



DEVELOPMENT IMPACT BONDS WORKING GROUP MEETING

29 MAY 2012



WORKING GROUP OBJECTIVES



Over three meetings the Working Group will explore the use of Social Impact Bonds to improve international development outcomes.

The working group will:

- Assess the Social Impact Bond model with a view to understanding where it might be a useful tool in international development
- Articulate principles for assessing when a Development Impact Bond is appropriate
- Explore the most promising and practical opportunities to pilot the Development Impact Bond (DIB) model
- Identify stakeholders, potential investors and providers, and draw upon their expertise to prioritise opportunities on which to focus
- Provide feedback on a draft paper produced by the group's secretariat for wider consultation
- Review an action plan for 2-3 DIBs that can be moved towards implementation in 2013



MEETING STRUCTURE



Over the course of the three meetings we hope to move from a general discussion of key issues to the identification of promising opportunities for implementation.

Meeting 1: Introduction and key considerations

- Introduce SIBs in developed countries
- Discuss how SIB models may be adapted for international development
- Discuss key considerations and potentially promising areas of application
- Agree an approach to screening promising opportunities

Meeting 2: Exploring opportunities

- Discuss long list of potentially promising opportunities
- Explore key principles around potential deal structures, roles of donors/local governments and implementation issues
- Agree shortlist of 3-4 opportunities for further research and development
- Identify experts and other key stakeholders to involve in further scoping

Meeting 3: Agreeing findings and next steps

- Discuss findings around short-listed opportunities
- Identify key risks and opportunities in moving towards implementation
- Agree priorities, conclusions and next steps
- Feedback on initial draft of output paper



OBJECTIVES FOR TODAY



Today's session will aim to:

- Provide an introduction to how Social Impact Bonds have been applied in developed countries
- Introduce and identify examples of how this could apply in a development context
- Explore principles for assessing when a Development Impact Bond is appropriate
- Provide direction for determining promising opportunities for the application of Development Impact Bonds
- Identify key considerations for further discussion



WORKING GROUP MEMBERS

London

- Owen Barder – Center for Global Development
- Toby Eccles – Social Finance UK
- Bob Annibale - Citigroup
- Vineet Bewtra – Omidyar Network
- Chris Egerton Warburton – Lion’s Head Capital Partners
- Rebecca Endean - Ministry of Justice, UK
- Stefan Isaksson – SIDA
- Susan McAdams – World Bank
- Steve Pierce - USAID
- Oliver Sabot – CHAI
- Smita Singh - Independent
- Peter Wheeler – Independent (Social Finance UK Board)

Washington

- Elizabeth Littlefield - OPIC
- Nancy Birdsall – Center for Global Development
- Kippy Joseph – Rockefeller Foundation
- Sonal Shah – Independent (Social Finance US Board)

Seattle

- Dan Kress - Bill & Melinda Gates Foundation

Apologies

- Rachel Turner – DfID



SOCIAL IMPACT
BONDS IN
DEVELOPED
COUNTRIES



SOCIAL IMPACT BONDS



Social Impact Bonds (SIBs) are a family of outcomes-based finance products. They involve raising social investment to fully or partly pay for services that improve social outcomes and reduce long term costs.

- Social Impact Bonds were designed to respond to wide recognition that some services should be bought on an outcomes basis:
 - Focusing accountability on inputs, processes and price had tended to produce bureaucratic, one size fits all services
 - Other service areas, particularly ‘soft’ prevention activities, had a poor record of either being purchased badly or not at all
- Purchase of outcomes presents two issues:
 - Some providers need to wait to get paid – typically longer than they can afford
 - Service providers usually only provide part of the solution and are therefore dependent on others to get paid – disaggregating the impact of individual service providers can be difficult
- SIBs resolve these issues by bringing in third party investment to take the risk and enable a coordinated response across a range of service providers

