



Independent Evaluation of the UK Department for International Development's Development Impact Bonds (DIBs) Pilot programme – Full Report

Evaluation Report

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Acknowledgements and disclaimer

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Executive Summary

Overview

This report is the Research Wave 1 Evaluation Report as part of the Independent Evaluation of DFID's Development Impact Bonds (DIBs) pilot programme. The DIBs pilot programme runs over a period of almost six years, from June 2017 to March 2023. DFID has allocated GBP 6.3 million for the three projects under the DFID-supported DIBs pilot programme: ICRC: Humanitarian Impact Bond for Physical Rehabilitation; Village Enterprise: Micro-Enterprise Poverty Graduation Impact Bond; and support to British Asian Trust: to design impact bonds for education and other outcomes in South Asia. The programme aims to test whether DIBs are a tool that DFID is able to use, and start to generate understanding of how and when DIBs can add value in DFID programming and support DFID's commissioning, management, and effectiveness in delivering programmes on a PbR basis.

The DIBs pilot programme has the following objectives:

Objective 1: Understand the process of agreeing and managing a project on a DIB basis, including implications for DFID's funding arrangements, assurance and financial management.

Objective 2: Build an understanding of whether DIBs enable efficient and effective delivery of programmes in DFID priority results areas, and how they can support innovation.

Objective 3: Build an understanding of the conditions for DIBs to be an appropriate commissioning tool and the costs and benefits of using them.

Objectives and scope of the evaluation

As set out in the Terms of Reference (ToR), a DIB is a mechanism for drawing external finance into payment-by-results (PbR) projects. In a DIB a donor commits to paying for development results if and when they are achieved. A service provider steps up to deliver the prescribed results. The key difference from standard PbR is that a DIB brings in third party "investors" who provide the service provider with the investment/working capital needed to deliver activities designed to achieve the results. Under the DIB model, the investor also takes on a portion of the financial risk associated with failing to deliver the prescribed outcomes.

The **objective** of the evaluation is to generate learnings and recommendations on the use of DIBs as an instrument for aid delivery, by using the experience of the DFID DIBs pilot programme to generate learning to inform DFID's future policy aiming to make the most effective use of DIBs. The evaluation will also help DFID and pilot project partners evaluate whether the tools they are developing are useful, scalable and replicable.

The scope of the evaluation is the three projects funded and supported under the DFID-supported DIBs pilot programme:

- **International Committee of the Red Cross** Humanitarian Impact Bond for Physical Rehabilitation (ICRC HIB);
- **Quality Education India** development impact bond (QEI DIB); and

- **Village Enterprise** micro-enterprise poverty graduation Impact Bond (VE DIB).

Additionally, since the evaluation inception phase, a fourth DIB, the **Cameroon Cataract Bond**, has been added to the evaluation. This DIB finances the operationalisation of a hospital providing cataract surgeries in Cameroon. This is not a DFID-funded pilot, but has been added to the evaluation to increase the number of DIBs under examination and therefore to strengthen the comparative analysis and findings.

Evaluation of these DIB pilots will provide evidence of how this DIB mechanism works in different circumstances.

The two **evaluation questions** are:

- **EQ1:** Assess how the DIB model affects the design, delivery, performance and effectiveness of development interventions.
- **EQ2:** 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?

This report presents the evaluation's initial findings against these questions. Given the stage of the interventions funded by the DIBs, findings are focused on the design stage. The effects of the DIB in terms of the intervention quality and outcomes remain to be seen. Furthermore, it is important to note that DIBs are still in a pilot phase, and the lessons learned draw on a small number of 'test cases'. These findings will continue to be refined and developed based on additional evidence over the remainder of the evaluation.

The future research waves will explore how the DIB affects the delivery and performance of the intervention.

Methodology and evidence base

The evaluation is based on an evaluation framework that builds on a range of hypothesised DIB effects and indicators. As part of the inception phase, the evaluation team drew on the literature in order to understand hypotheses around how the DIB model might affect interventions, and developed a list of DIB effects and indicators.

The focus of the evaluation is the **DIBs funding mechanism**. The evaluation is interested in understanding the '**DIB effect**', that is, the effect of using a DIB instead of a grant or other PbR mechanism. A key challenge is trying to isolate the effect of the DIB from other factors on the different stakeholders and phases, and from the PbR effect. We use a combination of process tracing and comparative analysis to achieve this. For the next research waves, we will also focus on attempting to isolate the DIB effect from the PbR Effect.

The evidence base for this research wave is derived from the consultations and programme document review undertaken at the individual DIB level, the programme level and sector level. The table below sets out the list of data sources we have drawn upon, mapped against the three levels of the evaluation.

Individual Project level <i>Projects under the DIBs pilot programme and identified comparison projects</i>	Programme level <i>DIBs pilot programme</i>	Wider DIB sector
<ul style="list-style-type: none"> • Interviews with key stakeholders¹ (56) • Programme design documents • Internal project level M&E data • Project reporting • Data from comparable projects and previous phases • Cost data • Evaluations and learning activities 	<ul style="list-style-type: none"> • Interviews with DFID staff, within the DIBs team • Review of programme level documentation 	<ul style="list-style-type: none"> • Interviews with DIB experts and stakeholders (8) • Review of key literature and learning reports

Conclusions

The summary interim assessment against the evaluation questions are:

EQ1: Assess how the DIB model affects the design, delivery, performance and effectiveness of development interventions.

The DIB mechanism has made it possible to implement Payment by Results (PbR) contracts in contexts where, previously, this would not have been possible because the projects were too risky or too large. This is primarily due to the new partnerships created between governments, donors, delivery partners and (to a degree) the private sector, in which the financial risk is shared between these groups. The DIB has fostered new working relationships between stakeholders and has led to greater levels of collaboration than is normally seen, primarily because the DIB aligns all stakeholders' interests but also because the intensive design stage fosters closer working relationships between partners. A large amount of work has been done in all four DIBs to build a stronger performance management infrastructure, including investing in new monitoring systems and working closely with the service providers to embed adaptive management systems.

Two of the most significant landmarks in these projects is that they have demonstrated that private investors are willing to take on sizeable levels of risk in impact bonds (i.e. in the ICRC HIB, which includes private investment), and it is possible to launch impact bonds at a larger scale (i.e. the QEI DIB, which builds on the Educate Girls DIB).

Whilst the DIB mechanism has reduced some (financial) risks for outcome funders and service providers, it has increased others, such as reputational risk. There were quite strong concerns amongst both outcome funders and service providers around using a new funding mechanism, due to the uncertainties of using a new model, alongside the heightened attention that the mechanism brings to the projects, increasing unwanted exposure should the results not materialise. This created a level of risk aversion, which we believe has diminished the level of risk and innovation in the interventions – all four DIBs are funding service providers with some track record and interventions with some evidence bases.

Some of the DIB effects seem to be closely intertwined with other effects. For example, some

¹ Including designers, service providers, other outcome funders, outcome verification agents, project/performance manager, project evaluators/learning partners and investors.

are more 'novelty effects' - that is they exist because these are the first set of DIBs, and will likely diminish over time. This seems to be the case for the levels of risk aversion and the costs. It is possible (though not certain) that these will reduce in future DIBs. Furthermore, because the increased rigour in the outcomes measurement is a consequence of attaching payments to outcomes, this effect was also seen in some of the PbR comparator sites, and is therefore more of a 'PbR effect' than a DIB effect per se.

The findings from these four DIBs in relation to the DIB effect broadly mirror the findings from the wider literature. This is promising – the evidence of the DIB/SIB effect is currently weak, and so this evaluation provides further validation and a stronger understanding of how impact bonds affect the design and set-up of projects.

Finally, with these benefits have come additional complexities and costs. All four DIBs were complex to design and launch, which resulted in large development costs. It is too early to conclude whether the benefits outweigh these costs. Stakeholders were confident that lessons could be learnt from these DIBs that would reduce the complexity and cost of future DIBs, as we explore in the following section.

EQ2: 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?

