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Understanding the DIB effect. Insights from the evaluation of the FCDO Development Impact Bonds Pilot Programmes

Engaging with Evidence Session 20
2 November 2023



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Partnership between UK Government & University of Oxford

Walking the contractual tightrope: a transaction cost economics perspective on social impact bonds
Clare FitzGerald, Eleanor Carter, Ruth Dixon & Mara Airolidi



We investigate government's role in unlocking fruitful cross-sector partnerships to improve social outcomes



Welcome to the twentieth session of the Engaging with Evidence series

An open platform for policymakers, practitioners and researchers around the world to engage with key findings from the latest research and evaluation work in the field

- Distillation of key research findings
- Practical insights from practitioners across different sectors and fields
- Honest and constructive dialogue



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Understanding the DIB effect. Insights from the evaluation of the FCDO Development Impact Bonds Pilot Programmes

In today's session:

Part I - Overview of the findings from the third wave of the Independent Evaluation of the FCDO Development Impact Bonds Pilot Programme

- Jemima Hodkinson from Foreign Commonwealth Development Office will share an overview of FCDO DIBs Pilot Programme. James Ronicle from Ecorys will share insights and key learning from the evaluation.

Part II - Panel discussion: wider learning for the sector

- In the panel discussion, we will explore with development experts and those involved directly in the programmes the wider implications of the evaluation findings and how the lessons can help inform future design and delivery of outcomes-focused programmes for development more broadly.

Speakers



Jemima Hodkinson
Foreign, Commonwealth &
Development Office (FCDO)



Milena Castellnou
Education Outcomes
Fund



James Ronicle
Ecorys



Ali Inam
Bridges Outcomes
Partnership



Celeste Brubaker
Village Enterprise

Moderators



Dr Mara Airoidi
GO Lab



Srinithya Nagarajan
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Our audience this morning



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**Part I - Overview of the findings from the third wave of
the Independent Evaluation of the FCDO DIBs Pilot
Programme**

Jemima Hodkinson, Foreign Commonwealth Development
Office (FCDO)
James Ronicle, Ecorys



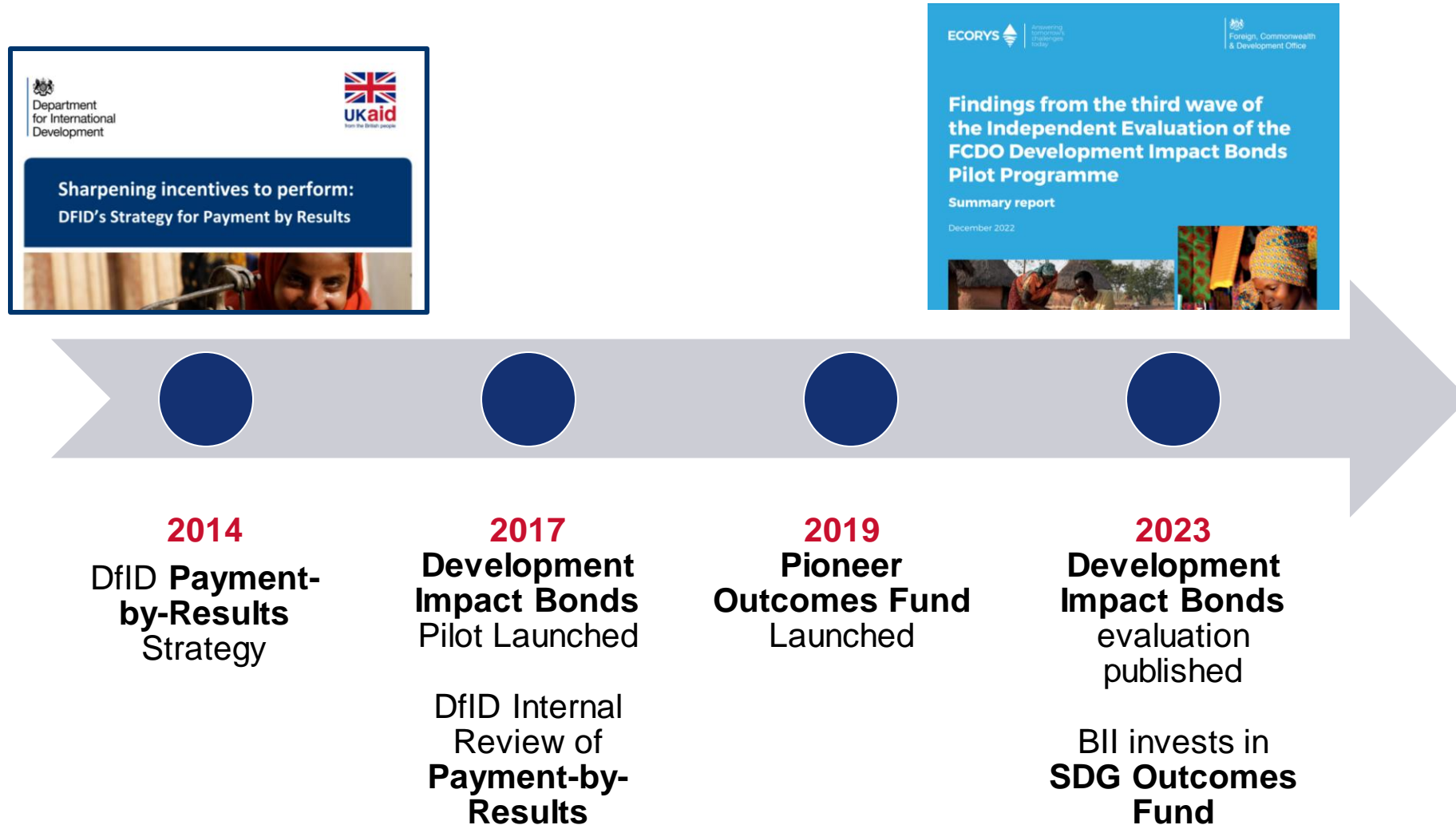
Foreign, Commonwealth
& Development Office