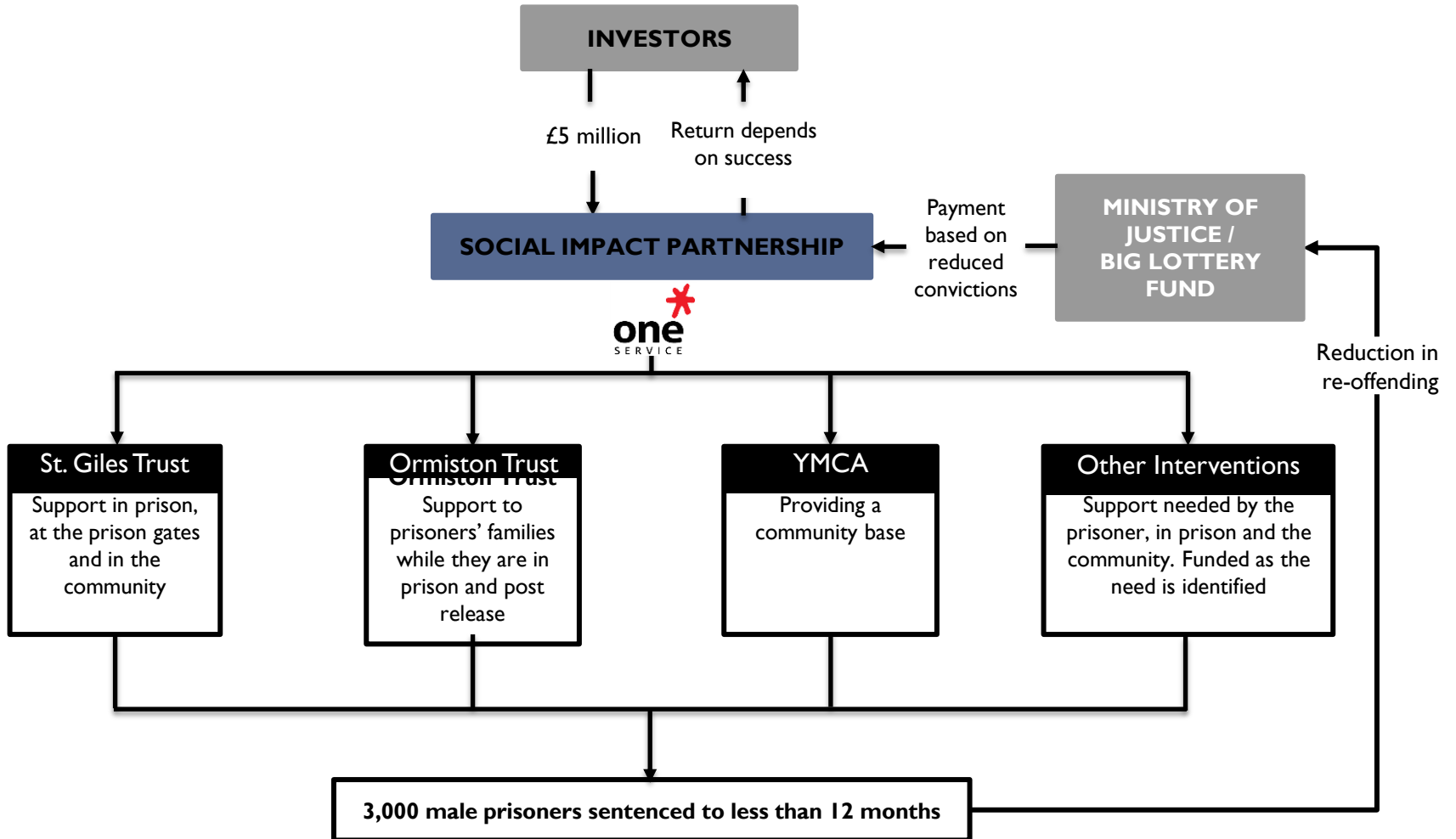


SOCIAL IMPACT BONDS PROVIDE A LOW RISK ROUTE FOR GOVERNMENT TO TEST SOCIAL INNOVATION OR TO TRANSFER THE IMPLEMENTATION RISK OF LARGER SCALE ROLL OUT

SOCIAL IMPACT BOND: PETERBOROUGH PRISON



The first Social Impact Bond raised £5m to address reoffending among short-sentence prisoners in the UK.

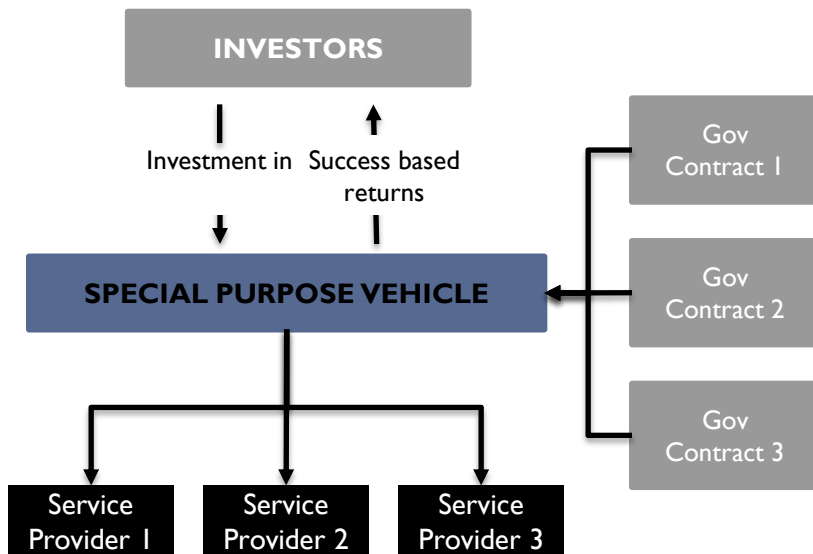


ALTERNATIVE SOCIAL IMPACT BOND STRUCTURES

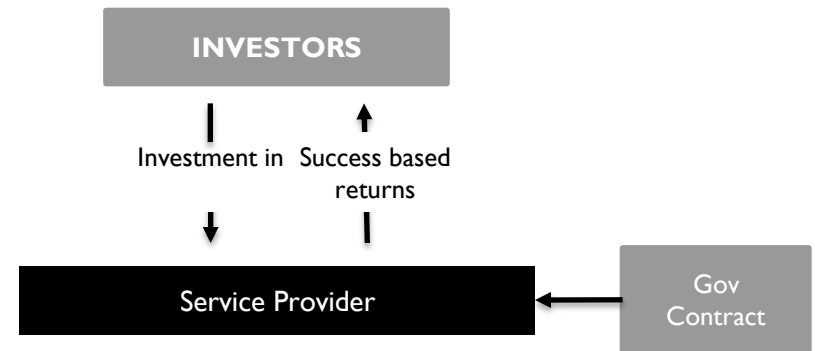


Contracts could also be held by a social investment fund that raises investment across a number of outcomes-based contracts, or directly between service providers and government.