Cost analysis

All stakeholders confirmed there had been additional costs - either actual, in kind or pro bono – for staff time and consultancy in designing and setting up the DIBs. These costs tend to be incurred by outcome funders and service providers. They relate mainly to the investor returns that will be paid (either by the outcome funder or service providers).

Stakeholders identified that some of the design and set-up costs were unique to DIBs (e.g. contracts requiring legal and financial consultancy), but that others are commonly seen in other similar programmes, particularly with a PBR or output-based contract (such as ongoing costs of performance management, project management and verification). Stakeholders expected some of the DIBs costs would reduce for future DIBs.

The cost drivers were identified by stakeholders to help understand which elements of the DIB are the most time-intensive or expensive. There was a large degree of agreement across the DIBs in terms of what these cost drivers were, including the number of organisations involved and the negotiation process - particularly, this was perceived as being time-intensive, particularly given these DIBs were being delivered for the first time. All the DIBs identified legal and financial advice a major cost driver taking significant staff time and expertise, and three out of the four DIBs similarly highlighted the lengthy process of engaging funders and raising finance from investors. One DIB identified the service provider selection process as being time intensive.

Necessary conditions for the DIB model to be suitable

It is too early (and there are not enough DIBs) to state whether DIBs are most appropriate in certain sectors or regions, but it is evident that there are certain 'conditions' that increase the likelihood that the DIB will be launched at all, or in a shorter timeframe and/or with lower transaction costs. The conditions we have identified are as follows:

- Sufficient evidence base for the proposed intervention

- Clear and measurable outcomes
- Feasible timeframe for achieving the outcomes
- Acceptable level of external risk
- Sector with strong service providers
- Data from previous interventions
- Consortium that has:
 - strong and committed leadership;
 - sufficient capacity and skills;
 - a culture of innovation and interest in adapting and learning;
 - a consensus on the policy problem, target outcomes and appropriate approaches;
 - the right balance between size and breadth of expertise;
 - clearly defined roles for its members;
 - brought in stakeholders at the right time; and
 - a balance between bilateral and collaborative negotiations.
- Legislative framework that allows public funds to fund private sector profits
- Taxation on the profit of the investment that is accounted for in the financial model
- A framework enabling public sector entities to commit themselves long-term to undefined and uncertain expenses
- Alignment of DIB to organisational requirements
- Setting up arrangements in which what happens in all eventualities is clearly defined
- Effective processes to manage the risks of working with new actors.

What is particularly interesting is that many of these conditions have been identified as necessary within Social Impact Bonds (SIBs) in high-income countries, suggesting that a lot of the learning within impact bonds is transferable to different outcome funders (donors) and regions (middle-income and developing countries).

Lessons learnt and improvements that can be made to increase the model's benefits and reduce the associated transaction costs

Below we set out the lessons with potential wider relevance for the design and set up phase of DIBs. These are split out against the DIB effects and different stages of design and set-up. As discussed in section 3, there is not yet a predominant design for DIBs, and it is perhaps more helpful to understand DIBs as a funding class within which there is great variation. The precise structure and nature of a DIB depend on the stakeholders involved, their objectives for using the DIB and the organisational and regulatory requirements in place. These have implications for the DIB effects and for the process of design and set up phase, and such diversity must be borne in mind when taking stock of the lessons learned to date.

Identifying appropriate interventions

1. Transaction costs are lower if the DIB design is able to draw on existing evidence, reducing some of the costs associated with designing outcome metrics and the evidence base required to determine pricing. However, the requirement for a strong evidence base may limit the expansion of the DIB into new and innovative sectors.
2. The benefits of using the DIB model are the strongest when there is a value proposition to the use of the DIB, whereby they resolve a specific challenge that cannot be addressed by other funding mechanisms. Many of the benefits of using the DIB model are similar to

the benefits of using PbR. However, there are some benefits unique to the DIB model, such as enabling service providers to participate in PbR without upfront capital, and the tendency for the DIB model to draw in a wide range of stakeholders and require and support collaboration.

Identifying metrics and structuring payments

3. Building a database of impact bond returns, outcome metrics and rate cards and drawing on private sector expertise on pricing risk would facilitate the growing of the DIBs market. However, context specificity may limit the usefulness of standardisation and caution is also advised in terms of developing rate cards, due to the early stage of the market and limited data available.
4. Outcome metrics and targets work best when returns to investors and outcome funders, and respective incentives, are aligned. Developing outcome metrics and rate cards that are understood by all stakeholders and linked to other metrics within the sector/country can increase the value of the learning generated, and also facilitate the broader DIB market and/or potential transition to a SIB. It is noted that there can be a tension between using a robust model and using a less robust model that is aligned with measures used by others in the sector.

Measuring impact

5. The validation process should be designed to meet the needs of stakeholders. Different considerations may apply to different contexts. We note that there can be an automatic preference to use experimental approaches or quasi-experimental approaches. However, where an intervention or certain causal links are sufficiently backed by evidence, there may be less value in using experimental or quasi-experimental methods compared to validated administrative data.

Identifying and selecting stakeholders and managing relationships

6. Across three of the DIBs, it was challenging to engage outcome funders. There is a benefit to identifying outcome funders interested in using outcome based contracting, and the types of interventions they are interested in earlier on, and recognising that outcome funders need to be involved in the design of the DIB. Identifying outcome funders first could also enable a competitive process for selecting service providers. On the other hand, outcome funders are concerned about the risks of getting involved with a new funding mechanism, and it can be more efficient for outcome funders to get involved at a later stage, when the other stakeholders have been identified and the terms are more developed.
7. Transaction costs for the design and set up stage can be reduced when there is strong collaboration across stakeholders, drawing on each other's expertise and strengths; when roles are clearly defined from the start; when stakeholders are identified and brought in efficiently; and when there is the right balance between undertaking negotiations bilaterally and collaboratively.
8. Different types of investors and outcome funders bring different types of benefits. For example, commercial investors are able to bring in more experience with testing and implementing financing modalities, while philanthropic investors may be able to bring

experience and expertise within the sector. As a result, careful consideration of the objectives of using the impact bond should be taken into account when identifying outcome funders and investors.

Structuring and developing the operating model

9. The larger number of stakeholders involved in the DIBs to date, and the often diverse legislative frameworks, increase the transaction costs of this stage of the DIB development, due to the larger number of 'work-arounds' and negotiations required. Furthermore, contracting with different currencies introduces foreign exchange risk. The optimal solution would be to amend the legislative frameworks to accommodate DIBs. Where this is not possible, other potential solutions include limiting the number of stakeholders involved, considering other pooled financing or funding structures, using other ways to minimise the number of contracts involved, or standardising deals.

Recommendations

Recommendations to all DIB stakeholders

- Be transparent and share lessons learned and key successes and failures (including DIBs that failed to launch) to facilitate dissemination of learning across the sector;
- Make contracts, payment terms, feasibility studies, investor documents and learning documents publicly available;
- Building a database on interest rates, outcome metrics and rate cards and drawing on private sector expertise on pricing risk would facilitate the growing of the DIBs market;
- Prioritise the documentation of lessons learned and evaluation, in order to facilitate the development of a more finely grained understanding of what works, and in what contexts.

Recommendations to DIB designers

- Clearly agree upfront the roles and responsibilities of all involved parties, including how these responsibilities may change depending on circumstances;
- When structuring the DIB, ensure that the contracts and governance arrangements have provisions for a range of potential eventualities;
- Be clear about the objectives of using the DIB, and how the DIB is expected to resolve a policy problem. Then, structure the DIB so it focuses on delivering the targeted DIB effects, and seek to reduce transaction costs that do not contribute to the targeted effects of using the DIB. Be clear what is needed from stakeholders, including investors, outcome funders and advisors. This can affect whether hands-on or hands-off stakeholders are more appropriate.
- Consider carefully the number and types of stakeholders involved, as, in this early stage of the market, complexities and potential inefficiencies increase with the number of stakeholders. Consider solutions to reduce this complexity, such as limiting the

number of stakeholders involved or using contractual arrangements that simplify the processes required.

