternatives such as payment-by-results (PbR) mechanisms or flexible multi-year grants first, while limiting impact bonds to high-risk, innovative interventions where investor involvement is likely to add value. In outcome-based funding models, humanitarian actors are encouraged to use outcome metrics not merely as financial triggers but as meaningful measures of programme impact on affected populations.

Background

Amid record levels of forced displacement and escalating humanitarian needs, public funding for humanitarian assistance is shrinking, as major donor governments cut their aid budgets in 2025. This downturn comes at a time when the gap between humanitarian needs and available resources has never been greater. In 2023, less than half of the total appeal coordinated by the United Nations (UN) was funded, leaving a US$30 billion shortfall – the largest on record (OCHA, 2025). The combination of protracted conflicts, climate-related disasters, and food insecurity has created a situation in which traditional funding models, dominated by short-cycle grants from a small number of donor governments, are increasingly inadequate to meet the scale and complexity of today's crises. In response, the humanitarian sector is exploring innovative financing mechanisms, endorsed through initiatives such as the Grand Bargain, as a potential means of bridging the funding gap.

Among these mechanisms, impact bonds have attracted particular attention. Impact bonds are a type of outcome-based financing in which investors provide upfront capital to implementing organisations, with outcome funders – often governments or philanthropic foundations – repaying the investors with annual interest contingent on the achievement of predefined outcomes. Unlike conventional grants, which disburse funds based on planned activities, impact bonds shift the focus to results, with the intention of incentivising performance and transferring financial risk to investors. The model brings together three main actors: investors, outcome funders, and implementing organisations, supported by intermediaries, evaluators, and legal advisors as needed.

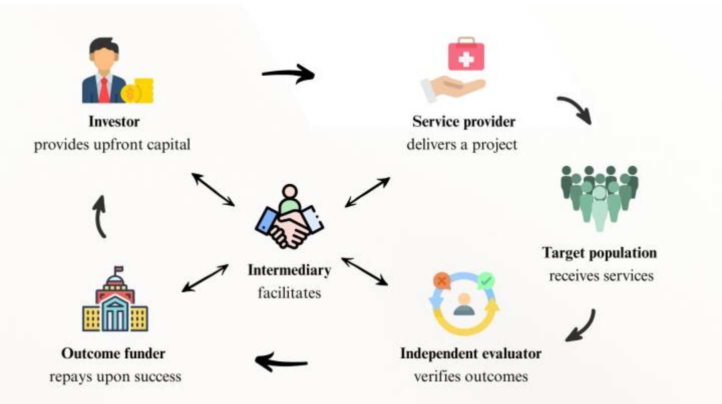

Figure 1: How impact bonds work (Source: Author)

The UN High-Level Panel on Humanitarian Financing recommended impact bonds as a promising tool to mobilise new resources, attract private capital, and foster a stronger results-based culture (High-Level Panel on Humanitarian Financing, 2016). Since then, two pilots have tested this approach in humanitarian and displacement contexts: the International Committee of the Red Cross's (ICRC) Humanitarian Impact Bond (HIB), launched in 2017 to finance physical rehabilitation services for people with mobility impairments in Nigeria, Mali, and the Democratic Republic of the Congo, and the Near East Foundation's (NEF) Refugee Impact Bond (RIB), launched in 2021 to support Syrian refugees and vulnerable host communities in Jordan through micro-enterprise creation. This brief is based on a comparative study of these two cases, drawing on 30 interviews with actors involved in the cases, other humanitarian actors that have explored impact bonds, and experts, alongside an analysis of 50 documents, including evaluation reports, press releases, and media coverage.