The Development Impact Bonds Pilot Programme

Jemima Hodgkinson
Private Sector and Capital Markets Department

November 2023

Outcomes-based financing in the FCDO



The Development Impact Bonds (DIBs) Pilot Programme

- Objective: to build evidence on the suitability and cost-effectiveness of DIBs as a tool for financing international development programmes
- Three pilot projects... and an evaluation

**Quality Education India
Development Impact Bond**



**Village Enterprise Development
Impact Bond**



**ICRC Humanitarian Impact
Bond for Physical Rehabilitation**



Evaluation

What role does the DIB model play in driving programme performance and results?

Where is it most appropriate?

How can we increase its benefits / reduce transaction costs?

FCDO DIB programme evaluation



Understanding the DIB Effect Insights from the FCDO DIBs Pilot Programme

A young girl with dark hair in pigtails, wearing a red and white checkered shirt and a dark vest, is sitting at a wooden desk in a classroom. She has her hands raised in the air, looking towards the front of the room. Other children are visible in the background, some also in checkered shirts. The classroom walls are decorated with colorful papers and posters.

Introduction: The FCDO DIBs Programme & Evaluation

The FCDO DIBs pilot programme ran from June 2017-March 2023, allocating £6.3 million to the following 3 projects:



International Committee of the Red Cross Humanitarian Impact Bond for Physical Rehabilitation, which funded three new physical rehabilitation centres in Mali, Nigeria and Democratic Republic of Congo (DRC).



Quality Education India development impact bond which aimed to improve education outcomes for primary school-aged children in India.



Village Enterprise micro-enterprise poverty graduation impact bond which aimed to raise the income levels of the extreme poor.



The evaluation also covered the **Cameroon Cataract Bond**, which funds cataract surgeries.