- Develop outcome metrics and rate cards that are understood by all stakeholders and linked to other metrics used in the sector or country, to increase the value of the learning generated, minimise the costs of data collection and facilitate the broader DIB market and/or potential transition to a SIB.
- Collaboration is important to reducing transaction costs. Seek to draw on the expertise and experience of stakeholders within the DIB.

Contents

Acknowledgements and disclaimer	i
Executive Summary.....	ii
Recommendations.....	viii
List of Tables.....	3
Table of Figures	5
1.0 Introduction	1
1.1 Overview of the DIBS pilot programme.....	1
1.2 Objectives of the Evaluation	4
1.3 Scope of the Research Wave 1 Report.....	5
1.4 Overview of the Evaluation Process.....	5
1.5 Report structure.....	6
2.0 Evaluation Framework and Methodology	8
2.1 Evaluation framework for the evaluation	8
2.2 Overview of the methodology	12
2.3 Methodological limitations.....	18
3.0 Summary of the DIBs	20
3.1 Programme components.....	22
3.2 Stakeholders involved in the DIBs	26
3.3 DIB structures	27
3.4 Conclusion	30
4.0 Analysis and Findings – DIB Effects.....	31
4.1 The DIB effect indicators.....	32
4.2 Presence of the DIB effect indicators: Summary.....	34
4.3 Risk transfer effects	37
4.4 Partnership effects	40
4.5 Financing and funding effects	43
4.6 Design effects	47
4.7 Other factors influencing the DIB effect.....	51
4.8 Additional effects not identified in the framework	52
4.9 Conclusions	52
5.0 Analysis and Findings – Costs of designing and delivering DIBs	55
5.1 Economy	57

5.2	Efficiency.....	68
5.3	Effectiveness.....	68
5.4	Equity.....	72
5.5	Conclusion	73
6.0	Analysis and Findings – Improving the process of designing and agreeing DIBs	75
6.1	Identifying appropriate interventions.....	77
6.2	Identifying metrics and structuring payments.....	81
6.3	Measuring impact	85
6.4	Identifying and selecting stakeholders and managing relationships	87
6.5	Structuring the vehicle and developing the operating model.....	95
6.6	Conclusion	97
7.0	Lessons.....	101
8.0	Recommendations	104
8.1	Recommendations to all DIB stakeholders.....	104
8.2	Recommendations to DIB designers.....	104
Annex A: Case study reports.....		1
Annex B: Terms of Reference.....		81
B.1	Background and Context	81
B.2	What do we mean by other aid mechanisms?	82
B.3	How strong is the evidence on DIBs?	83
B.4	What is the DFID DIBs pilot programme?	84
B.5	Users of the Evaluation	85
B.6	Evaluation Methodology.....	90
B.7	Data Sources.....	91
B.8	Evaluation Outputs and Timeframe	93
B.9	Lighter-Touch Interim Outputs	95
B.10	Evaluation Management Team.....	97
Annex C: Bibliography		106
Annex D: EQUALs criteria mapped to report sections		112
Annex E: Evaluation methodology		116
E.1	Evaluation Framework.....	117
E.2	DIB-level research.....	124

E.3	Programme-level Research.....	135
E.4	Sector-level Research	135
E.5	Approach to data collection.....	136
E.6	Analysis, Reporting and Dissemination.....	137
E.7	Involvement of stakeholders.....	140
Annex F: Individual DIB level plans.....		144
Annex G: Data Quality Assessment		149
G.1	ICRC.....	149
G.2	QEI	150
G.3	Village Enterprise.....	152
G.4	Cameroon Cataract Bond.....	154
Annex H: Consultees and Sources reviewed		157
Annex I: Framework for categorising DIBs.....		162
Annex J: DIBs reviewed as part of programme level consultations		164
Annex K: Learning workshop note.....		172
Annex L: VfM Analysis – Supporting Evidence.....		174
L.1	ICRC.....	174
L.2	Quality Education India DIB	174
L.3	VE DIB.....	175
L.4	Cameroon Cataract Bond.....	175
Annex M: Literature Review		177
a.	Hypothesised effects of DIBs	177
b.	Input.....	189
c.	<i>Recommendations</i>	196
d.	What approaches have been used to evaluate impact bonds? What are the main challenges and solutions?	198
Annex N: List of Acronyms		201

List of Tables

Table 2.1: Evaluation Framework – EQ1.....	8
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Table 2.2: Evaluation Framework – EQ2.....	10
Table 2.3 Stakeholders consulted	13
Table 2.4 Comparator Sites	14
Table 2.5: Deliverables mapped to target audiences.....	17
Table 2.6: Limitations and mitigations	18
Table 3.1: Programme components	22
Table 3.2: Key stakeholders.....	26
Table 3.3: DIBs against DIB dimensions	27
Table 4.1: DIB effect indicators	33
Table 4.2: Presence of DIB effect indicators in the four DIB projects ..	35
Table 6.1: Project focus and measurement approach	87
Table 6.2: Advantages and disadvantages to different approaches to identifying and engaging with stakeholders	91
Table B.1: Alternative aid mechanism.....	82
Table B.2 EO 1: Inception Report	93
Table B.3: EO2 – Evaluation Report on the Process of designing and launching DIBs.....	93
Table B.4: EO3 – Mid-Term Evaluation Report on DIBs.....	94
Table B.5: EO4 – Final Evaluation Report on DIBs	94
Table B.6: Good Performance Indicators	98
Table E.1: Evaluation Framework	117
Table E.2: DIB effects and indicators	122
Table E.3: Stakeholder consultations in RW1	125
Table E.4: Research Waves	131
Table E.5: VfM Framework	131
Table E.6: VfM Indicators.....	132
Table E.7: Costing Structure	133
Table E.8: Communication Plan.....	140
Table F.1 : Proposed consultations.....	144
Table F.2: Value for Money data.....	145
Table F.3: Other data.....	147
Table M.1: Sources consulted.....	178
Table M.2: Impact bond principles	182
Table M.3: Categorisation of SIBs by level of innovation.....	185
Table M.4: Challenges of designing impact bonds	196

Table of Figures

Figure 1.1: DIBs pilot programme theory of change	3
Figure 4.1: DFID risk assessment of three DIBs	38
Figure M.1: Framework for synthesising evaluation evidence	177
Figure M.2: Strengths and weaknesses of existing evidence and evaluation approaches and methods related to SIBs and DIBs (Drew and Clist 2015:27).....	199

1.0 Introduction

1.1 Overview of the DIBS pilot programme

1.1.1 DIBs and the current stage of the market.

DIBs are understood by DFID as one type of payments by results (PbR), or a type of funding whereby payments are made after the achievement of pre-agreed outcomes (DFID, 2014). In a standard PbR contract, there are four actors:

- i) an **outcome funder** who funds the outcomes;
- ii) the **service provider** delivering the intervention;
- iii) the **target population**, benefiting from the services; and
- iv) a **validating agency** that validates the results on which the payments are based.

DIBs involve two additional agents:

- i) the **investor(s)**, which provide(s) the working capital to deliver the intervention and may be able to make a return on their investment, calibrated to the level of outcome achieved; and
- ii) the **intermediary**, which can assist with the development and commercialisation of the DIB, and/or with the monitoring and support of the delivery of the intervention.

DIBs are typically implemented in developing countries, where the outcome funder is a donor agency or foundation often operating in a different country. Humanitarian Impact Bonds are essentially DIBs operating in humanitarian situations.

The DIB market is still at an early stage of development. Boggild-Jones and Gustafsson-Wright (2019)² noted that, as of January 2019, seven development impact bonds have been contracted: Educate Girls in India; a DIB for improving cocoa and coffee production in Peru; the International Committee of the Red Cross Programme for Humanitarian Impact Investment (PHII); the Village Enterprise DIB, Rajasthan Maternal Health DIB; the Quality Education India DIB and the Cameroon Cataract Bond have also been launched.