Multiple contract fund



Service provider contract



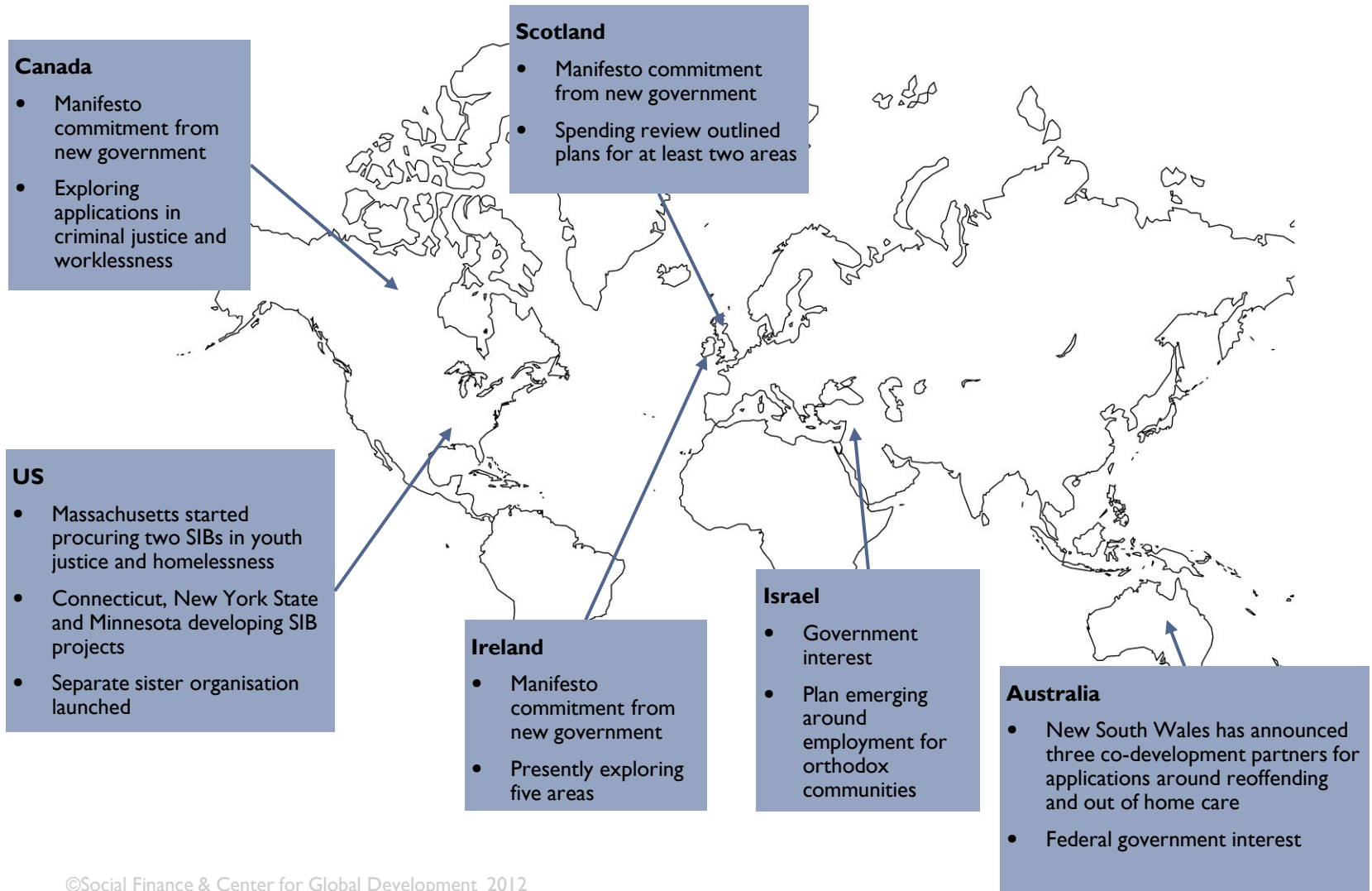


In the UK Social Impact Bonds are emerging to address a wide range of social issues.

- **Rough sleeping** – the Greater London Authority has announced a contract to improve accommodation, employment and health outcomes for entrenched homeless people
- **Children in care** – Manchester and Essex local authorities have announced SIBs to fund intensive interventions to support troubled families and reduce the numbers of adolescents in residential care or at the ‘edge of care’
- **Employment** – first two projects development by Triodos and the Private Equity Foundation to support young people that are not in education, employment or training (NEET). Further projects to come responding to a Department of Work and Pensions Innovation Fund
- **Criminal justice** – bidding process underway for further innovative models to reduce reoffending by short sentence offenders
- **Substance misuse** – work with the Home Office and a local authority on a SIB model to increase recovery rates from substance misuse programmes
- **Health and adult social care** – starting a feasibility assessment focused on integrated care models, improving the management of long-term health conditions and therefore reducing spending on acute health services



International interest has surged in the wake of the Peterborough SIB.