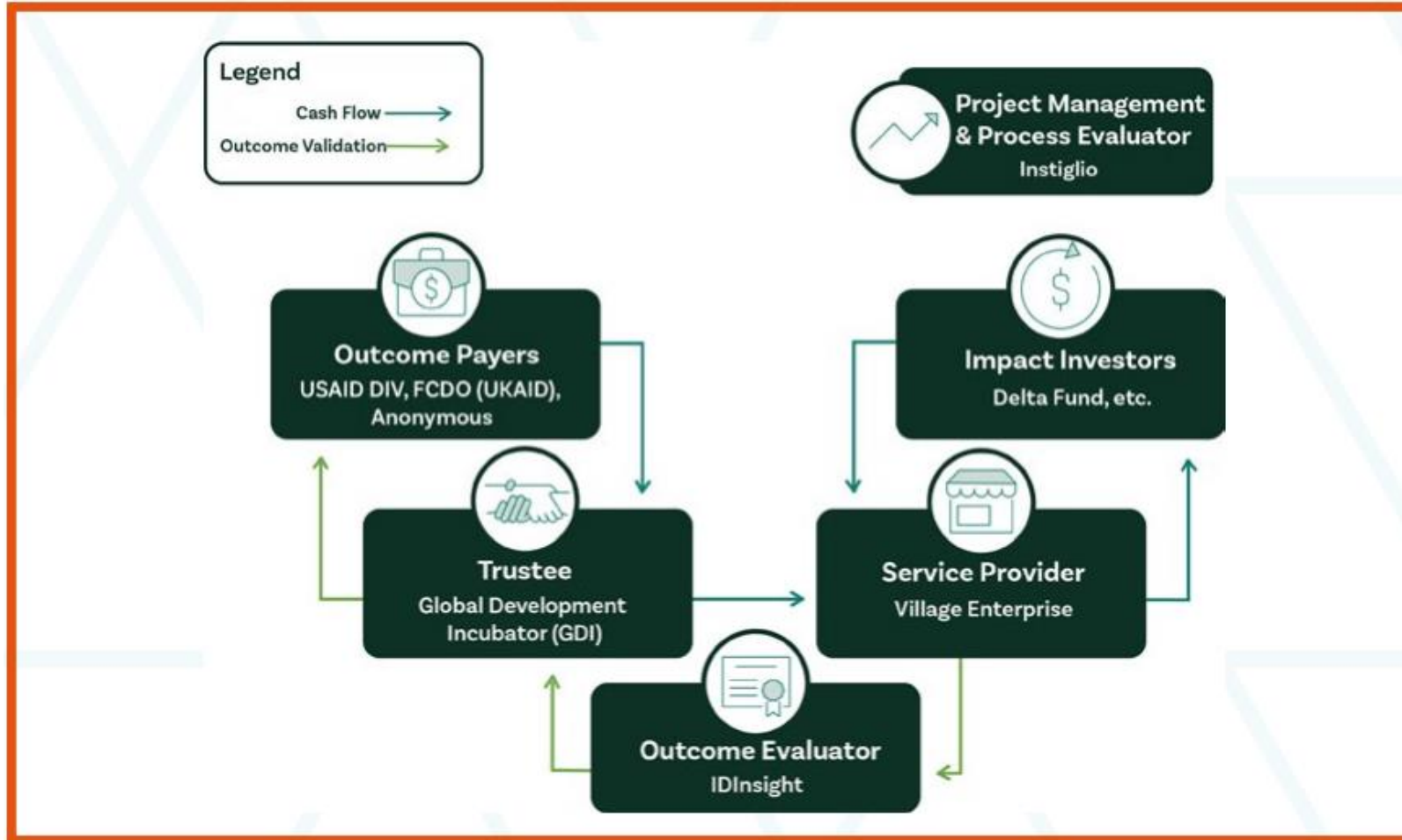
What is a DIB?

A DIB is a mechanism for drawing external finance into payment-by-results (PbR) projects.

- A donor commits to paying for development results if and when they are achieved.
- A service provider steps up to deliver the prescribed results. Investors provide the upfront finance needed to deliver.
- The investor takes on some financial risk if development results are not achieved.

They are similar to social impact bonds (SIBs); in a SIB the outcome payer is the host government; in a DIB it is a donor





- Investors: 9 investors, including Delta Fund. Provide \$3.25m working capital
- Service provider: Village Enterprise
- Intervention: Support for micro-business growth to 12,600 extreme poor households in Kenya & Uganda
- Outcome payers: FCDO, USAID & anonymous donor. Pay \$1 to VE for every \$1 increase in household consumption
- Outcome payments used to repay loan, with interest

Generate learnings and recommendations on the use of DIBs as an instrument for aid delivery to inform FCDO's future policy on DIBs.

Evaluation questions:



How does the DIB model affect the design, delivery, performance and effectiveness of development interventions?



What improvements can be made to the process of designing and agreeing DIBs to increase the model's benefits and reduce the associated transaction costs?

Evaluation approach

Focus of the evaluation: The ‘DIB effect’, that is, the effect of using a DIB instead of a grant or other PbR mechanism.

Our approach: We used a combination of process tracing and comparative analysis, comparing the DIBs against comparable projects to isolate the ‘DIB effect’.

Evidence base: Interviews, programme document review, cost data and monitoring data across the three DIBs as well as at the sector level.