Impact bonds did not generate new funding

The study found that, although impact bonds were framed as a mechanism to bring new and diversified resources into the humanitarian sector, the pilots did not generate additional funding. Investors provided liquidity upfront, which traditional humanitarian donors later reimbursed. Therefore, impact bonds served more as a *financing* tool than a *funding* solution, changing the flow of money that would likely have been allocated for similar purposes rather than increasing the overall volume of resources. Moreover, the complexity of the impact bond mechanism led to substantial additional costs – ranging from investor returns in one case to legal, financial, and intermediary services – with design phases alone stretching over 3-5 years.

These findings indicate that financing mechanisms should be selected for their ability to address a defined problem. While interest in innovative finance has grown in response to funding constraints, not all new financing models generate additional resources. Therefore, it is important to assess a mechanism's primary value – whether to unlock additional funds, bridge liquidity gaps through frontloading, test new interventions, or enhance outcomes – and ensure that financing mechanism responds to actual needs.

Impact bonds did not deliver superior outcomes

Despite the added complexity and costs of impact bonds, the pilots did not deliver superior outcomes compared to traditional financing mechanisms. The HIB's outcome metric – staff efficiency ratio – measured the number of mobility devices delivered per physical rehabilitation professional across the three new centres (Farber and Huang, 2023). Although an average improvement of 9% was recorded, this was below the target and insufficient to trigger investor returns (Ecorys, 2022). In fact, two of the three centres demonstrated no efficiency gains, and non-HIB centres operating under the ICRC's traditional funding model achieved greater improvements under similar efficiency measures (Ecorys, 2022). Multiple external factors such as the COVID-19 pandemic and security constraints affected the HIB's implementation, which meant the new centres became fully operational only in the final year of the five-year programme (Grant *et al.*, 2022). Much of the HIB's duration was consumed by construction and preparatory work, leaving little time to implement the efficiency improvement measures. These challenges expose a degree of misalignment between the financing mechanism and programme design, as outcome-based financing models such as impact bonds are better suited to adaptive, behaviour-driven interventions rather than infrastructure projects based on linear implementation and shaped by external risks beyond implementers' control (Interviewees 10, 16, 21 & 23). Furthermore, the staff efficiency ratio did not capture vital dimensions of aid effectiveness, including patient satisfaction, service quality, and overall reach (Ecorys, 2022). The emphasis on simplicity and ease of measurability, intended to avoid ambiguity around payment triggers (Interviewee 8), narrowed the scope of assessment, offering limited insight into how the programme addressed humanitarian needs.

By contrast, the RIB employed two outcome metrics – business survival rate and household consumption rate – the latter offering a more complex measure of longer-term self-reliance and evaluated using a quasi-experimental method (Borkum *et al.*, 2022). Interim evaluations found that 97% of participants in the first two cohorts maintained active enterprises ten months after receiving business grants, significantly surpassing the target (Meyer, Borkum and Collins, 2024a). However, results on the second metric were more modest: average annual household consumption of Cohort I was 636 Jordanian Dinars (JOD) higher than the control group. This difference, representing a 0.22 standard deviation increase, was sufficient to trigger investor returns but comparable to or slightly below outcomes achieved through conventionally financed livelihood interventions in the region (Meyer, Borkum and Collins, 2024b). Therefore, while the RIB's short-term achievements are notable, the pilot has not yet demonstrated outcomes that surpass those of traditional financing models in terms of longer-term livelihood gains.

Overall, outcome-based financing is most valuable when the pathway to achieving desired outcomes is uncertain, as it allows for experimentation and iteration to identify approaches that work (Interviewees 10, 16 & 21). Once effective pathways are established, its added value diminishes and paying for actions rather than outcomes becomes more efficient. In this context, impact bonds may add value when significant performance risk exists that funders or implementers are unable or unwilling to assume, such as piloting innovative interventions with limited evidence, which would justify paying a premium to investors for the risk assumed. Otherwise, they risk consuming scarce time and resources without delivering superior or different outcomes.