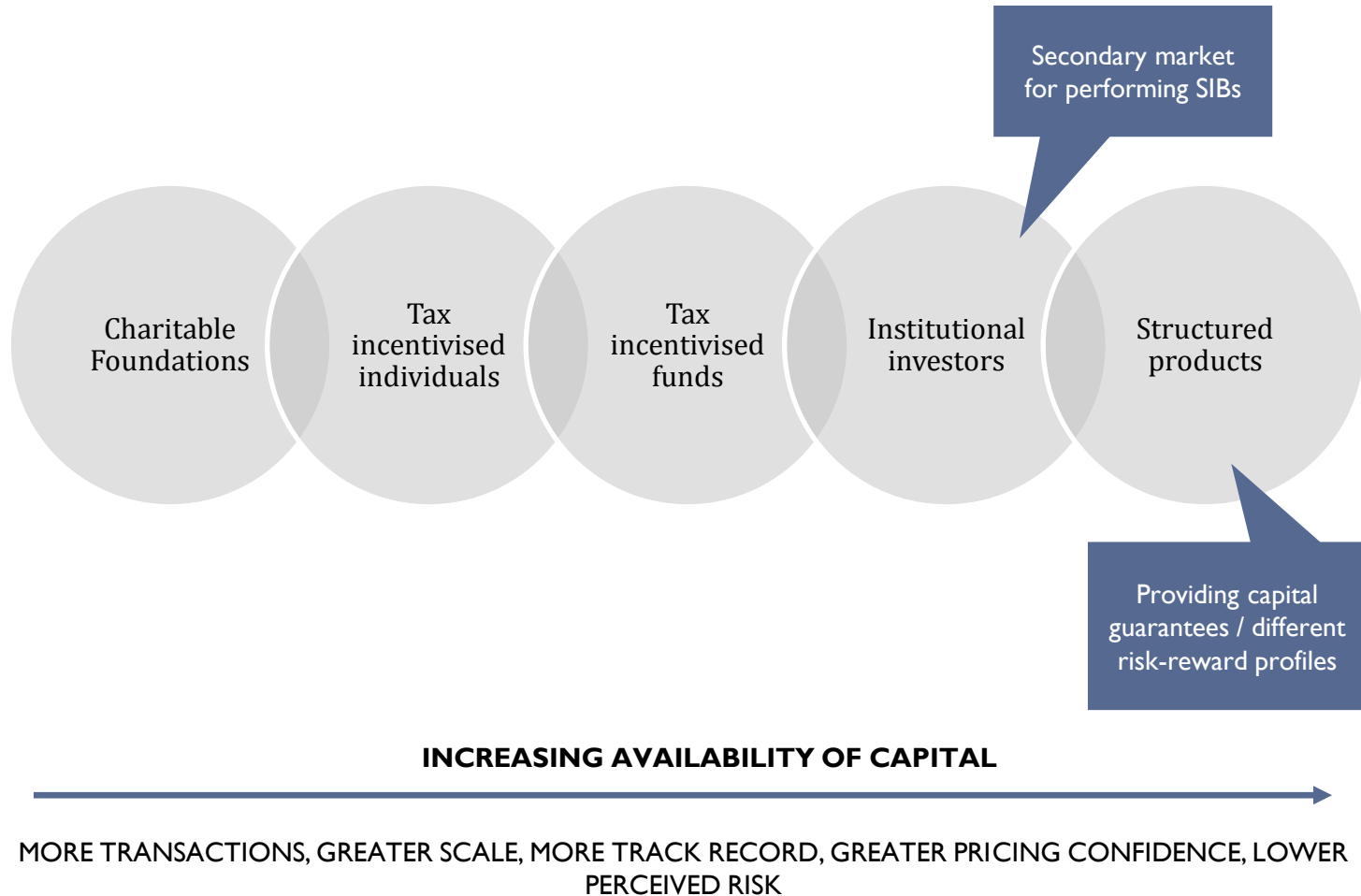




INVESTOR LANDSCAPE AND EVOLUTION



Social Finance is focused on bringing in new investor communities as the market grows.





GOVERNMENT PERSPECTIVE: ADVANTAGES OF SOCIAL IMPACT BONDS AND PAYING BY RESULTS

- Focuses incentives on outcomes and not inputs and processes
- Provides an incentive for innovation and permits flexibility in delivery
- Can harness the input of social investors effectively
- Gives responsibility for delivery outcomes to those who can most effectively achieve them
- Can drive public sector reform in areas where customer choice not possible
- Focuses on the individual/community rather than the provider
- Can target multiple outcomes across different sectors of government



GOVERNMENT PERSPECTIVE: BENEFITS OFTEN ACCRUE TO MORE THAN ONE DEPARTMENT

Current analysis (PbR Pilot Programme business case) suggests that the wider societal economic benefits from the reduction are around 5-6 times higher than the estimated fiscal savings to MoJ (excluding benefits and health savings).

For adult prisoners:

- A quarter (24%) have been in care
- Half (47%) have no qualifications, 63% have been suspended or temporarily excluded from school and 42% had been permanently excluded
- Half (49%) have not been in paid employment in the year before custody and a tenth (13%) have never been in any paid work
- One in seven (15%) report being homeless or living in temporary accommodation before entering prison (including 9% sleeping rough)
- A fifth (20%) need help for an emotional or mental health problem
- Four-fifths (81%) had used illicit drugs prior to entering prison, including almost two-thirds (64%) within the month before entering prison



GOVERNMENT PERSPECTIVE: ESTABLISHING A ROBUST BASELINE IS ESSENTIAL IN ORDER TO ATTRIBUTE SUCCESS TO THE PROVIDER

Two key risks:

- Paying for an outcome that would have happened anyway (deadweight)
- Not paying for an outcome that the provider did generate (impact on market)

Lots of imaginative ways to get round:

- Relative performance/yardstick competition
- Accelerator payments
- Threshold payments
- RCTs/quasi experimental/differences in differences
- Minimise potential for selection bias (cream skimming/parking)

But easier in a mature programme (rather than pilots) and more difficult for multiple outcomes.



A large, solid blue triangle pointing to the right, which serves as a background for the main title text.