Evaluation Key findings

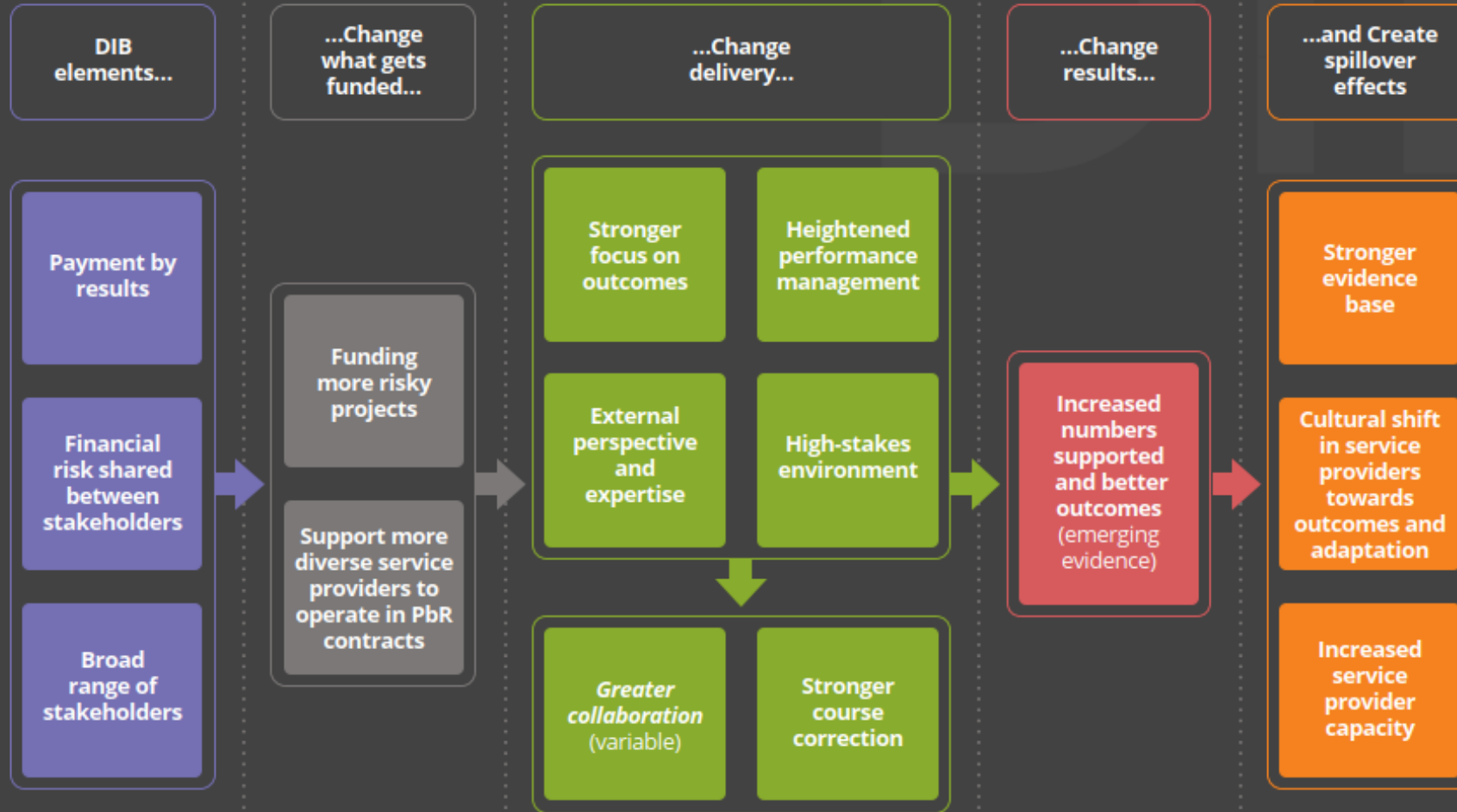


| | ICRC HIB | QEI | VE |
|------------------------------------|--|---|---|
| Outcome achievement: | 9% improvement in staff efficiency as compared to baseline | Participating schools achieved 2.5x more learning outcomes than non-participating schools | RCT showed monthly consumption and net assets were 6.3% and 5.8% higher respectively in VE participating villages than control villages |
| Outcome payments committed: | 26.1M CHF | \$9.2M | \$4.3M |
| Outcome payments paid: | 18.6M CHF | \$7.8M | \$4.3M |
| Investment committed: | 18.6M CHF | \$3M | \$2.3M |
| Investment return | All capital, no interest | 8% | Initial capital + \$730K |

