A gap remains between donor funding of outcomes and ‘conventional’ impact investment

“Public sector” Outcomes Funding

- Non-profit service provider
- Minimal cash-generation / cost-recovery
- Needs to be on-budget for long-term sustainability
- Social investors* in first instance
- Most Development Impact Bonds in this space

Hybrid Model: Outcomes Fund with Impact Investment

- Social enterprise service provider: generates revenues but profitability unproven
- Two sources of return for impact investors: outcomes payments for public benefits + conventional private returns from enterprise investment

Impact Investment: For-Profit & Enterprise-Based

- Investable commercial enterprise
- But a need for public sector resource to de-risk: e.g. first loss in blended finance fund, guarantees
- And possible role of public sector resources to accelerate access/ market footprint
The ‘economics’ of these investment segments differs. In the ‘hybrid model’, public benefits justify public support for private enterprises: essentially ‘social structured finance’

- **“Public sector” Outcomes Funding**
  - Significant social returns but minimal prospects of enterprise-based private returns.
  - **Example**: neonatal mortality reduction

- **Hybrid Model: Outcome Fund + Impact Investment**
  - Enterprise activity does not maximize public benefits
  - **Examples**: pit latrine emptying, cookstoves *

- **For-Profit Impact Investment**
  - Majority of public benefits delivered by purely market-based activities
  - **Example**: offgrid solar