1.1.2 Objectives of the DIBs pilot programme

DFID's 2014 PbR Strategy³ set out the ambition for PbR to become a major part of the way DFID works. DFID's move towards PbR is explained as part of a broader reform to ensure good value for money (VfM) from the development budget is achieved. DFID recognises three types of PbR: results-based aid (RBA), results-based financing (RBF) and DIBs. DFID funded a study conducted by Social Finance to explore the feasibility of using a DIB to address sleeping sickness in Uganda. While this was not launched, DFID's economic development strategy, which was released in January 2017, re-committed to "assess[ing] the scope" of DIBs as a financing tool. It is in this context that the DIBs pilot programme was launched.

² <https://www.brookings.edu/blog/education-plus-development/2019/01/02/a-global-snapshot-impact-bonds-in-2018/amp/>

³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/323868/Sharp_ening_incentives_to_perform_DFIDs_Strategy_on_Payment_by_Results.pdf

Given the emerging evidence on impact bonds, but limited experience with DIBs specifically, the main aim of the DIBs pilot is to:

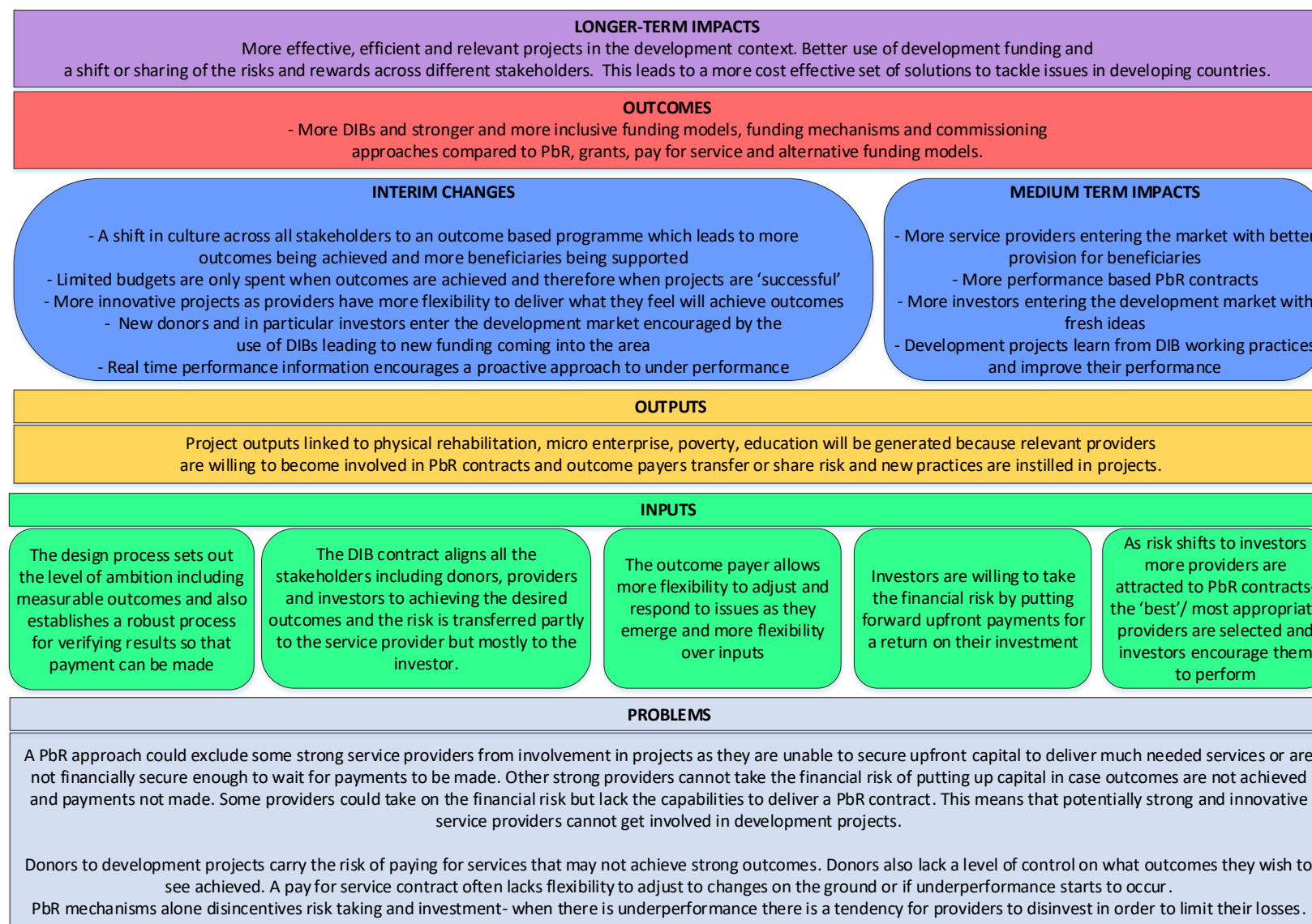
- test whether DIBs are a tool that DFID is able to use,
- generate an understanding of how and when DIBs can add value in DFID programming and
- generate an understanding of how and when DIBs can be used to support DFID's commissioning, management, and effectiveness in delivering programmes on a PbR basis.

DFID is piloting DIBs by supporting a small number of projects designed by other donors or delivery partners where a PbR and DIB financing structure is desirable and feasible. Evidence is sought through the pilot that will help DFID understand when DIBs may be an appropriate commissioning tool and the costs and benefits of using them.

1.1.3 Theory of change

In the ToR, DFID supplied a Theory of Change (ToC). As part of the proposal, the evaluation team updated this ToC, based on the understanding of the evidence base in relation to the potential, and challenges, of impact bonds. The ToC was revised further following the inception phase and the evaluation team felt the ToC still represented everyone's understanding in relation to the impact of the programme, and was aligned with the potential advantages and risks associated with impact bonds as outlined in the research. The ToC set out overleaf (Figure 1.1) remains unchanged from the one presented in the inception report.

Figure 1.1: DIBs pilot programme theory of change



1.1.4 Selection of DIBs

The pilot programme is made up of three DIBs. DFID's engagement and selection process with the DIBs is summarised below. Further detail on the DIBs is set out in section 3, and in the individual case studies in Annex A.

ICRC HIB: DFID is an outcome funder in the ICRC HIB. DFID first engaged with the ICRC HIB in September 2016. As DFID joined at an advanced stage of the deal, the terms were already relatively set. Key motivations for DFID to fund this HIB was the learning opportunity it presented, and the possibility of funding a digital centre management system and efficiency improvement measures testing on an outcome basis.

QEI DIB: DFID is providing funding for programme management, legal advice, learning and evaluation. DFID joined the programme in January 2018, and fed into the project design. A key motivation for funding QEI was that the DIB involved a rigorous impact evaluation with the potential to generate important learning and potentially attract new funders.

VE DIB: DFID is an outcome funder in the VE DIB. In late 2016, DFID was approached by Instiglio, an organisation providing technical assistance in the creation and implementation of impact bonds and results-based financing projects, and a donor. DFID thought that VE fitted well with the strategic aims of the DIBs pilot programme.

This evaluation reports also draws on learning from the **Cameroon Cataract Bond**. The Cameroon Cataract Bond is not included within the DIBs pilot programme. Nonetheless, stakeholders agreed that adding a fourth DIB to the evaluation, using the same approach and research tools, would enrich the findings of the evaluation.

1.2 Objectives of the Evaluation

The **purpose** of the evaluation is to generate learnings and recommendations on the use of DIBs as an instrument for aid delivery, by using the experience of the DFID DIBs pilot programme to generate learning to inform DFID's future policy aiming to make the most effective use of DIBs. The evaluation will also help DFID and pilot project partners evaluate whether the tools they are developing are useful, scalable and replicable.