The DIB effects: Summary of findings

| Design DIB Effects | Summary | ICRC | QEI | VE |
|--|---------|------|-----|----|
| Transfer of risk | | | | |
| Transfer of financial risk from outcome funder to investor | 🟡 | 🟡 | 🟢 | 🟢 |
| Increased reputational risks resulting from the use of the DIB | 🟢 | 🟢 | 🟢 | 🟢 |
| Partnerships | | | | |
| More service providers entering into PbR contracts due to pre-financing and transfer of risk | 🟢 | 🟢 | 🟢 | 🟢 |
| Financing and funding | | | | |
| Funding projects which would not have been funded otherwise, or not in the same guise | 🟢 | 🟢 | 🟢 | 🟢 |
| Additional financing to the development sector | 🟡 | 🟢 | 🔴 | 🔴 |
| Longer term funding | 🟡 | 🟢 | 🟡 | 🔴 |
| Design | | | | |
| Enables innovation | 🟡 | 🟡 | 🟡 | 🟡 |
| More careful and rigorous design of interventions | 🟡 | 🟡 | 🟡 | 🟡 |
| Complex to design and expensive to set up | 🟢 | 🟢 | 🟢 | 🟢 |
| Delivery DIB Effects | Summary | ICRC | QEI | VE |
| Positive DIB Effects | | | | |
| Shift focus to outcomes and greater accountability | 🟡 | 🟡 | 🟡 | 🟡 |
| Drives performance management | 🟡 | 🟡 | 🟡 | 🟢 |
| Providers deliver adaptive management and course correction, supporting innovation | 🟡 | 🟡 | 🟡 | 🟢 |
| Greater collaboration between stakeholders | 🟡 | 🟡 | 🟡 | 🟡 |
| Negative DIB Effect | | | | |
| Cherry picking of participants from target population | 🔴 | 🔴 | 🔴 | 🔴 |
| Quality of support reduced | 🔴 | 🔴 | 🔴 | 🔴 |
| Tunnel vision | 🔴 | 🔴 | 🟡 | 🔴 |
| Lowers staff morale | 🟡 | 🟡 | 🟡 | 🟡 |
| Greater Outcomes | | | | |
| Increased efficiency and effectiveness, leading to more outcomes | 🟡 | 🟡 | 🟡 | 🟡 |
| Spillover Effects | Summary | ICRC | QEI | VE |
| Organisation Level | | | | |
| Rolling out of processes and learning | 🟡 | 🟡 | 🟡 | 🟢 |
| Increased visibility | 🟡 | 🟢 | 🟡 | 🟡 |
| Diverting of attention | 🟡 | 🟡 | 🔴 | 🟡 |
| Ecosystem Level | | | | |
| Capacity strengthening to deliver DIBs | 🟢 | 🟢 | 🟢 | 🟢 |
| Increased stakeholder interest in DIBs | 🟡 | 🟡 | 🟡 | 🟡 |
| Contributions to the evidence base | 🟢 | 🟢 | 🟢 | 🟢 |

The DIB effect summarised



1 The DIB effect varies across DIBs depending on the stakeholders involved, their motivations for using the DIB, and the structure of the DIB. It is useful to carefully consider the objectives of using a DIB and ensure that the DIB is structured to support this.

2 A DIB can be an effective organisation-level change management tool. In these pilot DIBs, the funding mechanism was a catalyst and driver for change and better use of data to inform delivery, even in non-DIB projects delivered by the same service providers.

Stronger focus on outcomes

"I don't believe this DIB suddenly made [VE] into a learning organisation. I think they were a learning organisation that were held back by existing contracts. [The DIB] made them unfettered to be a fully learning organisation [...] it removed their shackles."

Investor, Village Enterprise

Heightened performance management; external perspectives

"Our monitoring and evaluation system was already in place. However, Dalberg works very closely with us and became an integral part of the team's sharing and learning process. We meet quarterly to map, discuss, and address any challenges. This is all reflected in the planning sheet. They adopt a collaborative approach that helps, and a third-party perspective helps, as the team might miss out on something if they tend to always act in the same way by default."

Service provider, Quality Education India

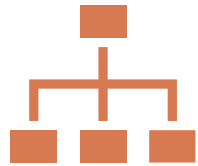
High-stakes environment

"We had to obtain impact under the DIB by any means."
Village Enterprise

Spillover effects

- **ICRC HIB:** Efficiency Improvement Measures introduced as part of HIB rolled out across ICRC physical rehabilitation facilities
- **QEI:** MIS data analysis & use; performance tracking & quarterly reporting systems rolled out across service provider organisations
- **Village Enterprise:** Cultural shift towards more outcomes-focused approaches; adaptive management system in DIB rolled out across organisation

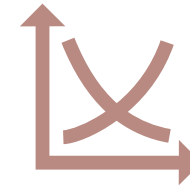
Emerging evidence is that DIBs are an effective 'change management' tool. And so a DIB may be most appropriate where:



Performance could be enhanced through a stronger focus on outcomes buttressed by performance management