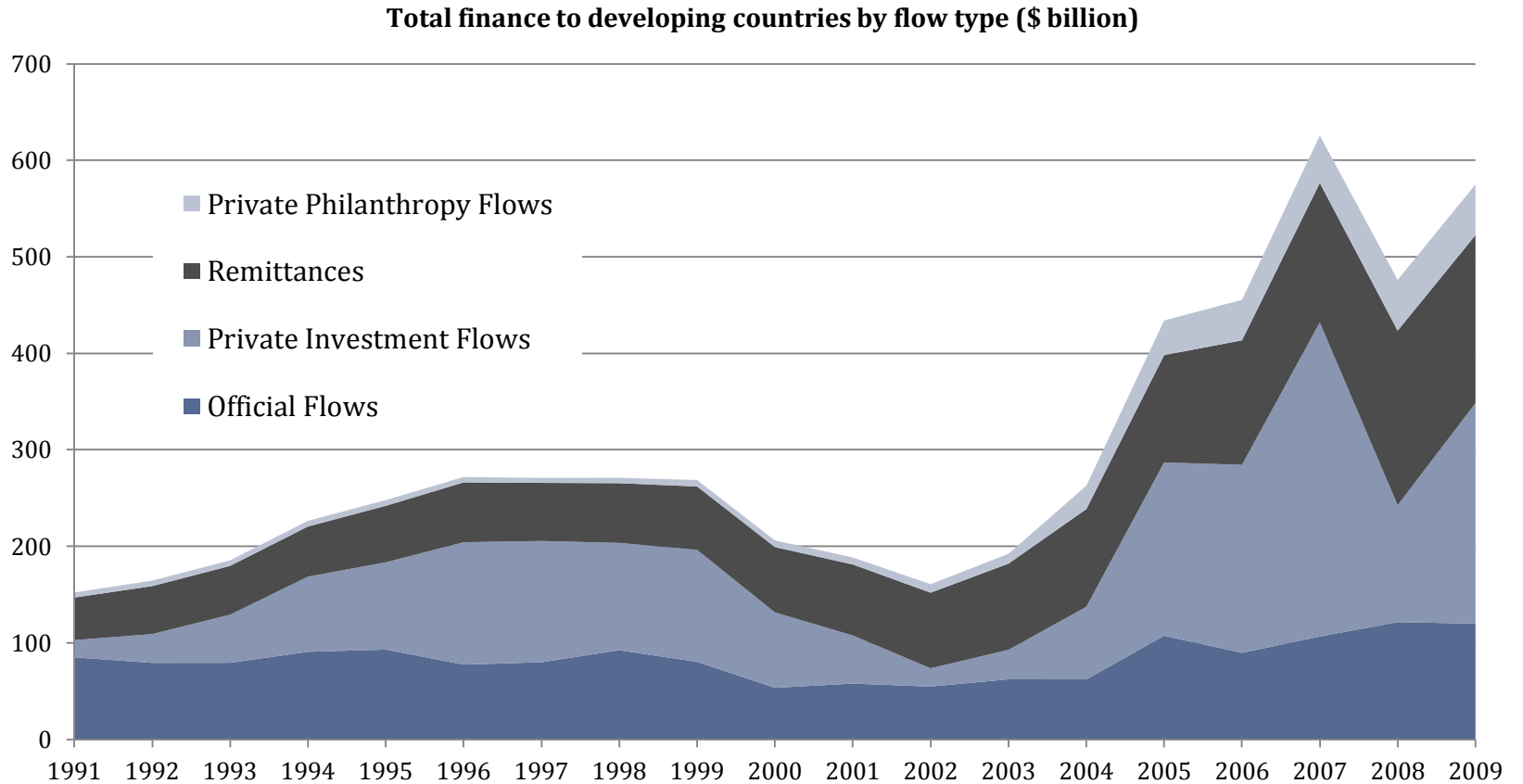
THE CASE FOR
DEVELOPMENT
IMPACT BONDS



THE NEW DEVELOPMENT FINANCE



Aid is a smaller share of global development finance.



WHAT PROBLEMS COULD DIBS HELP TO ADDRESS?

19



Developing countries face many of the same challenges as industrialised countries.

- Investment in prevention or 'early intervention' instead of bearing the costs of failure
- Combining funding from different sources to tackle multi-dimensional problems
- Benefiting from private sector management to improve quality of key services while ensuring equitable access
- Exploring innovative ideas in a risk averse political context



MANY OF THE REASONS WHY SOCIAL IMPACT BONDS ARE BEING TRIED IN DEVELOPED COUNTRIES APPLY AS MUCH OR MORE TO DEVELOPING COUNTRIES

WHAT PROBLEMS COULD DIBS HELP TO ADDRESS?

20



... and the development industry has problems of its own.

- Difficulties in implementing the 'Paris Agenda' for aid effectiveness:
 - Ownership, alignment, harmonisation, mutual accountability and managing for results
- Proliferation of donors and projects leads to waste, overlap, transaction costs and coordination costs
- Weakening of local institutions and local accountability
- Donor 'planning' mentality leads to lack of experimentation and prevents emergence of local solutions
- Lack of data about outcomes
- Traditionally ambivalent relationship with the private sector
- Public scepticism about government-to-government aid