DIBs are a relatively new tool for delivering development projects. Hence, the focus of this evaluation is on learning to inform future thinking on DIBs and also wider funding mechanisms in the development context. The evaluation aims to generate independent and robust evidence on whether DIBs can help enable efficient and effective delivery in DFID priority result areas - taking into consideration both the costs and benefits of a DIB model. The evaluation aims to draw out and synthesise learning about the DIBs mechanism from these projects, while also comparing and contrasting findings with the broader evidence base. The evaluation results will help DFID to make informed choices on how and where to use DIBs in the future. This will include the potential to replicate and scale the DIB. The evaluation also aims to be useful for those currently involved or interested in getting involved in DIBs. As such, the primary users of the evaluation will be the DFID DIBs team, and secondary users of the learning will be organisations using or thinking about using impact bonds. These include outcome funders, investors and service providers. It is

expected that the evaluation will generate findings and practical recommendations for the set up and delivery of DIBs.

A key focus of this evaluation is therefore around understanding the benefit of applying a DIB model, looking at whether any strong or weak performance in the project is attributable to the DIB model rather than, for instance, local context, the delivery team or any other mitigating factors. The evaluation focuses on whether the DIB leads to better and more relevant, efficient and effective activities compared to alternative funding models. The evaluation also explores:

- whether a DIB model influences the behaviours of stakeholders, such as providers, to improve programme performance;
- the extent to which a DIB leads to more cost effective and better performing projects; and
- whether it improves the outcomes of activities and the extent to which a DIB enables more providers to become involved in PbR projects.

1.3 Scope of the Research Wave 1 Report

As set out in the ToR, this report provides early feedback on the process of selecting and structuring the DIBs included within the DIB pilot programme, as well as the Cameroon Cataract Bond. This includes estimates of the costs involved in the feasibility and structuring stages of the DIB for all parties. The report focuses on the use of the DIB in funding these projects, and does not set out to evaluate the intervention design or the delivery of the projects.

On this basis, the report makes recommendations on the conditions that are needed for DIBs to be suitable and optimal, and recommend possible ways to reduce costs in the design, structuring and implementation of DIBs. The report has been complemented by specific case study reports focusing on each of the four DIBs, set out in Annex A.

The two evaluation questions are:

- **EQ1:** Assess how the DIB model affects the design, delivery, performance and effectiveness of development interventions.
- **EQ2:** 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?

The ToR and changes to the ToR are set out in Annex B.

1.4 Overview of the Evaluation Process

The timing of the evaluation has been set to align to the period of DIBs pilot programme, commencing in May 2018 and completing in March 2023. The evaluation is divided over three waves, with the majority of the research activity repeated during each wave:

Wave 1: **Set up** (April – February 2019): Focusing on the process of designing and launching the DFID DIB pilot projects.

Wave 2: **Delivery** (April – November 2020): Focusing on emerging lessons from the DFID DIBs pilot projects, as well as from evidence generated by other DIBs. Most of the evaluation questions will be answered during this wave.

Wave 3: **Sustainability** (April 2022 – March 2023): Focusing on the legacy of the DIBs and the programme, including the extent to which outcomes and DIBs were sustained. This will also update the interim findings from Wave 2, providing a full assessment of the DIBs pilot programme, including costs and benefits.

Delivery of Research Wave 1 has drawn on the preparatory work undertaken during the **inception phase**, which included:

- a **literature review** on the context and progress of the wider SIBs and DIBs sector, and an initial comparison of these mechanisms with alternative funding tools;
- a review of **programme documentation**, at the individual DIB level and DFID pilot programme level;
- the **refining of the conceptual framework and evaluation questions** against the OECD-DAC criteria, development of DIB effect indicators and preparation of research tools;
- **preparatory consultations** with key stakeholders across the DIBs and scoping of potential comparison sites; and
- a **preliminary stakeholder mapping**.

Following the review and validation of the methodology and research tools by DFID, **Research Wave 1** included research and analysis at the individual DIB level for the four DIBs included in the scope of the evaluation, at the pilot programme level and at the sector level. This was conducted between June – December 2018. Further detail is set out in section 2.2.

Initial drafts of emerging findings were completed between November and December 2018, and have been revised based on internal review and comments received from DFID. Findings from RW1 were presented to an internal Learning Workshop on December 12th 2018. The aim was to contextualise the programme evaluation findings, compare differences and similarities between DIBs under study, share lessons learned and consider the implications for the wider sector. Discussion at the Learning Workshop has informed preparation of this draft and implications for the report, which are summarised in Annex K.

This version of the evaluation report is complemented by individual DIB case study reports, set out in Annex A. The evaluation report and the case studies will be reviewed by DFID, the Evaluation Advisory Group that has been established for the evaluation, DFID's EQUALS quality assurance reviewers, and other stakeholders, including those from the DIBs under the scope of the evaluation. On the basis of this feedback, the report will be finalised and communications products will be prepared with a view to most effectively communicating the evaluation findings both to DIB stakeholders and other stakeholder organisations, but also to the wider DIB sector.

1.5 Report structure

The remainder of this report is structured as follows:

Section 2 sets out the evaluation framework that has been used to guide the evaluation, and summarises the main features of the methodology and the limitations of the available evidence.

Section 3 introduces the DIBs included under the scope of the evaluation.

Section 4 presents the analysis and findings of the evaluation in relation to EQ1, assessing how the DIB model affects the design and set up phase of development interventions.

Section 5 presents the analysis and findings of the evaluation in relation to EQ2, in terms of the estimated costs attributable to the use of the DIB funding mechanism.

Section 6 identifies improvements that can be made to the process of designing and agreeing DIBs to increase the model's benefits and reduce the associated transaction costs.

Section 7 discusses the lessons learned, which are of potential wider relevance for the design and set up phases of DIBs, against the DIB effects and different stages of designing and setting up development impact bonds.

Section 8 provides recommendations based on our findings and lessons learned, split between those applicable to all DIB stakeholders, and those primarily applicable to DIB designers.

Additional information is included in annexes:

- **Annex A** sets out the case study reports agreed with the different DIB stakeholders
- **Annex B** contains the Terms of Reference for the evaluation
- **Annex C** sets out the references cited within the report
- **Annex D** maps the DFID EQUALS criteria to the relevant sections in the report
- **Annex E** sets out the full methodology used for this evaluation
- **Annex F** sets out the individual DIB level plans agreed with the four DIBs
- **Annex G** sets out the Data Quality Assessments undertaken for the four DIBs
- **Annex H** sets out the list of consultees and documents reviewed as part of this research wave
- **Annex I** sets out a framework used for categorising the DIBs
- **Annex J** provides some basic information on the other DIBs reviewed as part of the sector level consultations
- **Annex K** sets out a note summarising the internal learning workshop
- **Annex L** sets out the supporting calculations for the cost analysis
- **Annex M** sets out the full literature review
- **Annex N** provides a list of acronyms.

2.0 Evaluation Framework and Methodology

This section sets out the evaluation framework that has been used to guide the evaluation (section 2.1), summarises the main features of the methodology (section 2.2) and the limitations of the available evidence (section 2.3). Further details on the methodology undertaken are set out in Annex E.

2.1 Evaluation framework for the evaluation

The two tables below set out the evaluation framework for the evaluation, which maps the two evaluation questions (EQ1 and EQ2) to the OECD DAC criteria and evaluation sub-questions finalised during the inception phase. All the DAC criteria are relevant and will be applied over the course of the evaluation. The evaluation sub-questions are then mapped to the indicators designed during the inception phase. The corresponding research waves in which these sub-questions will be covered are also marked. Annex E sets out the full evaluation framework, which links the evaluation questions and sub-questions to the corresponding data collection method.

Table 2.1 presents the evaluation framework for evaluation question 1 (EQ1), which sets out to assess how the DIB model affects the design, delivery, performance and effectiveness of development interventions. Sub-questions relating to the DAC criteria of effectiveness and sustainability are included. Within these, there are sub-questions relating to comparisons between the DIBs within the pilot programme, and between the DIBs and projects funded through other funding mechanisms, and to spillover effects. Indicators have been developed for each of these sub-questions. The majority of the sub-questions related to EQ1 draw on the DIB effect indicators, which are set out in Annex E.

