

# UBS Optimus Foundation: From Giving to Investing

Prepared by  
pfc Social Impact Advisors

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## Preface

### Preface: Accepting the Challenge to Solve Humanity's Toughest Problems

This case is part of a teaching series to be used in academic settings globally and by practitioners across sectors. It will be taught at the Oxford Social Finance Programme and featured in books published by Stanford University Press and Palgrave Macmillan. This series examines the strategies global leaders use to tackle the world's most complex problems. According to the World Economic Forum's annual Global Risks Insights Report, poverty and the systemic and devastating consequences of income disparity, human migration, climate change, inequality in education, and food and water scarcity are among the threats that keep world leaders across sectors awake at night.<sup>1</sup> Children are affected the most by these daunting, complex challenges. Three hundred eighty-five million children live in extreme poverty, and in 2016, 5.6 million children died before their fifth birthday.<sup>2,3</sup>

World leaders are looking to the United Nations Development Programme's Sustainable Development Goals (SDGs) for solutions. With an estimated funding shortfall of US\$2.5 trillion, the private sector is



being called upon to help fill the gap through new cross-sector partnerships. UBS, one of the world's largest wealth management businesses, has made a commitment to use creative capital to meet SDG objectives. This case study examines how UBS Optimus Foundation (also known as UBSOF, Optimus, or the Foundation) is investing in new social finance tools such as Development Impact Bonds (DIBs) and impact loans such as Social Success Notes (SSNs) to prototype solutions to scale to improve the lives of children globally. The centerpiece of the social finance portfolio is a pay-for-success model that supports outcomes and results over payment for activities.

The UBSOF approaches are examined using a Wicked Problem framework that offers leaders ways to tackle these seemingly intractable challenges. Since Wicked Problems were first described in the 1970s by social scientists Horst W. J. Rittel and Melvin Webber, much has been learned about what it takes to successfully address the world's most difficult problems.<sup>4</sup> We have gathered these lessons together under the rubric of Deliberate Leadership, an amalgam of leadership strategies used in the business and social sectors to empower leaders to deal with complexity most effectively.

Because each Wicked Problem is unique, leaders must choose their approaches carefully. Should they command and control decisions when faced with a crisis? Should they manage the problem by calling on previously successful experiences? When facing a complex challenge, should they be collaborative and adaptive leaders, adjusting their strategy based on clear-eyed understanding of what is and isn't working? How do leaders hold onto their vision while putting their preconceived notions aside, recognizing the strengths and limits of their expertise and seeking solutions where one might least expect to find them, including within communities affected by the problem and across disciplines?

Deliberate Leaders, as explored in this series, are leaders who act with intention and who recognize that they must accept not only the risk of the challenge ahead, but also the consequences of their actions. If Wicked Problems were easy, they would have been solved. When dealing with the world's most complex challenges, it is a given that things will go wrong. What's important is to learn, adapt, and move forward. This series of cases pulls together examples of Deliberate Leaders worldwide to help their peers solve the biggest challenges of our time. The goal of the case studies is not to prescribe answers, but to stimulate discussion and to ask the question—what would you do in these circumstances?

Other cases in the series include:

- Thomson Reuters Foundation's TrustLaw project, an international network of pro bono assistance from the world's largest law firms providing legal research and advice to organizations working to support and improve the life chances of the world's poor.
- The Kresge Foundation impact investing strategies to reinvest in Detroit.
- W.K. Kellogg Foundation's journey developing a mission-driven investment strategy and implementing it in alignment with their Healthy Kids program area.
- William and Flora Hewlett Foundation's and The David and Lucile Packard Foundation's billion-dollar investment in ClimateWorks Foundation, a global intermediary with a mission to mitigate climate change.
- Humanity United's creation of the Working Capital Fund to seed new technology aimed at tracking and ending slavery in the supply chain.



- Vodafone India's employee engagement program to improve the lives of poor women and children throughout India.
- Vladimir Potanin Foundation's investments to launch philanthropy in Russia and promote creative thinking through arts and higher education.

This research was supported by the UBS Optimus Foundation. The methodology included a review of background materials provided by the Foundation and acquired through desk research and 33 confidential interviews conducted with Foundation staff, leadership, and current partners. Although the interviews were confidential, interviewees agreed to have their statements attributed. Independent academic reviewers critiqued the case for adherence to academic protocols and to ensure its usefulness as a global teaching tool.

## Social Finance Primer

### Just What Is Social Finance, and Why Does It Matter?

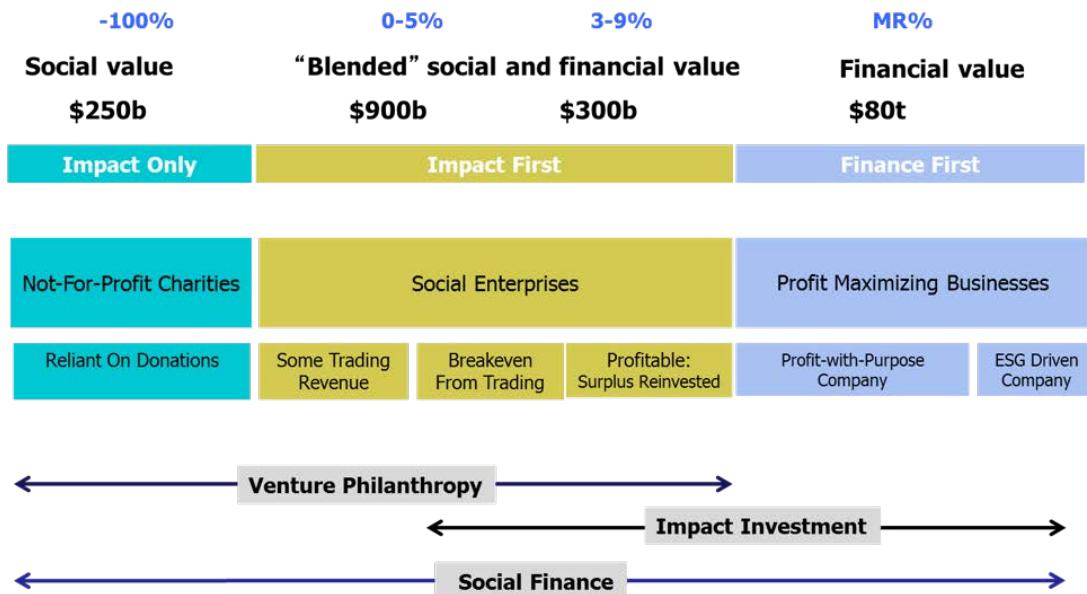
The industry-wide definition of social finance is still evolving as academic literature and test cases help to shape the practical understanding of the field. UBS noted this in its 2018 white paper to the World Economic Forum, "Partnerships for the Goals," confirming that "Investors disagree on how to define 'impact investing.' In addition, there are no universal definitions for some common financial instruments used to pursue the SDGs."<sup>5</sup>

This case draws primarily on two definitions of social finance. First is the one used at the Oxford Social Finance Programme, provided by Oxford scholar and *Social Finance* author Alex Nicholls: "The allocation of capital primarily for social and environmental returns, as well as in some cases, a financial return."<sup>6</sup>

Social finance represents new investment models aimed at solving social and environmental problems and delivering a social and environmental return on investment, as well as below- or market-rate financial returns. As illustrated in Figure 1, these investment tools encompass hybrid funding models and structured deals that blend various types of capital, from philanthropy to private capital. Funding can come from philanthropic donations, government grants, 'soft' return debt and equity, mutual finance, or 'finance first' and 'total portfolio' impact investing strategies.<sup>7</sup>



**Figure 1: Mapping Social Finance**



*Source: 2017 Global Impact Investors Network*

Social finance invites all investors to consider social improvement as an important value-add to society and to their organizations.<sup>8</sup>

The other definition of social finance is one used by the UBS Optimus Foundation to leverage private capital: “Financial mechanisms that have potential to mobilize significant private funding for development programs, while increasing the effectiveness of such programs in solving the world’s most pressing social challenges. Private capital is designed to complement and supplement, rather than replace, existing funding from governments and NGOs.” To UBSOF, social finance also means an “explicit intention to generate measurable social impact, alongside a (typically below-market) financial return.”<sup>9</sup> (The Foundation focuses on social impact and the environment is not part of the Optimus charter.)

This definition appears in a Foundation white paper, “The Case for Social Finance,” which goes on to emphasize, “There is an urgent need to explore ways to unlock the resources required to achieve the world’s ambitious development agenda. Current funding through official development aid and global philanthropic funds is not generating, and will not generate, the trillions of dollars needed to achieve the SDGs. One way to bridge this gap is to engage private capital to a far greater degree.”<sup>10</sup>

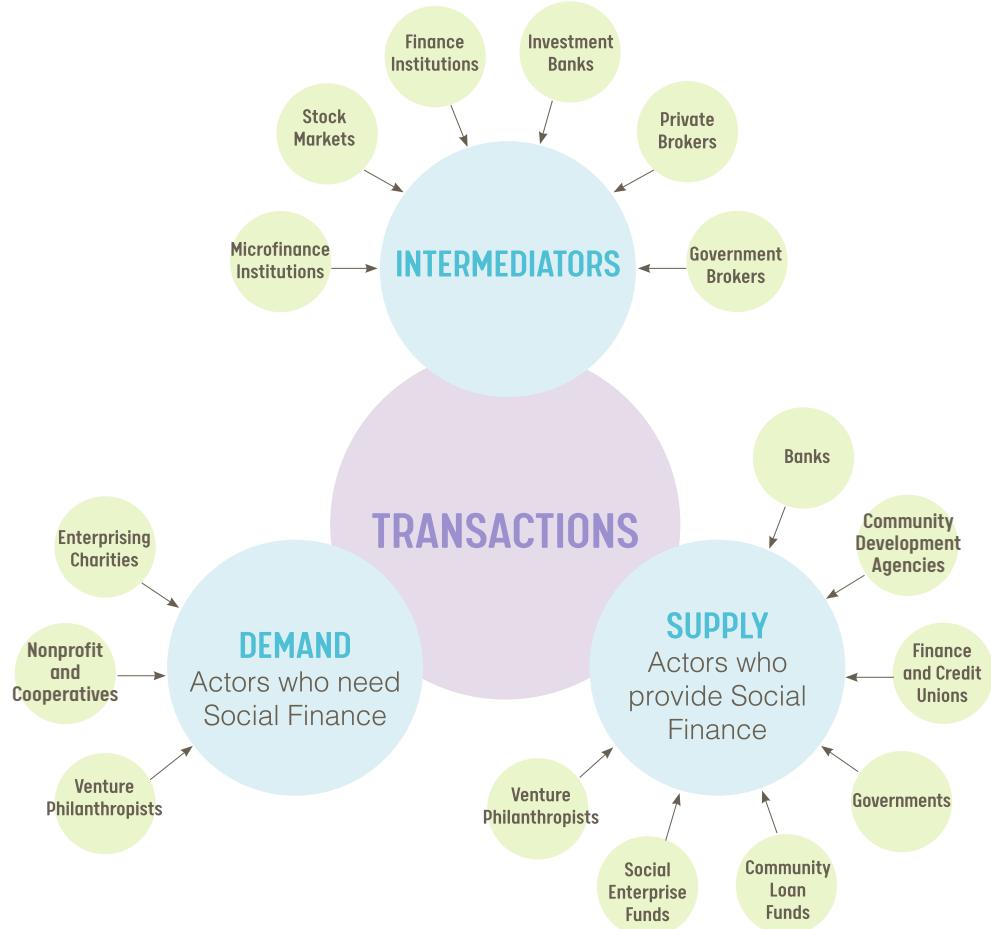
These two definitions of social finance are complemented by others from the broader field, such as the Social Affairs and Inclusion Directorate of the European Commission, which offers additional social finance characteristics: methods that are autonomous of the state, nominally repayable, transparent about social impact outcomes, and inclusive.<sup>11</sup>



## Who Are the Players in Social Finance?

The various actors involved in social finance ecosystem fall into three main roles—demand, supply, and intermediary—as described in Figure 2.

**Figure 2. Overview of Social Finance Marketplace**



*Source: 2017 Adapted and Re-drawn from Gadaf Rexhepi*

On the supply side, banks, governments, venture capitalists, community development agencies, and other funders provide up-front capital. From there, intermediaries allocate the funding to the on-the-ground service providers. These intermediaries sometimes also manage risk for supply-side investors. Demand-side players are often nonprofits, charities, and social purpose businesses that allocate services and goods to at-risk individuals in target countries and regions. These groups are responsible for measuring and reporting results to show progress on specific social issues.<sup>12</sup>



## Social Finance Movement

Social finance is becoming more than a method of investment—it's a movement fueled by client and CEO interests and the UN SDGs that are uniting action across sectors for a common purpose.<sup>13,14</sup> UBS and UBSOF are bringing together diverse collaborators at a critical time in the world, when social and environmental needs are great, and the opportunity to meet those needs with new financial resources is possible. A convergence of several factors is opening the door for new funding. These include the largest transfer of intergenerational wealth estimated at US\$40 trillion; the emergence of wealthy women and millennial investors seeking multiple returns on investment; and private sector commitment to implement the SDGs.<sup>15</sup> Cultural attitudes are also changing about the definition of “impact and success,” with a greater focus on programs that are business-oriented and evidence-based.<sup>16</sup>

## Measuring Impact Versus Activity

Just as the definition of social finance continues to be refined, so do the ways to measure results based on impacts. Unlike the many tools used to measure the financial success of investments, the ability to measure an investment’s social impacts has not kept pace.<sup>17</sup> Much of the measurements to date focus on what the evaluation field calls outputs, which simply measure or report on the amount of activities or events that occurred due to the investment. Examples of an outcome or impact-based investment include: the number of maternal or child deaths reduced or prevented; the number of children receiving clean water and who are no longer experiencing illness; and the number of girls who attend schools and who improve their academic performance in reading and math. Examples of activities or outputs include: the number of people who attended a meeting; the frequency of media coverage; or the gallons of clean water available.

The Global Impact Investors Network (GIIN) and the broader social finance community recognize that outputs by themselves do not measure the impacts of those efforts—the results or the “so what?” of those outputs on the social well-being of the beneficiaries the social finance investment is to serve.<sup>18</sup> With its rigorous and robust methodologies for measuring social outcomes and impacts, the evaluation field has partnered with the social finance field to help it incorporate impacts into performance metrics.<sup>19</sup> Outputs are necessary but insufficient measures of “impact” because the broader social-political, environmental, and economic complexities influence outcomes. Beneficiaries also need a voice in determining what outcomes are important to them. To those ends, evaluators can develop methodologies that capture and reflect these realities, account for the complexities, and seek meaningful, measurable outcomes and impacts.<sup>20,21</sup>

## Making Money Matter

The rise of social finance represents an important moment, when opportunity meets demand. Wealth management organizations have an opportunity to create a social value-added approach that can improve the world. Defining and measuring the social impacts of social finance investing remains a dynamic field with interest from all sectors. Getting it right will help UBS, other financial institutions, and committed social investors ensure the veracity of social finance claims. It will also help ensure that investments proffered as social finance will enhance the wellbeing of the individuals and communities the investments are intended to benefit.



## Introduction

### Introduction: Capital With a Cause

Social finance is capital with a cause. With growing global demand, UBS, one of the world's largest wealth managers, is paying close attention. Sergio P. Ermotti, Group Chief Executive Officer (CEO) of UBS Group AG, explains that it is becoming a mandate from clients to use private wealth and business-like strategies to benefit humanity.

Ermotti has served as CEO of UBS since November 2011. He began his career with Merrill Lynch in 1987 and has held various positions involving equity derivatives and capital markets ever since. *Bloomberg* has called Ermotti a "trader at heart" and he is credited with helping overhaul the investment bank he now heads in part by incorporating into wealth management and asset management a focus on sustainability and social impact.<sup>22</sup>

It is significant for UBS and the financial sector when Ermotti says, "It was quite clear to us that institutional and private clients were more and more demanding impact, and they were much more focused on how they invest their money. In the last few years, this has become a true client demand."<sup>23</sup>



At the same time, Ermotti acknowledges that clients are not yet “willing to compromise returns.” This tension between financial and social returns is one of the many tensions inherent in the field of social finance explored throughout the case study.

### Sustainable Development Goals

In January 2016, the United Nations (UN) created 17 Sustainable Development Goals (SDGs) to address global socioeconomic imbalances that threaten the lives of millions living in developing economies. Addressing these goals has become an element of UBS’s broader agenda of using financial resources to achieve social good. As a response to the growing client demands for social impact, this approach advances UBS’s commitment to sustainable investment and philanthropy.

Many UBS clients want their capital to address specific SDGs and have funneled funds toward those goals. A 2017 customer survey showed UBS clients particularly wanted to focus on education, clean water, and climate action.<sup>24</sup> The UBS Optimus Foundation’s focus on children cuts across many SDG indicators and is also designed to meet client needs. Recruited by UBS to head the UBS Optimus Foundation in 2011, CEO Phyllis Costanza believes that combining client interests with SDG and capital needs will make a powerful difference. “Our research shows that more than 90 percent of our large clients are giving philanthropically, but less than 20 percent of them are satisfied with the impact they’re making. So there’s a huge need there for us to help our clients improve their impact,” says Costanza.<sup>25</sup>

This case study offers four examples of social finance performance-based partnerships that illustrate how strategic investment can meet clients’ desires to contribute philanthropically, while requiring a measurable impact and return on their investment. As indicated in its strategic plan, UBSOF places a high value on linking evidence and practice and on integrated solutions.<sup>26</sup> The case documents UBSOF’s collaboration with, and lessons learned from, a wide range of stakeholders, including government, schools, health clinics, civil society organizations, service providers, social businesses, and funders, as they seek to implement the SDGs and improve the lives of children.



## Setting the Context

### Setting the Context: How UBS and UBSOF Meet Client Needs

UBS Group AG (UBS) is one of the world's largest financial institutions with a strong record in wealth management and philanthropy. Since its origins in the mid-19th century, UBS has become a global financial services firm, encompassing the world's largest wealth manager, the largest bank in Switzerland, a specialized and successful investment bank, and a major asset management house.<sup>27</sup>

UBS is a public company incorporated under the laws of Switzerland with registered and principal offices in Zürich.<sup>28</sup> A major player in the Swiss Stock Exchange (SIX) and also listed on the New York Stock Exchange (NYSE),<sup>29</sup> UBS is committed to creating positive impact for its clients, employees, investors, and society.<sup>30</sup> As of December 2017, UBS's sustainable investments accounted for more than a third of its total invested assets—amounting to 1.1 trillion Swiss Francs (CHF), about US\$1.13 trillion.<sup>31</sup> The Dow Jones Sustainability Indices confirmed UBS as the industry leader for the fourth year running in 2018.<sup>32</sup>

## Setting the Context



“UBS in society” is the theme that ties together the various initiatives UBS employs as a corporate citizen; these initiatives include Philanthropy Advisory, sustainable and impact investing, Community Affairs, and the UBS Optimus Foundation. UBS is committed to the United Nations’ 17 Sustainable Development Goals (SDGs), and the bank’s suite of tools allows its clients to drive financial capital towards investments that support the SDGs.<sup>33</sup>

The company is using several approaches to help meet client needs and employee interest in investments with purpose and that meet SDG goals.

One approach was the announcement at the 2018 World Economic Forum of the Align17 initiative and UBS’s release of “Partnerships of the Goals: Achieving the United Nations’ Sustainable Development Goals.”<sup>34</sup> Align17, a campaign created by the World Economic Forum’s Young Global Leaders,<sup>35</sup> supports SDG 17, whose goal is to “strengthen the means of implementation and revitalize the global partnership for sustainable development.”<sup>36</sup> The UN Conference on Trade and Development (UNCTAD) estimates that US\$3.9 trillion is needed annually to meet all 17 goals by 2030; currently, there is about US\$1.4 trillion spent on the SDGs.<sup>37</sup> Cross-sector partnerships are therefore imperative to leverage private sector capital that can help make up the projected US\$2.5 trillion annual funding gap.<sup>38</sup>

The funding shortfall has an outsized impact in developing countries, which need capital for basic infrastructure, food security, climate change mitigation, health, and education.<sup>39</sup> UNCTAD believes funding in those countries needs double the amount of private funds currently being invested. To achieve this, UNCTAD’s “Strategic Framework for Private Investment in the SDGs” suggests several options that fit well with UBS’s work, including:<sup>40</sup>

- Incentives promoting investment in SDG sectors that are “conditional upon their sustainable development contribution.”
- New forms of partnership for attaining the SDGs between investment agencies, governments, and service providers.
- Enabling innovative financing mechanisms to achieve scale.
- Shifting the private sector’s business expertise to SDG investment expertise by teaching sustainable development and social finance in business schools.

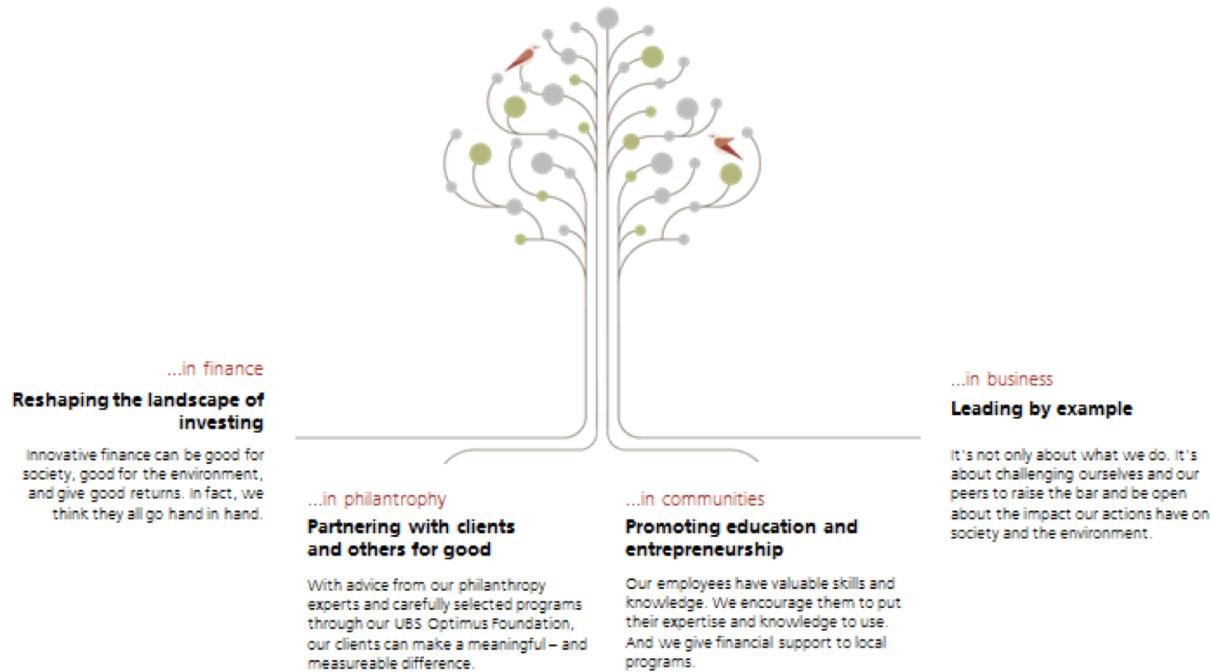
Figure 3 shows UBS’s approach to making a positive difference in finance, in business, in philanthropy, and in communities.



Figure 3. UBS in Society Framework

## UBS in society

Driving change that matters...



Source: 2018 UBS

In the aftermath of the 2008 global financial crisis, *The Economist* nicknamed UBS “Used to Be Smart,” because of the Swiss government bailout and the litigation around tax evasion resulting in client dissatisfaction and a loss of US\$17 billion.<sup>41</sup>

In the following years, UBS refocused itself around wealth management and repositioned itself as a firm focused on sustainable investments and its ability to help clients use their wealth for something meaningful to society. The bank positions itself as a resource for clients to address current issues, such as gender equality, economic justice, and peacebuilding. For International Women’s Day 2017, UBS created the hashtag #BeBoldForChange, not only to celebrate women, but also to build a business case for gender equality: “Women could add US\$12 trillion to the global economy in the next decade,” the UBS website noted, and it also observed that 47 percent of women “express their social, political or environmental values through their investment decisions.”<sup>42</sup> From 2017-2022, UBS has also pledged to invest US\$5 billion in sustainable development-related investment options. This includes a partnership with sustainable investment fund Rethink Impact, the largest fund of its kind. A joint-venture between UBS and Rethink Impact resulted in more than US\$100 million being raised to address SDGs.<sup>43</sup>

## Setting the Context



CEO Ermotti says the positioning around sustainability is well aligned with UBS's values, and that "reflecting the strategic transformation UBS has undergone over the past four years gives us additional momentum."<sup>44</sup> As UBS brands itself as a values-based financial firm, it is also positioning itself to have more opportunities to partner with Ultra High Net Worth individuals, nonprofits, and other private institutions on social finance initiatives.

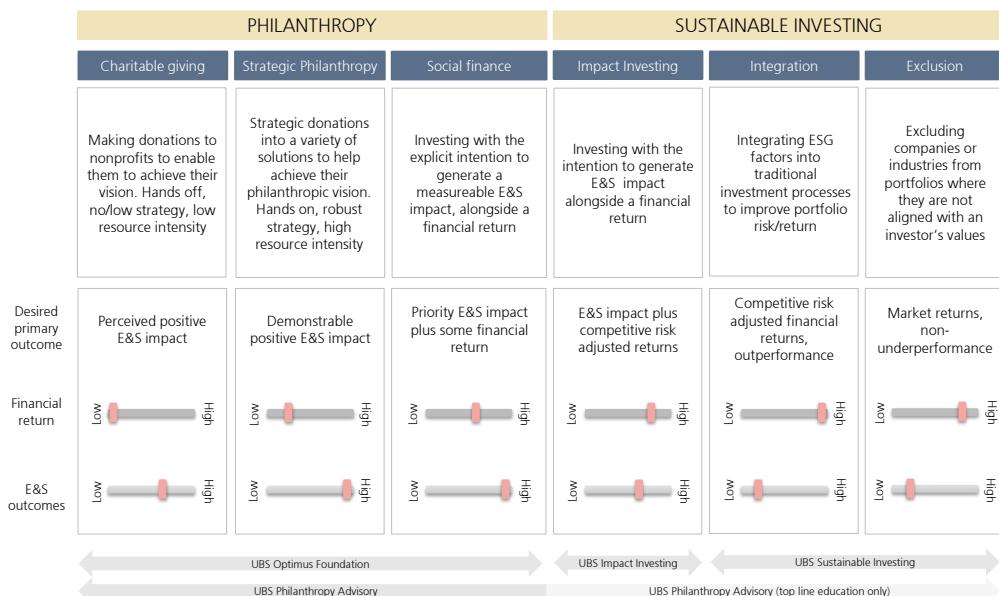
Another example of how UBS is advancing the SDGs and its sustainable investing practice is the Asset Management division partnering with a UK pension fund that wanted to use part of its equity portfolio for climate action. That partnership helped the fund managers' work toward the British government's Paris Climate Agreement goals.<sup>45</sup>

UBS, through its Philanthropy Advisory teams, holds events for its Ultra High Net Worth clients. An example was *The Collaborative*, which is an initiative that encourages collaboration by bringing clients together to focus on bringing scale to philanthropy.<sup>46</sup>

Figure 4 below describes the products and services within the client offering. UBS covers activities and capabilities related to sustainable investing and philanthropy with clients, as well as environmental and human rights policies that govern client and supplier relationships. Environmental footprint and community investments are other key areas of focus.<sup>47</sup>

Even with the focus on sustainability, UBS has come under fire for contradictions between brand and action. UBS has not entirely cut off financing environmentally or socially questionable firms, such as those involved in palm oil production and deforesting vulnerable wildlife areas. From a social perspective, UBS's wealthy clients also represent the growing economic disparity between rich and poor that has been identified by the World Economic Forum as one of the most divisive issues influencing geopolitical stability and causing harm to the planet.<sup>48</sup>

**Figure 4. UBS Philanthropy and Sustainable Investing Ecosystem by Product**

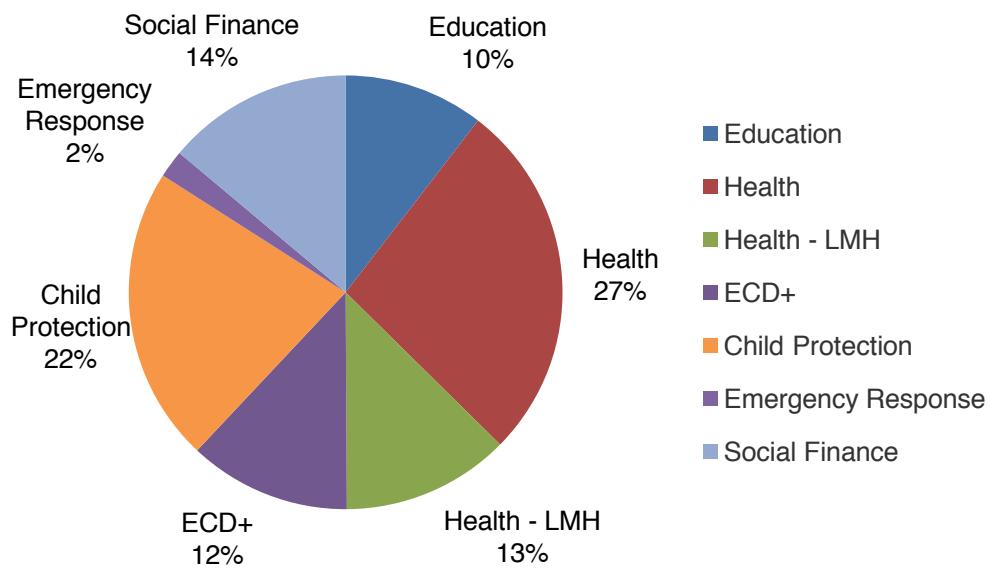


*Source: 2018 UBSOF*



The UBS Optimus Foundation (UBSOF, Optimus, or Foundation) was established in 1999 as an independent charitable grantmaking organization. Its mission is to “ensure children are safe, healthy, educated, and ready for their future.”<sup>49</sup> In 2017, the Foundation reached more than 2.1 million children by supporting more than 175 programs worldwide.<sup>50</sup> It also raised and disbursed US\$62 million for programs focused on health, child protection, education, early childhood development, and emergency response.<sup>51</sup> An estimated 14 percent or US\$8.7 million was allocated for Social Finance in 2017, as shown in Figure 5. Operating costs for the Foundation are covered by UBS.

**Figure 5. UBS Optimus Foundation 2017 Programs Funded by Area**



Source: 2018 UBSOF

Currently, the social finance portfolio is a small part of the Optimus total budget. Staff expects the program to grow and the Foundation is authorized to allow the social finance portfolio to be up to 50 percent of the grantmaking budget. However, any expansion will depend on the success of programs (returns) and the continued UBS client interest in supporting social finance initiatives. This case study will examine ways UBSOF tries to use its resources to cast a larger shadow, leverage its funding, and achieve measurable impact.

The Foundation is taking intentional steps to build its own capacity and skill set by blending staff expertise in business, international development, and social change within the Foundation and the bank. It is also putting these skills to use in products that are results-based and business-oriented such a pay-for-success models. Finally, UBSOF has used partnerships and the UBS brand to launch several “firsts.” The first Development Impact Bond (DIB) to educate girls in rural India, which has been followed by a larger Indian Quality Education DIB to demonstrate scale; the first DIB to improve health for children and new mothers by certifying health clinics in Rajasthan, India; and the first impact loan or Social Success Note (SSN) to bring clean water to schoolchildren in Uganda. These pilots build on the premise that project collaborators understand that achieving the SDGs is too large for any one organization to address alone.



"At the very beginning," says Ermotti, "the Foundation was brought up and created under the umbrella of wealth management, so the idea was: 'Let's do some things that are right for society'...and that (idea) was driven by something we felt wealthy clients wanted to do in different parts of the world—to help them to fulfill their desire to contribute to society in a structured way, not just by doing charity, but by doing it in a way that would deliver social and financial returns."

"Returns are driven by results: girls improving their scores at school, medical standards being improved in certain countries of the world for children, and so on," Ermotti stresses.<sup>52</sup>

The Optimus Foundation, headquartered in Switzerland, has staff in Hong Kong, the UK, Germany, and the United States to extend the donation or investment possibilities for its clients.<sup>53</sup> This includes two additional legal entities, UBS Optimus Foundation Deutschland and UBS Optimus Foundation UK; a donation platform through a donor advised fund in the United States; and a branch of the Swiss foundation in Hong Kong.<sup>54</sup> Together, they form the UBS Optimus Network ("the Network" in this case study). The Network receives funds from UBS clients, UBS employees, and UBS. The Foundation guarantees that 100 percent of all donations go to projects in the areas of education, health, and child protection, because UBS covers all operating costs. UBSOF hopes to grow its disbursements to US\$100 million in the next few years.

