

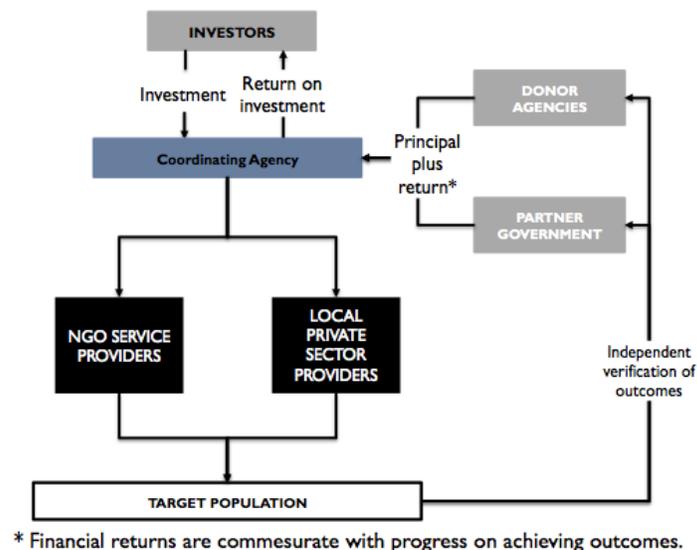
Development Impact Bonds Briefing Note for DAC Senior Level Meeting 3 April 2013

What is a Development Impact Bond?

Development Impact Bonds (DIBs) bring together private investors, non-profit and private sector service delivery organisations, governments and donors to deliver outcomes which society values in a cost-effective way. They are a family of outcomes-based contracts in which private investors pay for interventions in advance, and work with delivery organisations to ensure that the results are achieved; the investors obtain their return from payments from donors and governments based on the improvement in outcomes that the programme achieves. If interventions succeed, returns to investors are commensurate with progress achieved, but if they fail, investors lose some or all of their investment.

DIBs are an extension of the Social Impact Bond concept, an approach that several governments in industrialised countries have piloted to address problems such as recidivism, unemployment and homelessness; and to improve the efficiency of public sector spending. As developing countries benefit from new actors and more private flows, one challenge is to build effective new partnerships among the private sector, aid donors, partner country governments and service delivery organisations. DIBs are a **platform for development cooperation** that gives these actors both the incentives and flexibility to work together to make an effective contribution to the delivery of social services and improvement of the lives of poor people.

A Development Impact Bond could be structured as follows:



The benefits of applying this approach in development include:

- Aligning interests of investors, service providers, governments & donors toward effective service delivery
- Creating incentives to focus on achieving and measuring outcomes
- Leveraging private sector skills and management to improve quality of services and increase efficiency
- Enabling experimentation, innovation and learning
- Providing pre-financing to providers enabling them more easily to participate in results-based contracts
- Increasing public confidence in aid, because risks can be transferred to investors and tangible results can be identified

Development Impact Bond Working Group

An expert Working Group, convened by the Center for Global Development and Social Finance UK in 2012, has been exploring how DIBs can be used to improve development outcomes; the challenges and potential benefits of implementing this new financing mechanism; and specific contexts in which a DIB can be applied.

Members of the **Development Impact Bond Working Group**, with their affiliations listed for the purpose of identification, are:

Co-Chairs: Owen Barder, Center for Global Development; Toby Eccles, Social Finance; Elizabeth Littlefield, Overseas Private Investment Corporation.

Members: Bob Annibale, Citigroup; Vineet Bewtra, Omidyar Network; Nancy Birdsall, Center for Global Development; Chris Egerton Warburton, Lion's Head Global Partners; Rebecca Endean, UK Ministry of Justice; Stefan Isaksson, Swedish Ministry of Foreign Affairs; Kippy Joseph, Rockefeller Foundation; Dan Kress, Bill & Melinda Gates Foundation; Susan McAdams, World Bank; Steve Pierce, USAID; Oliver Sabot; Sonal Shah, Board Member Social Finance US; Smita Singh; Rachel Turner, UK Department for International Development; Peter Wheeler, Board Member Social Finance UK.

The Working Group analysed six case studies of potential DIBs, listed below. It will release a draft report of its conclusions for public consultation in April 2013 and a final report in mid-2013.

Working Group case studies of potential DIB pilots	
 Department for International Development	• Elimination of sleeping sickness in Uganda
 CLINTON HEALTH ACCESS INITIATIVE	• HIV Prevention in Swaziland
 USAID FROM THE AMERICAN PEOPLE	• Business development services for SMEs
 OPIC	• Energy efficient buildings
 LION'S HEAD global partners	• Low cost private schools in Pakistan
 SOCIAL FINANCE	• Access to secondary education in Uganda

Opportunities for Donors

The provisional conclusions of the Working Group are:

- DIBs have significant potential as a financing tool and platform for development cooperation
- Donor agencies should consider how implementation of DIBs could fit in to their operations
- Donor agencies should partner with private sector actors, intermediary organisations and service providers to explore how the DIB model can address development challenges that are not adequately addressed by current funding mechanisms

The Working Group recommends that donor agencies collaborate to establish a **DIB Challenge Fund**, which would provide joint funding for development outcomes and would allow outcome funders to share risks and lessons learned. The DIB Challenge Fund should emphasise the need for shared information and learning to understand the advantages and disadvantages of this approach so that it can be improved over time.

For more information, including the draft Development Impact Bond Working Group report when it is published, please visit www.cgdev.org/dib or email Rita Perakis, program associate at the Center for Global Development (rperakis@cgdev.org).