Table 2.1: Evaluation Framework – EQ1

Key evaluation questions	Effectiveness and sustainability sub-questions	Indicators	Research Wave		
			1	2	3
EQ1: Assess how the DIB model affects the design, delivery,	To what extent were the three DIB projects successful in realising their aims, outputs, outcomes and impacts?	See DIB effect indicators set out in Annex E.		x	x
	To what extent was the level of success and failure due to the DIB model - was the DIB model a small, medium or large driver of success and was it at all critical to the projects' overall performance?			x	x

Key evaluation questions	Effectiveness and sustainability sub-questions	Indicators	Research Wave			
			1	2	3	
performance and effectiveness of development interventions.	Did the DIB model provide added value in relation to the cross-cutting issues of gender, poverty, human rights, HIV/AIDs, environment, anti-corruption, capacity building and power relations?			x	x	
	Where was the DIB model most effective - was its greatest value in terms of the design, delivery, relationship development, cost effectiveness, time efficiency or impact on beneficiaries?		x	x	x	
	Comparisons					
	To what extent does the effectiveness vary across the three projects and why?			x	x	
	How does the effectiveness compare to other DIBs and funding mechanisms and why?			x	x	
	Spillovers					
	To what extent did stakeholders involved in the DIB use any of the working practices of the model in their other work? To what extent did good practice within the DIBs spread to other interventions or organisations?	Extent to which systems and practices implemented as part of project are embedded across the wider organisation and/or sustained once the DIB ends			x	x
	Does the increased evidence base developed in the DIB enable the projects to access additional funding?	Funding accessed by the projects resulting from the evidence base developed in the DIB				x
	Sustainability					
	What is the legacy of the use of the DIBs? How sustainable are the DIB effects?	Indications that the effects will be sustained				x

Table 2.2 sets out the evaluation framework for evaluation question 2 (EQ2), which explores improvements that can be made to the process of designing and agreeing DIBs to increase the model's benefits and reduce the associated transaction costs. Sub-questions relating to the DAC criteria of relevance, equity and efficiency are included. Within these, there are sub-questions related to drawing comparisons on the efficiency between the DIBs within the pilot programme, and between the DIBs and projects funded through other funding mechanisms. Indicators have been developed for each of these sub-questions.

Table 2.2: Evaluation Framework – EQ2

Key evaluation questions	Efficiency, Equity and relevance sub-questions	Indicators	Research Wave			
			1	2	3	
EQ 2: 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?	Efficiency					
	What (if any) are the extra costs of designing and delivering a project using a DIB model and how do they compare to other funding mechanisms?	Additional costs of the impact bond, disaggregated where possible by: • stage (design, set-up, delivery, and learning); • actor who incurs this cost; and • type of cost (staff time, consultancy and expertise costs, and the risk premium (return to investors, including interest) Savings in programme costs (including staff time) as a result of the impact bond. How effectively has risk been transferred - what is the alignment of transferred risks with return?	x	x	x	
	Where are the extra costs most prevalent and what specific items (staff, monitoring procedures etc.) have the highest costs? Are these extra costs mainly found in the design or delivery stages?		x	x	x	
	Do the extra costs represent value for money - to what extent do they lead to additional results, impacts and benefits?			x	x	
	Do any aspects to a DIB model (e.g. involving an investor, undertaking verification of outcomes) shorten or extend the timeframes of projects?			x	x	
	Who pays for these additional costs and to what extent do they see the benefits?		x	x	x	
	Are there any inefficiencies in a DIB model that can be reduced or are there any additional costs that are unnecessary?			x	x	
	Equity					
	How well are the programmes fulfilling their targeting strategy? Are there certain sub-groups which are not being reached?		Any positive or negative changes to equity as a result of the impact bond.		x	x
	Comparisons					
To what extent does the efficiency of the DIB set up vary between the three DIB projects and why?	Level of transaction costs of setting up a DIB compare with the average costs for other funding mechanisms (e.g. fee-for-service contracts)			x	x	
How does the efficiency compare to other DIBs and funding mechanisms and why?	Changes in transaction costs over time (as projects start to learn from previous experience) Number of direct beneficiaries with improved outcomes as a result of DFID funded DIB projects		x	x		

Key evaluation questions	Efficiency, Equity and relevance sub-questions	Indicators	Research Wave		
			1	2	3
	Relevance				
	In what circumstances are DIBs relevant in tackling issues in the development context?	Level of returns and profit made by the investors and extent to which that influences future involvement in both DIBs and development projects	x	x	x
	What social issues, target groups, geographies and project scales do DIBs fit best and have the greatest of impact?	Number of DFID supported DIB projects with improved cost-effectiveness ratio compared with service providers' own past performance			x
	Are DIBs appropriate in development contexts - is the existence of investors (and possible profits), payment only when results are made and strong expectations around measuring outcomes appropriate for donors such as DFID?	Proportion of new DFID DIB instruments commissioned that are informed by recommendations of DFID DIBs evaluation reports.	x	x	x
	To what extent are DIBs applicable to DFID's work - are they relevant across most, some or a few of DFIDs priority result areas?	Number of new DFID programmes interacting with DIBs guidance, evaluation findings and reports.			x

2.2 Overview of the methodology

This section provides an overview of the methodology. We first set out the data collection methods, our approach to analysis, reporting and dissemination, and involvement of stakeholders, before concluding with the main methodological limitations, and the mitigations undertaken. Further detail is set out in Annex E.

2.2.1 Data collection

There were three levels of research activity in this first research wave (RW1), at the individual DIB level, programme level and sector level. Further detail is set out below:

DIB level research:

This level of research relates to the four DIBs under the scope of the evaluation.

- **Data Analysis:** Expected quantitative figures on the performance of the DIBs, including performance metrics, outcome payments and returns were collected. Actual figures will be collected over the next two waves. In order to ascertain the reliance we can place on programme data, we have assessed the quality of the monitoring and evaluation systems through our Data Quality Assessment (DQA) checklist, set out in Annex G.
- **Document Review:** Key documents related to each DIB were reviewed to further understand the set up phase (see Annex H).
- **DIB Consultations:** Consultations with key stakeholders to understand how the DIB mechanism is affecting the set up and development of the project, the objectives for getting involved, as well as partnership working, and lessons learned in designing the DIB that could be applied to later stages or other DIBs.

The **sampling strategy** used was purposive. There was a limited number of stakeholders involved in the set up phase, and random sampling was not considered necessary or appropriate. For the DIB-level research, for the most part, the evaluation team contacted all relevant stakeholders, namely investors, service providers, outcome funders, performance managers and outcome evaluators. All stakeholders involved were invited to participate in the evaluation, but some stakeholders did not participate in the evaluation. However, the team has tried to address this by drawing on a range of programme documentation, and triangulating the findings and data from the existing stakeholder interviews.

The table below sets out the number of organisations interviewed, and the total number of organisations involved per impact bond stakeholder category. In parenthesis in this table under the 'interviewed' columns, we have included the number of individuals interviewed. By stakeholder group, we mean the key stakeholders involved in the impact bond model, including outcome funders, investors, service providers, outcome evaluators and advisors/performance managers. Details on the stakeholders involved in the all four DIBs are set out in section 3.

Table 2.3 Stakeholders consulted

	ICRC		QEI		VE		Cataract Bond	
	Interviewed	Total	Interviewed	Total	Interviewed	Total	Interviewed	Total
Outcome Funders	3 (4)	5	3 (5)	5	2 (3)	3	3 (4)	3
Investors	1 (1)	7 ⁴	1 (3)	1	2 (2)	9	2	2
PbR Comparator sites	1 (2)	n/a	1 (2)	n/a	0	n/a	0	n/a
Advisors / Intermediaries / Performance Managers	1 (3)	1	3 (4)	3	1 (4)	1	1(2)	1
Service Providers	1 (2)	1	3 (3)	3	1 (4)	1	1 (2)	1
Other funders	0	1	1 (2)	1	-	-	-	-
Outcome Evaluator	0	1	1 (1)	1	0	1	0	1
DIB researchers	-	-	-	-	-	-	1 (1)	1

Notes: The “interviewed” column sets out the number of organisations interviewed, and in parenthesis, the number of individuals interviewed (in certain organisations, we interviewed more than one individual). The “total” column sets out the total number of organisations within this stakeholder category.