There are legal distinctions in grantmaking among the offices. For example, the UK and United States offices are authorized legally to support program related investments—grants that typically yield a below market rate return without jeopardizing charitable status. This would include a Social Success Note described later in the case study. Offices in Switzerland, Germany, and Hong Kong do not have such legal tax provisions and must use impact loans such as Social Success Notes using whatever local mechanism available to do so. These products and distinctions will be discussed further in the case study.

Staff bring experiences in the private sector, international development, philanthropy, and banking. Blending different sectorial and global perspectives gets support from Foundation board members and entities like the World Bank. Fay D. Twersky, UBSOF Board member, external expert, and Director of Effective Philanthropy at the William and Flora Hewlett Foundation says, "What Optimus has done so outpaces what the other banks have done...They've created a very thoughtful strategic philanthropic model in the context of a bank, using the idea of tapping into their biggest asset, which is the wealth under management at UBS. They have other advisors, but providing a philanthropic vehicle through which their clients can have real impact is pretty unusual, I would say. They're very disciplined and serious."<sup>55</sup>

### What Is UBS to Do?

UBSOF's Social Finance team uses social capital to address many of the SDGs impacting children by incorporating a business approach into its grantmaking portfolio and building multi-sector partnerships aimed at performance-based outcomes. Achieving global SDG goals is a significant undertaking, according to UBS.<sup>56</sup> A recent white paper prepared by UBS for the World Economic Forum outlined ways that wealth managers can support the SDGs, including the finding that "philanthropic clients are increasingly moving away from solely giving money toward collaboration and adopting more impactful philanthropy models."<sup>57</sup> This case will show that what the bank and the Foundation learned is encouraging this new trend in giving.



## Social Finance in Action

### Social Finance in Action

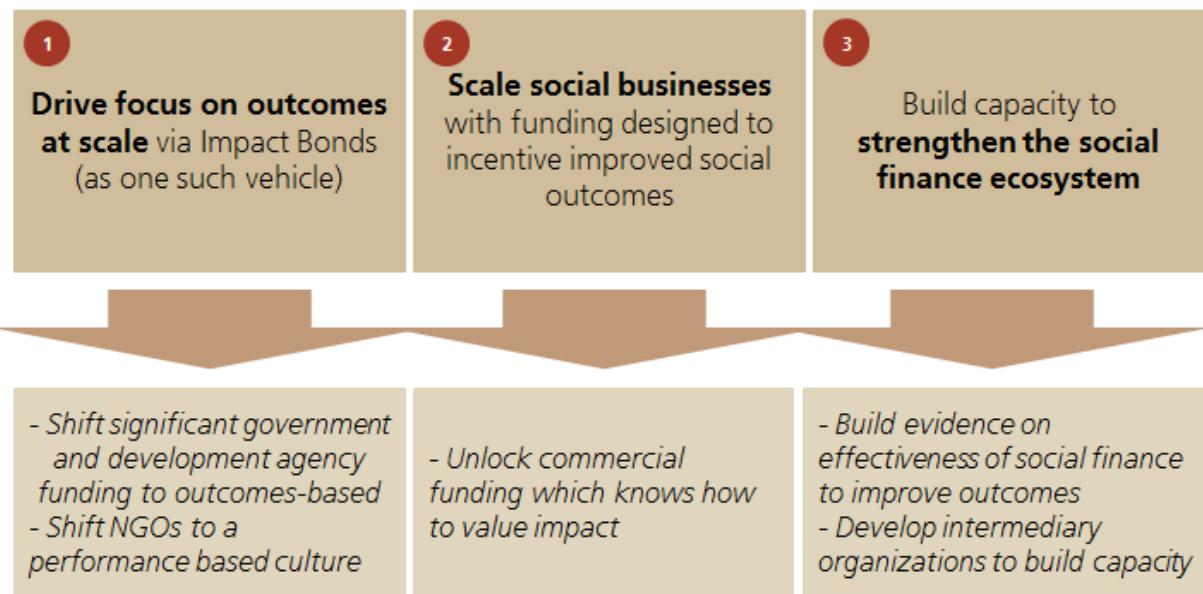
Since 2014, UBSOF has been building its own capacity by designing and launching prototypes in results-based finance.<sup>58</sup> Maya Ziswiler, head of the Social Finance team, describes these early efforts as laying the groundwork for UBSOF to blend business and social change strategies to make the development field more efficient and effective. As part of its own “learn by doing” experience, UBSOF has supported four evidenced-based prototypes with several objectives: show how social finance can leverage private sector resources; build new cross-sectorial partnerships; demonstrate proof of concept to scale; and help achieve the SDGs. From the beginning of their work, the Social Finance team has been very intentional about sharing their experiences to inform the evolving field. The pilot programs were to deliver on measurable results within an approximately three-year period.



In 2018, based on these early learning experiences, UBSOF refined its strategy, focusing on a three-phased approach as described in Figure 6, including:

- **Drive outcomes at scale:** Through Impact Bonds and other vehicles, engage government and help NGOs shift their perspectives around outcome-based results.
- **Scale social business:** Use incentives to improve social outcomes, including loans for impact.
- **Build the Social Finance ecosystem:** Strengthen the social finance ecosystem through evidence-based results and intermediaries to build capacity through research and convening.

**Figure 6. Elements of Social Finance at Optimus Foundation**



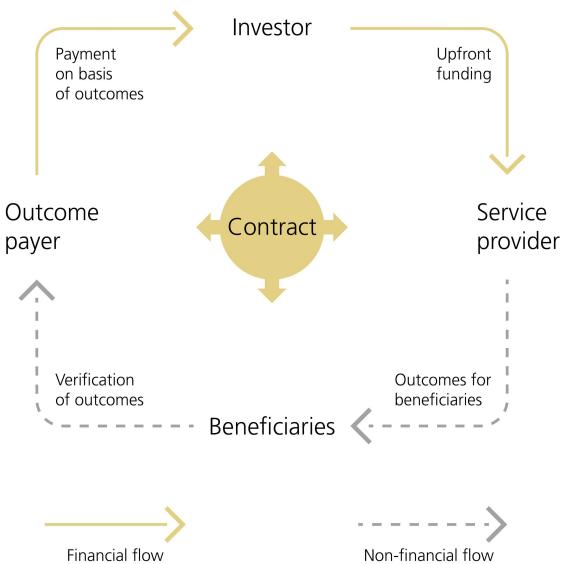
Source: 2018 UBSOF

## Phase 1

**Drive to scale.** UBSOF has focused its pay-for-performance pilots primarily on Development Impact Bonds (DIBs). These are results-based contracts in which working capital is provided upfront by investors, who get paid back by outcome funders such as government and other funders, but only if results are achieved.<sup>59</sup> DIBs uniquely hybridize philanthropy and investing, and some donors see this model as a mix that works well to blend social change goals with their investment objectives. Key partners in a DIB include the service provider or implementing partner (the agency responsible for delivering the results), and the third-party verifier of results and the beneficiary. Figure 7 illustrates UBSOF's DIB model.<sup>60</sup>



**Figure 7. The UBSOF DIB Model**



*Source: UBSOF 2017*

With DIBs, financial risk is born mainly by the investor. As UBSOF notes, “Compared to traditional funding, DIBs are extremely interesting for donors as they transfer the risk to investors, who put in the working capital for the implementing organizations on the ground. Only if and when performance indicators are met, will outcome payers provide their contribution, including a potential bonus payment.”<sup>61</sup> The investor will not be repaid by the outcome payer unless the implementing partners achieve negotiated, verified outcomes. The implementing partners do not have to worry about repaying a loan; thus, they have less financial incentive to only select beneficiaries that will help meet the performance outcomes. That said, outcome payers may provide incentive or bonus payments to the implementing partners if the performance outcomes are exceeded.

The Center for Global Development and Social Finance outlines the potential advantages of DIBs over existing funding mechanisms:<sup>62</sup> First, DIBs transform social problems into investable opportunities by monetizing the benefits of tackling social problems and attracting private sector investors wanting to bring their resources and skills to development.

Second, DIBs create incentives for investors to put in place (typically through intermediaries) the necessary feedback loops, data collection, and performance management systems required to achieve desired outcomes. This results in a bottom-up, client-centered, and generally more effective approach to service delivery.

Because investors provide funding—and assume risk—for interventions that can lead to improved social outcomes, DIBs have the potential to attract funding for interventions that donor agencies and governments might not be willing, or able, to provide directly.



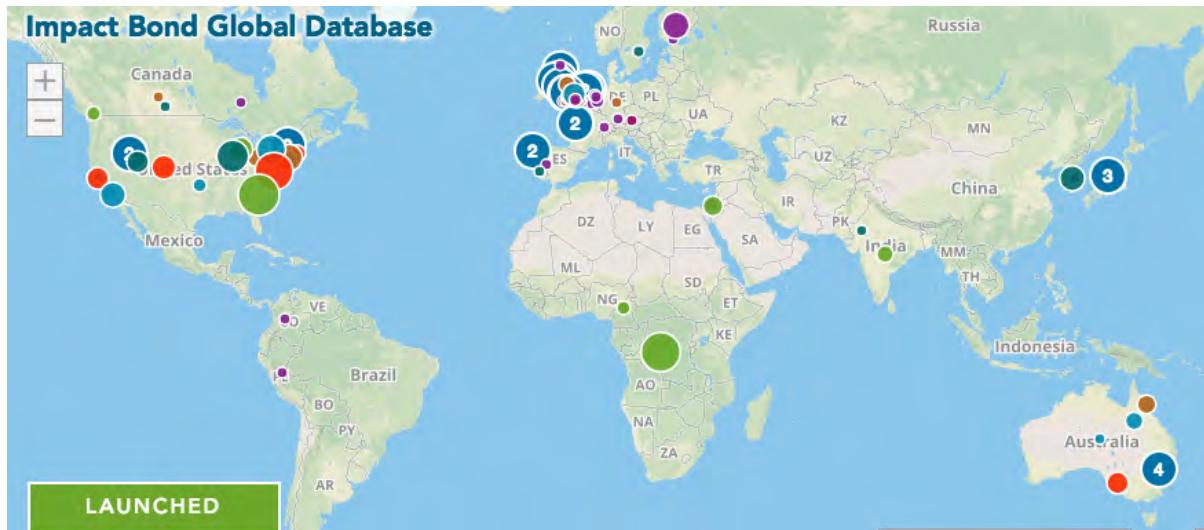
In the case of UBSOF, it is clear about its risk exposure. Tom Hall, Head of UBS Client Philanthropy Services, notes, “From a financial risk perspective, if you’re viewing the investment as a recyclable grant, the risk you’re comparing it with is the minus 100 percent return on a grant, which often has no evidence of an outcome. In an impact bond, a donor can probably educate a child and get their capital back with a small return to re-invest in a new program, which is pretty cool.”<sup>63</sup>

DIBs are a subset of Social Impact Bonds (SIBs), but differ from SIBs in that they are typically used to fund a non-profit or charity program in a developing nation.<sup>64</sup> (Also, despite the name, they aren’t bonds in the traditional meaning of the word.) DIBs are just one example of results-based financing, where the focus is 100 percent on results, as verified by an independent analyst.

By the end of 2017, 108 SIBs and DIBs had been established globally (Figure 8), aiming to help with problems like opioid addiction, homelessness, and underfunded schools. This includes 32 new SIBs/DIBs in 2017 alone.<sup>65</sup>

The first SIB within a low- or medium-income country was established in 2017, when the Workforce Development SIB began in Colombia. Most SIBs are in high-income nations. Approximately US\$392 million has been invested in SIBs in 24 countries, and these programs are estimated to impact 738,000 people. As of 2017, 10 programs reported full capital return,<sup>66</sup> and one reported a loss after not meeting its goals.<sup>67</sup>

**Figure 8. Map of Launched Impact Bonds Globally**



Source: 2017 Social Finance UK

Two DIBs have been completed as of 2018: a program that supports Indigenous people’s livelihoods and encourages rainforest conservation in Peru and UBS Optimus Foundation’s program to educate girls in India, which is discussed in detail later in this case study.<sup>68</sup> Amanda Glassman, chief operating officer of the Center for Global Development, has identified five DIBs that have so far collectively raised US\$38 million.<sup>69</sup>



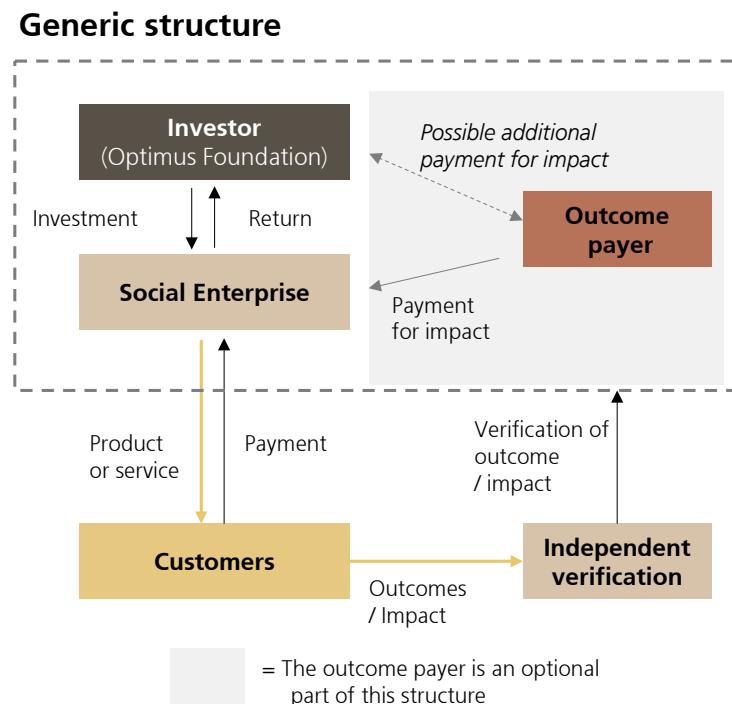
UBSOF is looking at other opportunities beyond DIBs, including tools that use or blend debt, equity, guarantees, cash or grants that yield a market or sub-market rate return (see Phase 2 next). It is also considering market investment within a fund or other structure that includes investors such as UBS that take market rate returns.

One of the key lessons learned from the prototypes is the recognition that going to scale requires government partnership and a continuation and expansion of the pilot. In addition, it was recognized that in order for NGOs to fully engage in outcome-based models, their capacity must be built, and a new culture that blends private sector skills must be woven into the social change organization's culture.

## Phase 2

**Support social business** through incentives towards performance based-results. UBSOF is experimenting with using **Impact Loans** (Figure 9), such as Social Success Notes, to support the social business Impact Water by tying financial returns to the social goal being achieved.

**Figure 9. UBSOF Impact Loans Generic Model**



Source: UBSOF 2017

The **Social Success Note (SSN)**, developed by Rockefeller Foundation and Yunus Social Business, uses a pay-for-success model.<sup>70</sup> Specifically, UBSOF is providing a US\$500,000 loan to the social business Impact Water to finance water filtration systems in schools in Uganda.<sup>71</sup> This program is covered in more depth later in the case study.



Lorenzo Bernasconi, Senior Associate Director of Innovative Finance at Rockefeller Foundation, describes this product as an enhancement to Program Related Investments (PRIs) which can be costly to structure. Says Bernasconi, “This [impact loan] is an exciting new instrument in the grantmaking toolbox to attract private investment for impact. The pay-for-success mechanism focused on impact outcomes allows for an effective and efficient way of aligning incentives and address the needs of donors and investors alike.”<sup>72</sup> With SSNs, the financial risk of the loan is borne by the investor. The greater the result the social enterprise demonstrates, the lower the interest rate on its loan becomes. Cheaper money motivates results.

## Phase 3

Strengthen the ecosystem. UBSOF intends to build the field of social finance by providing evidenced-based research and supporting intermediaries to help with training and cross-sector learning. Sietse Wouters, UBSOF’s Program Manager for Social Finance, describes the importance of building the ecosystem in terms of increasing visibility and presence. “We support a wide variety of field-building activities—including supporting intermediaries and building evidence of what works.” With its partners, UBSOF has formed the Outcome Funders Impact Bond Working Group to share experiences and identify barriers and accelerators to expand results-based financing solutions, as well as support new partnerships. The group meets periodically and represents multi-laterals, foundations, investors, and service providers.<sup>73</sup>

## UBSOF’s Social Finance Instruments in Action

This program of study explores two types of UBSOF’s investments—one impact loan and three DIBs. Its first DIB and the world’s first education DIB—The Educate Girls DIB in India—was launched in 2015 and completed in mid-2018. The following chapter describes the partner experience from entry to exit.

The success of Educate Girls reshaped the way the Foundation works, both in philanthropic programs and in social finance.<sup>74</sup> It is also shaping the development field. As Program Director Dhun Davar explains, because UBSOF piloted the world’s first education DIB, “We have implementing organizations reaching out to us frequently asking, ‘Can we do the exact same thing?’ And we try to explain that this was a pilot with high transaction costs, and the DIB framework is not necessarily appropriate for every program.” She says they “learned a lot from that experience, particularly about scale and transaction cost, and it has helped us to design the next two development impact bonds. We’ve just launched a health DIB and an education DIB.”<sup>75</sup>

The other two DIBs—the Quality Education DIB, which scales the Educate Girls model, and the Utkrisht Maternal and Newborn Health DIB funding rural clinics in India—as well as the SSN impact loan to Impact Water, were launched in 2017 and 2018. Each of these social finance tools is described in Chapter 4, “Three Social Finance Projects to Save Lives and Boost Kids,” which also discusses the Wicked Problem addressed and SDGs advanced; and the deal structures—participants, roles, funding, and outcome—and key learnings.



## Educate Girls DIB Offers Proof of Concept

### Does Pay for Success Work? Educate Girls DIB Offers Proof of Concept

#### *SDG 4 and 5: Quality Education and Equality for Women and Girls*

The Educate Girls DIB addresses SDG 4, which calls for quality of education to “ensure inclusion and equitable quality education and promote lifelong learning opportunities for all.”<sup>76</sup> The DIB also addresses SDG 5, which promotes gender equality and empowerment for women and girls. Guaranteed access to quality education is one indicator of gender equality.



### The Wicked Problem

The state of education in rural India is a Wicked Problem as described in the Preface and Deliberate Leadership in Action chapter. India has the lowest literacy in the world,<sup>77</sup> and compulsory education for children ages 6 to 14 was only mandated in 2009.<sup>78</sup> Moreover, there is a stark contrast between the resources available for urban versus rural education. These factors, combined with entrenched gender roles, have made rural girls' education virtually inaccessible. In Rajasthan, the quality of education for women and girls is poor. The state accounts for over nine percent of the 3.8 million out-of-school girls countrywide and is home to nine districts (out of 26) with the worst gender gap indicators.<sup>79</sup> As of 2016, more than 60 percent of out-of-school children were girls; only 55 percent of schools had girls' restrooms, and for every 100 rural girls who entered primary school, only 12 went on to class 12 (equivalent to senior year in high school in the United States).<sup>80</sup>

Other barriers to making improvements include bureaucratically run schools; low-quality educators and curricula; a shortage of teachers; a lack of parental involvement; and rigid societal norms that prevent girls from excelling in, or in some cases even attending school.<sup>81</sup> A Brookings Institute report, "Primary Education in India: Progress and Challenges" found teacher attendance in primary schools to be 85 percent, and the nation faces a shortage of 689,000 teachers. School principals often lack certifications or the educational training necessary to best handle management responsibilities, and a lack of remedial support means poorly performing students don't have the opportunity to catch up with their peers.<sup>82</sup> When schools are run badly, some parents feel justified in pulling their children out of them: a 2008 survey showed that 42 percent of girls dropped out of school under direction from their parents.<sup>83</sup> When parents can afford private school, they will often only send one child and will choose a son over a daughter.<sup>84</sup>

### From Idea to Pilot

Since 2007, Educate Girls (EG) has worked to provide quality education to girls in the rural Indian states of Rajasthan and Madhya Pradesh. With an education, girls are more likely to "enter the formal economy, gain employment, and lift their families out of poverty."<sup>85</sup> For many girls in rural India, childhood and adolescence are spent doing chores, taking care of siblings, and fetching clean water. In time, these same girls are "likely to end up as child brides and adolescent mothers, viewed as an economic burden, destined to a life of domesticity."<sup>86</sup> Educate Girls seeks to intervene in situations like these, promoting the idea of girls' education not only to the child, but also to her family and community and attempting to shift the established cultural mindset. This approach has resulted in 200,000 out-of-school girls enrolling in education programs, transforming families and communities.<sup>87</sup>

Educate Girls had first learned of Development Impact Bonds in 2011, when the UK Department for International Development (DfID) requested proposals for a Pay-By-Results (PBR) initiative. Educate Girls Executive Director and Founder Safeena Husain was intrigued by the idea and got to work on the application. When DfID pulled India from its area of consideration, Husain was disappointed, but not defeated. The organization "had become so invested in the PBR mechanism" that they decided to pitch it to other investors.<sup>88</sup>

## Educate Girls DIB Offers Proof of Concept

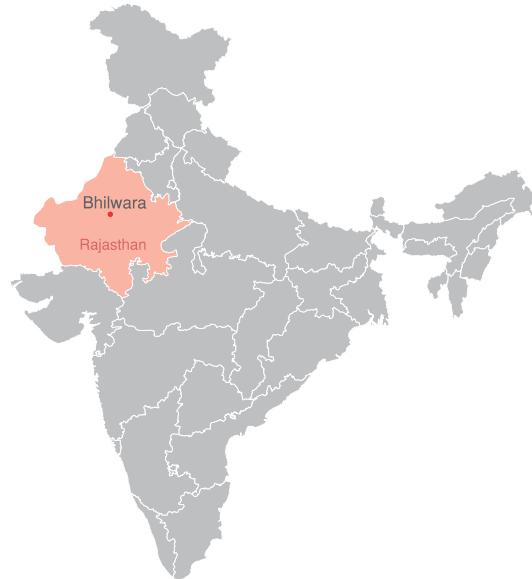


USBOF CEO Phyllis Costanza remembers an early conversation with Husain at a meeting sponsored by UBS in Switzerland, where Costanza first learned about Development Impact Bonds. “Every year, UBS hosts a conference in St. Moritz called the Global Philanthropy Conference,” says Costanza. “I met Safeena Husain, who runs Educate Girls, and she told me about this new thing called the Development Impact Bond. She explained it to me, and I was so excited. I thought, ‘Wow! This addresses some critical issues that we’re seeing in the sector.’”<sup>89</sup>

According to Husain, the meeting with Costanza and USBOF staff came during an unproductive roadshow to Delhi, Mumbai, and Bangalore with international partners, pitching the idea of a payments-by-results contract. “We had zero luck, and then we ran into UBS, and it was like a marriage made in heaven,” she says. The idea had come from the service provider and that was also unusual, Husain notes. “This idea came from the bottom up.”<sup>90</sup> Husain was also interested in the DIB to help diversify funding and to test an approach that could make their work more focused on reporting impact results versus activities. The DIB was also consistent with India’s leadership and growing interest in impact investing and in using a Corporate Responsibility Law to advance girls’ education.<sup>91</sup>

With the idea in place, the DIB’s ultimate goal—to improve education, directly and indirectly, through improvements in targeted schools for 15,000 children, 9,000 of them girls, in 166 schools in 140 villages in Rajasthan’s Bhilwara District—emerged (see Figure 10).

**Figure 10. Location of Educate Girls’ DIB in Rajasthan India**



*Source: 2018 Educate Girls*

## The DIB: Partners, Committed Financing, and Measurable Results

To make it happen, however, required a team and an ecosystem of skilled partners. USBOF knew its role wouldn’t be to hire teachers or to choose curriculum. Those tasks would be up to Educate Girls. Nevertheless, USBOF brought in resources that EG didn’t have, such as scaling expertise, investor base

## Educate Girls DIB Offers Proof of Concept

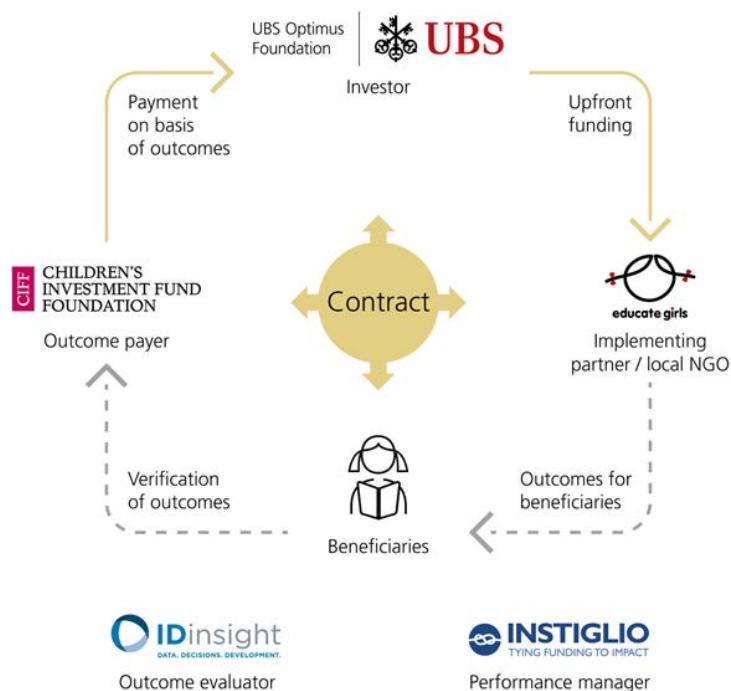


expansion advice, and much-needed funding. Other partners played critical roles, including outcome payer, performance manager, and outcome evaluator.

### The Partners

Who were these partners, and what did they bring to the table? Understanding the background of the five key participants in addition to UBSOF—the investor—explains what they each brought to the DIB, and may explain the motivations for each participant (see Figure 11).

**Figure 11: Educate Girls DIB Partners by Roles**



Source: 2018 UBSOF

- **The Service Provider.** **Educate Girls (EG)** is a nonprofit organization based in Mumbai devoted to girls' education that will in turn improve the formal economy through gainful employment that will lift their families out of poverty. Educate Girls mobilizes communities and leverages government's investment in girls' education in India.
- **The Outcome Player.** **The Children's Investment Fund Foundation (CIFF)** is an independent philanthropic organization, headquartered in London with offices in Nairobi and New Delhi. CIFF paid back the Foundation, as long as targets were met.
- **The Project Manager.** **Instiglio** provided technical advice, as well as performance management assistance to Educate Girls on behalf of UBSOF. A nonprofit intermediary based in Bogota, Colombia,



it provides technical assistance in the design, structuring, and performance management of results-based financing programs in developing countries.

- **The Outcome Evaluator.** IDinsight validated the number of out-of-school girls involved and measured the outcomes. An impact evaluation firm headquartered in San Francisco with offices in India, Uganda, and Zambia, IDinsight's mission is to help policymakers and practitioners use rigorous data and evidence to make more socially impactful decisions.<sup>92</sup>
- **The Process Evaluator.** Dalberg was the process evaluator. The firm is “a global group of change makers working to build a more inclusive and sustainable world where all people, everywhere, can reach their fullest potential.”<sup>93</sup> As the fifth partner, its role was to reach and evaluate the processes used to plan, implement, and evaluate the DIB.

### The Financing

Financing the Educate Girls DIB involved payments between the investor (UBSOF), the service provider (Educate Girls), and the outcome payer (CIFF), as well as fees to support evaluation, communication, and other associated functions, as explained below. Accounting for both the direct payments and support costs, the three-year DIB’s total expenditures were almost US\$1.1 million. As reported in the Results section, because the maximum payout was made, 62 percent of those costs were the support-related.<sup>94</sup> The DIB was structured as a pilot, with the clear understanding that the transaction costs would outweigh the programmatic ones. The goal of the investment was to test the feasibility of the instrument and learn from it to build the subsequent ones more effectively and efficiently.

#### Direct Payments: UBSOF, CIFF, and Educate Girls

The working capital for the Educate Girls DIB came from UBSOF through a three-year grant of US\$270,000, which was made in two payments: 40 percent of the working capital requirement in the spring of 2015 and 60 percent of the requirement in the spring of 2016. The outcome payer, CIFF, committed to a payment based on performance (see Table 1) of up to a maximum of US\$422,000. UBSOF's internal rate of return (IRR) varied based on performance, running from a minus 29 percent to a plus 15 percent. EG would receive part of that payment based on performance.

Two performance, pay-for-results, metrics were tracked by the outside evaluator—educational achievement (i.e., learning) and enrollment. The heavily weighted former metric was based on meeting ASER standards for math competency and English and Hindi literacy; the latter was based on enrollment of 79% of the eligible out-of-school girls, identified during the baseline survey and updated each year. (The total eligible out of school girls by year 3 was 837 girls.).<sup>95,96</sup> In addition to measuring results in the schools in which Educate Girls was operating, the outside evaluator and Educate Girls compared those results to a set of non-serviced schools. To reduce bias, both populations of schools (those served by Educate Girls and those that were not) were randomly selected.

## Educate Girls DIB Offers Proof of Concept



**Table 1. Educate Girls DIB Outcomes Payments by Expected Performance (in USD)**

|                  | % of expected performance | Outcome payments |           |           | Return over principal | IRR   | ROI    |
|------------------|---------------------------|------------------|-----------|-----------|-----------------------|-------|--------|
|                  |                           | Enrolment        | Learning  | Total     |                       |       |        |
| <b>Very good</b> | 143%                      | \$92,911         | \$419,429 | \$422,000 | \$144,085             | 15%   | 52%    |
|                  | 129%                      | 92,911           | 377,486   | 422,000   | 144,085               | 15%   | 52%    |
|                  | 114%                      | 83,886           | 335,543   | 419,429   | 141,514               | 15%   | 51%    |
| <b>Expected</b>  | 100%                      | 73,400           | 293,600   | 367,000   | 89,085                | 10%   | 32%    |
| <b>Fair</b>      | 86%                       | 62,914           | 251,657   | 314,571   | 36,657                | 4%    | 13%    |
|                  | 71%                       | 52,429           | 209,714   | 262,143   | —                     | (2%)  | (6%)   |
|                  | 57%                       | 41,943           | 167,771   | 209,714   | —                     | (9%)  | (25%)  |
| <b>Poor</b>      | 43%                       | 31,457           | 125,829   | 157,286   | —                     | (18%) | (43%)  |
|                  | 29%                       | 20,971           | 83,886    | 104,857   | —                     | (29%) | (62%)  |
|                  | 14%                       | 10,486           | 41,943    | 52,429    | —                     | 0%    | (81%)  |
| <b>No impact</b> | —                         | —                | —         | —         | —                     | NM    | (100%) |

*Source: 2015 Instiglio*

### Support-Related Costs

The outcome payer (CIFF) and the investor (UBSOF) covered an additional US\$674,000 of costs including the evaluators (see Table 2). Note that CIFF and UBSOF shared some costs, others were carried solely by CIFF.

**Table 2. Summary of Educate Girls DIB Non-Reimbursable Costs (US\$)**

| Cost Elements                         | CIFF           | UBS            | Total          |
|---------------------------------------|----------------|----------------|----------------|
| Outcome evaluation                    | \$315,000      |                | \$315,000      |
| Process evaluation                    | 25,000         | 25,000         | 50,000         |
| Advisory group                        | 14,861         | 14,861         | 29,722         |
| Communications and marketing          | 75,000         | 75,000         | 150,000        |
| Contingency                           | 21,418         |                | 21,418         |
| Program design and project management | 24,050         | 24,050         | 48,182         |
| Performance management                | 40,000         | 40,000         | 80,000         |
| <b>Total</b>                          | <b>559,461</b> | <b>114,861</b> | <b>674,322</b> |

*Source: Summarized by 2015 Instiglio*



### Operationalizing the DIB: Goals and Process for Achieving Results

The strategy for the DIB to meet the girls' enrollment and educational targets was to engage the community, especially the parents of girls who were not attending schools, the teachers at the target schools, the enrolled girls (to provide educational support), and the government (whose support was necessary in terms of long-term scaling). Curriculum development and supporting teachers' implementation of it were also necessary operational pieces; like other pieces, these had to be adjusted as the DIB unfolded.

#### Engaging Community: Identifying and Supporting Girls

A key underpinning fact for successfully enrolling girls is identifying them and meeting with their families. As Husain notes, "Essentially, it's about mindset change, because everything to do with gender is underpinned with mindset. So we go door-to-door and we find every single girl who is not in school, either dropped out or never enrolled, and this is done with our community volunteers. And once we identify them, we actually work—either through village meetings, neighborhood meetings, and/or individual parent counseling—to bring them back into school, and then to make sure that they are staying and learning."<sup>97</sup>

On-the-ground community volunteers, known as "Team Balika" (a word that translates to "young girl"), carried out a door-to-door canvas of 34,000 households. Volunteers met with parents to try and convince them that giving their daughters an education would help their families and their communities more than their child's work at home. Often, volunteers held village meetings to inform leaders and parents about EG's work and to address any concerns they had; the meetings were meant to facilitate community conversation about girls' education.

