

Development Impact Bonds Briefing Note – June 2013

What is a Development Impact Bond?

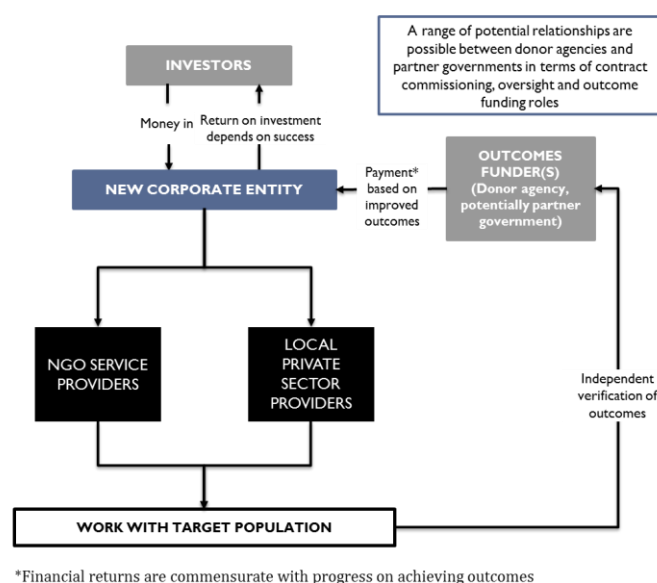
Development Impact Bonds (DIBs) bring together private investors, non-profit and private sector service delivery organisations, governments and donors to deliver results which society values. They are a family of outcomes-based contracts in which private investors pay in advance for interventions needed to achieve agreed results, and work with delivery organisations to ensure that the results are achieved; donors and/or governments make payments to investors if the interventions succeed, with returns linked to progress achieved. If the interventions fail, investors lose some or all of their investment.

DIBs are an adaptation of Social Impact Bonds (SIBs), an approach pioneered in America, Australia, Britain, Canada and Ireland to provide effective and cost-efficient solutions to social problems such as recidivism, unemployment and homelessness. SIBs turn neglected social problems into investible opportunities. The focus on results and shift of performance risk to investors creates incentives to use private sector expertise to improve social outcomes – for example, by putting in place the necessary feedback loops or performance management to create bottom-up, client-centred approaches. The main additional feature of Development Impact Bonds is that in countries whose governments do not yet have enough resources to finance additional public services, donors may make some or all of the repayments to investors when the results have been demonstrated. DIBs are a platform for development partnerships between private, public and non-profit organisations, giving them both incentives and flexibility to work together to improve the lives of some of the world's poorest and most vulnerable people.

The benefits of applying this approach in development include:

- Aligning interests of investors, service providers, governments & donors toward effective service delivery
- Ensuring a focus on achieving measurable outcomes
- Leveraging private sector skills and management to improve quality of service and increase the innovation, flexibility and efficiency of both design and delivery without denying access to the poorest people
- Providing working capital to providers enabling them more easily to participate in results-based contracts
- Increasing public confidence in aid, because taxpayer money is only used to pay when independently verified results are achieved

A Development Impact Bond could be structured as follows:











Development Impact Bond Working Group

An expert Working Group, convened by the Center for Global Development and Social Finance UK, 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. The Working Group analysed six case studies of potential DIBs as a part of this process and will release a draft report of its conclusions for public consultation on 5 June 2013. Members of the **Development Impact Bond Working Group** are listed below.

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, U.S. Agency for International Development; Oliver Sabot, Kepler/Slingshot; Sonal Shah, Board Member Social Finance US; Smita Singh, Board Member Center for Global Development; Rachel Turner, UK Department for International Development; Peter Wheeler, Board Member Social Finance UK.

Working Group case studies	
	• Reduction of Rhodesian sleeping sickness in Uganda
	• Antiretroviral Treatment as Prevention of HIV and TB in Swaziland
	• SME pipeline generation and value creation
	• Energy efficiency implementation
	• Low cost private school sector in Pakistan
	• Access to quality secondary education in Uganda

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Working Group Recommendations

To ensure that initial DIB pilots get off the ground, the Working Group makes the following general recommendations:

- Donors should establish a **DIB Outcomes Fund** and investors should establish **DIB Investment Funds**, which would enable these actors to share risks and **pilot a range of DIB models**.
- DIB pilots should be **evaluated rigorously** and a group of donors and philanthropic organisations should set up a **DIB Community of Practice** to share and accelerate learning.
- All actors should ensure that DIBs are **open by design**. Openness will accelerate confidence in DIBs for investors, governments, service providers and taxpayers and help to build a high quality market. Donors and foundations could consider establishing a **research data protocol** which would provide a standard of data and facilitate information-sharing.
- DIB parties will have to accept the high transactions costs of early DIB pilots. Foundations should consider subsidising these costs by providing funding to **catalyse the development of a DIB market**.

Further information can be found at:

<http://cgdev.org/dib> and <http://www.socialfinance.org.uk/work/developmentimpactbonds>

Comments on the consultation draft are welcome by 17 July 2013 by email to: dib@cgdev.org