Impact bonds supported operational flexibility, albeit to varying degrees

NEF experienced greater autonomy and operational flexibility in terms of their ability to adapt programme implementation and decide the necessary course of action as long as they deliver the agreed outcomes (Interviewees 5 & 6). This outcome-focused flexibility, combined with multi-year financial stability, fostered learning and iteration through a multi-cohort approach and enabled deeper, bespoke engagement with programme participants to address their individual needs (Interviewees 6 & 16). While this effect was especially pronounced for NEF, which typically operates under more rigid grant funding, the ICRC – supported by flexible annual appeals rather than tightly earmarked grants – derived more limited value from the impact bond (Interviewees 8 & 24). This observation indicates that the degree of operational flexibility offered by outcome-based financing depends on an organisation's existing funding structure; those already benefiting from flexible funding may experience only marginal gains.

However, NEF's adaptive management capabilities were enabled by the mechanism's outcome-based design, such as not having to implement activities as prescribed and spend strictly as budgeted, which are not exclusive to impact bonds. Financing the programme through simpler outcome-based financing models without the involvement of investors would arguably deliver similar benefits. However, conventional PbR schemes risk excluding smaller organisations that lack the means to pre-finance activities (Interviewees 1 & 17). This challenge could be addressed by guaranteeing most of implementers' capital, as the investors' principal was protected in the impact bond pilots, or through a hybrid model in which a portion of the funding is tied to outcomes while the rest is disbursed in advance (Interviewee 21). Such alternatives may strike a balance by incentivising performance while avoiding the high transaction costs and complexities associated with impact bonds, though further research is needed to confirm their effectiveness.

A further benefit of impact bonds was their longer duration relative to short-cycle grants, with the pilots lasting 3-5 years. Especially in the RIB, extended timelines helped improve programme quality by facilitating sustained engagement and follow-up with aid recipients, supporting staff retention and institutional learning, and enabling financial stability and planning capacity for implementers (Interviewees 6 & 16). Again, this advantage is not unique to impact bonds as flexible multi-year grants would offer similar benefits.

Recommendations

- **Financing mechanisms should be fit for purpose**: Humanitarian agencies, donors, and intermediaries must assess the primary value of an innovative financing mechanism and match the tool to the function it can realistically deliver.
- **Explore simpler outcome-based financing models**: Humanitarian agencies, donors, and intermediaries should explore simpler models first, such as PbR contracts directly between funders and implementers with some level of capital protection or hybrid performance-based grants. Such alternatives would likely deliver many of the advantages credited to impact bonds with less cost and complexity.
- **Prioritise flexible, multi-year grants:** Donors are encouraged to issue flexible multi-year grants, as opposed to rigid annual grants, given that impact bonds' key benefits were their longer duration and the operational flexibility they afforded the implementers.
- **Assess when impact bonds provide unique value**: Humanitarian agencies, donors, investors, and intermediaries should avoid using impact bonds for well-established, evidence-based interventions or linear interventions with little room for adaptation and iteration. Instead, impact bonds should be used to transfer genuine risk and empower humanitarian actors to pursue approaches not possible under traditional funding models.
- **Design metrics around meaningful outcomes:** In outcome-based financing mechanisms, including impact bonds, humanitarian agencies should design metrics that capture the extent to which interventions address humanitarian needs, rather than prioritising simplicity and ease of measurability. As metrics shape priorities, humanitarian agencies should consult affected communities as part of design processes to ensure metrics are not detached from the lived experiences of aid recipients.

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The Research

The brief presents selected findings from Laila's PhD thesis titled "Innovative Humanitarian Finance: Ethical Considerations of Using Impact Bonds to Fund Humanitarian Action." The research was made possible with the generous funding of the Economic and Social Research Council (ESRC) through the North West Social Science Doctoral Training Partnership (NWSSDTP).

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The Humanitarian and Conflict Response Institute (HCRI) is a leading global centre that is part of the University of Manchester. HCRI combines multiple disciplines from medicine to the humanities for the study of humanitarianism and conflict response, global health, international disaster management and peacebuilding.

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