Once a girl was enrolled in a nearby public school that partnered with Educate Girls, she was helped along in her Hindi, math, and English studies by volunteers who checked in on her to make sure she and her teachers had the resources necessary to keep her enrolled in school. Educate Girls aligned with public schools in Rajasthan to provide resources.

Important to success for Educate Girls was to ensure all children received the educational support they needed—not just those elements that would help EG meet the learning performance metrics. Husain notes, "One of the key things that this DIB has done is that it has shown the largest gains in terms of learning for that last child." She goes on to say, "The kids really at the bottom have got up and have run the fastest. You want to just make sure that you don't ever create transactions where the incentives are to just take the non-performing assets out, as they say, and then only focus on those who will run."<sup>98</sup>

#### Engaging Teachers: Curriculum and Teaching Support

Supporting and training teachers were another set of critical elements for Educate Girls. Its learning curriculum for all children (girls *and* boys) in third, fourth, and fifth grades was intended to make sure that they were actually learning and moving forward. To ensure the curriculum was understood and followed, Educate Girls worked closely with government teachers and trained its own community volunteers to work as teaching assistants in the classrooms. It wanted to support them and ensure they had the skills and mindset necessary to achieve the learning performance goals. For example, Team Balika volunteers came to Educate Girls saying their students weren't improving much in English literacy. The reason, they explained, was because they themselves didn't have enough English language teaching

## Educate Girls DIB Offers Proof of Concept



experience. Educate Girls provided Team Balika volunteers with career training in English literacy, and their pupils' scores began to rise.<sup>99</sup>

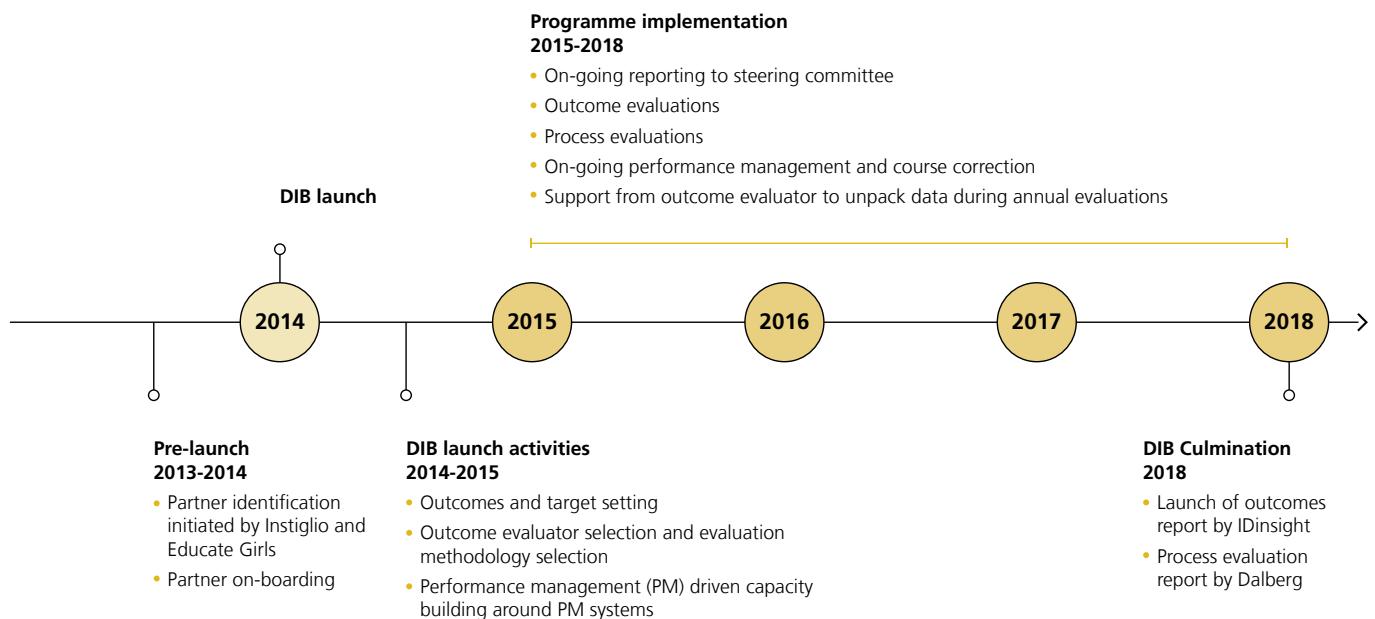
### Engaging Government: Accessing School and Data

Though the Rajasthan government was not the outcome payer, it still made a critical contribution. It controlled access to the public schools and teachers, and was the keeper of the schools' test results. Without access, Educate Girls could not work with the teachers, and without the test scores, the data for the learning performance metric would not be available. Thus, Memoranda of Understanding (MOUs) with the government were prepared and executed.

### Bringing It Together

For UBSOF, Educate Girls, and the rest of the partners, the DIB was an intense learning experience. It required full engagement, adaptation, and trust among all parties. Figure 12 details that journey, while Table 3 summarizes the ultimate results. The next section details those results.

**Figure 12. Timeline of the Educate Girls DIB**



*Source: 2018 Dalberg*

## Educate Girls DIB Offers Proof of Concept



**Table 3. Educate Girls Development Bond Structure**

| <b>Implementation manager</b>  | Instiglio  |
|--------------------------------|--|
| <b>Outcome funders</b>         | Children's Investment Fund Foundation (CIFF)   |
| <b>Service providers</b>       | Educate Girls  |
| <b>Investors</b>               | UBS Optimus Foundation (US\$270,000)   |
| <b>Verification</b>            | IDinsight  |
| <b>Beneficiaries</b>           | 7,300 children in 166 public schools   |
| <b>Intervention</b>            | Identification of out of school girls, engagement to improve attendance, child-centric curriculum delivered by volunteers  |
| <b>Use of outcome funds</b>    | <ul style="list-style-type: none"> <li>- Payout of US\$144,085 will be reinvested in development programs</li> <li>- Educate Girls to receive 32% of the internal rate of return</li> <li>- Remaining funds to go to other UBSOF programs</li> </ul>           |
| <b>Payment metric</b>          | Verify enrollment of 15,000 children (including 9,000 girls) in 140 villages, RCT measuring learning progress across English, Math and Hindi   |
| <b>Duration of impact bond</b> | 3 years  |
| <b>Investment return rate</b>  | 15% IRR achieved for UBS Optimus Foundation  |
| <b>Legal structure</b>         | Bilateral contractual arrangements between outcome funders, investors, and service providers   |
| <b>Expected impact</b>         | <ul style="list-style-type: none"> <li>- Learning gains of 3rd-5th graders (80% of payments)</li> <li>- Enrollment of out of school girls in grades 2-8 (20% of payments)</li> </ul>   |
| <b>Actual impact</b>           | <ul style="list-style-type: none"> <li>- Learning goals: success rate of 160% achieved</li> <li>- Enrollment: success rate of 116% achieved; 92% of eligible out-of-school girls in target region were enrolled in school; 15,000 children educated</li> </ul> |

*Source: 2018 pfc*

## Results, Outcomes, Success

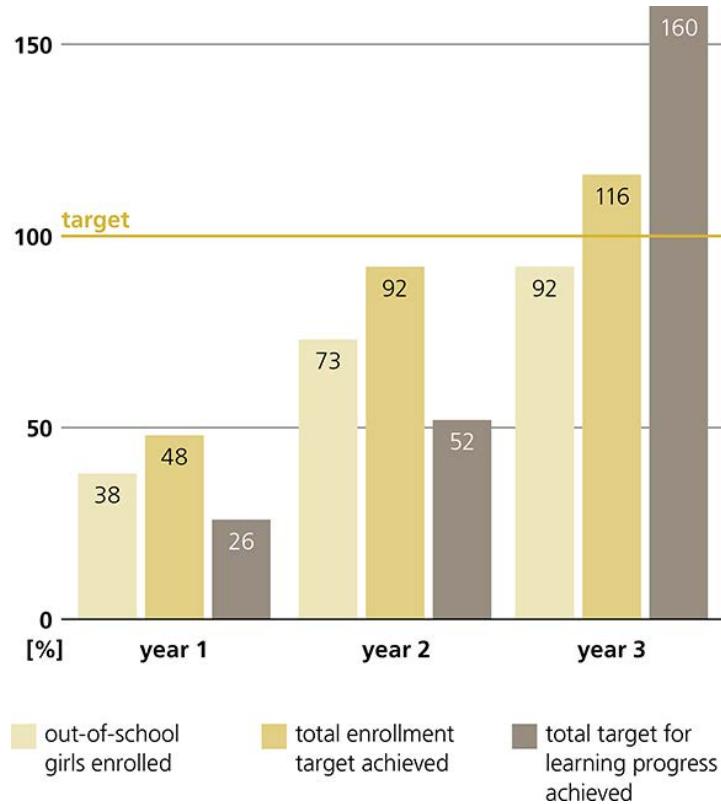
The Educate Girls DIB is considered a success. The Foundation earned a 15 percent internal rate of return, students significantly increased their reading and math levels, and 92 percent of eligible out-of-school girls in the target region were enrolled in school. The success rates for those two social goals were 160 percent of the learning performance target and 116 percent of the enrolment target. Educate Girls more than exceeded its target metrics.<sup>100</sup>

Those successes have been reported in a raft of news reports and by groups like the Brookings Institution. As discussed previously, built into this type of social finance instrument is an annual verification system linked to payments. The results of the DIB were reported annually, and the progression is noteworthy for its successes and for the adjustments made from one year to the next (see Figure 13).

## Educate Girls DIB Offers Proof of Concept



Figure 13. Educate Girls DIB's Year-Over-Year Performance Results



Source: 2018 UBS

### Year One: Getting Underway

After one year, EG had enrolled 48 percent of all out-of-school girls in its region of focus and had achieved 26 percent of its learning gains target. By the end of the first year, students being monitored were beginning to catch up to their age-appropriate learning level, and some jumped a level or so, but they still had a long way to go.<sup>101</sup>

By the end of the first year, it was clear that taking a long-term view was important, because a lot of time had been spent on getting into a rhythm and testing out educational strategies. UBSOF didn't require EG to use a specific curriculum or to teach in a certain way—a hands-off approach that gave teachers the space to meet students where they were, Husain says. "Year One results were low, but UBSOF didn't prescribe how the money should be spent and what should be done." She notes further, "UBSOF didn't interfere on how we were implementing the interventions and was aware of all the data, steps taken, etc."<sup>102</sup>

## Educate Girls DIB Offers Proof of Concept



### Year Two: Progress and Course Correcting

By Year Two, Husain says, it was clear that this approach was starting to work. Teachers and Educate Girls had course-corrected, in part by changing the curriculum. By the end of the year, 87.7 percent of out-of-school girls were enrolled in school, with 54 percent of them over 10 years old.<sup>103</sup>

Yet at the end of Year Two, only 52 percent of students had met learning gain targets. Evaluation showed 84 percent of the learning gains had been achieved by students who had been in the program for the full two years.<sup>104</sup> To help the rest of the students, Educate Girls used data from the monitoring organization IDinsight to find student groups with poor learning gains and started intervening to help these children catch up with their peers.

### Year Three: Focus on Underperformance

The Year Two results were disappointing. “After this realization, we started conducting rigorous and more frequent assessments and gap analyses for each child in Year Three to track outcomes,” says Vikram Solanki, Senior District Manager at Educate Girls. “This helped us figure out micro-errors, and child-specific interventions were rolled out accordingly.”<sup>105</sup>

The impact of this new approach soon became apparent. By the end of Year Three, EG aimed to enroll about 650 out-of-school girls, but they actually enrolled 768—well surpassing their goal. Of the out-of-school girls who were enrolled, 60 percent were 10 years or older.<sup>106</sup>

Educate Girls also succeeded in meeting its learning gains goal midway through the third school year, well exceeding their goal by the year’s end. The massive improvements in Year Three—about a 79 percent increase in grade levels—essentially means students absorbed the equivalent of two years’ worth of instruction in one school year.<sup>107</sup>

Compared to a control group, students in EG’s program schools had 28 percent larger learning gains, with relatively higher gains in math and English. Learning gains in Hindi weren’t as significant.<sup>108</sup>

Avnish Gungadurdoss, Managing Partner and Co-founder of Instiglio, notes, “We were positively surprised by the third-year results, but when you think about and look at the type of improvements Educate Girls implemented and the type of capacity they built during the course of the project, you start to understand why the results are so dramatically different,” he says. “In Years One and Two, Educate Girls experienced a steep learning curve, which ultimately enabled them to master the technique of managing to outcomes during the last year of the project. It’s really a story of an organization going through an intense transformation around the design of their intervention model and their delivery practices, where the intrinsic culture of learning cannot be underestimated.”<sup>109</sup>

At the end of the DIB, UBSOF recouped its initial funding of US\$270,000 plus a 15 percent internal rate of return from Children’s Investment Fund Foundation (CIFF), the outcome payer. EG received 32 percent of the internal rate of return, and the rest was recycled into other UBSOF programs.<sup>110</sup>



### Complicated and Time-consuming...But Useful

As *The Economist* noted in July of 2018, “Creating the development impact bond was complicated and time-consuming...but also useful.” Praising what it called a “novel way of funding charitable work,” the publication noted, “If a girl in a poor country goes to school, she will probably have a more comfortable life than if she stays home. She will be less likely to marry while still a child, and therefore less likely to die in childbirth. So, not surprisingly, there is (now) an Indian charity that tries to get girls into school and ensure they learn something, and there are Western philanthropists willing to pay for its work. What is noteworthy is how they have gone about this transaction.”<sup>111</sup>

That said, the DIB has drawn skeptics who question the true meaning of the pilot’s learning gains and scalability. Justin Sandefur, Senior Fellow at the Center for Global Development, notes that the learning gains were “reasonably comparable to other programs.”<sup>112</sup> The gains, he says, are solid, but “hardly unprecedented for a pilot.”<sup>113</sup> In addition, full costs of participating in the DIB remain unclear. Sandefur feels that cost calculation for the DIB should include all the expenses, including outside evaluators’ costs, and these should be part of the cost-benefit ratio.<sup>114</sup>

### Lessons Learned in Rajasthan’s Schools

The Educate Girls DIB pilot provided a wealth of lessons learned that were later incorporated into the Utkrisht Maternal and Newborn Health DIB, and they will be used to inform the implementation of the new Quality Education DIB in India.

The Brookings Institution finds the adjustments made between Years Two and Three as particularly significant: “With the learning outcomes lagging in Year Two, several adjustments were made to the intervention to boost students’ success.” These adjustments included structural changes in delivery (such as increased number of sessions), aligning teaching groups with competency levels, and improved curriculum content that emphasized personalized learning.<sup>115</sup>

At the end of Year Two, EG needed to accelerate its rate of student improvement if it was going to meet the outcome goals. “By rigorously course-correcting and implementing new strategies created by asking the community what they needed, Educate Girls was able to well exceed their target outcomes by the end of the third year,” says Alison Bukhari, Educate Girls’ UK Director.<sup>116</sup>

The following lessons are grouped into themes often present in Deliberate Leadership cases: Community, Partners, Planning, and Evaluation. Each has an important role to play in looking at the impact of this pioneering DIB.

#### Lesson 1: Listen to Community

Authentic community engagement was pivotal to the successful outcomes of the Educate Girls DIB. Bukhari notes, “We were so close to the community and really, really listening in that final year...so it was in that proximity where the success really lay.” Bukhari notes that listening to the community can be simple or complex. It can involve focused village or group meetings and months of data, or it can be as simple as observing the students or asking the teachers in one classroom what topics they need some extra help with understanding.

## Educate Girls DIB Offers Proof of Concept



According to Bukhari, proximity to the community is a fundamental aspect for success in the work, because it enables the community to solve the problem itself. Using community members from the villages provides a feedback loop, she notes. “They’re able to say, ‘Do you know what, this is just not going to work. During those three weeks it’s harvest, the children are going to be working in the field, or both parents are going to be away for work...’”<sup>117</sup>

Husain also underscores the importance of the relationship with the community and bottom-up learning: “Feedback will emerge, and we will learn and then we will give you exponential insight, but it has to be from that person on the ground. You do not prescribe,” she says.<sup>118</sup>

The data gathered in the early stages of the DIB shows that the curriculum was only going so far in improving learning. But the field team was able to assess which workers and volunteers were achieving better results, and this led to needed changes in resource allocation. “In Year One, we essentially carried on ‘as normal’ with what could be seen as more of a top down approach to management,” says Bukhari. “After the first year, we realized that this wasn’t working well enough, so...in Year Two, decisions were made much closer to the field, feeding a lot more information and analysis of data from the impact team back to the field staff and getting them to make decisions and ask for resources accordingly. Solutions came from the staff or volunteers who were with the children and families on a daily basis. At this point, the momentum shifted, and the program became more effective.”<sup>119</sup>

“The curriculum changes that we made were critical, and they obviously had a huge influence,” says Bukhari, “but it was really the fact that we were doing things like error analysis and getting the staff to listen to and observe every child, understanding where they were having struggles, who was falling behind, and really documenting at an individual level what the issues were...then tailoring the interventions to actually shift the children’s learning. And you know, if that isn’t listening to community, I don’t really know what is.”<sup>120</sup>

Husain reflects on this relationship and the need to allow it to unfold at the right pace. “If I were going into a transaction tomorrow for the next DIB, I would say to build that patience in, so you’re not suffocating your field worker with requests for results on day one. Give them the room to breathe and to really be able to set up the right relationships at the community level for the results to emerge.”<sup>121</sup> Optimus, Instiglio, the program manager, and CIFF, the outcome funder, gave the on-the-ground staff room to fix problems as they saw fit, provided they were removing roadblocks to the project’s success.

Listening to the community and taking community wants and needs to heart was the cornerstone of EG’s third year of programming—and it worked. Educate Girls exceeded its targets, and the DIB was so successful that it is informing the new Quality Education DIB that will help with boys’ and girls’ education across India.

### Lesson 2: Build Early Alliances with Government

UBSOF is using those lessons to help their next DIBs avoid those same mistakes. For example, while Educate Girls did communicate with the local government and got an MOU signed with the Government of Rajasthan, it would have been helpful to have had greater up-front advocacy and investment by Educate Girls and other stakeholders to help ensure adequate government support throughout the DIB. This may have lowered transaction costs and improved outcomes.

## Educate Girls DIB Offers Proof of Concept



Bukhari looks at the timing of government involvement in the DIB in conversation with the team. “You ask about whether we missed a trick in not getting the government on board as an outcome payer, but honestly, back in 2014 that wasn’t really an option. Impact bonds were so nascent, there was no single precedent of an impact bond in an emerging economy to take to the government, and the instrument had not yet been used in a school education context. We had nothing to take to them,” she says.

“Instead, we worked with the government as a critical enabling partner, and they were a very important partner. Had we decided to wait until the government was ready to engage financially in the DIB, we might have had to wait quite a while and lost valuable time creating a proof of concept. Now the government has had a lot more exposure to the instrument, we have been engaged in a lot of advocacy work, and I think the world has moved on in those four years. The government now has a different ‘ear’ and is certainly listening and interested.”<sup>122</sup>

UBSOF’s Head of Social Finance Maya Ziswiler agrees. “As we set up the Educate Girls DIB, we wanted to get government buy-in, but we didn’t really build it in well enough from the beginning. While we secured MOUs for the intervention and the evaluation, we weren’t able to engage the government to take it to the next level,” she says. “It was a key learning, but I think our pilot was too innovative and maybe too early for the government to consider engaging. In our Health DIB, we transitioned to a much larger DIB, where the buy-in with the government is built in from the beginning.”<sup>123</sup>

Husain emphasizes the importance of involving the government as a key stakeholder. “We needed the government’s permission to actually be able to do data collection, even though we weren’t working on controlled schools, but had access to those schools. The village leaders, the school headmasters, teachers, everybody had to be brought on board with what you are doing.”<sup>124</sup>

With positive results, the EG DIB has focused interest in the funding mechanism, and many people beyond the DIB are paying attention and are trying to persuade the states across India to think about outcomes, rather than activities, and to shift the way all the states think about monitoring all the different departments and social outcomes they’re looking to work towards.

### **Lesson 3: Reach Out Early to Service Providers**

Reaching out early to potential service providers, outcome payers, and other stakeholders was also critical to the Educate Girls DIB’s success. This knowledge proved extremely useful in allowing UBSOF to begin structuring a timeline several years before the launch of its new Quality Education DIB in other parts of India.

### **Lesson 4: Communicate Candidly with Donors**

Sonal Shah, a USBOF Board member and Executive Director of the Beeck Center at Georgetown University, describes the rationale for good donor communications. “They’re educating their donors on why they’re doing it and what they’re doing, but I think as you build this out more, [you have] to be careful that it doesn’t just become another financial transaction, but that continually the donors are being brought into why it matters,” she says.<sup>125</sup>

This becomes critically important when results come more slowly than anticipated. Although the DIB agreement did allow UBSOF to withhold funding, the Foundation provided funding throughout the DIB,

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even though results did not become obvious until Year Three. Had the funding been pulled after Year Two, Husain says, the children would have been the ones who would have suffered the most by being denied those Year Three learning gains. “Unconditional funding was the primary trigger for the DIB’s success,” Husain notes. “The presence of patient capital was a key variable in the success of the project, as it provided Educate Girls with enough flexibility to innovate. UBSOF had a large risk appetite, and their actions were extremely supportive in the interventions and changes we were carrying out.”<sup>126</sup>

With good communications, donors continue to support the work. Anthony Donatelli, Director, Philanthropy Services UK, UBSOF, adds that donors want to know both the good and the bad and want to be part of the journey. He believes that many donors understand how the pilot process works. “They get that we need to do a DIB before we get the Indian government to buy in to do something at scale. And the DIB is how we’re trying to demonstrate effectiveness to governments.”<sup>127</sup>

“Private investors are always keen to understand, ‘Where is my money going?’” says Ranajoy Basu, Partner in Reed Smith, an international law firm that serves as review counsel for the DIB’s operational contracts. That is why, he says, tight covenants, representations, and warranties about reporting and disclosure are “fair and important.” But, he says, “As a lawyer...one needs to really appreciate that you can’t draft up these provisions to make them completely watertight. It’s a bit of a balancing act, where you have to include a certain amount of flexibility for the underlying service providers on the ground to be able to do what they do well, because, otherwise, they’re more focused around reporting, and the measures would distract them from actually implementing the project and receiving the outcomes.”<sup>128</sup>

Continuous communication with donors allows the service providers to be flexible and adaptive without a fear of losing their funding.

### Lesson 5: Build in a Long Lead Time

The project encountered roadblocks, which presented an important lesson about building in a longer lead time and more handholding support for service providers in early stages of the DIB. This approach helps service providers better engage with targets, evaluate methodologies, and more accurately budget for resource requirements.

“The learning is that you need a Year Zero before your Year One,” Bukhari says. “And that’s what we missed out on. And, also, our Year One was very much crunched, because the contracts took longer to sign, and, working in a data-poor environment, we had to renegotiate the targets once we realized our baseline proxy data was very inaccurate.”<sup>129</sup>

She believes having a longer ramp-up time can help service providers take more time to engage the local community in finding the specific challenges that could impact their plan for intervention, such as local holidays when schools aren’t in session, specific issues with transportation caused by local flooding, and other problems that are difficult to assess unless the organization is physically present in the area.

“I think you can forget how critical every single week of a school year actually is in terms of getting a curriculum delivered,” she says. “And, particularly in a country like India, where you’ve got seasonal issues, migration issues, harvesting issues, the rice season, and all the agricultural concerns...You’ve got all these stressors that parents use to remove their children from schools for all sorts of reasons.” And simply waiting is not an option. “When you’re designing education programs, [it’s absolutely critical] to



be prepared on day one of the school term. We just couldn't afford not to start," says Bukhari. "I wonder if it might have collapsed if we'd said, 'You know what? We need to leave it for the next school year.' That's not how funders think. That's not really how things work. We teed up this DIB, and we were running late, but we had to launch."<sup>130</sup>

Kate Sturla, Associate Director at IDinsight, offers why planning is important for partners—such as evaluators—as well. "We can't come in once you say, 'We're ready.' Even when we've been really explicit about this at contracting, there needs to be an additional conversation to make sure everyone fully understands what they're signing up for."<sup>131</sup>

### Lesson 6: Adapt to Cultural Conditions

Finally, as part of its path to success, Educate Girls, like other non-profits, had to go through a cultural transformation. Phyllis Costanza describes it as "an extremely different cultural and mindset shift." She says, "It requires a non-profit organization to be extremely performance based. This is not typical, you know, if you ask any nonprofit at the end of the day, 'How'd you do today?' they would say, 'What do you mean? You know, how did I do today?'" She notes that if you ask a business the same question, they answer in terms of net profit and expenses.<sup>132</sup>

A DIB can help transform a culture and processes at the implementing organization, and some observers have noted this type of transformation is an under-discussed impact.<sup>133</sup> In Year One, Educate Girls had to hire and train staff rapidly and spent the year building a performance management system. Year Two was spent building new learning content, and in Year Three, "Everything kind of fell into place," says Husain.<sup>134</sup> In the course of the DIB, EG changed its classroom management techniques, content, training, assessments, and the community mobilization process.

Other new approaches—particularly in Year Three—included increasing the intensity of interventions, switching to a group approach that put children of similar levels together, implementing an improved curriculum, adding sessions during holidays, adding home visits to reach absent students, and assigning more staff per student. All these adaptations had the collective impact of transforming previously held assumptions into an approach that produced results.

Bukhari observed the cultural shift firsthand. "At the time, I think we didn't actually know that to implement fully would involve a major culture shift in the organization. That's why we needed time before implementation to understand what the culture shift was going to be. What was different about the DIB [was that] it wasn't a totally new way of working that we read from a script book; it was something we learnt by doing," she says. "The organization shifted in its culture. What does it mean to work to outcomes? It was a very subtle thing in terms of the staff thinking in a different way, us recruiting in a slightly different way, and not recruiting someone who was amazingly diligent at following a plan. It was recruiting someone who was far more passionate and tenacious than your normal person, who was prepared to think on their feet and challenge and problem solve. So there was a subtle shift in the kind of people we needed to employ, as well."<sup>135</sup>

Cultural changes extended beyond Educate Girls. CIFF also had to change under the DIB. CIFF would usually co-create with its partners, but it had to adapt to the much more hands-off role required by being the outcome payer in a DIB. It was forced to allow innovation and adaptation at the service provider and ground level. Grethe Petersen, CIFF's Director of Strategic Engagement and

## Educate Girls DIB Offers Proof of Concept



Communications, notes that, “The DIB’s process taught CIFF that there is a lot of good innovation happening closest to the ground” and that “the organization is now eager to support local and national organizations closest to beneficiaries, involve beneficiaries in the design, and allow its grantees the ability to innovate and be agile in their programming to increase impact.”<sup>136</sup>

As MIT professor Bill Aulet, expanding on an observation often attributed to management guru Peter Drucker, has stated, “Culture eats strategy for breakfast, technology for lunch, and products for dinner, and soon thereafter everything else too.”<sup>137</sup> Understanding how organizational culture shifts over time is a critical element of reaching impact.

### Lesson 7: Incorporate Evaluation and Learning from Start to Finish

In this DIB, evaluation played a role at every stage and at multiple levels. One of the biggest unexpected parts of the project, according to Husain, was the redesigning of the entire concept of the curriculum content at the end of Year One. “I mean, from scratch, which is so risky for an organization. But we did it in Year Two, and it was completely unexpected that we would go down that path. That continued for two years, because every day threw up new things that we had to think about.”<sup>138</sup>

Perhaps Bukhari says it best when she described some of the feedback loops employed during the DIB. “Essentially, our work is all about being accountable to the last girl who is out of school or the last illiterate or innumerate child in the school where we work. The type of feedback we incorporate is what the field worker or Team Balika volunteer is hearing or seeing on the ground,” she says. “The flexibility of the DIB enabled us to constantly iterate and redesign, based on the needs of the children.”<sup>139</sup>

Even starting the process proved challenging, because of the length of time it took to get the MOUs issued. Earlier alignment could have helped with on-the-ground support for evaluation at the public schools. Husain believes that the project and DIB planning process could have been improved had the evaluators been involved from the beginning.

Getting the data was difficult. Solanki says there was some hesitancy from public school teachers early on, but they got on board once they saw their students were benefiting. “In a few schools, we faced resistance from some teachers who didn’t cooperate with our volunteers,” Solanki says. “This, however, changed when they started seeing the positive effects of our intervention.” Additionally, as the program progressed, the DIB was able to adapt. “We conducted regular rigorous assessments and gap analyses for each child in Year Three to track outcomes. This helped us figure out micro-errors and child specific interventions were rolled out accordingly,” says Solanki.<sup>140</sup>

Kate Sturla also stresses the importance of integrating evaluation into the fabric of a DIB. Prior to joining IDinsight, Sturla worked on education projects in India and Peru and oversaw impact evaluations of public health interventions in India. “There are a lot of really important lessons from the DIB that we want to make sure are documented, and I think that’s the stage that we’re entering into now with the final results release,” she says. “I think everybody [saw that] this was a learning mindset of how do we make this useful, and I’m sure that it informs future DIBs.” In the case of Educate Girls, a more typical trajectory might have been that the NGO would become discouraged that the evaluation wasn’t proving how successful they had been. “This might have resulted in the Service Provider choosing to disregard the evaluation or say, ‘Never mind, we think that was the wrong outcome to start with,’” says Sturla. “To Educate Girl’s credit, but also I think to the credit of the DIB structure, that accountability [was built



in]...and I think it was highly motivating for Educate Girls to really revisit the aspects of its program. It was (also) highly motivating for Educate Girls to revisit aspects of the program that were less successful and make significant course-corrections. The benefit of the DIB's pairing of accountability and flexibility is apparent in the final outcomes, with EG greatly exceeding targets in learning and enrollment.”<sup>141</sup>

## Conclusion

The success of Educate Girls DIB was notable because it surpassed targets for enrollment and learning outcomes.

As a model for similar endeavors, however, the message is somewhat mixed. Brookings observes that while the deal aimed to serve as a proof of concept for impact bonds, the field still lacks rigorous evidence comparing the DIB financing mechanism to other ways of paying for social services.<sup>142</sup> As a result, decision-makers must ensure that the approaches used in DIBs like EG are the right options for the problems they are trying to solve. Each situation—and every Wicked Problem—is different.

Regarding Educate Girls' next steps, it has chosen not to participate in the next India-focused Quality Education DIB (one of the three social finance endeavors discussed in the next chapter). Educate Girls participated in its development phase and will serve as technical assistance provider. Bukhari notes that, “Given that we are the only organization globally that has successfully delivered on a multi-year impact bond, we were happy to contribute our experience to the thinking that went into it. We also were excited to continue as a technical advisor.”

The reasons for not participating in the Quality Education DIB? According to Bukhari, “Given the success of over-achieving outcomes/results in the [Educate Girls] DIB,” the organization is now busy with “reflecting and institutionalizing the best practices that emerged out of the DIB across 25,000 schools.”<sup>143</sup> She notes that, “Our expansion over five years sees us double our current scale (from 15 to 31 educationally ‘backward’ districts as defined by the Government of India) and triple our outreach (from five million to over 16 million children). We would not be in a position to take on a pay-for-success contract at this kind of scale. And also, given our five-year budget, we are not sure if such a large chunk of the pay-for-success fund is available yet globally.”

Educate Girls is in the midst of raising funds for the expansion. The experience and the new institutional rigor and culture around results-based programming instilled by the Educate Girls DIB is helping them. Bukhari notes, “We are now looking at how we sustain performance with the learning curriculum and performance management system being taken across our work. We might be in a better position to evaluate performance in another one or two years.”<sup>144</sup>

A close-up photograph of a young boy with dark hair, wearing a red and white striped shirt. He is smiling broadly and holding a black chalkboard with both hands. On the chalkboard, there are some faint, circular drawings. In the background, other children are visible, though they are out of focus. The setting appears to be an indoor classroom or learning environment.

## Three Social Finance Projects

### Three Social Finance Projects: Development Impact Bonds and a Social Success Note

Following up on the Educate Girls DIB, UBSOF has been involved in three more pay-for-success prototypes designed to demonstrate proof of concept for social finance. Each was created to meet different needs and will be carried out with different partners and produce different outcomes. Because the three pilots are in varying stages of development, the descriptions of the individual investment in this chapter will differ, and additional outcomes and lessons learned will undoubtedly follow in the coming months and years.