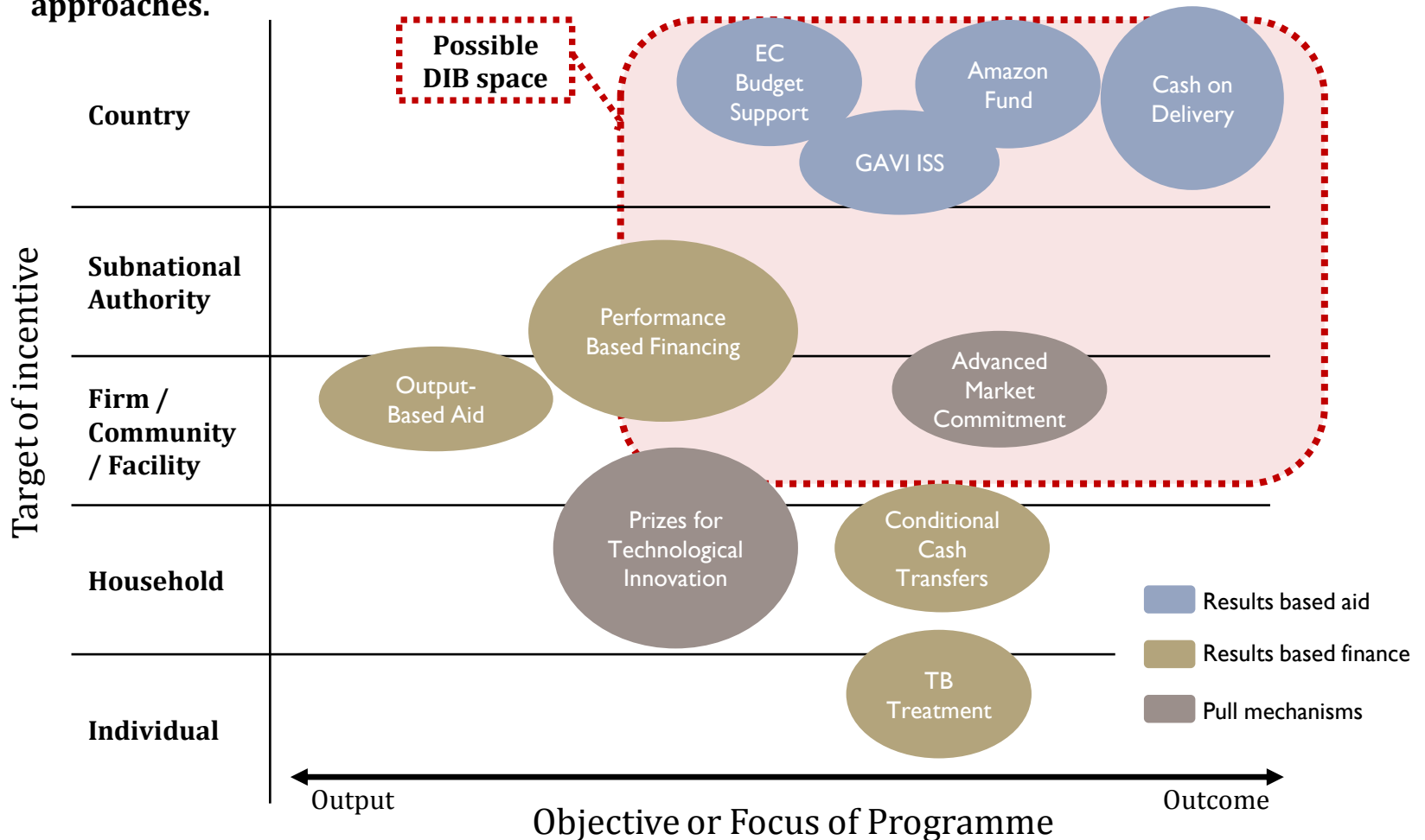
INCREASING AGREEMENT THAT MORE INNOVATIVE APPROACHES ARE NEEDED



PAYMENT BY RESULTS IN DEVELOPMENT



There is interest in a variety of possible mechanisms to pay for results which might help to address some of these challenges. Development Impact Bonds might complement other approaches.



Source: Adapted from Savedoff, W. "Incentive Proliferation? Making Sense of a New Wave of Development Programs." Center for Global Development Essay. August 2011.



DEVELOPMENT IMPACT BONDS



Could the Social Impact Bond idea applied to development help to address some of the challenges created by existing approaches to aid?

- Leverage skills of private sector to increase innovation and efficiency in service delivery
- Create incentives to focus on achieving and measuring outcomes
- Enable experimentation, innovation and learning
- Create mechanism for coordinating government, private sector investors and non-government service providers
- Provide upfront funding to service providers enabling them more easily to participate in results-based contracts, with predictable aid for results
- Improve service quality and responsiveness
- Put money where it works
- Increase public confidence in aid



DEVELOPMENT IMPACT BONDS COULD ALSO BE USED TO IMPROVE PARTNER GOVERNMENT CAPACITY TO MANAGE CONTRACTS, DEVELOP ROBUST DATA SYSTEMS AND SCALE UP SUCCESSFUL PROGRAMMES



KEY CONSIDERATIONS



Role of partner government	<ul style="list-style-type: none">• Potential roles of partner governments include:<ul style="list-style-type: none">– Co-commissioner / contract manager– Funder / co-funder of outcome payments• Potential for partner government involvement in service provision dependent on investor confidence in delivery capacity• Perception of partner government credit rating / operating context by investors<ul style="list-style-type: none">– consideration if outcome funder
Payment metrics	<ul style="list-style-type: none">• Availability of data to create baseline and track progress• Sensitivity of metric to DIB-funded interventions• Avoidance of perverse incentives• Potential for independent verification
Value for money	<ul style="list-style-type: none">• Issues where sufficient evidence of what works to attract investors, but sufficient variation in implementation quality to justify risk transfer• Service provider working capital requirement to deliver to PBR contracts• Value for money likely to result from optimum rather than maximum risk transfer due to cost-of-capital considerations• Appropriate balance between outcome and output payments likely to be determined by nature of required interventions• Careful thought required to value outcomes when not linked to cashable savings
Investor interest	<ul style="list-style-type: none">• Likely to be determined by a combination of social issue, geography, level of risk transfer and implementation approach• Some element of capital guarantee likely to be required to raise substantial sums• Risk appetite may increase over time with experience and opportunities for diversification



- Does this resonate with your experience?
- What challenges do you see?
- What are we missing?



AFTER THE COFFEE BREAK WE WILL OUTLINE SOME POTENTIAL APPLICATIONS OF DEVELOPMENT IMPACT BONDS FOR YOUR THOUGHTS



COFFEE BREAK



REFLECTIONS &
THOUGHTS



DEVELOPMENT
IMPACT BOND
EXAMPLES



Since convening the Working Group, Social Finance and CGD have been exploring the potential for two Development Impact Bonds.