The system/culture needs an external 'disruption' to bring about change



Service providers would not be able to tolerate high levels of financial risk

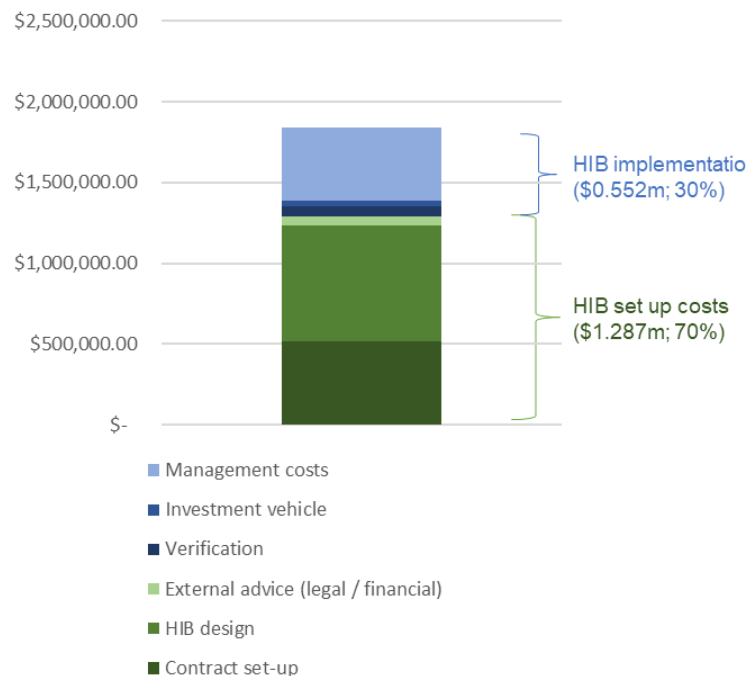


Providers would benefit from external expertise and support

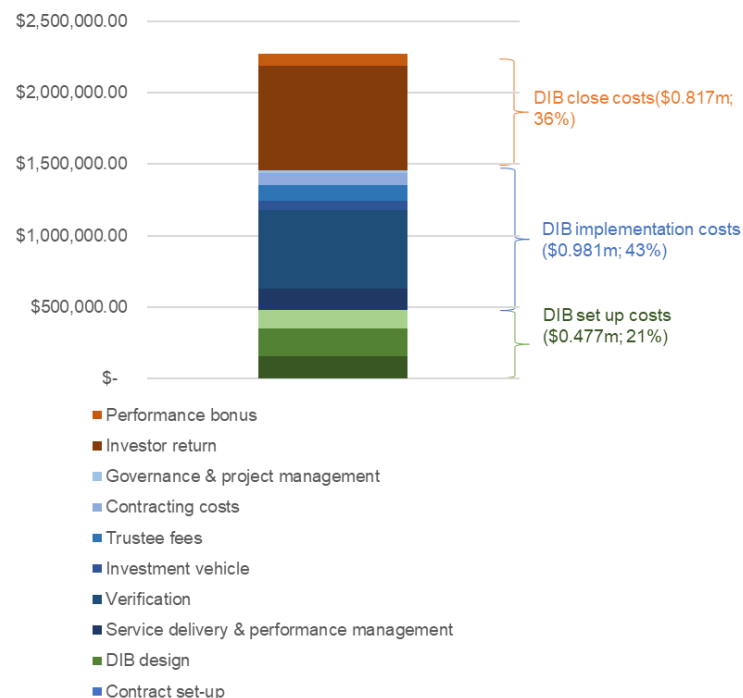
DIB costs

- Operating the projects through a DIB required additional costs compared to funding them through grants
- The additional DIB cost ranged between \$1.8m-\$2.3m
- This ranged from 9% to 42% of the total programme budget
- Across the DIBs, the highest costs were in the areas of investor return, verification, and performance management
- Generally, stakeholders perceived the additional costs to be value for money.