### Utkrisht Maternal and Newborn Health DIB

**Sustainability Goal: SDG 3: Good Health and Well-being.** “Ensure healthy lives and promote well-being for all at all ages.”<sup>145</sup>

#### The Wicked Problem

In Rajasthan, an estimated 60,000 babies die every year, and the state has a newborn mortality rate of 32 deaths per 1,000 births. Maternal mortality rates are 2.4 deaths per 1,000 live births.<sup>146</sup> India, as a whole, struggles with high infant mortality rates and accounts for 26 percent of the world’s neonatal deaths. The situation is particularly dire in Rajasthan and three other struggling Indian states, which collectively account for half of India’s newborn deaths.<sup>147</sup>

Most of these deaths are preventable, and UBSOF saw someone needed to step in to fund on-the-ground clinics that could save women and children. In order to provide the birth and postpartum care necessary to save lives, USBOF studied the holistic problem of newborn and maternal deaths. Most maternal deaths happen during birth or within five days of birth, and half of stillbirths happen during labor and birth (mostly from preventable conditions like maternal infection, non-communicable diseases, and obstetric complications). These lives could be saved through the introduction of better medical intervention during and after birth, such as emergency obstetric care run by skilled health professionals and clinics stocked with the necessary equipment and medicines.

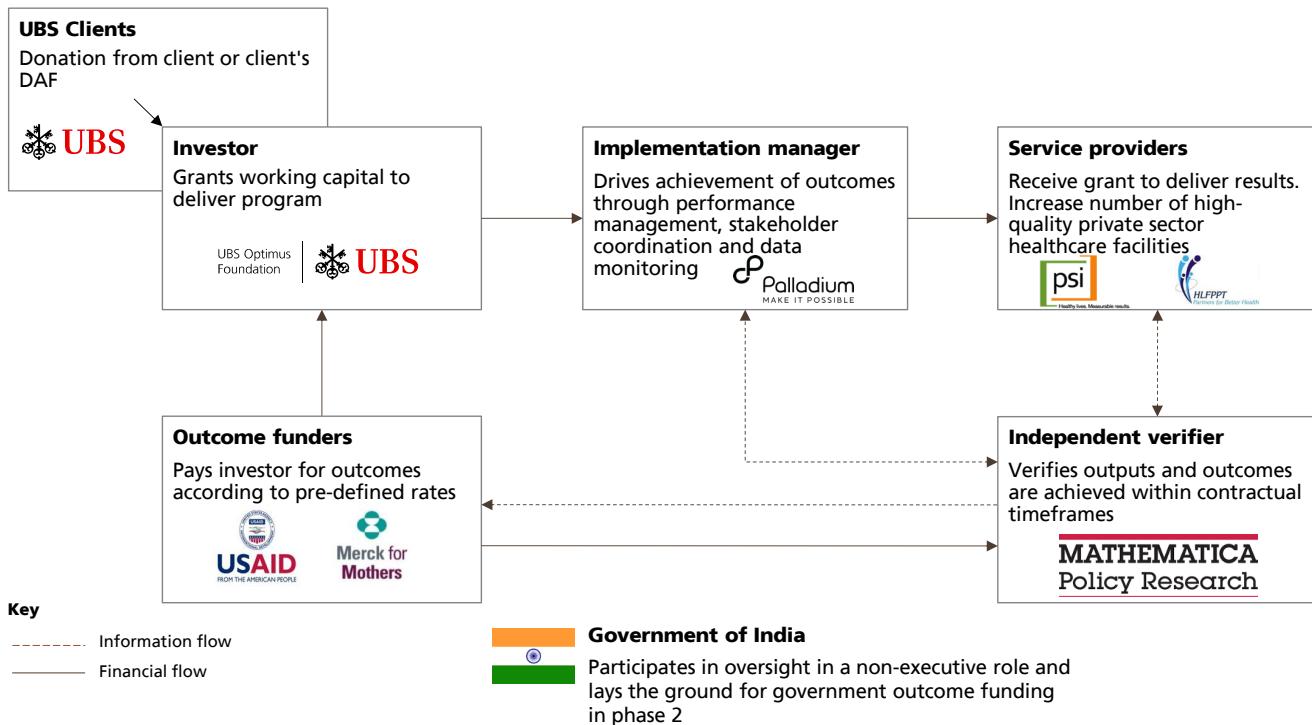
#### Partners and Participants

The Rajasthan Utkrisht Maternal and Newborn Health DIB (also known as the Utkrisht Impact Bond), which launched in February 2018 after three months of mobilization, aims to fund those medical interventions by drawing together several partners who understand the importance of reducing maternal and newborn mortality in Rajasthan. The design process for this DIB shows how multi-stakeholder financing structures can be developed to save lives.<sup>148</sup> It serves as a prototype that may be useful for practitioners interested in establishing impact bonds, as well as for funders interested in supporting these mechanisms. Figure 14 illustrates the organizational structure and relationships of the various stakeholders in the DIB, and Table 4 provides a synopsis of the structure of the Utkrisht Impact Bond.

## Three Social Finance Projects



**Figure 14: Utkrisht Maternal and Newborn Health DIB Organizational Structure**



*Source: 2017 UBSOF*

UBSOF is the investing organization and will contribute up to US\$3.5 million for the DIB. Palladium is the implementation manager, and its role is to drive achievement of outcomes through performance management, stakeholder coordination, and data monitoring. The on-the-ground service providers who run the clinics are Population Services International (PSI) and Hindustan Latex Family Planning Promotion Trust (HLFPPT). Mathematica Policy Research is the independent verifier for the DIB. USAID and Merck for Mothers (MSD for Mothers) are the outcome funders, offering to pay a combined US\$9 million if the stated goals are met.

## Three Social Finance Projects



**Table 4. Program Structure of the Rajasthan Utkrisht Maternal and Newborn Health DIB**

|                                |  |
|--------------------------------|--|
| <b>Implementation manager</b>  | Palladium  |
| <b>Outcome funders</b>         | <ul style="list-style-type: none"> <li>– MSD for Mothers [also known as Merck for Mothers] (US\$4.5 million)</li> <li>– USAID (US\$4.5 million)</li> </ul>   |
| <b>Service providers</b>       | <ul style="list-style-type: none"> <li>– Hindustan Latex Family Planning Promotion Trust (HLFPPT)</li> <li>– Population Services International (PSI)</li> </ul>  |
| <b>Investors</b>               | <ul style="list-style-type: none"> <li>– UBS Optimus Foundation (US\$3.5 million)</li> <li>– Co-investment from stakeholders: Palladium (US\$300,000), Hindustan Latex Family Planning Promotion Trust (US\$500,000), Population Services International (US\$500,000)</li> </ul>   |
| <b>Verification</b>            | Mathematica Policy Research  |
| <b>Beneficiaries</b>           | Base case of 360 private healthcare facilities in Rajasthan, India; up to 444 facilities   |
| <b>Intervention</b>            | Support for facilities to prepare for accreditation under a new joint quality standard for maternal and newborn healthcare   |
| <b>Use of outcome funds</b>    | <ul style="list-style-type: none"> <li>– Up to US\$8M for investors and service providers on delivery of results</li> <li>– US\$1M for independent verification and impact evaluation</li> </ul>   |
| <b>Payment metric</b>          | Verification that a facility is ready for accreditation under the new standard   |
| <b>Duration of impact bond</b> | 3 years with a three-month mobilization period and a four-month wind-down period   |
| <b>Investment return rate</b>  | 7.1% expected IRR for UBS Optimus Foundation, capped at 8%   |
| <b>Legal structure</b>         | Bilateral contractual arrangements between outcome funders, investors, and service providers   |
| <b>Expected impact</b>         | <ul style="list-style-type: none"> <li>– Up to 920,000 newborns, as well as their mothers, expected to be impacted over DIB term by improving 360 facilities to accreditation standards</li> <li>– Aims to reduce maternal and newborn mortality rate and stillbirths across 240,000 births a year</li> <li>– Aims to save at least 2,000 lives</li> </ul> |

*Source: 2018 pfc*

### Program Structure and Strategy

The first year of the Utkrisht Maternal and Newborn Health DIB began in early 2018 with the goal of having 427 healthcare facilities running by the end of the year, including 195 new facilities and 83 existing facilities at accreditation standard.<sup>149</sup>

However, actual implementation began earlier during a three-month period at the end of 2017. This ramp-up period was critical for further stakeholder engagement, final recruitment of staff, establishment of facilities and IT systems at clinics, deployment of the performance management system, and detailed work on implementation planning.

Much like the Educate Girls DIB, service providers had to submit a detailed plan of action before they were selected to implement this DIB. The operational plan was based on certain baseline assumptions and goals, such as saving 2,000 mothers and babies. The hope is that up-front planning like this will



make it possible for these organizations to grapple with fewer challenges in the early months of the DIB. If the challenges are reduced, it may be possible to save significantly more lives—as many as 10,000 lives over a five-year period, according to the higher end of the impact estimate.

To reach government accreditation standards, facilities must meet specific metrics, known as the Joint Quality Standards. These include access to care such as regular assessments; laboratory work and imaging services; emergency services like ambulances; patient rights standards such as involving a patient in their healthcare decisions; and infection control.

When these clinics are accredited, it will demonstrate to the state government of Rajasthan a cost-effective way to channel government funding to private facilities to improve health outcomes and reduce the costs of maternal healthcare.

In designing the DIB, it became clear that the makeup of healthcare facilities in India has been changing. Between 1998 and 2016, births at privately owned facilities grew from 6 percent of all deliveries to 17 percent of all deliveries.<sup>150</sup>

Scott Higgins, Director of Operations for Merck for Mothers (known as MSD for Mothers outside of the United States and Canada), says another attractive element of the DIB was that it's a new form of financial agreement—an exciting prospect that focuses on rewarding results and the intent of handing off the project to the government. "We were also attracted to the fact that this was a novel financing model," he observes. "It was something that we were interested in experimenting with, to see if there are opportunities to use this on a broader scale."<sup>151</sup>

### Goals and Process for Achieving Results

The goal of the service providers is to improve the clinics treating mothers and their newborns so they can receive government accreditation—a standard that would signify that the clinics are well managed and capable of giving high-quality care to their patients. It also is the benchmark required to receive government reimbursement for service providers.

The baseline goal is to improve at least 360 facilities to accreditation standards. If this goal is met, it's estimated these improvements will save 2,000 lives. The cost of success is expected to be US\$17,300 per accredited facility.

Higgins says the DIB was an attractive investment opportunity for Merck for Mothers, a US-based initiative that supports maternal health projects in 30 countries worldwide. Through the DIB, Merck could be assured that their US\$4.5 million would only be paid if these goals were met, which removes the risk to the outcome payer. "An attractive aspect of the DIB is that we're paying on outcomes, not on the input..." he says. "You know, one of the risks of a traditional funding model is that you are paying for activity, but you frequently don't really know whether the desired outcomes will be achieved."<sup>152</sup>

Priya Sharma, Senior Policy and Innovative Financing Advisor for USAID, agrees, adding that DIBs are attractive from a budgetary and mission perspective. "It's very intriguing because it's a mechanism that is solely outcomes based," she says. "USAID doesn't put in any resources or we don't make any payments until or unless the agreed-upon outcomes are hit. From a budgetary perspective, that's quite appealing. If the project doesn't work, then we don't lose any money. We can use that money to put towards a project that *is* working."<sup>153</sup>



The two service providers were chosen for their existing track records and their proven ability to scale if equipped with the proper resources. Hindustan Latex Family Planning Promotion Trust (HLFPPT) is a social enterprise with more than 600 employees and partnerships with the Indian Ministry of Health and Family Welfare as well as 11 Indian state governments. The organization focuses on implementation of reproductive health programs, HIV prevention, and other care programs that promote healthy living. Population Services International (PSI) is a global health network of more than 60 organizations that focus on improving health outcomes in developing nations.

### **Lessons Learned from Early Days of Utkrisht Maternal and Newborn Health DIB**

While the Utkrisht Maternal and Newborn Health DIB is still in its early days, the design process for creating the DIB has already revealed some lessons.

#### **Lesson 1: Pay Close Attention to Evaluation Costs**

Transaction costs can be expensive with pilot projects, especially with evaluation. Ways to reduce costs are to ensure a reasonable project size in relation to the evaluation cost; to keep in mind that an evaluation approach that gets the job done doesn't have to be the "gold standard"; and to measure an intermediate indicator if it significantly relates to the outcome.

#### **Lesson 2: Scale and Diversity**

Having diverse procurement methods from donors and foundations helps with scaling a DIB. Unlike the Educate Girls DIB, the Maternal and Newborn Health DIB had very large-scale partners: USAID, Merck (Merck for Mothers' parent company), and Population Services International are all multinational companies with broad reaches and even larger budgets. In 2016, PSI added an estimated 38.1 million years onto the lives of almost five million people worldwide.<sup>154</sup> That same year, USAID spent almost US\$19 billion in 144 countries,<sup>155</sup> while Merck for Mothers spent US\$500 million serving six million women.<sup>156</sup> Should the DIB be successful, these organizations have the resources to replicate and scale their work worldwide.

#### **Lesson 3: Identify a "Champion"**

An impact bond's success is often the direct result of a champion stakeholder or stakeholders who lead development from concept through to implementation, ensuring that challenges are navigated, relationships managed, and momentum maintained.

#### **Lesson 4: Engage Local Government Early, Have a Viable Product, and Open the Selection Process to a Wider Pool**

Stakeholder engagement upfront is essential, but also means juggling many balls at once. Engaging local government from the start makes the rest of the DIB work flow much smoother. Having a viable minimum product before engaging an investor makes it more likely that the DIB will be funded. It also helps to open up the service provider and/or intermediary selection process to a wider selection pool. When stakeholders are chosen, it's necessary to maintain a living design document that all key stakeholders can access in order to communicate as the DIB develops.



### Lesson 5: Document Best Practices

There is a big need for public repositories of best practices for DIBs, as well as technical assistance for key local stakeholders, because bond development will remain time consuming and costly until local partners have access to more information and experience.

### Lesson 6: Make Metrics Central to the Work

Outcome funders are better able to determine price points for donors when there is more data available to inform those decisions. Service providers can be contracted through a competitive process based on those metrics. However, in situations where not enough data has been collected, it's nearly impossible to tell whether an organization has a history of using funding efficiently to save lives.

### Conclusion

The application of DIBs to the health sector is an exciting development, particularly as it affects the vulnerable target population of mothers and newborn infants. The Brookings Institution notes that healthcare provides especially promising opportunities for impact bonds, given the potential for high future returns, both to individuals and to wider society.<sup>157</sup> As the number of impact bond initiatives increase, more valuable lessons will emerge.

## Impact Loan (Social Success Note) to Impact Water

**Sustainability Goal: SDG 6: Clean Water and Sanitation.** “Ensure availability and sustainable management of water and sanitation for all.”<sup>158</sup>

### Wicked Problem

According to UNICEF, diarrhea is the leading cause of death in children under five years of age worldwide. An estimated 480,000 children die each year across the world from diarrhea—about 1,300 a day. Globally, nearly 850 million people have no access to a reliable, quality source of drinking water.<sup>159</sup>

Uganda is a case in point. Although home access to clean water has increased in the country, children are still exposed to untreated water in their schools. The social business, Impact Water, wanted to expand its work of providing safe drinking water to schools across Uganda. Access to capital from UBS made it possible for them to scale up more quickly. UV filters provided through the program allow schools to avoid the need to boil water for cleanliness. In addition to the threat of death, dehydration, fatigue, and other ailments that come from drinking dirty water, it can keep children out of school for significant periods of time.

### Partners and Participants

To solve this problem, in April 2018, UBSOF teamed up with Rockefeller Foundation and Yunus Social Business to offer a new type of impact loan: The Social Success Note (SSN). An SSN “blends funds from donor organizations, governments, and private debt and equity. It is intended to be sector agnostic, ultimately seeking to build a larger pool of both investment and outcome funding.”<sup>160</sup> The SSN works through an investor (UBSOF) providing a social business with funding in exchange for the promise that

## Three Social Finance Projects



they'll achieve a specific social goal. If that goal is met, the outcome funders pay the investor and the social business for reaching that target.

For this project, UBSOF is the investor and paid US\$500,000 for the SSN; Yunus Social Business (YSB) is the implementation manager; a local Ugandan consultancy, SEDC, is the verification evaluator; and Rockefeller Foundation is the outcome funder.

Table 5 gives a high-level overview of the project, and Figure 15 provides an organizational summary.

**Table 5: Synopsis of the Impact Water Social Success Note**

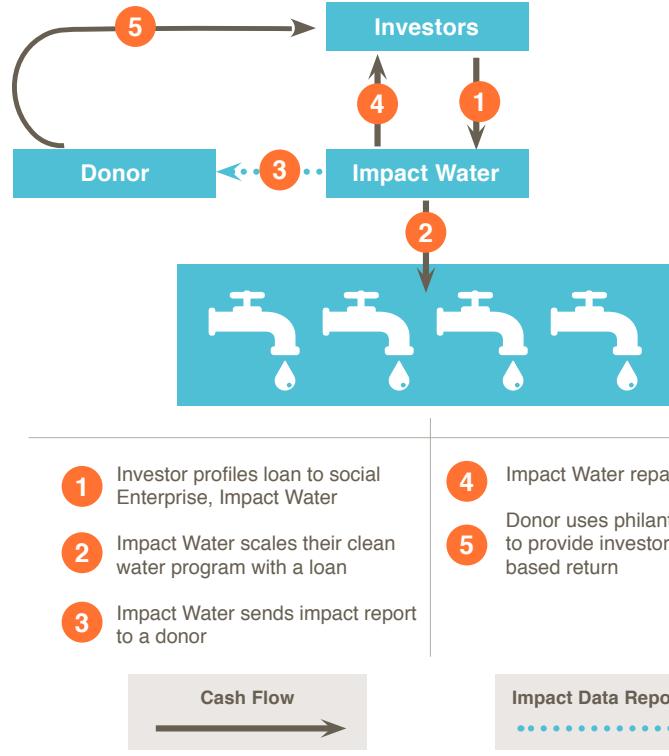
| <b>Implementation manager</b>  | Yunus Social Business   |
|--------------------------------|---|
| <b>Outcome funders</b>         | Rockefeller Foundation (US\$200,000)  |
| <b>Service providers</b>       | Impact Water  |
| <b>Investors</b>               | UBS Optimus (US\$500,000)   |
| <b>Verification</b>            | SEDC  |
| <b>Beneficiaries</b>           | 1.4 million children  |
| <b>Intervention</b>            | Increase access to clean water by selling UV water filters to schools   |
| <b>Use of outcome funds</b>    | If goals achieved: UBS Optimus Foundation will receive 60% and Impact Water will receive 40% of the outcome funds |
| <b>Payment metric</b>          | Number of children in schools paying for and installing new UV water filters                                      |
| <b>Duration of impact bond</b> | 5 years   |
| <b>Investment return rate</b>  | Debt is priced at 5%, with UBS Optimus Foundation's return at 10% if targets are met                              |
| <b>Legal structure</b>         | Pay-for-performance contract between stakeholders   |
| <b>Expected impact</b>         | Provide 1.4 million children access to safe drinking water in their schools                                       |

*Source: 2018 pfc*

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**Figure 15: Organizational Structure for Impact Water SSN**



Source: 2018 pfc, adapted The Rockefeller Foundation

### Goals and Process for Achieving Results

Impact Water works with schools in Uganda and has recently expanded to Kenya and Nigeria. The goal of this SSN is to reach 1.4 million children over five years.<sup>161</sup>

Impact Water identifies schools that need water filters and gives them a zero-interest loan to purchase the UV filters. Schools can start using the filters right away, and they pay back their loan as funding comes in from tuition payments over up to five school terms. Impact Water notes that most schools can't afford such filters, which cost between US\$1,200 and US\$2,000, on their own.

YSB chair and co-founder, Nobel laureate Muhammad Yunus, notes, “Social businesses around the world are gaining momentum, and young entrepreneurs are getting enthusiastic about them. To support their initiatives, social businesses need continuing funding, and I hope the Social Success Notes become the leading instrument to fulfill this need.”<sup>162</sup>

### Results, Outcomes, Success

Impact Water has already provided 1,300 schools with UV filters in various countries. The SSN aims to fund UV water systems for 3,600 more schools in Uganda by 2021. This would allow 1.4 million more children to have access to safe drinking water in their schools.



Social Success Notes make sense when a social business needs capital investment, but falls in the cracks between traditional funding options. These organizations also may be viewed as too risky or may not offer enough financial return for traditional investors. And while SSNs require more risk tolerance, the impact—cleaner water and healthier children—is immense, says Tim Neville, Impact Water Chief Operating Officer. “We stay with schools. It’s riskier. It’s more headaches.” Neville says that as SSNs begin to scale, more doors will open as the investment community begins to realize the social impact opportunities available. While Impact Water is still not at breakeven, Neville is hopeful that as more investors realize their clients want to be involved with social finance, SSNs will offer a solution. “It is an exciting trend. This is one of the things that keeps me energized about the work that we’re doing.”<sup>163</sup> These opportunities and challenges are discussed in the case analyses.

### Conclusion

While Impact Water is still in the early stages of implementation, some observations are already apparent. It can be jarring for a traditional investment organization to put its capital in social businesses that may not immediately be profitable. But Lorenzo Bernasconi, Senior Associate Director for Rockefeller Foundation, says the focus on social businesses makes the most sense for SSNs, because they have the efficiency of for-profit businesses with a core mission that is socially focused. “The structure of a social business is to reinvest any potential profits back into the growth of the business,” he says. “I also see this as a solution to any business, really, that is looking to enter a more difficult market where there’s the potential for impact but where they would need some kind of subsidy on the financing side of the equation to make it work for them.”<sup>164</sup>

An important value of the SSN may well be its simplicity. As Maya Ziswiler, Head of Social Finance at UBSOF notes, the low transaction costs in the SSN are “a key component” in the design and success of the model. Bruysten agrees: “We really wanted to make it very simple, because we were worried we would alienate investors [if] it’s just too complicated.”<sup>165</sup> It remains to be seen if this simplicity will translate into a substantial mitigation of a Wicked Problem in Uganda and elsewhere, but the initial results seem promising.

### The Quality Education India DIB

**Sustainability Goals: SDG 4 and 5:** “Ensure inclusion and equitable quality education and promote lifelong learning opportunities for all”<sup>166</sup> and “achieve gender equality and empower all women and girls.”<sup>167</sup>

### Wicked Problem

As noted in the previous section on Educate Girls, India is facing a crisis in education. While the nation has made progress towards achieving universal primary school enrollment, quality of education remains a key challenge. Many Indian children still lack basic literacy and numeracy skills.<sup>168</sup> Children often struggle due to teacher shortages and teacher absenteeism; inadequate teacher qualification and support; a large variation in student abilities in each classroom; poor institutional capacity; a lack of accountability systems; and a lack of a conducive learning environment in their classrooms.

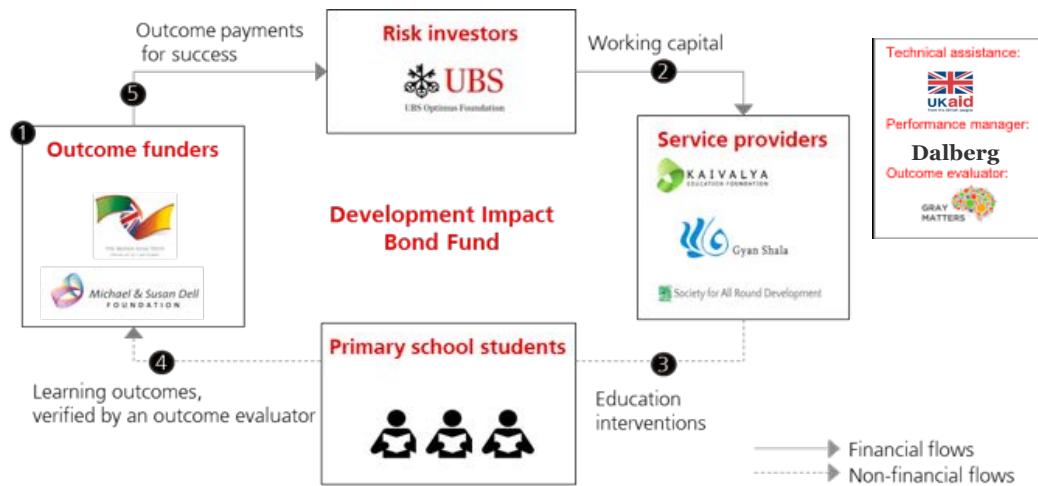


UBSOF is using the Educate Girls DIB experience to shape the Quality Education India DIB, which aims to improve literacy and numeracy skills for 300,000 elementary school children in three regions of India: Delhi, Gujarat, and Rajasthan. The goal is to get local children up to their appropriate grade-level in these skills. The DIB launched in 2018.

### Partners and Participants

UBSOF is providing upfront working capital of US\$3 million to provide each service provider funds for the four-year program. According to website about the new DIB, “Michael and Susan Dell Foundation is the anchor outcome funder for the DIB, and the British Asian Trust has convened a group of other critical outcome funders, including Tata Trusts, Comic Relief, the Mittal Foundation and BT.”<sup>169</sup> Figure 16 illustrates the relationships between the partners.

**Figure 16. Organizational Structure for the Quality India Education DIB**



Source: 2018 UBSOF

The total outcome fund raised for the DIB is US\$11 million, “with the goal of doubling the size of the DIB in the coming years.”<sup>170</sup>

The DIB technical assistance partner is the UK Department for International Development (DfID); Grey Matters India is the evaluator; and Dalberg is the performance manager.

Much like the Educate Girls DIB, service providers for the Quality Education India DIB were chosen because of their significant experience directly or indirectly supporting students in low-income areas. Each has a track record of supporting educational improvement in India:

- **Gyanshala’s** mission is “to enable Poor Rural/Urban Slum Children to join the Professional Class of Tomorrow.” One of the largest non-government school education programs for poor children in India, its programs include Elementary School, Middle School, and High School Education, and it operates in nine Indian districts across four states. The group holds free private school classes for



children in first through third grade in slums in Ahmedabad and Surat in the state of Gujarat. Gyanshala provides funding to open more classes, enroll more students, and improve learning outcomes for students.

- **Kaivalya Education Foundation (KEF)** started in 2008 with the focus of transforming the quality of education in public schools by providing leadership training to school principals. Since then, it has partnered with many government, private, and educational institutions to impact more than 1,200 schools in the three states of Rajasthan, Gujarat, and Maharashtra. KEF also seeks to expand its School Leadership Development Program, which aids school principals to be prepared for management duties and to train more principals and teachers in about 210 schools in Ahmedabad.
- **Society for All Round Development (SARD)** is a nonprofit organization dedicated to increasing the participation of minorities and disadvantaged communities in mainstream development processes. SARD's goal is to empower these groups, particularly women and adolescent girls, by improving their access to quality education and health services; providing vocational training; introducing micro-credit programs; and promoting environmentally sustainable income generating activities. The group's focus is to build the organizational and leadership capacities of its stakeholders. It takes a holistic and integrated approach to development that favors the sustainability of its programs by providing people access to the tools, training, and structures they need. SARD uses direct and indirect methods to help children improve their learning outcomes.

#### Program Structure and Strategy

The DIB will aggregate and facilitate impact capital to replicate and scale the innovative financing model and create a paradigm shift in education financing. The DIB aims to disburse outcome payments over four years, reaching 300,000 primary school children in India. The overall program cost is estimated at about US\$7.6 million, with about US\$400,000 required for operating costs. Table 6 explains the DIB structure.



**Table 6. The Education India DIB Structure**

|                                |  |
|--------------------------------|--|
| <b>Implementation manager</b>  | <ul style="list-style-type: none"> <li>– Dalberg</li> <li>– Department for International Development (technical assistance partner)</li> </ul>   |
| <b>Outcome funders</b>         | The British Asian Trust, The Michael & Susan Dell Foundation, Tata Trusts, Comic Relief, The Mittal Foundation, Department for International Development (DfID), and British Telecom (BT)  |
| <b>Service providers</b>       | Gyanshala, Kaivalya Education Foundation (KEF), and Society for All Round Development (SARD)   |
| <b>Investors</b>               | UBS Optimus Foundation   |
| <b>Verification</b>            | Grey Matters India   |
| <b>Beneficiaries</b>           | 300,000 children   |
| <b>Intervention</b>            | Support education providers in India to improve learning outcomes for over 300,000 primary school students in India.   |
| <b>Use of outcome funds</b>    | Implement and scale quality education interventions across India across a range of operational models, including direct school management, supplementary programs and principal and teacher training.  |
| <b>Payment metric</b>          | Improvement in learner outcomes as measured by proficiency in literacy in local language and math  |
| <b>Duration of impact bond</b> | Four years   |
| <b>Investment return</b>       | Expected IRR of 8% if outcome targets are met  |
| <b>Expected impact</b>         | <ul style="list-style-type: none"> <li>– Increase of enrollment of all schools supported by service providers from about 103,000 students to about 187,000 students. Increase learning gains to get students on or near grade level.</li> <li>– (Specific targets have been established for each service provider.)</li> </ul> |

*Source: 2018 pfc*

### Goals and Process for Achieving Results

The DIB has four objectives:

- **Demonstrate the value of an outcomes-based approach** in helping to deliver greater/ consistent impact in schools.
- **Develop a market for outcomes** by providing greater transparency around cost per impact unit across different types of programs and service providers.
- **Unlock more private capital** to increase the overall pool of available capital to high-quality education programs that deliver improvements in learning outcomes.
- **Act as proof of concept to government** and pave the way for government participation in innovative financing vehicles (such as a Social Impact Bond).



The DIB is expected to increase the return on capital deployed by establishing robust accountability and performance management mechanisms that explicitly link outcome funds with performance. It will also foster more innovative and effective programming compared to a traditional grant-financing mechanism.

Students move in and out of schools frequently in these three targeted areas of India, so the overall goal is to improve learning outcomes for about 300,000 students cumulatively over four years. This includes students who leave the schools during the program term, students who enroll during the program term, and students who stay for the duration of the program—which is why that goal is larger than the specific enrollment target. The outcome goal is to have about 187,000 students enrolled in DIB-related schools at the end of the fourth year.

### Community Voices Matter

This DIB takes lessons from the Educate Girls DIB and makes sure service providers understand that they are expected to interact with the students, their parents, and the local communities to see whether the outcomes being provided are actually what the community needs—rather than just what stakeholders think these communities need.

“We are looking for service providers who work very closely with the end beneficiaries of the services that they provide and who...can show and demonstrate that the intervention or the service that they’re looking to deliver has been informed first by an assessment of the local need,” says Radana Crhova, DfID Development Impact Bonds Advisor. “So, is this work that we’re going to do needed, and, if so, [are we] looking at what are the outcomes that people on the ground are missing right now?”<sup>171</sup>

Crhova says it’s best, whenever possible, for stakeholders to speak with members of the communities in which they’re hoping to set up a DIB program before the DIB is actually implemented and to continue these discussions as the DIB progresses. Community voices matter in these decisions, she says, since they are the primary customers in this DIB. “How could we best work with them in order to achieve those outcomes?” she asks.<sup>172</sup>

### Early Lesson Learned: Open Communications are Essential

As the DIB is implemented, Crhova says DfID is keeping communication lines wide open with stakeholders to get the DIB off to a smooth start by avoiding early issues and by allowing for nimble adaptation when roadblocks inevitably arise.

“I think it’s still down to regular communication and making sure that we...are fostering an open culture within the project,” Crhova says, “which means that every party involved is willing and able to speak to us about any early concerns or early sort of warnings of anything going awry. [It’s important] that we keep in touch regularly [and] that we actually physically visit people in the field as much as we can.”<sup>173</sup>

Having only just launched, this DIB will provide an interesting case study, building on the success of the Educate Girls DIB and incorporating lessons learned from other DIBs and impact loans.



### Conclusion

As stated earlier in this case study, the Educate Girls DIB and these subsequent UBSOF pay-for-success prototypes were created for the primary purpose of developing proof of concept to demonstrate the effectiveness of results-based financing mechanisms that have emerged in recent years. UBSOF has been a pioneer in this endeavor.

Social finance mechanisms that combine the best of private sector efficiency and financing, organizational support, and impact measurement can create far more than the sum of their parts.<sup>174</sup> Private sector capital is crucial to help achieve the UN's 17 Sustainable Development Goals. Nonetheless, the combination of expertise and networks that new mechanisms that can bring to the development sector is equally important.<sup>175</sup>

Dhun Davar, Program Director, Social Finance at UBSOF, adds that it can be almost a decade before any long-lasting impact of a three-year program can really be seen. In Davar's view, change takes time and patience, and it can be difficult to get donors to embrace that time scale.<sup>176</sup>

It can also be challenging to get donors to see the "big picture" goals.<sup>177</sup> Since DIBs rely on the success of a specific social goal, choosing the correct goal and the subsequent benchmarks are essential to the viability of a program.