A full list of consultations is set out in Annex H.

- **Research in comparator sites:** In order to develop an understanding of how the DIB affected the set up phase, the evaluation team also undertook data collection at comparator sites. We identified two forms of comparisons:
 - First, we identified similar programmes being delivered by the same service providers funded by the DIBs, but which were funded under grants. As part of the inception phase, a list of parameters which would affect the comparability of programmes was developed based on discussion within the evaluation team and DFID. These were: project purpose and objectives, service provider and processes used, countries of operation, context, time period, size of project, level of donor oversight/influence, payment structure and availability of data and stakeholders. The evaluation team then worked with the service providers and intermediaries, in order to identify potential comparator sites, and assessed the similarity to our impact bonds along these parameters. We then interviewed staff working on this comparator sites, to determine the extent to which the DIB effect was also present in these sites, to support our understanding of other factors which may have also contributed to these DIB effect indicators.
 - Secondly, we identified programmes working in similar sector and contexts, funded under payment by results. One PbR comparator site was identified per

⁴ Of the seven investors, there is one cornerstone investor and one placement intermediary that identified the other five investors. The one investor consulted represents over 50% of the total investment.

DIB. The criteria was PbR funded interventions working in similar sector, and, where possible, similar geographies.

The table below summarises the comparator sites:

Table 2.4 Comparator Sites

DIB	Grant funded programme	PbR funded programme
ICRC HIB	Physical Rehabilitation Programme, delivered by ICRC	World Bank Global Partnership on Output-Based Aid
QEI DIB	One programme per service provider (three in total)	Girls Education Challenge
VE DIB	Current grant-funded programme.	Helvetas livelihood programme

The grant funded programme comparisons provided a useful comparator, in that they were grant funded programmes delivered by the same service providers. We obtained useful information on how the use of a DIB affected the design and set up phase. It must be noted that there were some differences in the locations and interventions delivered, between the comparator site, and the intervention funded by the DIB.

In terms of the PbR funded programmes, it was more challenging to identify comparable programmes. Nonetheless, each comparator provided useful information. The World Bank GPOBA consultations provided useful information on the challenges of using output based aid (OBA) in fragile and conflict affected contexts, and recommendations on how to better use OBA in these situations. This provided useful contextual information to the challenges of using results based approaches in humanitarian situations. The Girls Education Challenge (GEC) consultation provided useful information on the costs of verification in the PbR programmes funded under the GEC, as well as the advantages and disadvantages to using PbR in an education context. This provided a reference point to compare the DIB effect with PbR effects in the education context. Similarly, the Helvetas livelihood programme worked in a different country context, but the intervention was similar to the one funded by the VE DIB, and provided useful comparison information on the costs and benefits of using PbR.

Due to the late engagement of the Cameroon Cataract Bond, no comparator sites have yet been identified, although there are potential sites which are being discussed with stakeholders (see Annex E.2.5 for further detail).

- **Cost data:** Information on the additional costs of setting up and using a DIB was obtained, in comparison to other funding mechanisms. The later research waves will explore the extent to which these lead to additional benefits. Additionally, we also gathered data against the VfM framework set up during the inception phase, which included measures of economy, efficiency, effectiveness and equity of the DIBs (see Annex E.2.6 for further detail).

Programme level research:

This level relates to the DIBs pilot programme and synthesises the finding across the four DIBs.

- **DFID consultations:** The evaluation team held consultations with the DFID DIBs team and PbR staff members, in order to develop further understanding of the programme, and how it related to DFID priorities in this area.
- **Programme document review:** The evaluation team reviewed key programme-level documents, such as internal reports written by DFID.
- **Internal learning workshops:** The internal workshop brought together key stakeholders from across the three DFID DIB pilots and the Cameroon Cataract Bond. The workshop involved a discussion on the validity of these findings for the different DIBs, and additional perspectives and nuances across the range of DIBs present. Results from the learning workshop were used to refine the evaluation team's analysis and findings, and have been incorporated in this evaluation report. Further detail is set out in Annex K.

Sector level research:

This level of research seeks to provide the wider contextualisation to our findings.

- **Literature Review:** this involved a literature review on the impact bond and payment by result sector more broadly, and is set out in Annex M.
- **Document review:** this involved review of reports related to other DIBs that are being designed and implemented, to ensure the evaluation is situated within sector developments. A summary is set out in Annex H.
- **Other consultations:** The evaluation team held consultations with DIB advisors and key stakeholders of existing DIBs, and DIBs that failed to launch, to understand how the DIB mechanism is affecting the set up and development of the project, as well as partnership working, and lessons learned in designing the DIB that could be applied to later stages or other DIBs. We conducted 8 consultations in total. A full list of consultations is set out in Annex H.

A full list of consultees and documents reviewed is set out in Annex H.

2.2.2 Analysis

The data collection generated a variety of qualitative and quantitative evidence, which enabled the triangulation of different data sources set out above. The data from the transcripts and field notes were summarised and synthesised under the headings and sub headings within the Evaluation Framework. Findings from different data sources were triangulated. Where findings between the data sets contradicted each other, each data set was further interrogated to examine possible explanations. Analysis took place at three levels, focusing firstly on the individual DIBs; bringing this together to analyse progress at a programme level; and finally considering the implications for the wider DIB sector. We also held debriefings with all team members, including the external experts, to support in this analysis stage.

We adopted process tracing as a way to analyse the effect of the DIB on the delivery and performance of the services. This involved the following steps:

1. **Process induction and creation of 'DIB effect' indicators:** The evaluation team produced a set of indicators through which to measure the outcomes the DIB mechanism is expected to achieve, including hypotheses on how the use of the DIB

could lead to these DIB effects, drawing on the theory of change. These are set out in Section 4.

2. **Examine presence of indicators in DIB areas and in non-DIB areas:** We identified whether the DIB effect indicators are present within the DIB and similar interventions delivered through alternative funding mechanisms, using the following data sources:
 - Consultations with stakeholders involved in DIBs and similar programmes funded through alternative funding mechanisms.
 - Qualitative and quantitative data from the DIBs and comparator sites
3. **Analyse differences between DIB and non-DIB areas:** We undertook an analysis of the key differences between the interventions funded by a DIB and those funded by another funding mechanism. The DIB effect indicators provided a useful framework for this. In a number of cases, stakeholders had been involved in both the DIB and non-DIB funded intervention, and we sought their assessment as to the key differences between the interventions.
4. **Process verification:** Differences between the DIB and non-DIB areas may not necessarily be a result of the DIB mechanism. Stakeholders were asked to assess the extent to which differences can be attributed to the DIB mechanism. Evaluator judgement was used to assess perceptions and opinions presented by different stakeholders, which were, where possible triangulated using qualitative and quantitative data, such as programme documentation, financial reporting and M&E data.

Different stakeholders often had different opinions on the DIB effect. Where possible, we used these different opinions to shed further light on the DIB effect, nuancing the effect for different stakeholders and sought to reconcile differing opinions. For example, different opinions on whether the DIB enabled risk transfer shed light on risk perceptions of different stakeholders. Different opinions on whether the DIB enabled service providers to use PbR provided insights into the DIB effect – for example, that in certain cases outcome funders would not have funded the same intervention without a DIB, but that service providers would likely have approached other outcome funders. Where it was not possible to reconcile or come to an assessment of contradictory opinions, we have sought to clearly set this out in our findings.