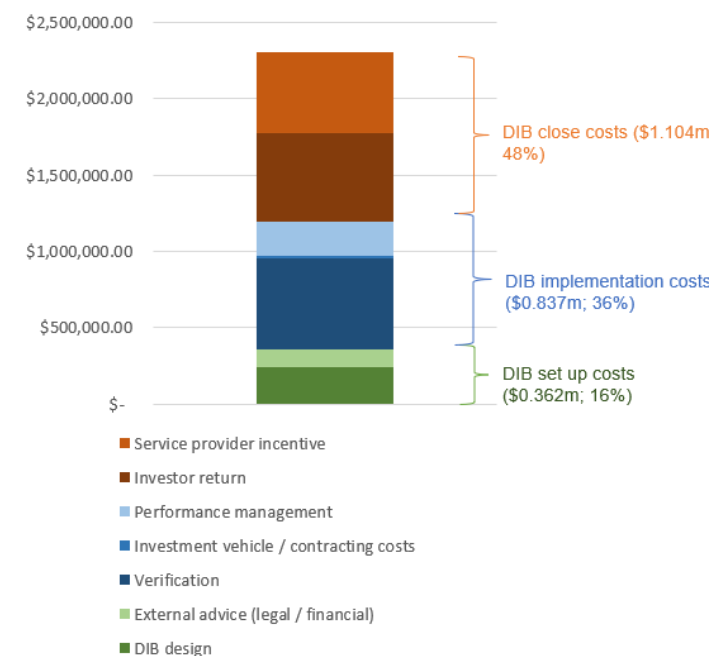
Additional HIB costs



Additional DIB costs: VE



Additional QEI costs



Lessons learnt from implementing pilot Development Impact Bonds

What are Development Impact Bonds, and what do they achieve? Findings from the third and final wave of the FCDO DIBs evaluation undertaken by Ecorys highlighted key lessons learnt from three FCDO-funded DIB pilot projects.

01



Additional stakeholders do result in greater coordination and communication costs. The role of the intermediary should be carefully considered, to ensure costs and benefits are proportionate.

02



The use of validated administrative data versus experimental approaches should be guided by the policy objectives of the DIB and the geographical/sector context. A more pragmatic approach could bring down evaluation costs and support scalability of future DIBs but will diminish the quality of the evidence produced and may diminish some of the DIB effects. There may also be potential in further aligning the verification and performance activities, to reduce costs and maximise benefits.

03



Additional investment in performance management was a valuable component of the pilot DIBs and should be integrated into future DIBs where necessary to increase the model's benefit.

04



Measuring cost-effectiveness is extremely challenging. We would encourage donors to stipulate financial reporting requirements within funding agreements.

05



Appropriate service provider capacity-building should be embedded into the DIB. Peer-learning may be an effective and cost-efficient way of supporting this.

06



It is important to balance the 'black box' commissioning approach of an impact bond with ensuring minimum quality standards – such as adequate safeguarding policies – are in place.

07



Emergency situations should be accounted for within contracting. Additional scenario-testing during the design and set-up phase to plan for and accommodate risk could be one way to address this.

08



Striking a balance between complexity and usability for outcome payment formulas is key. Complex metrics and outcome payment formulas could create scalability and replicability challenges.

09



A large amount of the 'additional costs' of a DIB are incurred during the design phase. This is a good sign, as replication may reduce these costs if DIBs continue to be designed and delivered.

10



Additional DIB costs do not increase in relation to the scale of the DIB. This suggests there are economies of scale in running larger DIBs.

Reflecting on the FCDO DIB pilots

Possible next steps for the DIBs model



The evaluation of the FCDO DIBs Pilot found that stakeholders were broadly positive about the benefits of launching projects through DIBs. Whilst stakeholders through the DIB costs were value for money, they also thought the model could be streamlined. We think this could be achieved in the following ways:

01

Designing dedicated **outcomes funds** in policy areas so that multiple DIBs can be launched, leading to economies of scale.

D

02

Taking a '**model agnostic**' approach to outcomes-based contracting: Designing an outcomes funding model but leading organisations to decide the most appropriate form of outcomes-based contract to use.

I

03

Prioritising organisation-level scaling rather than DIB scaling: DIBs build the capacity of organisations and can be a 'one time pivot'. After a DIB has been effective, it is possible the intervention can be just as effective outside of the DIB, and the DIB structure is no longer necessary.

B

04

Options to simplify the DIB model could include:

Designing a model that retains the focus on clear outcomes and a high-stakes environment but **reduces the reliance on intermediaries and/or external expertise.**

Using a **25% PbR** model to create a focus on clear outcomes and a high-stakes environment but reducing financial risk down to a range that service providers could tolerate (removing the need for complex investment vehicles).

05

Experimenting with simpler ways of bringing together philanthropic and government funds, like **Social Impact Guarantees**, which could encourage donors to take greater risks with untested solutions while maintaining a sharp focus on outcomes.

S

Conclusions



The DIB pilots were **successful** in meeting their aims and objectives of the programme (of testing a new funding mechanism; building stronger relationships with the private sector; and galvanizing service providers)



The strongest 'DIB effect' was in relation to embedding an **outcomes focus** and introducing performance management systems



The DIB mechanism is therefore a '**change management tool**' that is applicable when outcomes could be stronger, and a disruption is required to bring about change



Whilst stakeholders were broadly positive of the benefits and VfM of the DIB mechanism, most felt it could be **streamlined**



The key question for the future is: Can you achieve an outcomes focus and high-stakes environment through a **simpler structure**? There are a number of options here that require further testing