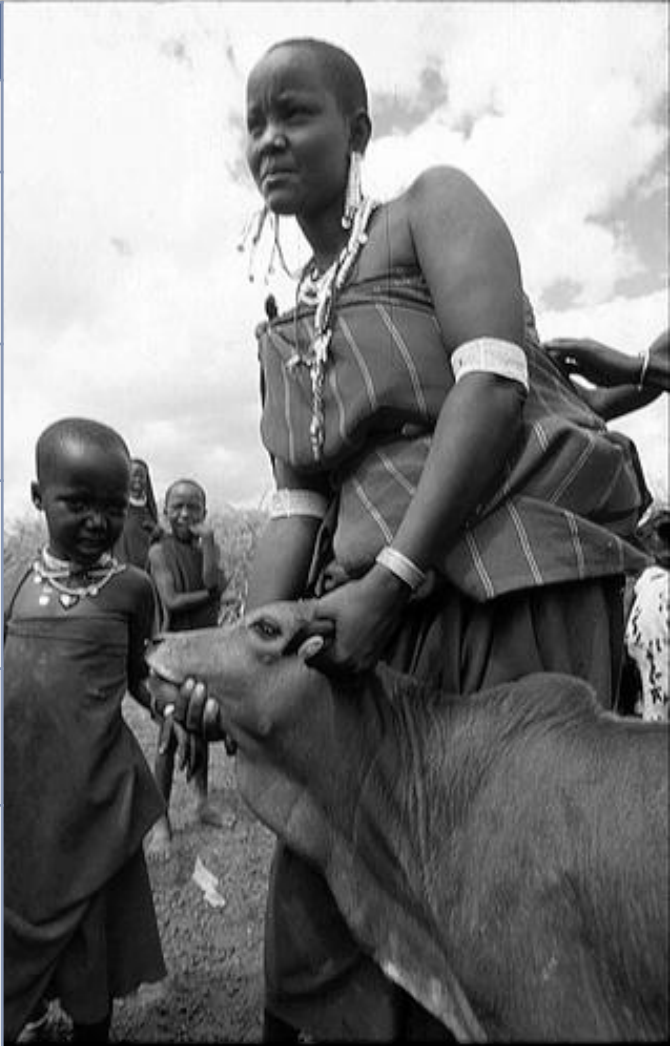
FAMILY PLANNING	
Objective	Improve availability and uptake of contraception in underserved areas
Potential payment metrics	<ul style="list-style-type: none"> • Contraceptive prevalence rate • Contraceptive continuation rate • Teen birth rate • Time between births
Target group(s)	<ul style="list-style-type: none"> • Geographical focus tbd – likely to be SSA • Young women, rural women, post-abortion and post-partum
Potential interventions	<ul style="list-style-type: none"> • Combination of education, training, clinics and consumables depending on local need • Output / outcome payment balance likely to be determined by availability of health infrastructure
Contracting structure	<ul style="list-style-type: none"> • Probable partner government involvement in commissioning • Donor agency funding for outcomes
Investment proposition	<ul style="list-style-type: none"> • Balance of payments between outputs and outcomes to be determined by local need for infrastructure investment





Since convening the Working Group, Social Finance and CGD have been exploring the potential for two Development Impact Bonds.

SLEEPING SICKNESS	
Objective	Reduce incidence of acute ‘Rhodesian’ sleeping sickness
Potential payment metrics	<ul style="list-style-type: none">• Number of cattle treated for Trypanosome brucei parasite (transmitted by tsetse flies)• Reduction in prevalence of human-infective T. brucei in cattle as proxy for morbidity impact
Target group(s)	<ul style="list-style-type: none">• Initial focus on high risk areas of Uganda• Subsequent roll-out to high risk areas of Kenya, Tanzania, Sudan and Zambia
Potential interventions	<ul style="list-style-type: none">• Mass cattle injection programme• Follow up insecticide treatment• Establishment of a network of private veterinary provision across Uganda
Contracting structure	<ul style="list-style-type: none">• Partner government backing for delivery through existing veterinary infrastructure• Donor agency funding for outcomes
Investment proposition	<ul style="list-style-type: none">• Return of capital linked to effective delivery of cattle treatment• Return on investment linked to reduction in parasite prevalence as proxy for human incidence & increase in economic value of livestock





There is also broader interest in exploring investment backed payment by results contracts in the development space.

FOCUS	LEAD	OVERVIEW	STATUS
Female education	DfID	<ul style="list-style-type: none"> Improve female education outcomes in developing countries Potential focus on increasing the number of assessed completers of primary school 	<ul style="list-style-type: none"> Potential bid process in June
Malaria	UN Foundation / Gates Foundation	<ul style="list-style-type: none"> Provide additional funding for maintaining and expanding malaria programmes For example, renewal of insecticidal nets to sustain outcomes 	<ul style="list-style-type: none"> UN Foundation seeking specialist consultant to support next stage development
Polio	Gates Foundation	<ul style="list-style-type: none"> Gates are keen to explore the potential to use outcomes-based contracts to incentivise the last push towards polio eradication 	<ul style="list-style-type: none"> Exploratory
Job creation	Kurt Hoffman	<ul style="list-style-type: none"> Outcome incentives for job creation in early stage enterprises in lieu of Venture Capital funding 	<ul style="list-style-type: none"> Exploratory
Agricultural productivity	Gatsby Foundation	<ul style="list-style-type: none"> Provide upfront funding and management expertise to improve productivity of smallholder agricultural producers 	<ul style="list-style-type: none"> Exploratory
Increasing tax revenue	OECD	<ul style="list-style-type: none"> Use outcomes-based finance to improve tax revenues in developing countries Could take a number of forms from restructuring of the revenue authority to negotiation support for corporate tax audit 	<ul style="list-style-type: none"> Exploratory
Increasing revenue from water billing	CGD	<ul style="list-style-type: none"> Use outcomes-based finance to improve water bill collection in developing countries 	<ul style="list-style-type: none"> Exploratory



WHEN SHOULD
DEVELOPMENT
IMPACT BONDS
BE EXPLORED?



The following principles might help to determine when DIBs could best add value.

- **Cost effectiveness** – The approach must represent value for both outcome funders and investors in terms of the outcome payments and risk transfer; costs of establishing the structure and measuring outcomes must also be considered
- **Working capital need** – Service providers or partner governments do not have sufficient upfront funding to pay for interventions to deliver outcomes or cannot bear the implementation risk alone
- **Additional value added** – Investor involvement can add value through management of implementation risk not just provision of finance



- Where do you see promising opportunities for applying Development Impact Bonds in terms of issue areas and geographies?
- How might promising opportunities be prioritised?