As the results of these additional financing mechanisms are measured against expectations and costs, the social finance sector will continue to be informed and will undoubtedly continue to evolve.

"I think that recognition and understanding of expectations and where partners are coming from are absolutely critical," says Maya Ziswiler. "It really is about being open and honest and upfront about what your expectations are and why you're doing something, and, if incentives aren't aligned, we shouldn't engage in the partnership."<sup>178</sup>



## Deliberate Leadership

### Deliberate Leadership in Action

Having described UBS and UBS Optimus Foundation and four social finance prototypes, the case study now examines these investments through the lens of Wicked Problems, using the Deliberate Leadership framework. As noted earlier, the concept of Wicked Problems emerged from the field of urban planning in the early 1970s when Berkeley professors Horst W. J. Rittel and Melvin Webber sought to describe “wickedly” complex social problems.<sup>179</sup>

Rittel and Webber put forward ten characteristics to identify Wicked Problems:<sup>180</sup>

1. They have no definitive formulation.
2. They have no stopping rule, or are never completely solved.
3. Their solutions are not true-or-false, but good-or-bad.
4. The repercussions of a Wicked Problem’s solution can never be fully appraised.



5. Every attempted solution counts significantly, leaving traces that cannot be undone.
6. They do not have an exhaustive set of potential solutions, and it is not possible to prove that every solution has been identified and considered.
7. Each one is essentially unique.
8. Each one can be considered a symptom of another problem.
9. One's choice of explanation for a Wicked Problem determines the nature of the problem's resolution.
10. Those who attempt to solve Wicked Problems are held liable for the consequences of the actions they generate.

This concept is now used widely by business leaders, particularly in the development field. Wicked Problems are large, messy, complex, and systemic, and include many of the most challenging issues we face today, from global issues of poverty to local issues of failing education systems and lack of access to water, food, and financial security and stability. There are no easy solutions to Wicked Problems, and, though enormous progress can be made in alleviating them, they will remain with us.

Some scholars distinguish between Critical, Tame, and Wicked Problems. The first are urgent and require command-and-control leadership ("the house is on fire"). The second are technical and have been solved many times before and require technical expertise ("the road must be built"). The third are always being approached for the first time and require adaptive leadership and collaboration and partnership.<sup>181</sup>

Deliberate Leadership is an amalgam of the most popular and commonly taught leadership strategies taught in business schools around the world. These leadership strategies are a response to the challenges posed by complex, systemic challenges. The Deliberate Leadership framework is designed for leaders to use in tackling problems with no easy or consensus solutions. Each characteristic of Deliberate Leadership is based on proven business and social sector theory and practice. They are recognized leadership strategies used in creating lasting positive change within companies and organizations and in the lives of people most affected by the consequences of Wicked Problems.

The seven core characteristics (the 7C's) of Deliberate Leaders are those that institutions, and individuals in those institutions, must consistently display to demonstrate flexibility and maximize learning:

- **Courage**—to embrace risk and live with ambiguity. Deliberate Leaders recognize that simple solutions are insufficient to address complex challenges. They also realize that risk is inherent to Wicked Problems. Solutions must be tried, tested, and allowed to evolve.
- **Collaboration**—to seek out and listen to divergent viewpoints. Deliberate Leaders recognize that building collaborative solutions may be slow and uncomfortable, but essential to understanding options, gaining new knowledge, and building powerful solutions.
- **Community**—to build solutions together from the ground up. Deliberate Leaders recognize that answers to tough issues may already reside in Positive Deviants. They seek uncommon answers to difficult situations and put people at the center of decision-making.

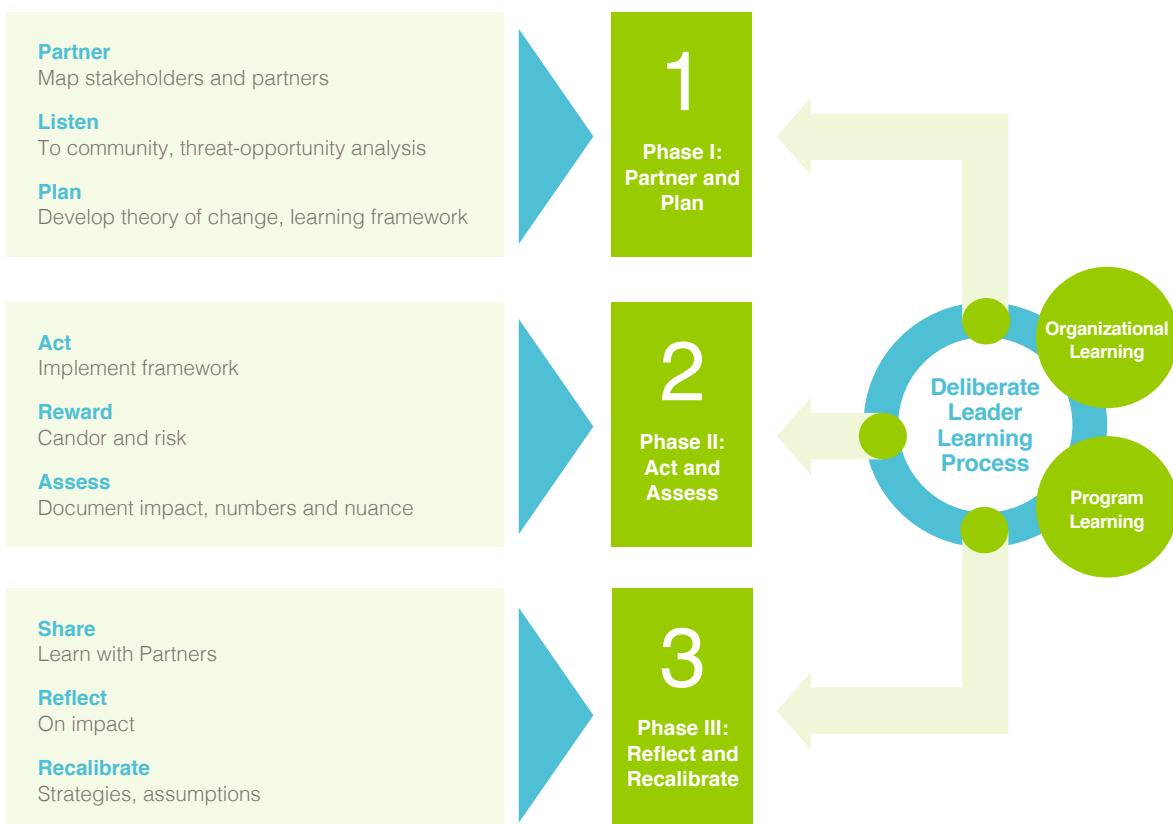
## Deliberate Leadership



- **Candor**—to speak and hear the truth about what is working and what isn't. Deliberate Leaders embrace failure and success equally—internally and among partners—to manage risk and allow for recalibration and innovation.
- **Creativity**—to imagine a new future and move beyond the constraints of the past. Deliberate Leaders look for “big ideas” and evolving practices through scenarios that envision a different future.
- **Capital**—to examine how financial and non-financial resources are invested and how impact is analyzed.
- **Compassion**—to understand how empathy and partnership, not ego, impact the power dynamics within and surrounding an organization.

The seven characteristics of Deliberate Leadership apply equally across all three phases of the process by which organizations learn and adapt in order to deal successfully with Wicked Problems. Organizational learning is important at both the programmatic and the operational levels; the evaluation process must apply to both. The three phases of organizational learning and change are: Phase I—Partner and plan; Phase II—Act and assess; and, Phase III—Reflect and recalibrate (see Figure 17). Learning and recalibration are covered in Case Analysis 5.

**Figure 17. The Deliberate Leader Learning Process**



Source: 2016 pfc



## Lessons in Deliberate Leadership

In this case study, pfc uses the Wicked Problem and Deliberate Leadership frame to examine the perspectives of UBS and UBS Optimus Foundation staff and their fellow funders and partners as they recounted their perceptions of successes, challenges, and lessons learned. This analysis offers insights into how Deliberate Leaders embrace factors that can get in the way of positive impact: values and beliefs; organizational development and culture; clarity and communications about roles and expectations; accepting and celebrating risk and failure; alignment among funder, investor, service provider, and the children at the center of the investment; and, ultimately, deep recalibration based on knowledge and lessons learned.

Featured perspectives include:

- **Case Analysis 1: Rebuilding Culture Inside a Giant Bank.** Phyllis Costanza, CEO of UBS Optimus Foundation, reflects on how she created a team and organization ready to embrace innovation and risk in social finance to improve the lives of vulnerable children.
- **Case Analysis 2: Balancing Risk and Reward for Results.** Partners across the four prototypes discuss their perspectives on risk, failure, and collaboration.
- **Case Analysis 3: Treating the Community as a Valued Client.** Several partners examine how they involve client feedback and what accelerates progress and gets in their way.
- **Case Analysis 4: Multi-player Alignment for Impact.** It is hard to align interests, roles and responsibilities, and expectations when working across diverse teams and collaborations. Interviewees share their experiences about how to keep and sustain strong working relationships.
- **Case Analysis 5: How Does UBSOF Learn and Recalibrate?** As new approaches in social finance are explored, constant iteration and learning is needed. This case analysis explores how UBS Optimus learns as a team and iterates strategy while sharing its results with the field.
- **Case Analysis 6: What Does It Take to Scale?** Taking solutions to scale through new capital is essential if the ambitious SDGs are to be met. Partners across projects share their insights about the definition of scale and what gets in their way.

The story of UBS Optimus Foundation and the work of its Social Finance team and its partners are complex and offer rich learning experiences. Therefore, we offer several case analyses featuring particularly relevant elements of the Deliberate Leadership framework. Each case analysis poses questions for students and the broader field of social finance to help answer the question, “What would you do, given the circumstances?”



## Rebuilding Culture Inside a Major Financial Institution

### Case Analysis 1: Rebuilding Culture Inside a Major Financial Institution

*Integrity is key...it's the things that you do when nobody is watching. Those things matter, and we all sense them, and if we sense that somebody doesn't have it, we don't buy into what they're doing. You know, we care about social justice, and we can't fake that.*

—Phyllis Costanza, CEO, UBS Optimus Foundation<sup>182</sup>

UBS Optimus Foundation (UBSOF) is, in the words of scholar Richard Pascale, “acting its way into a new way of thinking” for its organization, the bank in which it is housed, the clients it supports, its partners, and the broader field of social finance.<sup>183</sup> Many organizations and leaders wrongly believe that they can think their way into innovation and action—especially when addressing complex challenges. But it is acting differently that will help build new frames of reference and that changes the organizational mindset to accept risk, experiment, and be open to new partnerships and opportunities for innovation.

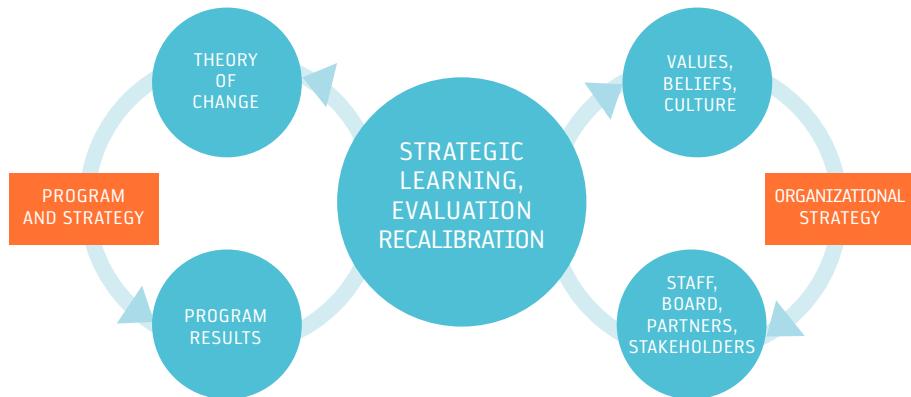


This analysis examines how CEO Phyllis Kurlander Costanza reimagined the Optimus Foundation and created a culture that embraces a new way of acting and thinking to fulfill the Foundation's vision and mission of supporting "a world where all children can reach their full potential by ensuring children are safe, healthy, educated—and ready for their future."<sup>184</sup>

Under Costanza's direction, UBSOF has spurred the evolution of the social finance field by leading world-class innovations with its partners through the first education and healthcare Development Impact Bonds (DIBs) and a Social Success Note. These efforts have a common hallmark—they tie outcome payments to measurable impact. By prototyping possible solutions to scale and showing ways to leverage private sector financial resources to meet the UN's Sustainable Development Goals, UBS Optimus Foundation is also helping UBS clients improve the lives of vulnerable children and their families.

Costanza's leadership approach touches on many tenets of Deliberate Leadership. As Figure 18 illustrates, Deliberate Leaders are guided by values and beliefs that shape internal culture, organizational operations, and programmatic outcomes and learning. Harvard academic and leadership expert Ron Heifetz notes that adaptive leaders—capable of riding the wave of complexity and chaos—must ground themselves and their teams (within and beyond the boundaries of their organizations) with diverse perspectives, while also sharing common values and respect.<sup>185</sup> This diversity enables cross checks and the ability to question ideas and innovations to refine them and to make them ready for rollout. This openness also requires that a leader create a safe space for dissenting ideas, for building trust, and for supporting transparency and candor.

**Figure 18: Leadership and Organizational Culture in Supporting Innovation**



*Source: 2017 pfc*

According to sector scholars, organizational culture is shaped by a leader's values and beliefs and is communicated through norms, artifacts, and behavioral patterns.<sup>186</sup> These values become social determinants for an organization's routines and practices, and they enable the conditions and climate to influence employee behavior and creativity powerfully.<sup>187</sup> When leadership values are clear and shared across an organization, innovation is spurred.<sup>188</sup>

Socially innovative actions, strategies, practices, and processes are mostly responses to Wicked Problems.<sup>189</sup> In the "institutionalized field" of public or private action, the inability to use linear thinking



approaches and to produce satisfactory solutions to wicked, complex, and intractable challenges such as poverty, exclusion, segregation, and deprivation creates the need for social innovation.<sup>190</sup> Social innovation, however, does not occur in a vacuum. Addressing Wicked Problems through business practices and social innovations requires Deliberate Leadership and development strategies for helping organizations mirror practices and approaches—internally with staff and externally with stakeholders.<sup>191</sup>

Costanza built diverse and collaborative teams with the support of her board, staff, and external partners. The trajectory of Costanza's leadership role as she rebuilds the Foundation is grounded in partnership and adaptability. This analysis provides insights into one CEO's approach to building a strong organizational culture that embraces innovation and transparency.

### New CEO, New Challenges

*We need to work together, and it's not just within the two to three teams (operations, fundraising, and programs), but it's also within UBS overall. And it's a political environment, as are most large corporations. I've worked in New York City politics, so I understand politics with a big and small "P." And the thing about working in philanthropy in a financial institution is that while it's not the core business, it's still interesting and gives people a sense of purpose. Everyone wants to be able to give out money and feel like they're making a difference.*

—Phyllis Costanza, CEO, UBS Optimus Foundation<sup>192</sup>

Phyllis Costanza was recruited by UBS to become CEO of the UBS Optimus Foundation in 2011 after having successfully helped launch the Children's Investment Fund Foundation (CIFF) and serving as part of its leadership team for eight years. The UK-based foundation was started by a hedge fund executive and Costanza's former classmates from Harvard's Kennedy School. Costanza was ready for a new adventure, and she and her family were attracted to Zürich, but the culture of the Optimus Foundation was not what she expected. She knew politics—having served as New York Governor Mario Cuomo's representative for Manhattan—but she was unprepared for the intrigues of a Swiss global bank. Emerging from a devastating global recession that required a government bailout, UBS was going through a major transformation, and it had to rebuild its reputation. Despite the fact that one third of the Swiss population banked with UBS, the citizenry had lost trust in the institution, and employees of the Foundation had been told not to say anything about publicly Optimus, for fear that it would be viewed as a loincloth for the bank.<sup>193</sup>

When she arrived, UBS Optimus Foundation reflected the culture of the bank—risk averse and more comfortable running quietly and unobtrusively.

Costanza had to reexamine her values and make sure they were aligned with those of the Foundation and the bank. In the early days, she admits, there were times when she wondered if she made the right move. At the center of her decision to accept the challenge was the value of integrity and a deep drive to improve the lives of the world's most vulnerable children. Costanza believed that UBS—with access to clients with significant financial resources and a commitment to philanthropy—could help move this important agenda forward. Operating under the directive from the then-Board Chair to take the Foundation "to the next level," Costanza got to work.



She identified four areas of improvement: an underperforming board; operational inefficiency; ineffective programmatic strategy; and a staff that lacked the right drive, skills, and vision. Costanza recognized that rebuilding the foundation was necessary to boost collaboration, skills, and scale—both within UBS and the Foundation.

### How to Overcome the Messy Middle

Within her first month, Costanza dived into leading the Foundation through its most pressing issues. As Figure 19 illustrates, her approach to dealing with these challenges was what some management theorists referred to as the paradigm of managing up, down, and across. Even though as CEO, she found herself in the “messy” middle, she was able to manage *up* by reorganizing the board and by getting buy-in from UBS. She was also confronted by the challenge of managing *across* by implementing a radical improvement in operational efficiency of the Foundation and by also changing its programmatic strategy. Finally, she had to manage *down* by dealing with staff, some of whom were ill-prepared to help the Foundation achieve a more ambitious program vision and strategy. Ultimately, she was able to walk the fine line of managing an in-house foundation of one of the world’s largest financial institutions.

**Figure 19. Diagnosing and Tracking the Early Challenges at UBSOF**





### Instilling Bold Action by Empowering Employees

*I think the most important thing about leading a team is that you enable them to perform. And, we know that the highest performing teams are generally people who are satisfied in their work. What gives people job satisfaction? The two most important things are that they have a sense of purpose and that they feel empowered to make decisions.*

—Phyllis Costanza, CEO, UBS Optimus Foundation<sup>194</sup>

### How Diplomacy Helps You Shake Things Up

The first challenge Costanza tackled was the reorganization of the board. Costanza explains, “The board comprised people who were well meaning and certainly very smart, but not necessarily globally recognized leaders.” She wanted to add board members who represented diverse leaders within UBS and externally. This diversity would stimulate richer discussion and debate, but also added credibility and objectivity. An outside search firm was used, and Costanza solicited recommendations from the existing board members. The restructuring of the board was not instantaneous, however. The process started gradually over the several years. Board members were replaced when their terms came up or at what seemed to be the appropriate time to do so.

Among the issues faced by Costanza during the board reset was that the group lacked the specific operational expertise pertinent to UBSOF’s new direction, as well as the large-scale fundraising connections needed to take the Foundation to the next level. With time, diplomacy, shared vision, and transparency, Costanza reorganized the board in a way that served the best long-term interests of UBSOF while minimizing potential frustration and ill will among founding board members.

### Holding Yourself to Higher Standards

The second challenge Costanza tackled was operational efficiency. The Foundation reviewed and revamped the way it saw donations, (i.e., from whom were the donations coming, where they were going, and the countries from which the donations were received). The Foundation and Costanza worked with the legal and compliance department to ensure that they were holding themselves to the highest standards. After the review, the Foundation essentially stopped actively seeking donations for a year—and donation income dropped from an all-time high of more than US\$35m to about US\$11m.

The law firm Baker McKenzie was hired to do a thorough review of donations—which countries they could come from, and if they were accepted, what were the tax liabilities or tax obligations of the Foundation. Says Costanza, “At the time, we asked, ‘How can we ensure that people making donations were actually fully tax compliant?’ We wanted to hold ourselves to a much higher standard than other non-profits.”<sup>195</sup> After the review, a decision was made not to accept donations from clients other than Swiss tax residents, because the Foundation was only registered in Switzerland. Today, the Foundation accepts contributions from all global offices in the US, the UK, Germany, Hong Kong, and Switzerland.

### Why Necessary Evil Is Sometimes the Best Thing

Costanza saw great potential in a bank that manages more than US\$3.2 trillion worth of assets to do good in society. Taking advantage of the opportunity, Costanza opened an office in Hong Kong, because it was one of UBS’s largest offices, and Asia was a priority region for the company. This strategic decision



allowed donations from UBS clients from Hong Kong. A parallel decision was made to close the program office in South Africa. Costanza explains, “As a foundation, we weren’t permitted to fundraise in South Africa. And, we were revising our programmatic strategy and approach to grant making, and I thought it was essential to do that in a very hands-on way from our corporate office. I wanted to build a strong culture and commitment to excellence and then build out.”<sup>196</sup>

Closing the office in South Africa was both a complicated and difficult decision, but one Costanza needed to make. Harvard Business School professor Joshua Margolis and Andrew Molinsky of Brandeis University’s International Business School describe these challenges and diagnostics as “necessary evils” that exist at the heart of professional and leadership positions. They are among the most unsettling responsibilities for new managers.<sup>197</sup>

Furthermore, necessary evils occupy such a significant and central place because they distill the burdens managers shoulder as they try to do what is best for their organizations, and in so doing, they exercise considerable power over people's lives. They are especially common when companies are trying to recover from poor performance, transform themselves, or engineer change.<sup>198,199</sup> Classic examples from management include laying people off for economic reasons, firing people for poor performance, denying promised resources, delivering negative performance feedback, and terminating projects and contracts.

After opening the Hong Kong office and closing the South Africa office, the first major programmatic strategy that Costanza and her team undertook was to evaluate all the Foundation’s grants and do an assessment of what was or was not working. This was a painstaking process, as the Foundation was not systematically collecting such information. “It turned into an extremely subjective exercise that relied on program staff to assess whether the grants they awarded were performing well. Suffice it to say, there was some conflict of interest,” Costanza says.<sup>200</sup>

### Blazing Guns and Building Trust

The challenge with staff issues was handled simultaneously with the three other main challenges, already described. When Costanza was hired, she was advised to be culturally sensitive, explaining, “I was told, ‘You are an American, and UBS is a very Swiss bank, so don’t cause a revolution. Wait to replace staff for about 12 months.’”<sup>201</sup>

Unfortunately, Costanza was faced with her first HR challenge during her first week on the job. She asked the most senior person in the office to give her an overview of the projects, asking for basic information about how many, locations, average size, best performing, etc. The staff member, who was the Head of Programs, couldn’t answer any of the questions. Costanza was forced to take action. “I went to my boss and said, ‘I know you told me I couldn’t fire people for the first year, and I’m only a week in, but this is unacceptable; you wouldn’t accept this from any of our banking colleagues, and we shouldn’t accept it here.’ And that was my introduction.”<sup>202</sup>

After this dramatic episode, Costanza commenced staff meetings over two weeks to kick-start a transformation effort and to gather feedback directly from the staff. By doing this, she created an environment in which employees’ feelings and ideas were heard and acknowledged. She began with a trust-building movement that focused on empowering the team to expand outside of their comfort zone and to share their opinions freely. While this approach was sometimes uncomfortable, Costanza gained



direct staff insight that allowed her to begin building the framework for improvement. She explained that in two weeks, “I interviewed ten staff and asked three questions: What did they think the Foundation did really well; what would they change in the organization; and what would they do more of?” Costanza believes this experience helped her learn more about the organization and allowed people to become more comfortable with her.<sup>203</sup>

### How Diversity and Dissent Help UBS Outpace Other Banks

According to Anita Williams Wooley, a researcher at Carnegie Mellon, diverse teams outperform even top performers because of the power of “collective intelligence.”<sup>204</sup> The challenging tasks facing Costanza required the best collective intelligence she could assemble. She operationalized her commitment to diversity while building teams within her staff and the board.

Her Foundation team is intentionally staffed by colleagues with skills in finance, international development, the private sector, and government. Costanza’s staff believe that these different points of view enable greater risk taking and provide a greater opportunity for questioning untested ideas. Head of Social Finance at the Foundation, Maya Ziswiler, explains, “The Foundation’s strength is its diversity of perspective. We all see things differently, but share a common point of view to find new ways of being more efficient with development resources. We poke holes in ideas, and we do it in a respectful way.” Program Manager for Social Finance, Sietse Wouters, explains that Costanza has also created a safe space for trying new things, explaining, “Phyllis has our back as we prototype new tools. She has created a supportive environment.”<sup>205</sup>

The Foundation board now also exemplifies diversity as it challenges and guides the Foundation’s direction and innovation. Internally, the board includes, amongst others, the UBS CEO, the head of Asset Management, and the head of the Investment Bank. It also includes external representation to provide skills in philanthropy and community-based perspectives, including representatives from the African Women’s Development Fund and the head of Effective Philanthropy at the William and Flora Hewlett Foundation.

### Deliberate Leadership at UBSOF

*This has been about the people, it's been about the process, and, most importantly, it's been about the purpose. You have to have the right people involved in structuring not just this DIB, but in building a team, in striving for growth, and striving for the highest impact, and those people can't all look like you.*

*They have to bring in very different skills, and there is oftentimes a lot of tension with that, and it's uncomfortable. But we have to embrace that.*

—Phyllis Costanza, CEO, UBS Optimus Foundation<sup>206</sup>

As MIT lecturer Douglas Ready writes in *Harvard Business Review*, two-thirds of large-scale transformation efforts fail.<sup>207</sup> Transformation is hard. As HBR points out, “Smart, capable, solid professionals most often perform well in their roles until they reach a level in their organizations at which they are confronted with a series of embedded tensions and paradoxes that make leading effectively much more complicated.”<sup>208</sup> Recognizing those tensions and paradoxes and acting on them is



what makes transformation possible. There are often no easy answers, but commitment to reconciling tensions is essential.

Balancing the tension between impact and return, involving diverse individuals on the team, speaking candidly, and having the patience to find the right path are reflective of several of the seven core characteristics of Deliberate Leadership. Costanza's leadership approach touches on many of the 7C's. By all accounts, she has been successful in her tenure as CEO of UBS Optimus Foundation. She has been able to unify Foundation staff across five countries. She has increased donations from the low of US\$12 million to more than US\$65 million annually, has tested new social finance strategies, and has built support for a new vision within UBS. She was also motivated to undertake the world's first DIB, to drive UBSOF, and to push the field. In accomplishing all this, she has created a community of openness within the Foundation and with partners, and she has demonstrated the power of Deliberate Leadership in addressing Wicked Problems.

### Questions for Consideration

- How do you reshape the organizational culture of a foundation within a cautious bank or other business under public scrutiny?
- What steps are needed for Deliberate Leaders to understand their current reality, see the future, and chart a new way forward?
- How do leaders maximize the benefits of diverse teams?
- How do leaders learn to manage in the “messy middle”?



## Balancing Risk and Reward for Results

### Case Analysis 2: Balancing Risk and Reward for Results

*"We support innovative programs to achieve social change. By seeking and funding innovative programs with groundbreaking ideas, we take calculated risks. And as a result, not all of our programs are always 100% successful."*

—UBSOF 2017 Annual Report<sup>209</sup>

When the United Nations Development Programme (UNDP) examines risk to the realization of its organizational goals, it examines the external and internal influencing factors that create uncertainty. UNDP utilizes an Enterprise Risk Management (ERM) System to manage the risk which includes:

- Identify and treat risk throughout the organization,
- Identify opportunities and threats,
- Encourage proactive management and better informed strategic decision taking, and
- Effectively allocate and use resources for risk treatment.<sup>210</sup>



With this framework in mind, consider the variety of risks inherent in social finance, which seeks to create measurable social benefits alongside a financial return. Impact investing provides an option for financing social impact through a blended return, the overall return achieved by combining an investment's social impact with the financial return.<sup>211</sup> Every investment of this type creates at least two different kinds of risks, financial and impact. As the field has matured, the risk conversation has moved beyond a choice between impact or financial return first. This trade-off is no longer the best lens when evaluating the risk associated with an investment. A much more nuanced view is now required—one that places the investment in a spectrum across a portfolio with various levels of risk, return, and impact.<sup>212</sup>

### A Hidden System Failure That Thwarts Innovation

In a 2017 article in the *Stanford Social Innovation Review* (SSIR), Laurie Michaels and Judith Rodin asserted that there is a system failure in philanthropic practice that is diluting impact and costing funders potentially billions of dollars.<sup>213</sup> They attributed this failure to the absence of common risk-management practices as an integral part of the grantmaking process.<sup>214</sup> There is no disagreement as to the definition of risk; it is an occurrence that will cause some type of undesirable effect. Risks can occur anywhere or anytime, they may or may not be predictable or controllable, and they may be caused by internal or external variables.<sup>215</sup> The important distinction between risk culture versus risk management needs to be understood when discussing a leader's or an organization's courage to take risk. Risk culture mirrors an organization's appetite for risk tolerance. Organizations that have made deliberate efforts to codify the important attributes that define their risk culture can bring internal and external clarity to the process by which they make choices regarding investments and grants.<sup>216</sup>

How risk is assessed varies. "I think one of the challenges of being in this Foundation, where we have people who come from the bank, is [that] it's a very risk averse culture," says Maya Ziswiler, Head of Social Finance at UBSOF.<sup>217</sup>

A well-governed bank takes the level of risk that is commensurate with its shareholder wealth and bound by the constraints enforced by laws and regulators. The essence of risk management in such banks is not to minimize or reduce the banks' total risk. Instead, it revolves around risk identification and measurements the banks are taking, and how these risks are aggregated into a measure of the banks' total risk. This calculus enables banks to avoid or eliminate bad risks, and ensures that the banks' level of risk is consistent with their risk appetites.<sup>218</sup>

As a foundation linked to one of the world's leading wealth management banks, the Foundation operates within this mindset of risk management, balancing the needs of the bank and its clients with the dramatic needs of vulnerable children, whose lives center on a different type of high risk—human rights, human security, and survival. UBSOF firmly believes that foundations—more than any other social sector actors—should take smart, informed and intelligent risks.<sup>219</sup> The Foundation stated the following in its most recent strategic plan:<sup>220</sup>

- Non-governmental organizations (NGOs) are on the front lines, serving families and communities, but often lack the resources and bandwidth to experiment.



- Governments have the deepest pockets and are responsible to deliver social goods and services to their citizens, but they often have a low tolerance for risk taking.
- Individual donors are numerous and generous, but often want a “sure thing” and immediate results from their charitable donations.

Head of UBS Client Relations Philanthropy Services, Tom Hall, sees an opportunity for increasing risk taking at the Foundation. “I think there is a strong desire to ensure innovations are more likely to be successful than not, which could mean we’re taking less risk than we could, and arguably should,” says Hall.<sup>221</sup>

### Seizing Unforeseen Opportunities

Figure 20 visualizes the relationships inherent in a threat-opportunity analysis that leads to improved strategic decisions and results. Leaders assess the risks they can foresee as shown inside the cycle of planning. They also know that they will not be able to anticipate everything, that there will be unforeseen risks, unintended consequences, and also unforeseen opportunities, depicted outside the cycle of planning.

Owen Strickland, Business Manager for UBSOF, notes the complexity of such considerations. “At each various point, you can address the risk topics. That’s the challenge of the structure—you’ve got the initial risk of the donor for the foundation, and then the contractual risk between the foundation and the partners, and then the outcome funders as well—another dimension. And then you’ve got the other bigger topics, as the circle goes around, effectively.”<sup>222</sup>

**Figure 20. Deliberate Leadership Threat–Opportunity Analysis**



Source: 2017 pfc



### “Why Not Take a Bit More Risk?”

Sonal Shah, UBSOF board member and Founding Executive Director of the Beeck Center for Social Impact and Innovation at Georgetown University, echoes that assessment. “It’s interesting. In business, everybody talks about taking risks, but when it comes to philanthropy and social impact, nobody wants to take risks,” she says. “They’re afraid they might do something wrong, and the challenge with that is that the alternative is the status quo, which is just as bad. So, why not take a little bit more risk to try something, and to learn, and to iterate.”<sup>223</sup> This is exactly what the bank and UBSOF are determined to do.

Regardless of an organization’s risk culture or a leader’s risk appetite, every organization or leader must manage risks. “Risk management is necessary to deal with the unavoidable existence of risk, regardless of one’s appetite or tolerance for it.”<sup>224</sup> The ability to reduce or avoid disruptive events and to have strategies and contingency plans in place is the essence of risk management. Risk culture and risk management are even more important when an organization is at the forefront of innovation, such as introducing the world’s first education DIB. Undoubtedly, new tools and mechanisms being used on the frontiers of social finance need scenario planning to anticipate unintended consequences and to acknowledge what can go wrong when dealing with the complex issues social finance seeks to address.