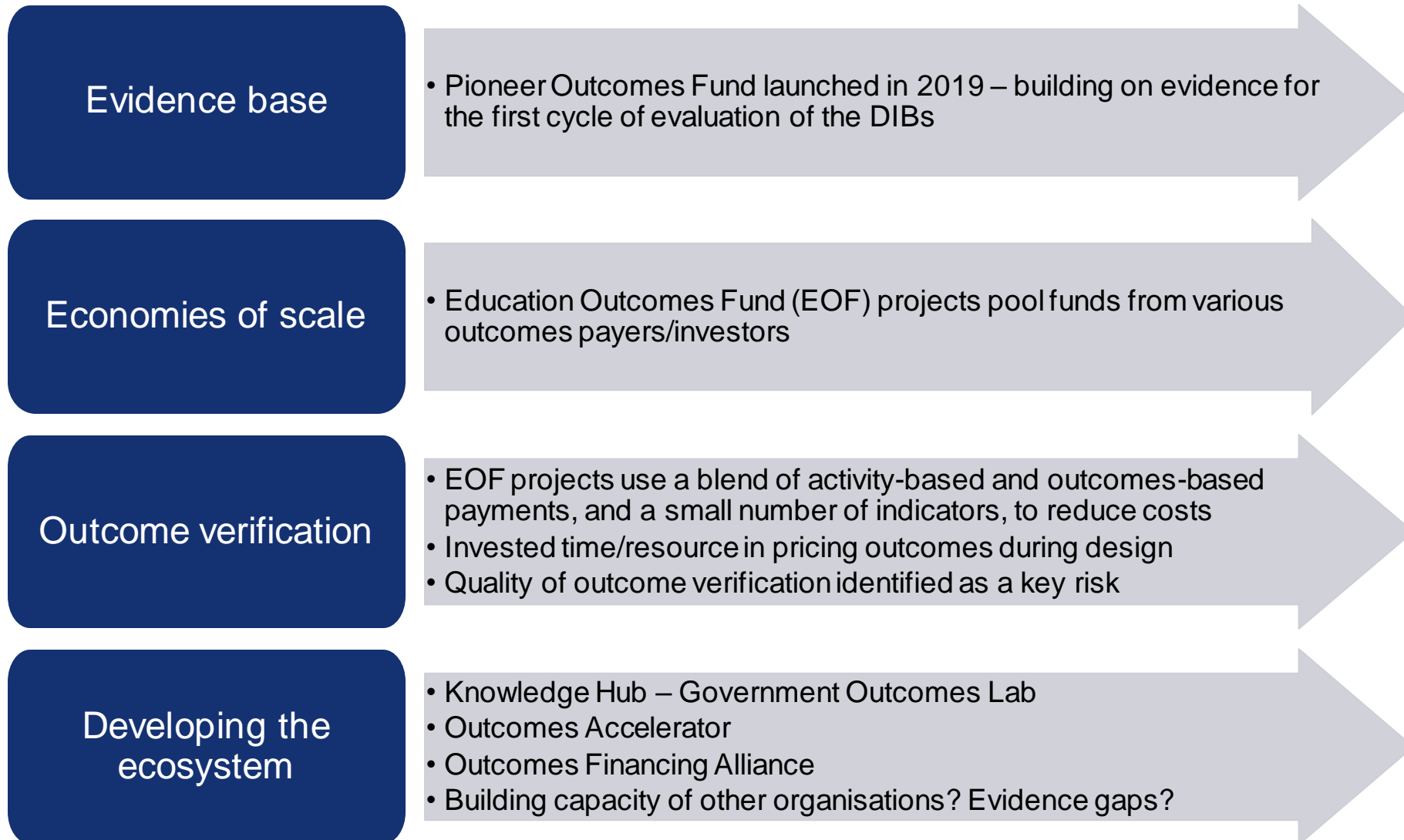
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How FCDO have used the findings of the evaluation?

Jemima Hodkinson
Private Sector and Capital Markets Department

November 2023

Lessons: from Development Impact Bonds to the Pioneer Outcomes Fund



....and beyond

Internal challenges to wider use

- Adapting finance and commercial approaches
- Building understanding and capability

Sectors to explore

- Fragile and conflict-affected settings
- Climate / environment / energy transition
- Humanitarian

Evaluating the evaluation

Usable format

Clear scope / parameters

Public methodology

Panel Discussion



Jemima Hodkinson
Foreign, Commonwealth &
Development Office (FCDO)



Milena Castellnou
Education Outcomes
Fund



James Ronicle
Ecorys



Ali Inam
Bridges Outcomes
Partnership



Celeste Brubaker
Village Enterprise

Part II - Panel discussion: wider learning and relevance for the sector

- Value added by using a Development Impact Bond (DIB) model
- Role of various stakeholders
- Collaboration and peer learning between stakeholders
- Sustainability and system strengthening effects

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