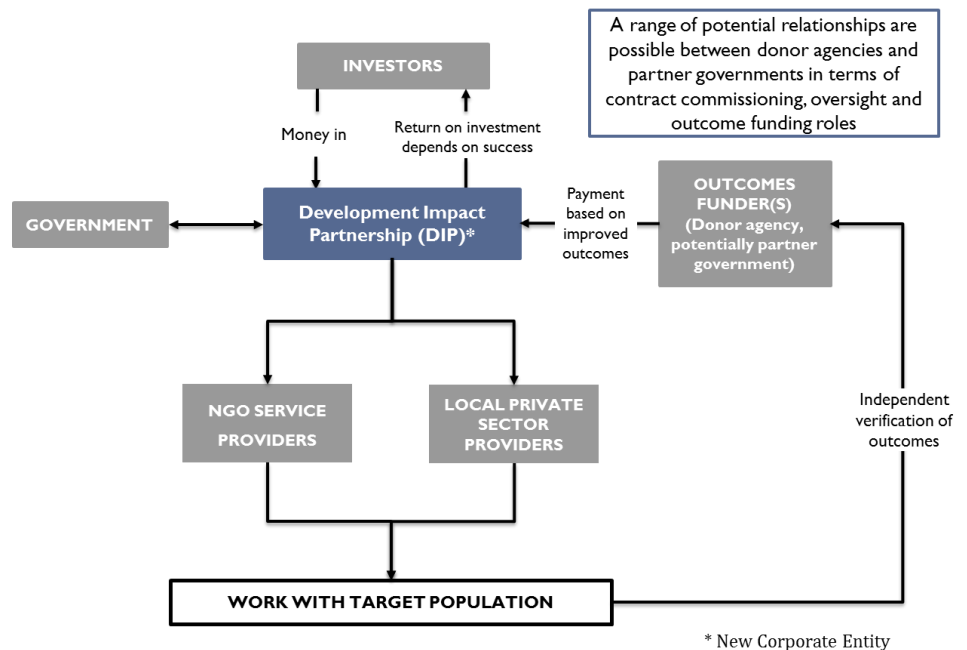


Development Impact Bonds Briefing Note – October 2013

What is a Development Impact Bond?

Development Impact Bonds (DIBs) bring together private investors, non-profit and private sector service delivery organizations, governments and donors to deliver results that 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 organizations 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.

A DIB could be structured as follows:



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 and homelessness. DIBs are designed not just to be a new way to attract funding for development but to provide a new business model for development programs that would encourage the innovation and flexibility for better results that are often stymied by the limitations of government budgeting, contracting and performance management. They offer several potential advantages:

- DIBs transform social problems into “investible” opportunities by monetizing the benefits of tackling social problems, so attracting private sector investors wanting to bring their resources and skills to development.
- 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, resulting in a bottom-up, client-centred, and generally more effective, approach to service delivery.
- Because investors provide funding - and assume risk - for interventions expected to lead to improved social outcomes, DIBs could attract funding for interventions that donor agencies and governments might not be willing or able to fund directly.









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 released a report of its conclusions for public consultation in October 2013.

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

The Center for Global Development is grateful to its Board of Directors and funders for contributions in support of this work. Support provided to Social Finance by the Rockefeller Foundation and the Omidyar Network has been instrumental in enabling the progress of the DIB Working Group.

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 parties will have to accept the high transactions costs of early pilots. Foundations should consider subsidizing these costs by **providing funding to catalyze the development of a DIB market**.
- DIB parties should invest in learning about this new approach; pilots should be **evaluated rigorously** and a group of donors and philanthropic organizations 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.

Further information can be found at:

www.cgdev.org/dib and www.socialfinance.org.uk/work/developmentimpactbonds