“Obviously, looking at mitigation strategies...how much of the risk can you reduce? What should we just accept? Who takes specific actions with regard to what types of risk is also very important. What’s an outcome funder’s role, versus the service provider’s, versus the investor’s?” says Radana Crhova, DIB advisor, Department for International Development (DfID).<sup>225</sup>

### Strong Leadership Means Honest Talk About Failure

Forward-facing businesses understand that innovation entails embracing risk and the possibility of failure. Embracing risk and talking about failure openly and honestly are lessons that philanthropy can learn from business in order to better address the greatest challenges of today and the future. This paradigm shift is key to Deliberate Leadership. The Wicked Problems that philanthropy and social finance seek to address are by definition high risk and pose many unknowns. Funders trying to address such problems will have success and failure. In that context, having the courage to take risk and share results widely is an essential attribute of Deliberate Leadership.

At UBSOF, there is recognition of the importance of assessing results in a self-critical manner and for the need to communicate success and failure. As Hall observes, “I guess the natural thing to do is we talk about the winners, and the things that haven’t quite worked fall by the wayside. And every now and again, people will ask, ‘What happened?’ And you give them an update. But, we’re probably not proactive [enough] externally, saying, ‘Hey, we invested in this thing, and it didn’t work, but we have learnt these important lessons.’”<sup>226</sup>

The challenge is in how the Foundation shares failures. These challenges are common across the financial service industry and the private sector. Working within a bank, there is fear of losing investors and clients as a result of sharing failures openly. During interviews, staff mentioned there was a fine line between transparency and being too open. Another concern centers on sharing failures openly with competitors and that makes public transparency more difficult. Finally, there was a fear of imperfection



prohibiting people from sharing weaknesses in a program or investment. This fear of admitting failure or weaknesses was an area one colleague said was commonplace among the financial industry and that, while the culture within UBS is fairly open, it was an area in which the organization could push itself to do better.

### **UBSOF Embraces the Power of “What If?”**

Scenario planning provides for program design, as well as for reshaping an organizational structure. The uncertainty and dynamic complexity of Wicked Problems present an uncertain landscape for organizations to plan strategically. Organizations need a framework that allows them to maneuver in an uncertain environment and to make decisions that can prepare them for dealing with future Wicked Problems.<sup>227</sup>

Techniques such as scenario planning—taking time to think through a number of alternative outcomes or “what-ifs”—may better prepare an organization to adjust when threats materialize. Talking openly about what may not work, both internally and with stakeholders and partners (including funders and grantees, or investors and entrepreneurs), is just as important as selling a vision of success.

Scenarios can be categorized into exploratory/forecasting and normative/inward/back casting. Exploratory scenarios begin with the analysis of the present and link to the future by asking questions such as “What next?” and “What if?”<sup>228</sup> The basic aim of scenario planning is not forecasting the future, or fully characterizing its uncertainty, but rather bounding this uncertainty.<sup>229</sup> Scenario planning helps focus attention on driving forces, possibilities of evolution, and the extent of contingencies that may be confronted. They are particularly useful when many factors need to be considered, and the degree of uncertainty about the future is high.<sup>230</sup> Scenario analyses are very different from other forecasting methods in that they usually provide a more qualitative and contextual description of how the present will evolve into the future, rather than a description that seeks numerical precision.<sup>231</sup> Another important difference is that they are generally used to identify a set of possible futures, where there is the possibility of occurrence, but without any certainty.

UBSOF created two important components of a scenario plan—a landscape analysis and a subsequent five-year strategic plan. In advance of a five-year strategic planning process, UBSOF launched a thorough landscape analysis to deepen its understanding of global trends in its areas of interest as a way to inform planning for the future and also to refine its strategy.<sup>232</sup> As part of the landscape analysis, the Foundation used an internally driven process that included discussions with more than 70 global experts, intensive research, and a comprehensive internal audit of lessons learned from more than a decade of grantmaking.<sup>233</sup> The goal of the landscaping was to develop a map of the most impactful opportunity areas for UBSOF to consider and to enable a strategic discussion around how the Foundation should achieve its goals and assess its impact.<sup>234</sup>

### **The Essential Art of Knowing What Can Go Wrong**

In 2013, the UBSOF launched a comprehensive research and analysis effort to inform and refine its philanthropic strategy. Determined to seek the smartest and most effective approaches to improve child protection, health, and education, the Foundation conducted a careful and thorough assessment of the environment in which it operates to develop the five-year strategy.<sup>235</sup>



In the course of a multi-year strategy, effective organizations also learn and adapt. One of the main lessons learned, says Vivek Sharma, Chief Technical Officer at Population Services International, India, is that “the metric is very important. Impact bonds, like Utkrisht, build on the evidence, and experiences is extremely important....We need the flexibility...to modify it as per the ground realities, which may change over a period of time.”<sup>236</sup>

This aspect of scenario planning is both an essential and critical first step...and perhaps not sufficient. In addition to monitoring metrics along the way, a subsequent component to the strategic planning could have been a strategic flexibility analysis that would have provided the Foundation and its partners the means to anticipate unintended consequences and acknowledge what can go wrong when dealing with complex issues, such as improving child protection, health, and education.

### How Smart Risks Foster Breakthrough Solutions

*Philanthropy and impact investing sit along a spectrum, and depending on what one is seeking, they will be drawn to different points on that spectrum. When having conversations with clients, we speak of (the concept of) “philanthropy as being about solving problems,” while impact investing is answering a different question and is seeking a risk adjusted return with also a social impact. Our group is more focused on the former in terms of achieving the social impact, and there are other parts of the bank that are much more focused on more mainstream investments, which have that social aspect.*

—Anthony Donatelli, Director, Philanthropy Services UK, UBSOF<sup>237</sup>

UBSOF tests new approaches and adapts proven tools and models to new cultural contexts and geographic settings. As a way of minimizing risk, every innovation is tested with smaller grants, engaging actively with the grantees to mitigate risk, continuously assess, and course-correct when needed.<sup>238</sup> Taking what they refer to as Smart Risks, the Foundation remains comfortable in its role as the first institutional funder for promising new organizations and welcomes new solutions that are developed by proven teams, based on sound evidence, and accompanied by engaged grants’ management.<sup>239</sup>

### Catalyzing Alliances

While the Foundation is willing to be the first philanthropic funder for new initiatives, it frequently partners with governments, the private sector, and other funders, including the largest global foundations that focus on children’s well-being, to create a catalytic alliance. First described by business expert Sandra Waddock and James Post,<sup>240</sup> catalytic alliances operate at the leading edge of social reform, by leveraging resources to address a social issue through the mobilization of others to action. This alliance type works through a network of other organizations to address the social issues.

Unlike certain collaborative forms, catalytic alliances avoid direct intervention, preferring instead to work through others by providing the support and inviting other organizations, both public and private, to address the problem effectively. The DIBs initiated by UBSOF through its catalytic alliances and prototypes are intended to contribute towards a behavior shift in the wider social finance sector, influencing organizations across disciplines to be more receptive to the way funders provide financial resources, requiring more alignment with outcomes, and delivering better value for money.<sup>241</sup>



In these partnerships, risk is shared among collaborating investors, which minimizes risks for individual partners. Catalytic alliances deal with what are defined as "non-zero sum" problems, where one actor's success does not come at the expense of another actor; both can win, or both can lose. These relationships are vision-driven. The presence of a social entrepreneur who understands the broad potential for stimulating social change seems virtually essential to an effective catalytic alliance.<sup>242</sup>

New products, such as DIBs, by their nature require the creation of catalytic alliances. Even though DIBs are labor intensive with potentially high costs, catalytic alliances minimize risk, because there are several partners entering into the work *with* UBSOF. The DIB fund structure enables comparison of the effectiveness of different operational models, thereby helping prioritize future funding propositions. This type of analysis—and engaging in catalytic alliances—allows UBSOF to achieve outcomes in different contexts.

Costanza and the Social Finance team created diverse partnerships in each of their investment areas—for example, with the Educate Girls DIB; the Health DIB with USAID and Population Services International; Social Success Notes with Impact Water; and others. "This begins with making sure all partners feel like the work has meaning and purpose," says Costanza.<sup>243</sup> The approach leverages not only financial resources, but also provides new ideas and approaches.

Priya Sharma explains further about the Utkrisht Maternal and Newborn Health DIB. "At the end of the day, this is a partnership, and I realized that maybe others might view this as much more of a transaction," she says. "But, I think what mostly was the key to the success of this particular impact bond was the fact that everybody was in it for the long haul. Everybody bought into what it was that we were fundamentally trying to do. Even when it got difficult, I think everybody was still willing to have that discussion, to have that negotiation."<sup>244</sup>

Creating catalytic alliances to mitigate the unintended harm of risk taking in the social finance sector is a new and exciting approach. Enabling cross-sector input and partnerships, then, becomes essential. As Rockefeller Foundation's Senior Associate Director of Innovative Finance, Lorenzo Bernasconi, notes, "There's certain innovation we think is key to driving the investment we need to achieve the Sustainable Development Goals. There are risks in driving this innovation agenda that no one else can take but philanthropy. So, it's philanthropy's responsibility to take those risks. If philanthropy doesn't take them, no one will."<sup>245</sup>

UBSOF has been willing to take risks, test new innovative financial structures, and forego market rates of return in the pursuit of sustainable impact. Staff admits that it is challenging to take risks and potentially fail while still trying to market products to clients who want to hear success stories.<sup>246</sup> UBSOF must raise its grantmaking budget annually, primarily from UBS clients, and find ways to discuss uncomfortable truths about project challenges.

Although he was discussing UBS, bank CEO Sergio Ermotti's statement to *Bloomberg News* is reflected in the Foundation's approach to risk, as well. "I'm pretty happy with the level of risk we take, the sustainability of our results, and how that translates to our relationships."<sup>247</sup>



### Questions for Consideration

- How does the field better evaluate impact risks, so that they can be accurately measured along with financial risks?
- Did UBSOF's definition of risk align with the sector's definition?
- Do you see any tension between the risk definition of the bank and the Foundation?
- What types of partnerships or alliances help mitigate risk? When might they increase risk?
- How much do you share externally?



## Treating the Community as a Valued Client

### Case Analysis 3: Treating the Community as a Valued Client

*Bringing in the community voice is something that our implementation partners do best. So we select the right partners who we believe will engage all stakeholders in their decision-making process.*

—Dhun Davar, Program Director, UBS Optimus Foundation<sup>248</sup>

#### The Power of Feedback

The previous case analyses discuss how UBS Optimus Foundation leaders and staff created a foundation built for innovation and risk. This analysis looks outward and examines how UBSOF and its external partners, particularly the service providers, involve community in key decisions in pay-for-success investments. It also looks more closely at the issue of power and reconciling investor impact expectations with those of services providers and the client beneficiaries receiving the services.

## Treating the Community as a Valued Client



Putting community at the center of investments is a cornerstone of Deliberate Leadership. Likewise, understanding the ecosystem of funders trying to influence the child, mother, or community benefiting from those resources is paramount. This analysis, as illustrated in Figure 21, provides greater context to enable investors to better coordinate strategies and build synergies with partners working across the ecosystem. The process of listening to community and undertaking an ecosystem analysis better informs a theory of investment. This process also helps identify funding gaps and affects data already collected by other investors that help advance mutual goals. Listening closely to community—from entry to exit—leads to better decision-making.

**Figure 21. Deliberate Leader Ecosystem**



Why is listening to community or beneficiary clients important? How deeply should community be involved throughout the development, implementation, and exit from a Development Impact Bond or Social Success Note?

Dennis Whittle, CEO of Feedback Labs, believes that community engagement is both the “smart and the right thing to do.” Engagement is the smart thing, because like any business or organization that is service-oriented, understanding and meeting client needs is essential. Feedback provides those insights, and client satisfaction helps drive the bottom line. Whether with Ultra High Net Worth clients or beneficiaries with few assets, customer opinions allow services to be provided more wisely, more efficiently, and more effectively. Within UBS, meeting client interests and needs has been a driver for the UBS Optimus Foundation’s new Social Finance program. This approach is the also right thing to do, as Whittle explains, “It is a moral imperative to respect the people who are benefiting from services.”<sup>249</sup>

## Treating the Community as a Valued Client



Fay Twersky, UBSOF board member and Director of Effective Philanthropy at the William and Flora Hewlett Foundation, is a firm believer in the value of client feedback. Twersky draws heavily on the work of the Feedback Labs, Keystone Accountability, and Fund for Shared Insight, a funder collaborative that supports transparency and community-based feedback field-wide. She describes community feedback as part of a three-legged stool of monitoring, evaluation, and feedback designed to make philanthropy more transparent and impactful. And philanthropy needs help with both. According to the Center for Effective Philanthropy (CEP), only 17 percent of foundations share their evaluation results with their peers, and only 14 percent share results publicly. Similarly, 37 percent of nonprofits collect “beneficiary” feedback during the planning, implementation, and reflection phases of their programs, and most respondents believe that foundation funders “lack a deep understanding of their intended beneficiaries’ needs.”<sup>250</sup>

There are several common reasons given for not using feedback: It takes too much time. It feels uncomfortable. It is one more thing to do.<sup>251</sup> While customers’ insights drive revenues in the for-profit sector, money flows top-down in the non-profit world, leaving little direct incentive for funders and grantees to listen to community. There are some exceptions. By publishing results and lessons learned from the Optimus Foundation’s social finance prototyping (including this case study), UBSOF is modeling transparency for the field and is helping it grow based on real-time experience.

### Feedback Data Can Bring Big Returns

Drilling deeper into why using community insight is good business shows that feedback data improves performance and outcomes. When used well, collecting community feedback throughout the life of a DIB may allow service providers to more rapidly achieve impact measures. Whittle explains the value of client-centered data collection. “When constituent voice or feedback is listened to and acted on, you see improvements in outcomes of sometimes a quarter to a third,” he says. “Think about all the things we do to try to improve outcomes that peak out at a one, or two, or three percent increase. If feedback is done well in the right context, it can have very, very major effects.”<sup>252</sup>

Uganda offers vivid examples of the value of feedback. A citizen report card was administered to 50 rural Uganda districts to evaluate health facility performance data. The results were shared at facilitated sessions between users and providers, who collaborated to shape solutions and a plan of action. This resulted in a 16 percent increase in the use of health facilities and a 33 percent drop in child mortality under the age of five. Similarly, rural Ugandan schools that developed their own indicators to evaluate education outcomes exhibited an 8.9 percent and 13.2 percent reduction in absenteeism among students and teachers, respectively. By comparison, schools whose evaluations were based on standard indicators (developed by experts) showed insignificant results.<sup>253</sup>

Soliciting and sharing community and beneficiary feedback also helps establish trust and lends legitimacy to initiatives, and it provides insights into local and current context that cannot be captured by aggregated data and formal written studies. Trust, legitimacy, and understanding local context are essential to successful implementation of any social finance investment.<sup>254</sup>



### Shut Up and Listen

*The first principle of aid is respect*

—Sirolli Institute CEO Ernesto Sirolli<sup>255</sup>

Head of UBSOF's Social Finance team, Maya Ziswiler, has worked both in the private sector and international development, and she believes that the latter needs to be transformed because it is often slow, bureaucratic, and ineffective. Ziswiler believes social finance tools based on a pay-for-performance model can offer a way to improve the impact of international development funds.<sup>256</sup>

Dr. Ernesto Sirolli, one of the world's leading economic development consultants, agrees that there needs to be a dramatic shift in the way international aid is delivered. In his TEDTalk, *Want to Help Someone? Shut Up and Listen!*, he points out that aid workers tend to approach unfamiliar problems with an outlook that is, at best, paternalistic: "I treat anybody from a different culture as if they were my children"—and at worst, patronizing—"I treat anybody from a different culture as if they were my servants."<sup>257</sup> True respect requires treating community members as partners in solving systemic wicked challenges.

Doing things "smart" and "right," based on community feedback, is a fundamental tenet of the Deliberate Leadership. It starts immediately with mapping out partners and stakeholders in an ecosystem, putting community at the center, and identifying who is working in the interconnected human security frame who might also influence impact for the child or family at the center of the services (see Figure 21).<sup>258</sup>

This mirrors the view held by seminal thinkers like Amartya Sen and Jean Drèze, who argue that development organizations that fail to consult with community members are depriving them of agency and their basic right to "unlock their innate abilities for self-determination."<sup>259</sup> Sen's work is the foundation for the work of thought leaders on feedback loops, such as Keystone Accountability and Feedback Labs, who believe that "people should drive what affects them most."<sup>260</sup> Viewed through this moral lens, even commonly used words like "beneficiary" seem inadequate when describing the role community members can play in problem solving. Sen prefers the terms "community," "constituent," or "participant" to describe those who are often referred to as "beneficiaries" in the social sector.

There are also those, like Fay Twersky, who believe that encouraging "agency" is often the right thing to do, but find that it is frequently promoted in a generalized and overly simplistic manner. In some cases, it may not always be appropriate to expect community members to solve their own problems, and therefore, agency should not be the chief driver for why feedback is sought.<sup>261</sup> In other cases, it is essential for funders to be informed by the communities they are seeking to help, but it is unrealistic to expect funding agencies to hand over decision making in a wholesale way to people and communities. This is a fair criticism, particularly in the case of extremely vulnerable communities that may be starved of the resources or capacity to present solutions.



### There's No Success Without Understanding the People You Serve

Even so, Tversky and other proponents of this view would still say that organizations have a moral responsibility to consult with community members—at the very least to ensure that programs and services are working for them and to identify opportunities for improvement and innovation. “We should listen to the people we’re trying to serve, because that’s ethical and moral,” says Whittle of Feedback Labs, “and in a philosophical sense, they are the ones who should be the ultimate arbiters of what it takes to make their lives better and whether their lives are getting better.”<sup>262</sup>

Kathy Reich, Director of the BUILD Initiative at the Ford Foundation, describes listening to community feedback as a form of “valuing their lived experience.”<sup>263</sup> Roy Steiner, Managing Director at Rockefeller Foundation, argues feedback is both moral and practical: “It is our basic belief that we’re here to serve the people that we’re delivering products and service to, and their voices matter....If we believe in empowered individuals, we should be listening to them and trying to understand what their concerns and questions are. It’s a philosophical approach, but also very practical. We just don’t see that you have a successful business or nonprofit without really understanding who you’re serving.”<sup>264</sup>

### Six Key Lessons About How UBSOF Involves Community

UBSOF’s approach echoes a “smart and right” philosophy. In the 2017 annual report, the Foundation explains its approach to working at a community level. As noted in the Case Analysis 3 header quote, Program Director Dhun Davar believes that external partners are effective conduits to community. The Foundation team’s relationship with Educate Girls in the Education DIB, Population Service International in the Health Care DIB, and Impact Water through the Social Success Note illustrate this approach. There are several common lessons learned that emerged from the interviews and case research that describe how DIBs and the SSN integrated client or community feedback. There is also a critique of challenges and suggestions for investors to consider to strengthen service provider capacity during the DIB process. These lessons are described below.

#### Lesson 1: Choose the Right Partner Committed to Community Feedback

Finding the right partner who has deep knowledge of community, context, and client is essential, coupled with a shared desire to innovate. The origins of the world’s first DIB came from Educate Girls, an Indian service provider steeped in local needs. At the end of three years, Educate Girls’ results in Rajasthan exceeded the DIB’s goals, highlighting the effectiveness of their approach to both increased enrollment and learning outcomes.<sup>265</sup> According to Educate Girls CEO Safeena Husain, she wanted to change the rules in international aid funding and wanted to test her assumptions through a DIB. Husain was in search of an investor partner who was willing to take a risk. After a false start with one funder, Husain and Optimus Foundation CEO Phyllis Costanza found each other. They were both eagerly looking to test payment-by-results models that could help demonstrate real impact in the lives of vulnerable children.

Throughout the course of the three-year DIB, Educate Girls actively reached into community to shape its curriculum and used outreach parties to help meet results outcomes. The DIB involved local teachers and volunteers, students, and out of school and at-risk girls and families. Husain and her team know that getting the girl child to school in a deeply patriarchal system requires constant contact and trust building

## Treating the Community as a Valued Client



within local communities. A team of volunteers provided real-time feedback to the Educate Girls team. The organization trained a team of 18- to 30-year-old community volunteers to make door-to-door visits encouraging families to enroll their girls in school and to deliver curriculum enhancement in public school classrooms. Their volunteers were present in over 8,000 villages and 12,500 schools in Rajasthan. (Previous case content has gone into further detail about the DIB process.)

Alison Bukhari, UK Director for Educate Girls, believes that it was in the third year of the DIB that Educate Girls worked most closely with the community. “It is the fact that we were so close to the community and really listening in that final year when we exceeded results,” she says. Bukhari points to crucial curriculum changes that were made because “staff was listening to the children and really understanding where they were having struggles, who was falling behind, and really understanding at an individual level what the issues were...and tailoring the interventions to actually shift the children’s learning experience.”<sup>266</sup>

Impact Water is a social business that provides safe drinking water to schools in Uganda through a Social Success Note, and also works in Kenya and Nigeria. Tim Neville, COO of Impact Water, points to customer market research as a driver for evolving their business model. Neville explains, “Our organization started with end-user interface, community interface, [and] since that point, the business has been listening to customers. I think we have gotten better. We’re doing more focus groups and trying to actually use our customers to help us solve our problems, as opposed to us trying to solve them alone.”<sup>267</sup>

Vivek Sharma of Population Services International (PSI) says the purpose of the DIB is to “make the market more consumer centered, and [bring the] quality of care of services closer to the doorsteps of the key target population, basically women and children.”<sup>268</sup>

### **Lesson 2: Build the Capacity to Work with Community—Even in Chaotic Times**

Another common theme was the need to build sufficient capacity to transition into a more business-oriented, impact-centric way of operating. Educate Girls struggled the first year trying to meet impact measures and getting staff ready for making a cultural shift in the way it delivered services. Husain explains, “We thought we could do it internally and then realized, ‘Oh my God! This is going to be very difficult...[Then] UBSOF stepped up and offered us additional resources.’”<sup>269</sup> This additional funding helped Educate Girls hire new staff who were more aligned with social finance approaches and started the process of transforming their culture and their organization into a new way of thinking and acting.

While Impact Water did not receive direct capacity building funds, it was supported in building its business model through funding from a pilot project. Neville believes more can be done with investor resources to help service providers resolve wickedly difficult operational challenges that interfere with an entrepreneur’s ability to more fully engage community. Corruption, collusion, and fraud are also constant threats that make operations more onerous.

PSI’s experience points to inconsistencies between rural and urban places in terms of the quality of programs and the lack of capacity to undertake client surveys on certified programs.



### Lesson 3: Be Patient and Realistic When Addressing Wicked Problems and Systemic Change

All three service providers' leaders: Husain, Neville, and Vivek Sharma, share a common lesson learned from participating in a DIB or impact loan—realism and patience are essential when dealing with systemic challenges and Wicked Problems. Even under normal circumstances, chaos and change are inevitable for service providers, but these challenges are heightened under the weight and pressure of being the first prototype demonstrating proof of concept. This combination of factors also interferes with the ability to engage community adequately in feedback.

For Educate Girls, it was the time pressure of doing something new within the tight constraints of a school year. For Population Services International, the unpredictable nature of the work was made more uncertain when USAID was threatened by potential budget cuts and changing priorities under the Trump Administration. For Neville and Husain, finding the right seasoned staff took time and had consequences for the changing culture of an organization involved in a new business model. For success, a new mindset is required by service providers who have to find creative ways to engage community while engaging their own staff in different ways.

### Lesson 4: Go Deeper and Include Customer Satisfaction Feedback from the Community

Several interviewees, who requested to be anonymous, believe that the results-based financing movement offers a unique opportunity to rethink the role of the recipient communities in the design and assessment of development programs. Historically, many international aid programs, including DIBs, are developed with little involvement of the recipient communities, which are not actively engaged in defining the types of services they need or in assessing whether those services have been satisfactorily delivered. They also feel that if DIBs are to genuinely improve the relevance and impact of services, it is critical that the stakeholders create a process that empowers beneficiaries to both define what 'results' mean and to empower their voice in evaluating the impact of those services.

This community-centric approach raises several provocative questions: Should the community being served be asked, "What would you prefer?" Questions you might ask of the DIB team could include: "Would you prefer a cash transfer or the services (and outcomes) achieved by the DIB? Would you prefer that the US\$200,000 be available to build a better school or support community volunteers? When and how should your involvement be solicited?"

### Lesson 5: Make a Space for Service Providers at the Table

Bukhari expresses concerns that, as the field evolves, new social finance tools, such as Development Impact Bonds, run the risk of neglecting to include community at the table in key meetings. The lack of an invitation and the lack of money to attend meetings prevent full participation in helping shape the field and ensuring community voices are present. She explains, "Often, funders or investors with money will meet to create affinity groups to discuss the evolution of this fast-moving space. Nonprofit organizations representing local interests need to help round out the discussion and candidly offer guidance for the next iteration of Development Impact Bonds. What is critical is who is setting the outcomes and how they are measured. Only certain social outcomes will be appropriate for this kind of instrument. And, a very subtle change in how the outcomes are evaluated can mean the difference between incentivizing good or very bad behavior...between focusing on the easiest or the hardest to

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reach. I am concerned that this is a shiny ball that investors might see as a ‘one-size-fits-all’ solution for scale. It isn’t. What’s important is that service providers are at the table to discuss scale and growth in a realistic way.”<sup>270</sup>

### Lesson 6: Feedback Is Powerful

All of the service providers agree that local feedback is important and should be integrated into new social finance tools based on a business model. This new approach will require more resources, more discussions, and a strategy to ensure the field does the smart *and* the right thing for beneficiaries and their communities.

### Questions for Consideration

- How can you incorporate a meaningful community lens into social finance?
- How does any social finance initiative decide which community members to place at the center of the Deliberate Leader Ecosystem?
- To what extent and in what way should funders’ internal teams view the communities they seek to serve as their ultimate customers?



## Multi-player Alignment for Impact

### Case Analysis 4: Multi-player Alignment for Impact

*We know that the highest performing teams are generally people who are satisfied in their work. How are people satisfied in their work? The two most important things are that they have a sense of purpose and that they feel empowered to make decisions.*

—Phyllis Costanza, CEO UBS Optimus Foundation<sup>271</sup>

Like Phyllis Costanza, Oxford academic Jonathon Trevor believes that alignment for high-performing organizations depends on agreement about purpose and the ability to pull together several critical puzzle pieces: agreed-upon strategy, organizational capacity (and desire), adequate resources (time and money), and a commitment to alignment among management. According to Trevor, “The challenge is that executives tend to focus on one of these areas to the exclusion of the others, but what really matters for performance is how they all fit together.”<sup>272</sup>



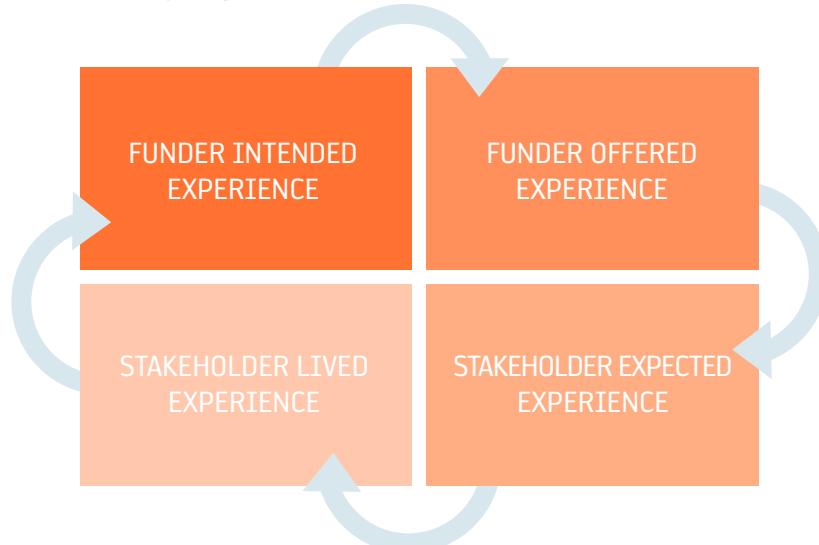
The other common factors that get in the way include:

- Lack of awareness about what risk misalignment poses to the entire value chain.
- Lack of ownership and agreement among stakeholder leaders about the importance of alignment, resulting in turf battles and dysfunctional teams.
- Complexity in juggling geography, size, and diversity.
- Mistaking business as usual for progress.

While working with Muhammad Yunus and Danone on a social impact business model, HEC scholar Bertrand Moingeon created an alignment tool to remind partners to test their assumptions and expectations frequently for alignment throughout a partnership.<sup>273</sup> Figure 22 demonstrates how parties can compare their intended experience (what they wanted to happen), with their offered experience (what actually happened), and with the anticipated and actual experiences of their partners—whether colleagues within an organization, investors, service providers, or beneficiaries.

Key reflection points encourage partners to ask a series of important questions during their collaboration: What is our common sense of purpose? Who owns the alignment process in our partnership to ensure strong links to purpose? What is our agreed upon strategy? Do we have the organizational will, time, and money to devote to alignment and collaboration? How will we handle challenges when they arise? How do we maintain a shared vision and purpose throughout our partnership?

**Figure 22. Deliberate Leadership Alignment Framework**



*Source: 2017 pfc*

This analysis examines how the UBS Optimus Foundation (UBSOF, Optimus, or Foundation) approaches alignment and what it has learned as it works across multiple internal and external partnerships. These



relationships include: collaborations within UBS; across the UBSOF global offices and among the Foundation staff and its board; with prototype partnerships; and with clients—both wealthy donors who contribute to UBSOF and beneficiaries who receive the services designed to improve their lives.

With more than 62,000 employees working in 52 countries to handle the needs of the world's wealthiest clients, UBS knows that alignment requires clear-eyed purpose. Similarly, Optimus, working with staff in five countries to positively impact 2.1 million children globally in 2017, also knows that alignment is essential to satisfying the needs of its donors and in meeting the needs of the vulnerable children at the center of its mission and investment decisions.<sup>274</sup>

Here are steps Optimus takes inside and outside UBS to create high-performance partnerships.

### How Alignment Works Inside UBS

#### Involve Top Leadership

For Costanza, a cornerstone of the Foundation alignment strategy is to involve UBS leadership in the Foundation. This includes having UBS CEO Sergio Ermotti serve as chair of the UBSOF board and having other UBS executives participate in Foundation governance. This relationship allows for a deeper understanding and commitment to the Foundation's purpose and helps integrate UBSOF into UBS's overall corporate sustainable investment goals.

#### Coordinate Across UBS

Within UBS there are several stakeholders vying for a piece of wealthy clients' portfolios. These relationships are typically managed by wealth managers and advisors and are coveted, complex, and political. Keeping alignment among potentially competing stakeholders is essential for the clients. To better coordinate philanthropy needs within UBS, Costanza works in close collaboration with the Global Philanthropy Advisors unit, while also heading the Optimus Foundation, which in turn falls under the UBS in society umbrella.

Costanza reports to Hubertus Kuepels, Global Head UBS in society (in addition to his role as Group Managing Director of Communications and Branding). Kuepels coordinates UBS sustainability practices, including sustainable impact investing, philanthropy, environmental and human rights policies, community investment, and the UBS environmental footprint.<sup>275</sup> He reports to Ermotti, providing an ongoing understanding of shared purpose and strategy across UBS to promote a coherent sustainability strategy to clients and to external audiences.

#### Build Alliances and Allies Across Products and Divisions

Nicole Neghaiwi, UBS Impact Investment Strategist, sees there is a great appetite for impact investing products. Her team wants to expand the current client core portfolio and to move what would have otherwise been invested in a traditional private equity fund into a sustainable investment portfolio. She believes that offering a sustainable impact product or brand to a client also enables the Optimus Foundation, through its social finance DIB offerings, to open up new opportunities for clients. Neghaiwi thinks that innovative social financing mechanisms such as those being experimented by Optimus



Foundation through DIBs and Social Success Notes “potentially allow investors to invest in a cause that they definitely would have not been able to invest in otherwise.”<sup>276</sup>

### Blend Banking and Development on the Board

UBSOF staff and board members acknowledge that one of the Foundation’s strengths is the way it has blended finance and development skills into strategy.