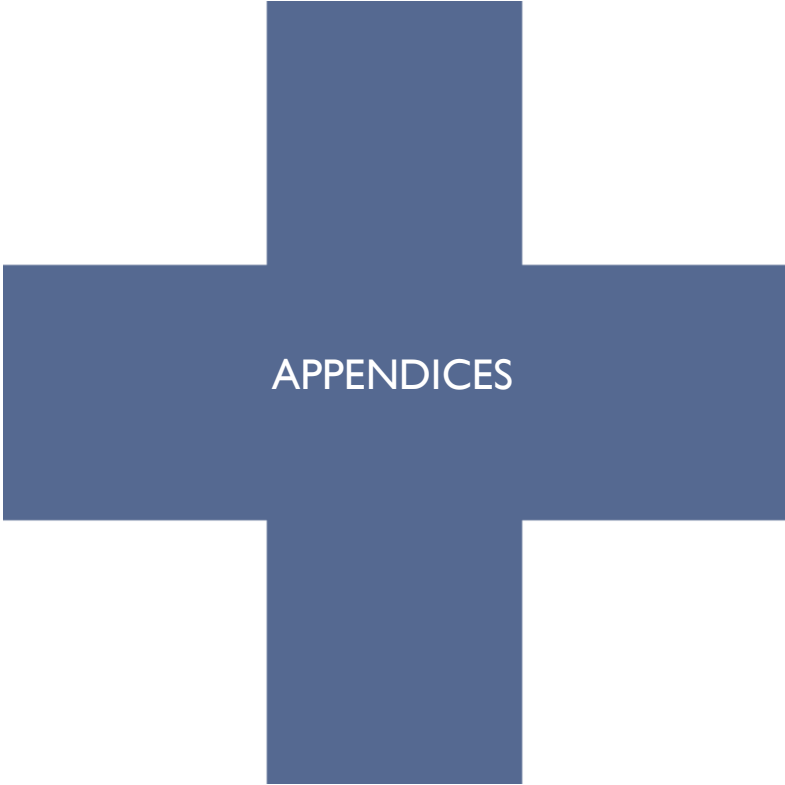




CONCLUSIONS
& NEXT STEPS



THANK YOU

A large, solid blue cross graphic centered on the page. The word "APPENDICES" is written in white, uppercase letters in the center of the cross.

APPENDICES

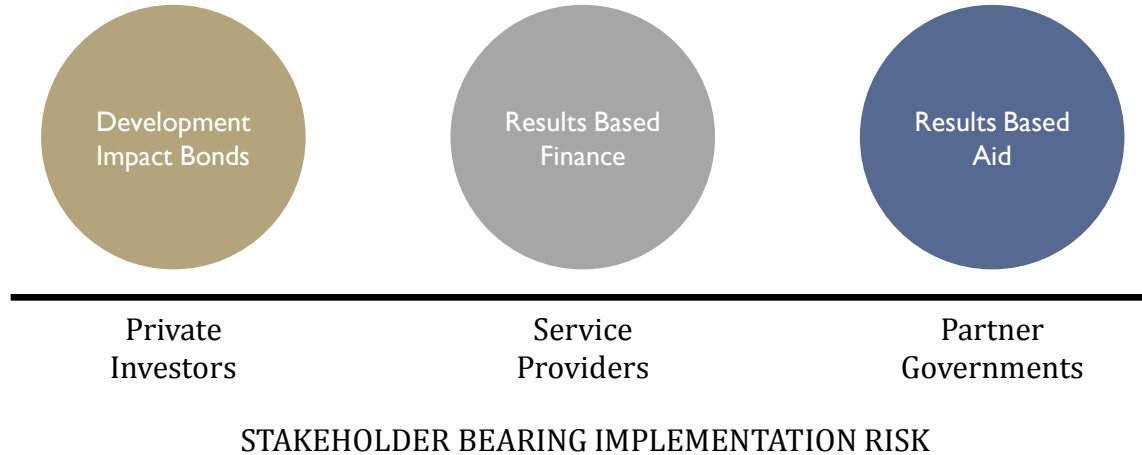


PAYING FOR RESULTS IN DEVELOPMENT



Results-based approaches are increasingly being used to improve the effectiveness and accountability of development aid.

- Results-based contracts transfer implementation risk – the risk that the funded interventions don't deliver the desired impact – to a third party



- Development Impact Bonds could use private investment to fully or partly fund interventions provided by non-government service providers
- Partner governments could co-fund outcomes payments with donor agencies and / or co-commission and contract manage



RESULTS-BASED APPROACHES: A COMPARISON



CONSIDERATION	RESULTS BASED AID	RESULTS BASED FINANCE	DIB
Clear role for partner government	√		
Potential to implement without partner government involvement		√	√
Clear role for private investors			√
Clear source of upfront funding			√
High-level focus on outcomes	√		√
Independent verification of results			√
Risk borne by service provider (government or non-government)	√	√	
Complementary to existing approaches	√	√	√



We identified the following criteria as potential considerations.

CRITERION	RATIONALE
Unmet need in target area	<ul style="list-style-type: none"> • Demonstrated need for increased focus on outcome in target geography
Priority country for donor agencies	<ul style="list-style-type: none"> • Potential donor agency interest in fully or partly funding outcomes payments for improvements against agreed outcomes
Partner government policy priority	<ul style="list-style-type: none"> • Evidence of partner government desire to improve outcomes around target outcome
Partner government interest in payment-by-results approaches	<ul style="list-style-type: none"> • Evidence of partner government experience of, or interest in, payment-by-results contracting approaches • Potential to build partner government capacity to commission / co-commission and manage outcomes-based contracts
Good potential for attribution of impact	<ul style="list-style-type: none"> • Target group(s) and contract outcome(s) can be clearly defined and agreed with partner government • Baseline / control group data is available and / or could be easily collected in a reliable and cost-effective way • Impact of DIB funded interventions could be easily disaggregated from impact of other interventions targeting a similar impact
Investor interest	<ul style="list-style-type: none"> • Issue area / geography a priority for potential investors • Reasonable level of evidence around effective intervention approaches • Broader country context amenable to successful intervention delivery



POTENTIAL DEVELOPMENT IMPACT BOND STRUCTURE