The integration of UBS executives at a governance level allows for cross-learning within UBS and UBS Optimus Foundation. Costanza explains, “The advantage is that UBS leadership gets to know our staff and through our external board members, they have the opportunity to listen and learn from unique experiences of colleagues in the philanthropic and academic sectors.”<sup>277</sup>

Chairman Ermotti points out, “The Foundation has taken on a more business-like approach, using language that makes programs that achieve measurable achievements for girls’ education more appealing to clients and UBS.”<sup>278</sup>

Board members have commented on the benefits of having bankers involved in the Foundation. Fay Twersky, UBSOF board member and Director for Effective Philanthropy at the Hewlett Foundation, believes she has grown in new ways from the experience. “I learn a tremendous amount just sitting in that board seat and being surrounded by bankers. I understand intrinsically now more of the pressures that they have, more of the opportunities that they have, and how to engage with that world.” She lists several comparative advantages of this approach: “First, they know finance. Second, they know how to organize finance. Third, they have this great asset, which is a bankers’ fortune, but it is also about their clients and their customers and how they can put them all to better use.”<sup>279</sup>

Twersky also believes that Costanza has been effective at combining finance skills from her banking colleagues with the development knowledge of the Social Finance team. “It is this marriage of core competencies that together can be quite powerful,” she adds.<sup>280</sup>

### Communicate Openly to Bridge Different Perspectives

While Deliberate Leaders’ strength is building diverse teams, it isn’t easy to coordinate different perspectives. Owen Strickland, UBSOF Business Manager, offers these insights. “We’ve all got different backgrounds in the Foundation. I come from banking and I spent more than 10 years at UBS before I joined the Foundation. So, I’ve come with a slightly different mindset. It is different from someone who has spent his or her whole career in the philanthropy sector. We have different ways of approaching a problem sometimes.”<sup>281</sup>

Even with the advantages associated with uniting banking and development, there are still on-going tensions between the bank and the Foundation around purpose and strategy. The best solution is to speak openly about the challenges, says Strickland. “The bank is a key stakeholder for the Foundation, and we need to make sure we’re following the bank’s procedures and policies. Equally important, we’ve got to remind the bank that we are not a little bank and, actually, we do something completely different,” he notes. “We work really hard to remind our partners that the rules may be irrelevant. We are not selling securities.”<sup>282</sup>



### Hire “Can Do” and Adaptive Staff

UBSOF Chief Operating Officer (COO) Nina Hoppe came to the Foundation from banking. She never considered working in a charity, but finds she is energized by the daily challenges and the high energy around creating impact.

With her banking background, Hoppe can empathize with staff who arrive with a different mindset, and she readily admits there are cultural differences in each of their five offices. Yet, a “can do” attitude is one set of skills she looks for when hiring staff. She explains, “We need staff who are prepared to be problem solvers and come with a ‘Can Do’ attitude. We all have to row together to grow the organization.”<sup>283</sup>

She looks for people with ambitious imaginations who strive for “what if,” and points to the Educate Girl’s success as a prime example. “We had a great success with US\$300,000; imagine what we could accomplish with US\$300 million. This is the scale we need to imagine is possible.”<sup>284</sup>

Head of Social Finance Maya Ziswiler believes that staff from the bank can be too risk averse. “What we are doing in our Social Finance team has never been done before. We don’t have a blueprint—we are creating as we go,” she explains. “This requires adaptability, and that can be scary.”<sup>285</sup>

To build a team ready to take on new social finance opportunities, the Foundation leadership has made a conscious decision to look for staff who are adaptive, empathetic, willing to listen, and who exhibit an eagerness to find solutions together.

### Foster Teamwork, Not Competition, Within Your Networks

The UBS Optimus Network (the Network) comprises the UBS Optimus Foundation in Switzerland; its branch in Hong Kong (which is the representative office in China); its sister organizations, UBS Optimus Foundation Deutschland and UBS Optimus Foundation UK; as well as a donation platform in the United States.<sup>286</sup> The Network receives funds from UBS clients, UBS employees, and UBS itself. It disburses grants to program partners that help underprivileged or vulnerable children around the world in the areas of education, early childhood development, health, child protection, and medical emergency response.<sup>287</sup> With a network of semi-autonomous entities, the key concern is how to ensure that teamwork, not competition, prevails within the Network. In addition to ensuring alignment of expectations across partnerships, it is equally important to ensure that there is alignment within the Network.

The Network is governed through individual boards in Switzerland, the UK, and Germany. The boards comprise UBS employees and independent external members (with the exception of the German board, which comprises only UBS employees). Annually, a strategic meeting of representatives from each of the boards is held in Zürich, Switzerland. To ensure the highest standards of transparency in terms of decision-making and in line with good governance practices, the Network has established a Network Management Committee.<sup>288</sup>

In a Network as far-flung and complex as this one, the need for teamwork and not competition is obvious. Success in achieving the stated objectives of the UBS Optimus Foundation demands no less. In the context of this study, it should perhaps come as no surprise that another core characteristic of Deliberate Leadership—collaboration—is at the heart of these relationships. Seeking out and listening to



different viewpoints and building collaborative solutions (even slowly and uncomfortably) are essential to understanding options, gaining new knowledge, and building powerful solutions.

### Pick up the Phone

Finding the right way to communicate with Foundation colleagues across the planet is essential. Hoppe encourages people to pick up the phone, rather than sending an email that could blow up because of a misunderstanding. Growth has its challenges. UBSOF had a small core team six years ago, and now it has global offices, Hoppe explains. "Assuring alignment in English when it is not a staff's mother tongue...means that things can be misinterpreted."<sup>289</sup>

### Costanza as a Constant

Phyllis Costanza provides constancy among the different offices. Her role on the governance board of satellite offices helps strengthen partnerships and alignment of strategy and purpose. She also hires staff and leaders who prize the value of the team's diversity and who are eager to devise ways of working better together.

## How UBSOF Navigates the Complexity of External Alignment

*Part of being in a partnership is maintaining that constant dialogue, that open communication, and communicating honestly and openly with the other partners here to make sure that things haven't changed. If they have changed, then trying to understand why they have changed, and how does that impact this particular project (and) maybe our relationship going forward?*

—Priya Sharma, Senior Policy and Innovative Financing Advisor, Center for Innovation and Impact,  
USAID<sup>290</sup>

The external partnerships that the Optimus Social Finance team is creating (and juggling) to prototype the Development Impact Bonds and Social Success Note aren't for the faint of heart. For the most part, each deal is made from scratch—even though lessons learned are incorporated from previous experience. Partners are from different countries, cultures, and different types of organizations. As noted earlier, complexity can be the bane of alignment and partnership.

So, how do UBSOF and their partners juggle complexity and maintain clarity, alignment, and collaboration around purpose, strategy, resources, and management? How well are they doing this, and what can be learned across the investments in aligning expectations and experiences from the top-down and bottom-up?

### Find Common Purpose Through Efficiency, Capacity, and Management

Ziswiler offers one overarching strategy—stay focused on a common purpose. As an example, she describes why partners are coming to the table around impact bonds and the Social Success Note. The first reason—personally important to Ziswiler and shared by partners—is to make the development sector more efficient by promoting transparency, including pay-for-success models that are based on achieving clearly defined outcomes. The second is to bring in more private sector money to the field. Last, but certainly not least, is that lives of the world's most vulnerable children will be improved



through more money and greater efficiency for social initiatives.<sup>291</sup>

She believes the Foundation is well positioned to accomplish these goals, because it “operates at the nexus...on one hand, having experience in the philanthropic space and the development space, and on the other hand, having that relationship with the bank. We are trying to explore synergies between the two worlds, and it really came to life very nicely with the impact bond.”<sup>292</sup>

For nonprofit partners, improving lives of children and women remains the centerpiece of their decision to participate, but finding new funding sources is critical to long-term sustainability. Using new business-like investment tools is appealing to donors and foundations. Population Services International, Educate Girls, and the social business Impact Water are exploring ways to diversify their program strategies to leverage new types of donors as bi-lateral funding shrinks. Success begets success—in the case of Educate Girls, their participation in the world’s first education DIB opened doors to new donors that, in turn, have allowed them to expand their outcome-based approach in India. Likewise, Impact Water is exploring how to diversify its financing strategy to blend grants and loans.

### **Build Capacity When Needed**

Educate Girls Founder and Executive Director Safeena Husain soon realized that DIBs aren’t for beginners. Although Husain and the Educate Girls team were eager to partner on a DIB, they did not realize extent of the intense and expensive capacity building needed to shift its entire culture to outcome-based programming. Fortunately, UBSOF provided resources for capacity building in order to maximize EG’s ability to succeed.

### **Know When It Won’t Work**

Educate Girls is a highly successful organization that works at the grassroots level. Yet it still struggled and needed substantial capacity building to adapt its culture and strategy. Several interviewees do not believe that smaller, less-experienced grassroots organizations are necessarily able to handle the scrutiny, rigor, and resources required to function effectively in this kind of social finance project.

“Partners should be chosen wisely,” Ziswiler points out. “The DIB instrument might not work for many organizations, because they are unwilling to tweak their model, learn from it, iterate, and change. They have a model that they think is developed and is right. They do not want to start questioning it with input from funders.”<sup>293</sup> Having frank conversations in the early stage about the right partners is critical because there will be challenges.

### **Recognize the Yin-Yang of Partnership**

Even with strong project managers and service providers for the Development Impact Bond and Social Success Note, the prototypes require enormous energy and time to coordinate in complex settings, especially with the big mission of addressing complex problems targeted in the UN Sustainable Development Goals. The time it takes to build out a DIB has been a major criticism of UBSOF’s social impact work. But this criticism is tempered by the fact that through a long and hard process of learning, UBSOF and its partners are finding ways to expedite the process of designing and launching DIBs in the future. The bulk of the research in these early projects centered on partnership and the work that goes into alignment. Aligning pay-for-performance partnerships has a yin-yang quality. On one hand, partners



must have very distinct roles, and on the other, they must work closely as a team.

Development Impact Bonds require organizations and individuals to change their traditional roles and “stay in their lanes,” as Costanza puts it. In the case of the Educate Girls DIB, she explains, “The implementers are the experts—something many donors forget. They will do what they have to do to achieve the outcomes. We need to know their cost structure, so we can determine what is the right amount of capital to put up, but the outcome payer shouldn’t be mingling in the programmatic issues, because they’re buying two things: they’re paying to get 7,300 girls in school, and they’re paying for learning outcomes that are 75 percent better than a control group. How they get there is not relevant to the outcome payer.”<sup>294</sup>

### Recognize the Partners That Don’t Always Look Like Partners

The Foundation also frequently partners with governments, the private sector, and other funders, including the largest global foundations that focus on children’s well-being. The Optimus Foundation also sees its own grantees as partners who are helping to achieve the Foundation’s mission.

The Foundation operates these partnerships in a number of ways, including:<sup>295</sup>

- Providing the evidence that government needs to scale up and sustain effective programs.
- Strengthening capacities, providing access to networks and strategic guidance to fledgling and riskier programs, and adding value beyond traditional grantmaking.
- Cooperating as equals with co-funding partners of comparable size, or in support roles (e.g., supporting monitoring and evaluation of partners’ programs) with larger funders.
- Leaving behind a legacy of materials and tools that can be adapted to local contexts.
- Engaging the private sector to implement market-based solutions, where appropriate, to solve problems.

### “Are We Doing What We Say We Are Doing?”

One of the keys themes that emerged from the interviews is that the structure of DIBs promotes candor. Priya Sharma of USAID explains: “Part of the nice thing about impact bonds, as a way of working, is the constant monitoring and evaluation, constant verification, and the check on ‘Are we doing what we say we’re going to be doing?’” says Sharma. “A key piece of that is talking to the women that we’re hoping to be able to impact, as well. So, their voice is a component that is built into the question of ‘Are we having the impact that we want to be having? Are we making the change that we think needs to happen to improve their health outcomes when they go to a private facility to deliver their children?’”<sup>296</sup>

### The Inevitable Friction between Social Impact and Financial Return

Alignment of expectations also calls for the need to manage the inherent friction between impact and return. Many investors profess that they pursue opportunities where the impact mission is synergistic with the pursuit of financial return. In its pitch for social investments to clients of UBS, the Foundation uses a similar argument. However, the Foundation delineates its conversations with clients by



emphasizing the difference between philanthropy (the Foundation), which centers on solving problems, and impact investing (UBS the bank), which is a risk-adjusted return with a social layering on top. It is generally acknowledged that, at times, friction can arise between these two goals.

Is there a linear relationship between developmental success and the bottom line? Tim Neville, Chief Operating Officer of Impact Water Uganda, isn't sure. "I do think in a lot of development endeavors that use a business approach or a social business approach, that there's often going to be a tension between social impact and profitability. The issue centers on whether social businesses should make a decision to be more selective in the schools in which they work based on ability to pay for service, or if they should be driven by meeting the needs of *all* children—regardless of a school's ability to afford the service."<sup>297</sup>

For many social businesses, being financially profitable could mean becoming much more selective in the communities that can afford to pay for services. The consequence is that poorer communities and children might not be served through a more rigorous economic screening process.<sup>298</sup>

### The Beautiful Challenge of Reconciling Big Finance with Social Finance

Another theme arising from the interviews is about the similarities and differences between big finance and social finance. The language of big finance often opens up conversations. "I do think that there's something that's very interesting in the impact bond model of bringing those different factors together to the table," notes Emily Gustafsson-Wright, Fellow at the Brookings Institution. "I think it's both the beauty of the impact bond, but also the challenge of the impact bond. These different actors often speak different languages, and that's part of what the cost of doing these transactions ends up being, because there's a long time of negotiation, etc. But, on the other hand, they're having that conversation, and that may have a much longer systemic impact."<sup>299</sup>

### Worlds of Rich and Poor

*We need to make sure that the communities are represented at those tables. They're really smart. They really know their stuff, and we need to understand that we might not speak the same language, understanding what they're actually saying and digging into what the problem is that they're talking about versus just hearing the words that they're saying.*

—Sonal Shah, Executive Director, Beeck Center, Georgetown University<sup>300</sup>

The Foundation must meet the needs of two very different clients—Ultra High Net Worth donors, those investors who represent the world's top trillion in assets, and children and families who represent the world's bottom billion poorest people. While their conditions are light years apart—the one thing that unites them is a common desire for a better future.

Martina Gaus, Head of Optimus Philanthropy Services in Switzerland, explains her work "as wandering between completely different worlds. It is our job to work in this broader world."<sup>301</sup>

The Foundation has a clear mission to help children. And it also must raise its annual program budget from donors, so its offerings have to be of interest to clients. According to Gaus, "The social finance offering is appealing to our clients who are business-oriented because it uses business principles. We know social impact bonds are not bonds, but the language resonates with clients, and the ability to



measure impact is also appealing.”<sup>302</sup>

Nina Hoppe explains, “An important value, one we want to share and show to all of our clients and communities in which we work, is empathy.”<sup>303</sup>

Currently, UBSOF gives a voice to children and the communities it serves through the service providers and intermediaries it supports in the social finance portfolio. Educate Girls offers a very powerful grassroots connection to girls and their families, for example. However, a consistent theme in these case interviews was how to do more—how to tap community voices and beneficiaries at the heart of social investments to help shape performance measures. How can robust feedback loops be incorporated into DIBs and Social Success Notes to enable a community to critique the services providers and their approaches?

UBSOF board member Sonal Shah asks the social finance field to be honest with itself. “Let’s face it, isn’t it easier not to invite representatives of the communities because it is not efficient? It isn’t. Right? Let’s be clear. It’s not efficient to have them because they have very strong perspectives and very different views, but if we don’t understand the perspectives and the views, we will have missed the problem.”<sup>304</sup>

Costanza is unwavering about the purpose of the Foundation. “At its core, our work is about social justice and meeting the needs of the most vulnerable in society.”<sup>305</sup> She recognizes the importance of moving quickly and getting to scale to achieve the Sustainable Development Goals. The problems won’t go away without more money. The Foundation has the ability to do both with purpose.

### Questions for Consideration

- What leadership characteristics are necessary when forming, sustaining, and aligning a diverse partnership?
- How can interests be aligned with partners who have diverging or competing objectives? How can differences be harnessed to create greater value in products and services?
- When should leaders lead, and when should they follow to encourage alignment?
- How can social finance bridge mission, values, and financial requirements and remain aligned?



## How Does UBSOF Learn and Recalibrate?

### Case Analysis 5: How Does UBSOF Learn and Recalibrate?

*One thing that I think is important is to give constant feedback to your employees, and for them to be able to give constant feedback to you, as a leader. We should do the same with the programs that we're funding. And, while we do this with successes, embracing and penning them, failure is swept under the carpet. I've asked our board and others how we can evolve to create a culture where failure isn't a dirty word. And I've gotten lots of good advice, such as, celebrate failure. Award a monthly prize for the best failure. And while we've tried things like that, they haven't stuck. This is clearly my failure. If we really want to learn, we need to spend a lot more time reflecting on what hasn't worked.*

—Phyllis Costanza, CEO, UBS Optimus Foundation<sup>306</sup>

## How Does UBSOF Learn and Recalibrate?



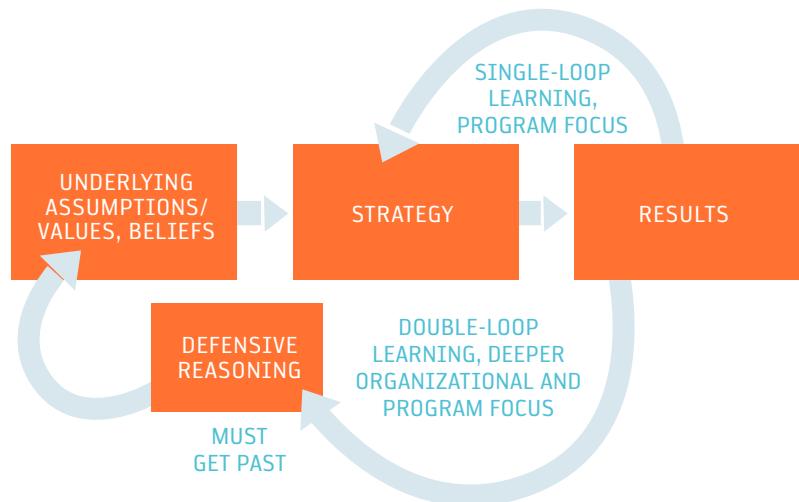
### Learning Deeply Through Double Loop Learning

The Deliberate Leadership framework sees data gathering and assessment as part of each stage of activity in identifying partners and stakeholders and properly identifying problems being addressed. Additionally, ongoing assessment occurs in parallel with action, while reflection and recalibration require a particular kind of learning that is important. Double loop learning, a concept developed by Harvard scholar Chris Argyris,<sup>307</sup> helps leaders and their organizations make informed decisions in rapidly changing and uncertain times.

The three phases of organizational learning and change, as illustrated in Figure 23, are:

- Phase I: Partner and plan
- Phase II: Act and assess
- Phase III: Reflect and recalibrate

**Figure 23. Double Loop Learning**



Source: 2016 pfc

In their book *The Necessary Revolution: Working Together to Create a Sustainable World*, Senge, Smith, Kruschwitz, Laur, and Schley characterize our current complex and challenging times as providing the context for growing the capacity for everyone to shape the future they desire, individually and collectively.<sup>308</sup> This capacity building requires *unlearning* old assumptions and biases that obstruct the discovery of shared purpose. It also requires *learning* the means to enact new collective visions. They make the case for double loop learning (or changes in underlying frameworks) that helps in learning how to examine the assumptions and the mental models governing actions.

As Senge and his colleagues write, in order to effectively employ double loop learning, there is need for a “necessary revolution,” and they contend that the people leading this revolution (like Phyllis Costanza and her team) demonstrate mastery of three core areas that undergird organizational learning: learning



how to see the larger systems; understanding the importance of collaborating across boundaries “that previously divided them from others within and outside their organizations;” and “moving away from reactive problem solving mode to creating futures they truly desire.”<sup>309</sup>

### The Illusion of Feedback

It is easy to confuse “input” information collected to design new programs and theories of change, with “feedback.”<sup>310</sup> Feedback can only be said to exist between two parts or groups when they interact with and affect each other.<sup>311</sup> Ideally, feedback mechanisms ought to create systems that are self-regulating. This can be achieved through double loop learning that is not merely adjusting strategy implementation based on feedback results, but also is instituting processes that overcome defensive reasoning to question and criticize underlying organizational and programmatic assumptions, values, and beliefs.

An organization may have reasons to mistakenly believe that it already has robust feedback loops in place. Monitoring and evaluation activities, ad hoc site visits, and outcomes measurement workshops can often look and feel like listening and learning from feedback. The key difference is that, while monitoring and evaluation are assessments based on the priorities of funders, managers, and independent experts, authentic feedback prioritizes the voices of stakeholders who lack formal authority, such as community members and junior staff.

Another concern is that, even when organizations set up feedback loops that are separate from monitoring and evaluation efforts, these loops are often faulty. This may be due to a lack of tools or knowledge to solicit feedback in a routine manner that is “reliable, rigorous and useful.”<sup>312</sup> Site visits may not be a systematic method of collecting data, surveys may be of poor quality, information may be difficult to interpret without benchmarks, and, most commonly, organizations may not have completed the crucial step of closing the loop by acting on and sharing the feedback they collect.<sup>313</sup>

It is important to reinforce the point that feedback loop practices will only yield results if implemented through appropriate leadership and organizational culture. Leadership determines whether the right questions are asked, whether survey respondents feel comfortable about providing candid responses, and how the feedback collected is used and reconciled with competing priorities from other stakeholders.

### A Bias Toward Action May Curtail Learning

The life or death urgency of Wicked Problems, such as the needs of educating girls in India or providing safe drinking water in Uganda, often causes leaders to revert to immediate action through command-and-control leadership, rather than time consuming, multi-stakeholder dialogue and analysis that these problems require. This “bias toward action” is one of the fundamental reasons why organizations do not learn.<sup>314</sup> Such an approach usually leads to exhaustion and does not leave time for reflection.

Safeena Husain, Executive Director of Educate Girls, observes, “If I was going into a transaction tomorrow for the next DIB, I would say you should build that patience in so you’re not suffocating your field worker with ‘Where are my results? Where are my results? Where’s my results?’ on day one,” she says. “Give them the room to breathe and to really be able to set up the right relationship and at the community level for the results to emerge.”<sup>315</sup>

## How Does UBSOF Learn and Recalibrate?



Inculcating learning and reflection requires organizations to deliberately carve out time, to set up mechanisms for those approaches, and to start early. How is UBSOF incentivizing listening, learning, and adapting internally and externally? As Senge described nearly three decades ago, the modern organization exists in an environment of such rapid and complex change, that the only way to adapt to such perpetual complexity is to cultivate each individual's ability to learn at all levels of the organization.<sup>316</sup> UBSOF seeks to find a balance between acting and achieving tangible outcomes and making room for iterative and honest learning. In UBSOF's Strategic Plan, it is clearly stated that the Foundation will build a feedback loop into its evaluations. This is not only designed to assess the extent to which the program has had impact, but also seeks to address the needs of the communities in which the program is implemented, listening and advising on how to enhance and sustain the benefit.<sup>317</sup>

### Avoiding the Doom Loop

In general, grantees, service providers, implementers, and intermediaries who seek community feedback may often find negative feedback difficult to learn from and even more difficult to share. Given social sector power dynamics, the fear of failure and preoccupation with success at the funder or investor level trickles down to the grantee or service provider level, where it gets reinforced. This means that grantees and service providers experience a similar “doom loop” when faced with failure, and they are often afraid to report negative community feedback to funders and investors.

Even more challenging than receiving negative feedback is receiving feedback that cannot be addressed or that creates tensions with other constituents such as staff or funders. However, these issues are some of the ills of traditional philanthropy that emerging social finance tools like DIBs are attempting to address.

One of the key themes that emerged from the various interviews conducted for this case is that DIBs, by their very nature and structure, promote candor. UBSOF board member Sonal Shah describes the need for employing this core characteristic of Deliberate Leadership, observing that being honest about what is actually possible is critical to success. She notes that it is essential to the success of funding vehicles, such as a DIB, that metrics are clearly identified, pertinent questions are determined, and appropriate measurements planned.

### UBSOF Framework for Monitoring and Evaluation

As board member Fay Twersky points out, “I do think that in many ways, Optimus is very sophisticated and very ahead of the curve. They routinely track key performance indicators and support independent evaluation. I do think in the area of systematic feedback from nonprofit clients, customers, and community members, they can do better.” Maya Ziswiler, Head of Social Finance for UBSOF, agrees, “We do not systematically evaluate ourselves.” While they do report on benchmarks and objectives, it mostly involves reporting on topics like amount of money raised or the number of partnerships established. “But it stays at that level,” she concludes.<sup>318</sup>

That is in contrast to how grantees are evaluated. UBSOF has strict standards for reporting on the progress of all funded projects from grantees and service providers. All funded projects are required to provide regular progress update reports, as indicated in the specific contracts (a minimum of once every year, with the first report due one year after the start of project funding). Furthermore, a closing report

## How Does UBSOF Learn and Recalibrate?



is requested from every project. Priya Sharma of USAID suggests that impact bonds are designed to require constant monitoring and verification and that talking to beneficiaries is an important part of the process. “Their voice is a component that is built into (the questions): ‘Are we having the impact that we want to be having? Are we making the change that we think needs to happen to improve their health outcomes when they go to a private facility to deliver their children?’” she says.<sup>319</sup>

While this kind of inquiry is useful, there are no explicit feedback loops when it comes to DIBs. As much as lessons can be learned from the prototypes, there still seems to be the need for additional feedback loops within individual DIBs to course-correct, recalibrate, and learn within a single DIB. The ability of the Foundation to incorporate such learning will be a test of how Deliberate Leadership is employed over the long-term at UBSOF.

UBSOF’s experiences in this case study model a number of examples of double loop learning. The Foundation believes that being at the front end of developing and delivering new products creates the opportunity for reflections on successes and failures, as well as an ability to adapt as a result of lessons learned. Being an in-house Foundation of a very conservative bank in itself creates the added challenge of embracing candor to speak the truth about what is working and what is not, as well as allowing for the essential recalibration to feed innovations. While internally this may be easier to do, the situation is different when it comes to dealing with external partners such as clients. So how is UBSOF creating a learning environment where partners and collaborators can safely challenge core beliefs and values?

A deeper and more adaptive form of assessment rests on several principles: commitment to robust learning, testing hypotheses, openly sharing results, and recognizing that program outcomes are shaped by values, beliefs, and assumptions, as well as by strategy. It encompasses profound life-cycle examination and learning. Solving Wicked Problems has no room for single loop learning. The Deliberate Leader understands this and knows how to get past defensive and rational reasoning to test the underlying assumption, values, and beliefs and how to recalibrate.

### Questions for Consideration

- What are some of the ways that a lack of attention to feedback can negatively affect a project, program, or social investment?
- At what stages of a project should feedback mechanisms be used?
- What is the role of organizational leadership in implementing feedback loops?
- What are some of the ways in which feedback loops can be faulty?



## What Does it Take to Scale?

### Case Analysis 6: What Does It Take to Scale?

*One of my biggest fears of scale in the DIB and the SIB space, is that we want to routinize everything, and human nature is not routinized. So, understanding what you're playing to and what might create perverse incentives and understanding how to change that when the time comes is super important.*

—Sonal Shah, Executive Director of Beeck Center for Social Impact and Innovation, Georgetown University, and UBSOF board member<sup>320</sup>



### "Test, Seed, and Scale"

Over its 19-year history, UBS Optimus Foundation (UBSOF or Foundation) has invested creative capital to help the world's most vulnerable children. In 2017, it reached more than two million children and raised and spent an estimated US\$62 million on programs to end child abuse, ensure early childhood development, decrease the rate of infant mortality, and improve emergency-response systems in hard-to-reach rural communities.<sup>321</sup>

The Foundation's Social Finance team has brought a business approach into its grantmaking portfolio and has developed multi-sector partnerships to drive evidenced-based outcomes.

In the course of this work, UBSOF and its partners have pioneered several global "firsts." In Rajasthan, India, the world's first education-focused Development Impact Bond (DIB), Educate Girls, reached 768 girls.<sup>322</sup> Also in Rajasthan, UBSOF developed the world's first healthcare DIB to improve the lives of 2,000 new mothers and their children through expanding hospital certification.<sup>323</sup> In Uganda, UBSOF, Rockefeller Foundation, and Yunus Social Business launched the world's first Social Success Note (SSN) to provide 1.4 million children access to drink clean water at school.<sup>324</sup> These proofs of concept were designed to nurture larger projects with greater reach and impact including the new Quality Education DIB. "Test, seed, and scale" is seen as a winning formula for the Foundation.

This case analysis focuses on the issue of scale. For the estimated one billion children living in poverty worldwide and (according to UNICEF) the approximately 22,000 dying daily because of poverty related conditions, survival depends on taking solutions to scale.<sup>325</sup> With a shortfall of an estimated US\$2.5 trillion annually needed to meet the UN's 17 Sustainable Development Goals (SDGs) by 2030, moving money with mission and measurable impact is a mandate. This mandate needs to be tempered with caution, however. When setting the course for scale, questions must be raised, assumptions must be challenged, and lessons drawn from experiences must be shared. Drawing on research and on the content of 33 interviews with UBS staff and partners, the following insights on scale are offered to help generate field-wide discussion.

What is scale? The definition will be debated for a long time, but for purposes of this case and the Oxford Social Finance Programme, scale is big in scope: city-wide, province-wide, country-wide, continent-wide, global. Scale blends capital, tapping public, private, and philanthropic financial and social resources. Scale is measurable, and solutions take hold with evidence-based results. Scale is systemic and sustainable, and it is built to last by adapting and shape-shifting to accommodate a dynamic world. Scale is what will be required to meet the challenges laid out in the Sustainable Development Goals.

### When Social Entrepreneurs and Government Work as a Team

Maya Ziswiler, Head of Social Finance at UBSOF, believes that the Foundation's social finance prototypes set the stage for larger partners, such as government, to pick them up when proof of concept is demonstrated. She calls UBSOF's approach a "transition to scale."<sup>326</sup> Indeed, social entrepreneurs who are able to move government "from the sidelines to a far more productive place in the system" are likely have a greater impact.<sup>327</sup>

## What Does It Take to Scale?



Ziswiler describes their approach to scale as three-pronged:

1. Focus on outcomes at scale (via impact bonds) with the aim to shift government and donor funding towards results.
2. Scale social businesses by providing the right incentives to focus on social outcomes with the aim of crowding in more commercial funding.
3. Build the ecosystem to get organizations "social finance ready" by supporting intermediaries and incubators, but also by building evidence and documenting what works/doesn't.

Each of the DIBs in this case study has sought to involve government to help in the transition to scale. In the Educate Girls DIB, the relationship with government came later than expected. According to Educate Girls' UK Director Alison Bukhari, as the DIB was getting set to launch in 2014, the environment wasn't right "to engage the government as a funder."<sup>328</sup> Bukhari notes that "in the future, governments must play a critical role in funding and scaling," and that "DIBs could be a pathway to engage the government..." This is the case with the Quality Education DIB and the Utkrisht Health Care DIB; relationships with the Indian government and with partners who had greater access to public resources, such as DfID and Tata Trust, were built in much earlier in the process. "In our Utkrisht DIB, we have a very clear commitment for the government of Rajasthan to scale, if successful," says Ziswiler.<sup>329</sup>

Tim Neville at Impact Water also acknowledges challenges of public sector solutions, pointing out that many governments in emerging economies suffer from corruption, making them unpredictable partners for scale. These same government challenges also make operations for social businesses more difficult and unpredictable. Daniel Isenberg and Vincent Onyemah, writing for The World Economic Forum, suggest building high-level, highly visible cross-sector partnerships that provide sufficient public transparency and accountability: "If growth happens, and no one knows about it—like the tree falling in the forest—it does not have a broad community impact." Isenberg and Onyemah urge social entrepreneurs to recognize their growing impact "and talk about it," especially in terms that resonate with various stakeholders: "Most people from across the entrepreneurial ecosystem—public leaders, corporate executives, educational directors, bankers—have a natural stake in local growth." The more that growth and impact are discussed in ways that benefit each sector, the more meaningful an investment becomes.<sup>330</sup>

### UBS's Strategy for Going to Scale

Private sector companies such as UBS offer a natural opportunity for scale. UBS has access to the largest number of billionaires in the world—ultra-wealthy clients across the globe who are often seeking multiple returns. "In the last few years [multiple returns on investment] have become a true client demand," says UBS CEO Sergio Ermotti. "It was quite clear to us that institutional and private clients were more and more demanding for impact to social aggregated investment teams, and they were much more focused in how they invest their money. And as they were doing that, they were not really, and they are *still* not really willing to compromise returns."<sup>331</sup> When Phyllis Costanza took over as CEO for UBS Optimus Foundation in 2011, 90 percent of UBS's biggest clients were interested in investing their wealth for good.<sup>332</sup> Costanza realized that not only could she leverage the funds of UBS's clients, but she could also utilize the "expertise of 60,000 employees around the globe."<sup>333</sup> Maya Ziswiler now

## What Does It Take to Scale?



sees the trend moving in a different direction. “In Switzerland, almost 40 percent of clients are willing to compromise on returns if it means getting more impact.”<sup>334</sup>

That a corporation the size of UBS has committed to the SDGs is promising, but to make any sort of impact beyond its own grant-funded and social finance programs will require cross-sector partnerships on a massive scale. As Wiebe Draijer, Jane Nelson, and Lisa Dreier note, “Motivating dozens or even hundreds of organizations to work together—and making sure their work makes a difference—is extremely difficult when no one is clearly in charge.”<sup>335</sup> To mobilize such systemic change will require “system leadership”, that is bringing together an entire industry to address issues that inevitably impact a diverse group of stakeholders while keeping in mind site- and culture-specific variances.

One example of sector-wide mobilization is the newly established Impact Bond Working Group (IBWG). The IBWG, started in 2018, is a group of public and private sector donors intending “to lay the foundation for concerted initiatives and strategies for enhancing the cost effectiveness and scalability of Impact Bonds as a means to support governments in delivering the SDGs.”<sup>336</sup>

The Foundation and its partners have shared the DIB results widely and transparently, and the success of Educate Girls is a model for other organizations that may want to move into Development Impact Bonds. Their strategy to attract others includes three areas of focus, according to Ziswiler. She says that UBSOF’s effort to transition impact bonds to scale includes:

1. Working with large donors to shift part of their development funding to outcomes-based financing.
2. Pooling investment funds to attract different types of investors through blended capital (philanthropic, DFIs, and commercial).
3. Building capacity on outcome-based funding via a resource center.

By publicizing the DIB results, which have been presented at Brookings and published on Instiglio’s, IDinsight’s, and CIFF’s websites (all were involved in the DIB), UBSOF is practicing “scalable learning,” which John Hagel III and John Seely Brown describe as being “driven by the desire to learn more about those who are being served by the institutions and then to provide ever more value to those constituencies by tailoring products and services to address the individual and evolving needs to those being served.”<sup>337</sup> As Shah points out, scalable learning isn’t rote. “Human nature is not routinizable,” she notes.<sup>338</sup> Frequent recalibrating based on community context and circumstances must be taken into consideration when going to scale. To bring the Educate Girls, India Education, Utkrisht Maternal and Newborn Health DIBs, and the Social Success Note to scale, the Foundation and its partners—the service providers, implementation managers, outcome funders, and independent verifiers—must continually refine and adapt to the ever-changing needs of its beneficiaries.

### Scale is Not Just “Roll Out and Replicate”

Ziswiler cautions that successfully scaling DIBs and other social finance tools for impact requires many variables for that process to go right. “I don’t think these types of instruments are an answer to all development challenges,” she says. “I think it works for organizations that have reached a certain scale, (but)...a small grassroots organization probably couldn’t handle the kind of scrutiny and resources needed to be able to function in this construct.”<sup>339</sup>



Bukhari echoes Ziswiler's sentiment, comparing the process of going to scale to "finding a silver bullet." "You want to make these assumptions that this one amazing thing can actually work for everyone," says Bukhari. In her experience, this "one-size-fits-all" practice of replicating what others have done, without considering community and context, has negative consequences, and it is where "so much innovation at the field level is going wrong."<sup>340</sup>

### Five Steps for Fearless Investing

For systemic change and scale to occur, a collective effort by the investor community is needed to dismantle barriers to entry for mainstream investors in social finance.<sup>341</sup> Investors themselves have an important role in this process. Foundations like UBSOF have a number of levers at their disposal, including access to UBS clients with large amounts of investment capital, the ability to engage policymakers, deep technical expertise, and the opportunity to exercise sector-wide coalition-building power.

To overcome the perceived risk of investing in complex socioeconomic initiatives, Sarah Miers, a portfolio and investment analyst at the Skoll Foundation and Zach Slobig, a writer and editor at Skoll, suggest taking the following steps:<sup>342</sup>

- **Build credibility.** UBSOF must prove itself as an effective social investor, with demonstrable successes and a willingness to share its expertise with others in the field.
- **Look beyond the usual suspects.** UBSOF should seek new partnerships with organizations outside of the geography or sector with whom it traditionally works.
- **Enhance sustainability through earned revenue.** UBSOF should reserve a part of its budget for advisory and teaching services.
- **Leverage existing assets.** UBSOF has many such assets—whether they be monetary, employee, or expertise.
- **Demonstrate fidelity to the model.** UBSOF must prove that Development Impact Bonds can work with the right team—from the service providers, to the implementation managers, to the outcome funders—and that it is not solely the presence of UBSOF as the DIB's investor that make the model successful.

### Scaling Challenges

Solvency and sustainability of social businesses and entrepreneurs remains a challenge to scale for interviewees. Specifically, interviewees raised the question as to whether these issues can be achieved simultaneously. Interviewees were unsure.

Safeena Husain, Founder and Executive Director of Educate Girls, points out one challenge, the possibility of selecting only the "best" students to work with. Husain thinks DIBs that are too impact-centric and driven by the demands of investors for impact could make service providers less willing to work with those students most in need and harder to reach. When investors control the terms of a DIB's impact, it is possible the project "will have some really bad incentives—it will be more about the



returning of capital than anything else,” says Husain. “That, I think, is one key piece: Who decide(s) on those outcomes?” A better alternative, Husain believes, is “patient investing,” where investors are prepared for their capital “to take root in the community or in the school system” over a longer term.<sup>343</sup>

In addition, unless DIBs are streamlined and less time consuming on the front-end, they may not be affordable for many civil society organizations that should be working in collaboration with government—both as service providers and as watchdogs.

### An Essential Foundation for Building Scale

This brings the concept of additionality into the discussion on scaling. Additionality is an important consideration in thinking about scaling. Without traditional grants, can social businesses like Impact Water be sustainable and achieve the goals the Social Success Notes were designed to achieve? What role do investors like Optimus Foundation have to play to ensure that Impact Water and the SSN are scalable?

“What was very clear from early on was that we can't do this at this small scale, if we want it to be sustainable,” says Ziswiler. She adds, evolving from a pilot to a scalable model, with government involvement, requires starting to build a market for outcomes. Partners like USAID, Merck for Mothers, and others like performance manager Palladium add expertise. “The Tata Trust, which is one of the biggest local philanthropies, also adds government relationship and buy-in,” says Ziswiler. She describes a process where different models are piloted as a “think and go.” While piloting, they are “thinking about how we can leverage the UBS platform at scale.”<sup>344</sup>

### New Technology

The surround-sound buzz about what World Economic Forum calls the Fourth Industrial Revolution is getting louder. Technology tools like blockchain, fintech, and artificial intelligence are everywhere and are often being touted as a panacea for social ills. Implementing such technologies can dramatically change a system.<sup>345</sup> For example, blockchain is being experimented with by the UBSOF team. UBSOF expects blockchain and other technology to potentially play a big role in delivering impact in the future, primarily in reducing the transaction costs of employing private commercial and philanthropic capital to social causes.

### Scale: Challenge and Opportunity

Overall, as seen in the interviews and the literature examined in this case study, along with assessing the various social finance vehicles being spearheaded by UBSOF, it is clear that social finance holds considerable promise for mobilizing and deploying private capital for sustainable development and for contributing in significant ways toward the achievement of the UN Sustainable Development Goals.

While there are challenges and complexities that need to be addressed, there are also innovations and early successes that demonstrate not just potential, but also real, tangible results. Through expanded relationships and new tools, UBSOF now has the opportunity to continue to scale these social finance vehicles for greater impact. Scaling involves systematically monitoring and evaluating the vehicles—expecting failure and surprises, as well as ingenuity and success.

## What Does It Take to Scale?



Wicked Problems are so complex that they can't be solved by governments, civil society, or the private sector alone. Even when all three work together, promising pilots sometimes remain just that—promising. Without scaling solutions to a broad geography and creating sustainable systems change, significant social progress doesn't happen. Thinking through how social innovations might scale, while tough, is important at the beginning, middle, and end of the work. In the words of the Godfather of Social Entrepreneurship, Bill Drayton of Ashoka, “Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry.”<sup>346</sup>

### Questions for Consideration

- How do you know which programs are worth scaling in the first place?
- Is scaling always a good idea? Is it always possible?
- What are the key needs for different stakeholders at each stage in the scaling cycle?
- What are the kinds of financing that need to be considered by investors at each stage of a scaling initiative?



## Conclusion

### Conclusion: The 7 Characteristics of Deliberate Leaders

This program of study of the UBS Optimus Foundation reveals insights about how the Deliberate Leadership process, when properly executed, can provide results—even when the participants come from varied backgrounds and perspectives. Through a process of questioning, listening, learning, and applying lessons from this experience in ways most suited for each organization, Wicked Problems can be tackled at both the community and global levels.

In particular, this case highlights how the fast-growing field of social finance offers new opportunities to leverage private sector capital to help achieve the United Nations Development Programme's 17 Sustainable Development Goals by 2030. UBSOF and their partners shared the lessons they learned during the course of developing and implementing a wide range of innovative social financing tools. These lessons move beyond traditional grantmaking to include Social Success Notes, program related investments, and Development Impact Bonds (DIBs). Many of these tools are being used globally and



are being tested through prototypes to determine ways to scale results to improve the lives of vulnerable children.

### Boom Times

As a way of helping ensure capital for good causes, social finance is booming. As Maya Ziswiler, UBSOF Head of Social Finance, notes, “A lot of people want to do (social finance), even though they might not know if it's the right type of instrument to achieve, just because it's the new shiny thing.” Ziswiler has also observed “a rush of people attracted and interested to do this without any understanding of what it actually requires in terms of setting up the appropriate structure and appropriate measurement mechanisms.”<sup>347</sup>

Priya Sharma of USAID is also tracking the interest in this financing tool and is following the tension created by the need for both return and social change. “I was struck by the number of large mainstream investors that said...they actually wanted to move away from the term impact investing towards traditional investing because they were looking for opportunities to have a financial return and achieve social impact,” she says. “That was exciting on the one hand, but also somewhat worrying, because it also then means that you're bringing investors in who might have limited understanding of the trade-offs that are involved in having financial and social impact, or (who might) have unrealistic expectations.”<sup>348</sup>

### Using the Right Tool for the Right Problem

In selling a “product” like social finance for social good, the challenge is often separating the financial return from the impact. “We have to be thinking about things on a systems level. I know that's complicated and ugly and not fun for the financial folks,” says Ann-Marie Sevcik, former Program Director at UBSOF. “That's my biggest concern with that. How do we find digestible products and packages that will attract the financial world, but at the same time not undercut the fundamental systems strengthening that needs to happen?”<sup>349</sup>

Merck for Mothers’ Scott Higgins notes that social finance can be the solution to some problems, but social finance is not the panacea for all woes. In the case of the Utkrisht Maternal and Newborn Health DIB, social finance was a good choice because the program had measurable outcomes and because solutions already existed that needed appropriate financing. “My recommendation is to start with the healthcare system problem that you're trying to solve,” Higgins says. Then, he argues, “Peel back the onion and ask, ‘If this is the problem, what factors are contributing to the problem that we can have impact on?’ Identify those root causes. Then, once you've identified those root causes, identify if there is an opportunity to have an impact and ask, ‘Does an innovative finance approach make sense?’”<sup>350</sup>

Higgins’ advice to the field: “Don't start with a hammer and then seek out nails to strike. If you start with a plan to use innovative finance or a DIB before you identify the target, you are a solution in search of a problem. You are applying something that may or may not make sense for the situation that you're in,” he says. “It's a tool. It's nothing more than a tool.”<sup>351</sup>



## Patience is Required

Sevcik also notes that social finance, and especially DIBs, can't happen overnight. Results might take decades to be seen on a larger level. Contract agreements have to be negotiated in detail and might take months. Some of these problems are so complicated and require so many interventions that it can seem nearly impossible to estimate outcomes—yet outcomes must still be determined. “Everybody’s just ultra-excited about social finance,” Sevcik says, “without recognizing...how many different questions and how much time has to be invested at all different levels to make sure that you’re answering the right questions.” She says the needs of the mothers and newborns in Rajasthan are long-term problems, not trends.<sup>352</sup>

## No Pat Answers

The goal of this case study isn’t to provide definitive answers to these complex issues, but to stimulate thinking. As pointed out in the preface, the case analyses in this UBSOF programme of study explore in depth the background, history, successes, and challenges of its work with a goal of provoking discussion around the driving elements of the analysis.

This study also pinpoints the Deliberate Leadership characteristics needed to address the world’s most complex challenges, offering insight to leaders as they use new forms of blended capital to tackle 21st century problems—Wicked Problems.

A commitment to using Deliberate Leadership requires leaders to create, nurture, and continually reinforce an organizational culture dedicated to open and honest learning, adaptation, communication, and diverse stakeholder involvement. It also requires organizations to let go of the idea or need to have only the “right” answers, to focus on short-term outcomes and impacts, and to control the process unilaterally. These commitments often mean a substantial change in institutional culture.

## Questions for the Field

Addressing Wicked Problems requires a significant cultural shift for many organizations, whether they are funders, grantees, or other stakeholders. The previous section views UBSOF through the lens of Wicked Problems, seeking to understand how, with all its great strengths, UBSOF could have been even more effective by applying the tenets of Deliberate Leadership. The questions this raises offer students of philanthropy and social investors rich opportunities to discuss, debate, and learn in situations where there is no one right answer.

1. **Courage:** Based on your experiences and knowledge, do most funders diagnose complex issues properly? Do they support high-risk projects and solutions?
2. **Collaboration:** Do funders seek out divergent points of view and ensure that they were welcomed and protected at the table? Do they seek partners in problem-solving?
3. **Community:** Can you think of illustrations of ways funders have worked effectively to build a trusting relationship with communities? Have these organizations also built effective teams internally?



4. **Candor:** How do funders create a culture that embraces openness and failure? How do they create a learning organization that reflects on its values, culture, and strategies and builds on lessons learned?
5. **Creativity:** How can funders build “what if” scenarios and anticipate threats early in their due diligence and grantmaking process?
6. **Compassion:** When and how do funders exhibit humility and empathy in decision-making?
7. **Capital:** How can funders value the social and financial assets of their partners and staff?

This handful of questions gets at the heart of being a Deliberate Leader. The case study presents information and analyses that can help to raise important questions on leadership and learning for the global field of philanthropy and social investing—and at the same time offers practical hope for solving the problems of poverty, inadequate health, and poor education that afflict half of the planet’s population.

## Appendix A. List of Interviewees

| Name                | Organization  | Title  |
|---------------------|---|--|
| Ranajoy Basu        | Reed Smith  | Partner  |
| Lorenzo Bernasconi  | Rockefeller Foundation  | Senior Associate Director, Innovative Finance                                    |
| Alison Bukhari      | Educate Girls   | UK Director  |
| Phyllis Costanza    | UBS Optimus Foundation  | Chief Executive Officer  |
| Radana Chrova       | Department for International Development                            | Development Impact Bonds Advisor   |
| Dhun Davar          | UBS Optimus Foundation  | Program Director, Social Finance   |
| Anthony Donatelli   | UBS Optimus Foundation  | Director, Philanthropy Services UK   |
| Sergio Ermotti      | UBS   | Chief Executive Officer  |
| John Fairhurst      | Global Fund to Fight AIDS, Tuberculosis and Malaria                 | Head, Private Sector Engagement  |
| Martina Gaus        | UBS Optimus Foundation  | Head of Optimus Philanthropy Services Switzerland                                |
| James Gifford       | UBS   | Head of Impact Investing, Chief Investment Office                                |
| Sarah Gonzalez-Arza | UBS Optimus Foundation  | Communications Manager   |
| Avnish Gungadurdoss | Instiglio   | Co-founder and Managing Partner  |
| Tom Hall            | UBS Optimus Foundation  | Head of Client Relations UK  |
| Anna-Marie Harling  | UBS   | Head of Great Wealth Philanthropy Center   |
| Scott Higgins       | Merck for Mothers   | Director of Operations   |
| Nina Hoppe          | UBS Optimus Foundation  | Chief Operating Officer  |
| Safeena Husain      | Educate Girls   | Founder and Executive Director   |
| Hubertus Kuepels    | UBS   | Group Head of Communications and Branding  |
| Pritpal Majara      | Population Services International                                   | Managing Director  |
| Nicole Neghaiwi     | UBS   | Impact Investment Strategist   |
| Tim Neville         | Impact Water  | Chief Operating Officer  |
| Grethe Petersen     | Children's Investment Fund Foundation                               | Director   |
| Ann-Marie Sevcik    | UBS Optimus Foundation  | Former Program Director, Health  |
| Sonal Shah          | Beeck Center of Social Impact and Innovation, Georgetown University | Executive Director<br>UBS Optimus Foundation Board Member                        |
| Priya Sharma        | USAID   | Senior Policy and Innovative Financing Advisor, Center for Innovation and Impact |
| Vivek Sharma        | Population Services International                                   | Chief Technical Officer  |
| Vikram Solanki      | Educate Girls   | Project Manager  |

| Name            | Organization                         | Title   |
|-----------------|--------------------------------------|---|
| Owen Strickland | UBS Optimus Foundation               | Business Manager  |
| Kate Sturla     | IDinsight                            | Associate Director  |
| Fay Twersky     | William and Flora Hewlett Foundation | Director, Effective Philanthropy Group; UBS Optimus Foundation Board Member |
| Peter Vanderwal | Strat!gos Consulting                 | Founder and Chief Executive Officer   |
| Sietse Wouters  | UBS Optimus Foundation               | Program Manager, Social Finance   |
| Maya Ziswiler   | UBS Optimus Foundation               | Head of Social Finance  |

## Appendix B. UBS Optimus Foundation's Funding Portfolio

Programs funded by UBS Optimus Foundation by Portfolio as of July 2018 include:

| Portfolio        | Organization Name  | Project Title   | Region                    |
|------------------|--|---|---------------------------|
| Health           | Stop Buruli Initiative   | Buruli Consortium   | Worldwide                 |
| Education        | Oxfam GB   | Girls CAN: promoting secondary education for girls          | Africa South of Sahara    |
| Health           | Global Alliance for Rabies Control   | Child & Dog CARE: Communities Against Rabies Exposure       | Asia & Pacific            |
| ECD+             | Mother Child Education Foundation (ACEV)   | Quality childcare for young Turks                           | Central & Eastern Europe  |
| Health           | Public Health Foundation of India  | Safe Childbirth Checklist                                   | Asia & Pacific            |
| Child Protection | World Health Organization  | Global status report on violence prevention                 | Worldwide                 |
| Child Protection | Centre for Justice and Crime Prevention (CJCP), University of Cape Town (UCT)        | Optimus Study - Violence prevention                         | Africa South of Sahara    |
| Education        | Teach for the Philippines  | Teach for the Philippines                                   | Asia & Pacific            |
| Health           | International Centre for Diarrhoeal Disease Research                                 | Saving children with severe pneumonia and malnutrition      | Asia & Pacific            |
| ECD+             | PREVIVA, School of Public Health, University of Antioquia                            | PROMESAs to keep: does it reduce abuse?                     | Latin America & Caribbean |
| Health           | University Hospitals of Geneva - Division of International and Humanitarian Medicine | Bites & bikes: saving children from venomous snakes         | Asia & Pacific            |
| ECD+             | Khom Loy Development Foundation  | Low-cost Montessori for displaced kids                      | Asia & Pacific            |
| Health           | Centre Suisse de Recherches Scientifiques en Côte d'Ivoire                           | Integrated approach to fight parasitic worms and diarrhea   | Africa South of Sahara    |
| Child Protection | Childhood without violence and cruelty   | National Child Protection Systems                           | Central & Eastern Europe  |
| Health           | Drugs for Neglected Diseases Initiative  | Drug sprinkles for children with HIV and TB                 | Africa South of Sahara    |
| China            | Fudan University, School of Public Health  | Mothers' mouthwash for baby's health                        | Asia & Pacific            |
| Health           | Queensland Institute of Medical Research   | 'Magic Glasses' to fight parasitic worms                    | Asia & Pacific            |
| Health           | School of Public Health, Griffith University   | Taking toilets to scale: full-scale field test of BALatrine | Asia & Pacific            |
| Health           | APOPO  | TB or not TB - That is the question for African rats        | Africa South of Sahara    |
| ECD+             | Ilifa Labantwana (Based at the DG Murray Trust)                                      | Ilifa Labantwana - scaling up early childhood               | Africa South of Sahara    |
| Child Protection | University Hospital Ulm  | E-learning: Early Prevention of Maltreatment                | Western Europe            |
| Education        | Instituto ABCD   | More and better education for children in the Amazon        | Latin America & Caribbean |

| Portfolio          | Organization Name  | Project Title  | Region                     |
|--------------------|--|--|----------------------------|
| Education          | Child's Dream Foundation   | Bridging the education gap for underprivileged children                  | Asia & Pacific             |
| China              | Right To Play Switzerland  | Happy Healthy Children   | Asia & Pacific             |
| Health             | Pham Ngoc Thach Hospital   | Low-cost beads to detect childhood tuberculosis                          | Asia & Pacific             |
| Education          | STIR Education (Schools and Teachers Innovating for Results)       | Teachers and parents innovate to solve India's learning crisis           | Asia & Pacific             |
| Health             | Médecins Sans Frontières   | Emergency Response to the Ebola outbreak                                 | Africa South of Sahara     |
| ECD+               | Yale University  | Education to reduce children's exposure to violence                      | North Africa & Middle East |
| China              | PlayRight Children's Play Association                              | Structured play for children in hospitals                                | Asia & Pacific             |
| Child Protection   | Roots of Empathy   | Building empathy in children   | Western Europe             |
| ECD+               | International Rescue Committee UK                                  | Parents make the difference  | Africa South of Sahara     |
| Education          | Pratham Education Foundation                                       | Learning camps for marginalized children                                 | Asia & Pacific             |
| Health             | Universidad Peruana Cayetano Heredia                               | Integrating home and community measures to improve health                | Latin America & Caribbean  |
| Child Protection   | University of Oxford   | Essential components of parenting interventions                          | Worldwide                  |
| Health             | Hamlin Fistula Ethiopia  | Saving lives by giving light   | Africa South of Sahara     |
| Health             | Karolinska Institute, Department of Clinical Science and Education | A new test for tuberculosis  | Africa South of Sahara     |
| ECD+               | Warmayllu  | Improving nutrition and cognitive abilities of children through the arts | Latin America & Caribbean  |
| Emergency Response | We Care Solar  | Lighting up lives with Solar Suitcases                                   | Asia & Pacific             |
| Health             | Johns Hopkins Bloomberg School of Public Health                    | mCare: mobile phones for newborn survival                                | Asia & Pacific             |
| ECD+               | Ilifa Labantwana (Based at the DG Murray Trust)                    | Ilifa Innovation Edge for early childhood                                | Africa South of Sahara     |
| Child Protection   | Hope and Homes for Children  | Deinstitutionalizing children  | Africa South of Sahara     |
| ECD+               | International Centre for Diarrheal Disease Research                | Happy mother, happy child  | Asia & Pacific             |
| ECD+               | Concern Worldwide (UK)   | Transforming lives of street children                                    | Asia & Pacific             |
| ECD+               | Arcanys Early Learning Foundation Inc.                             | Transformation through parent coaching                                   | Asia & Pacific             |
| ECD+               | Action Against Hunger  | Innovation for preventing anemia and stunting                            | Latin America & Caribbean  |

| Portfolio        | Organization Name  | Project Title   | Region                 |
|------------------|--|---|------------------------|
| Child Protection | Child Protection Network Foundation, Inc.                                  | Safe Schools for Teens  | Asia & Pacific         |
| Health           | We Care Solar  | We Care Solar Suitcases: Going from Good to Great                                   | Africa South of Sahara |
| Health           | We Care Solar  | Lighting Up Lives with Solar Suitcases  | Africa South of Sahara |
| China            | Teach For China  | Support stipends of Teach For China fellows   | Asia & Pacific         |
| Education        | Results for Development Institute (R4D)                                    | Education and Health Innovation Landscape   | Africa South of Sahara |
| Child Protection | Promundo-US  | Engaging fathers to reduce violence against children                                | Asia & Pacific         |
| ECD+             | BRAC USA, Inc.   | Community-led Early Childhood Development   | Asia & Pacific         |
| Child Protection | Hope and Homes for Children  | Deinstitutionalizing children   | Worldwide              |
| Education        | Innovations for Poverty Action (IPA)                                       | Quality Low-Cost Private Preschools   | Africa South of Sahara |
| Child Protection | Investing in Children and their Societies (ICS)                            | Skillful parenting to prevent child maltreatment                                    | Africa South of Sahara |
| Education        | Abdul Latif Jameel Poverty Action Lab (J-PAL) South Asia at IFMR           | Every child counts! A scalable curriculum for early mathematics                     | Asia & Pacific         |
| China            | Chinese Relief and Development Foundation                                  | Left behind children in China   | Asia & Pacific         |
| China            | Association Concerning Sexual Violence Against Women (Rainlily Foundation) | Prevent sexual violence against children  | Asia & Pacific         |
| ECD+             | I Can Charity  | Early talk boost  | Western Europe         |
| Education        | Results for Development Institute (R4D)                                    | Learning Lab: building capacity for monitoring, learning and evaluation             | Worldwide              |
| China            | Right To Play China  | Early Childhood Development for children from ethnic minorities                     | Asia & Pacific         |
| China            | Shenzhen MeetCharity Foundation  | Keep kids away from Hydatid   | Asia & Pacific         |
| China            | University of Hong Kong  | A better future for young children from ethnic minorities                           | Asia & Pacific         |
| Child Protection | Taboobreaker GmbH  | Prevent sexual abuse  | Western Europe         |
| China            | Little Flower  | Help for the truly helpless   | Asia & Pacific         |
| China            | Chinese University of Hong Kong  | Community Eye Screening Program for Children of the Lower-Income Class in Hong Kong | Asia & Pacific         |
| Health           | Living Goods   | Happy meals: a nutrition micro-franchise  | Africa South of Sahara |
| China            | Caritas Medical Centre   | Pediatric pre-school education & rehabilitation service program                     | Asia & Pacific         |

| Portfolio          | Organization Name   | Project Title  | Region                 |
|--------------------|---|--|------------------------|
| ECD+               | Grand Challenges Canada   | Saving Brains - Scaling Impact   | Worldwide              |
| China              | Hong Kong Adventist Hospital Foundation (HKAHF)                               | Medical services for low-income children   | Asia & Pacific         |
| China              | United Christian Nethersole Community Health Service                          | Every Child Counts   | Asia & Pacific         |
| Education          | SRI International   | Evaluation Project on school attendance and performance  | Africa South of Sahara |
| Education          | World Bicycle Relief Deutschland GmbH   | Bicycles for Educational Empowerment Program   | Africa South of Sahara |
| Education          | Foundation to Educate Girls Globally  | Educate Girls Development Impact Bond  | Asia & Pacific         |
| Child Protection   | Centre for Public Health, Liverpool John Moores University                    | V-Info: one-stop global violence prevention resource   | Worldwide              |
| Child Protection   | OnSide Youth Zones  | OnSide Youth Zone  | Western Europe         |
| Child Protection   | Optimus Study   | OF Study 3rd Cycle Projects: Switzerland (Hochschule Luzern - Soziale Arbeit) / Assess agency response to child maltreatment | Western Europe         |
| Child Protection   | Centre for Justice and Crime Prevention (CJCP), University of Cape Town (UCT) | Optimus Study - Tracking reported maltreatment cases   | Africa South of Sahara |
| Education          | Solon Foundation  | Education for Learning and Employability   | Africa South of Sahara |
| Health             | Power of Nutrition (Nutrition for Growth N4G) - Catalytic Financing Facility  | Power of Nutrition Fund - Catalytic Financing Facility   | Worldwide              |
| Health             | National Centre for Parasitology, Entomology and Malaria Control              | Protecting children from threadworms   | Asia & Pacific         |
| Health             | Last Mile Health/Tiyatien Health  | Going the last mile for community health resilience  | Africa South of Sahara |
| China              | Ai You Foundation   | Ai You Young Heart Project   | Asia & Pacific         |
| Child Protection   | Camp Group gemeinnützige GmbH   | Strong girls, safe communities   | Africa South of Sahara |
| China              | Ai You Foundation   | Ai You Young Heart Project   | Asia & Pacific         |
| Child Protection   | Optimus Study   | Global Evaluation Challenge Fund / Phase Out - Violence against children - Evaluation Challenge Fund                         | Worldwide              |
| Emergency Response | We Care Solar   | Solar Suitcases to Support Earthquake Relief   | Asia & Pacific         |
| Child Protection   | University of New Hampshire, Sponsored Programs Administration                | Guidelines for applying for funding in the new evidence-based culture  | Worldwide              |
| China              | Le Yi Hui (Beijing) Consulting Co. Ltd. (R2P China)                           | Piloting social work service in hospital   | Asia & Pacific         |

| Portfolio          | Organization Name   | Project Title   | Region                    |
|--------------------|---|---|---------------------------|
| Child Protection   | Investing in Children and their Societies (ICS)   | Skillful parenting to prevent child maltreatment                                    | Africa South of Sahara    |
| ECD+               | FSG   | Affordable Early Childhood Education program (AEP)                                  | Asia & Pacific            |
| Education          | Institut zur Cooperation bei Entwicklungsprojekten  | Contextualized Rural Schooling in the Semi-Arid Region of Brazil                    | Latin America & Caribbean |
| China              | Chi Heng Foundation   | Improve lives of AIDS orphans   | Asia & Pacific            |
| Health             | University Children's Hospital Zürich - Eleonorenstiftung   | Ease suffering of dying children  | Western Europe            |
| China              | Right To Play Switzerland   | ECD Program in Liangshan Prefecture   | Asia & Pacific            |
| ECD+               | Philippine Ambulatory Pediatric Association, Inc.   | Parenting for lifelong health   | Asia & Pacific            |
| China              | Liangshan Institute of Environment and Livelihood Development (LIELD) via China Social Welfare Foundation | Integrated support for Yi Children  | Asia & Pacific            |
| Education          | Teach for All   | Expanding Educational Opportunity   | Latin America & Caribbean |
| China              | Hua Dan   | Migrant children participatory theatre intervention                                 | Asia & Pacific            |
| ECD+               | Hippocampus Reading Foundation ( on behalf of Hippocampus Learning Centres)                               | Establish 72 sustainable rural Early Childhood Education centers                    | Asia & Pacific            |
| Health             | Foundation for Innovative New Diagnostics FIND  | Development and introduction of novel diagnostic solutions for Buruli ulcer         | Africa South of Sahara    |
| Emergency Response | Save the Children Switzerland   | Humanitarian crisis in Greece   | Western Europe            |
| China              | Rural Education Action Program (REAP)   | Nurturing the future: improving parenting in rural China                            | Asia & Pacific            |
| Health             | Vision for a Nation Foundation  | Innovative and sustainable primary eye care for Rwanda                              | Africa South of Sahara    |
| ECD+               | Mobile Creches  | Ensuring the right to care for children of urban migrants                           | Asia & Pacific            |
| Child Protection   | Comunità San Patrignano Società Cooperativa Sociale   | Happy family life   | Western Europe            |
| Education          | Institute of Educational Development, BRAC University   | BRAC Nobodhara School: Creating Access to Quality Education - BRAC Nobodhara School | Asia & Pacific            |
| China              | Rural Education Action Program (REAP) - Shaanxi Normal University   | Building a preschool vision screening regimen for rural counties                    | Asia & Pacific            |
| ECD+               | Hand in Hand India  | Mothers' collective for Early Childhood Development                                 | Asia & Pacific            |
| Health             | Foundation Suyana Mundial   | Integrated health care for rural children in Peru                                   | Latin America & Caribbean |

| Portfolio        | Organization Name                                   | Project Title   | Region                    |
|------------------|---|---|---------------------------|
| China            | China Development Research Foundation (CDRF)        | Better care giving to improve children's future                                     | Asia & Pacific            |
| ECD+             | HealthRight International                           | Teacher-implemented child and family violence prevention in Nepali schools          | Asia & Pacific            |
| ECD+             | a:primo   | Sustainable Early Childhood Development schritt:weise   petits:pas                  | Western Europe            |
| China            | Beijing Leping Social Entrepreneur Foundation       | Rural preschool teacher training in China   | Asia & Pacific            |
| ECD+             | HelpAge International Nepal (HAI-N)                 | Improving Early Childhood Health & Education through active ageing in Nepal         | Asia & Pacific            |
| Child Protection | Deutscher Kinderschutzbund Bundesverband e.V.       | Sehen - Verstehen - Angemessen handeln: support and integration of refugee children | Western Europe            |
| Child Protection | Cure Violence                                       | Mobilizing communities to detect and interrupt violence                             | Latin America & Caribbean |
| ECD+             | Karuna Foundation Nepal                             | Inspire2Care  | Asia & Pacific            |
| China            | National Institute of Parasitic Diseases, China CDC | Ready-for-school without worms  | Asia & Pacific            |
| Health           | AO Alliance Foundation (AOAF),                      | Pediatric fracture solutions for Ghana  | Africa South of Sahara    |
| Health           | Schistosomiasis Control Initiative                  | Improving child health and education by treating neglected diseases in Madagascar   | Africa South of Sahara    |

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