As a result of the need to interpret and draw together different stakeholder views, evaluator judgement was a key component of our analysis. Hence, it was important that analysis was undertaken consistently. The Analytical Lead and Team Leader, both with significant experience of evaluating impact bonds and outcomes based contracts, quality assured interview notes and findings. To assess the robustness of findings, the following assessments were also undertaken:

- Assessment of the reliability of data sources, including consideration of their potential limitations and biases; and
- Assessing the strength of evidence for the different DIB effects. For certain DIB effects, there was more disagreement between stakeholders, and/or limited sources of other data that could be used to triangulate. We have noted this in Section 4, and will revisit these DIB effects in the next waves of research.

2.2.3 Reporting and dissemination

As part of the inception phase, we undertook an analysis of stakeholders, and identified the three types of users: DFID stakeholders, stakeholders involved in the pilot DIBs and those interested in DIBs and/or SIBs. The reporting and communication outputs have been designed with these stakeholders in mind. The table below maps the deliverables to the targeted users. This is followed by a brief description of each type of deliverable.

Table 2.5: Deliverables mapped to target audiences

Deliverables	Primary users: DFID stakeholders	Secondary users: Stakeholders involved in the pilot DIBs	Tertiary users: those interested in DIBs and/or SIBs
Case studies	✓	✓	✓
Reports	✓	✓	
Internal workshops	✓	✓	
External Workshops			✓
Learnings outputs	✓	✓	✓

This **report** forms evaluation report 1, which includes early feedback on the set-up of the DIBs (including an estimate of set-up costs) and recommendations for expanding and improving the DIB programme and these DIB mechanisms. This is also complemented by specific **case studies** focusing on each of the three DIBs (see Annex A). An **internal workshop** was held to discuss emerging findings (see Annex K).

Following the publication of the evaluation report, an **external workshop** will be planned which will bring stakeholders from across the DIB sector. The purpose would be twofold: firstly, to bring learning into the programme and to understand the DIB effect and lessons learnt in delivery in other DIBs to contextualise the programme evaluation findings; secondly to share learning out of the programme; to share lessons from the programme and consider the implications for the wider sector. Furthermore, following the publication of the evaluation report, we will produce short stand-alone **learning outputs**. These will be framed as ‘lessons learnt’/‘how tos’/‘top tips’, focusing on specific learning themes that will be useful for DFID and the wider sector.

2.2.4 Involvement of stakeholders

The evaluation has been designed and managed to meet the information and decision-making needs of the intended users. Discussions were carried out with DFID and stakeholders of the pilot DIBs in order to inform the approach and needs of stakeholders, as part of the inception phase. The scope of the evaluation and individual DIB level plans, in terms of data to be shared and consultations to be undertaken over the course of the evaluation, have been discussed and agreed with the DIB level stakeholders. The individual DIB level plans are set out in Annex F.

In line with the Paris Declaration, the evaluation is aiming to avoid duplicating data collection and learning activities, by leveraging data and learning outputs, in order to synthesise evidence, balanced with the need to ensure that the evaluation team builds on data already generated. As such, the evaluation relies on data collected by the service providers. We have undertaken an initial assessment of this data in the Data Quality Assessments. Furthermore, the evaluation team is committed to building evaluation capacity within partner countries. The

evaluation team includes experts from the countries where the DIBs are in operation. The experts provide valuable context and input into the evaluation. See Annex E.7 for further detail.

2.3 Methodological limitations

The table below sets out the key methodological limitations and the mitigations undertaken.

Table 2.6: Limitations and mitigations

Limitations	Mitigations
<p>Generalisability of findings: The number of DIBs both within this evaluation and in the wider sector is small and very varied, limiting the ability to make generalisable conclusions about the effectiveness of DIBs.</p>	<p>The analysis and findings have been carefully presented, with reference to the specific contexts, DIBs and stakeholders that the findings relate to, where applicable. Furthermore, the evaluation examines the extent to which the DIB effect holds true across different sites.</p>
<p>Approach to causal inference: The effect of using a DIB is not quantified. The use of experimental or quasi-experimental methods in order to claim attribution is not appropriate in these contexts. It cannot be assumed that any differences between the DIB and non-DIB areas can be attributed to the DIB mechanism.</p>	<p>The evaluation focuses on contribution, using a process tracing approach. This attempts to estimate the counterfactual through a qualitative approach. Whilst this provides some estimate of the counterfactual, it still does not provide a thorough or quantitative assessment. For example, without a strong counterfactual it is difficult to estimate the full extent to which risk has been transferred.</p>
<p>Limited availability of cost data: The cost analysis is limited by the limited availability of cost data, including in-kind costs such as staff time, and the limited availability of comparable benchmark data, to assess interest rates and the risk and return alignment.</p>	<p>The team worked with stakeholders to estimate costs and distinguish between one-off costs related to the fact that the stakeholder is using a DIB for the first time, and recurring costs which would be incurred no matter how many DIBs had been set up. Where information was available, staff costs were calculated based on an estimate of time rate. Cost data was complemented with findings from the qualitative and quantitative data to gain an overall assessment of the cost effectiveness of the DIBs. We expect that there will be less missing data for research waves 2 and 3. As part of the interviews, the evaluation team has also explained the importance of capturing all costs, including staff time, to be able to determine the full cost of using a DIB. Furthermore, RW2 and RW3 focus on delivery, where there is a clearer budget and understanding of the costs of delivery.</p>
<p>Reliance on quantifiable outcome measures: Our Cost Effectiveness Analysis (CEA) will be calculated using only quantifiable outcome measures, and may exclude other outcomes.</p>	<p>The CEA will be complemented by qualitative analysis of the DIB effect.</p>
<p>Response bias: Different stakeholders involved in impact bonds have different perspectives and interests in the DIB mechanism. This can introduce certain biases, and need to be taken into account. For example, it is possible beneficiaries will overstate the benefits of support when being interviewed, due to a desire to please</p>	<p>We also reinforced the anonymous nature of the interviews and the desire for honest accounts to reduce response bias Additionally, drawing on our experience with SIB evaluations, we have used exercises and prompts to help stakeholders consider the possible factors that contributed to project delivery and to explain how their</p>

Limitations	Mitigations
<p>the researcher and project⁵. It is also possible that projects and those who gain from the DIB mechanism will wish to downplay the effect of any perverse incentives.</p>	<p>DIB compares to the other DIBs to help them consider why there might be similarities or differences. Ultimately, our evaluation was dependent on what stakeholders communicated, combined with the evaluation team's judgement and experience with impact bonds. Hence, the risk of bias due to different interests and other factors cannot be completely avoided. It must be noted that the evaluation is drawing on evidence from a pilot programme, and supporting a pathway to improved capacity for more rigorous evaluation of the DIB effect.</p>
<p>Sampling bias: The size of the DIBs means that for some stakeholder groups (for example, beneficiaries and practitioners) we will only be interviewing a sample. To a degree we will be reliant on the projects to recruit stakeholders to be interviewed, and they may target recruitment at stakeholders more favourable towards the projects</p>	<p>For beneficiaries, we will seek to use random sampling methods, where appropriate and not limited by geographical constraints. For practitioners, we have been speaking to staff members identified as the most relevant, based on their experience with the design and set up phase. During research waves 2 and 3, we will request a fuller list of practitioners. We created a sampling frame to select a representative sample of stakeholders.</p>
<p>Reliability of competing explanations: The process tracing approach relies on stakeholders assessing the extent to which different factors, including the DIB, contributed to the delivery effectiveness of the project. The projects are operating in very complex scenarios, and stakeholders may struggle to accurately articulate the relative contribution of different factors. Furthermore, context is important, and there remain limitations in the comparability between the DIBs and the identified comparable projects and PbR comparisons.</p>	<p>Drawing on our experience with SIB evaluations, we have used exercises and prompts to help stakeholders consider the possible factors that contributed to project delivery; and explain how their DIB compares to the other DIBs to help them consider why there might be similarities or differences. Our comparison analysis will consider the areas in which the comparison projects are similar and dissimilar to the DIB funded projects. This will be used to guide the analysis. We will rely on our local experts, who are both sector and geographical experts, to input into the process tracing.</p>

⁵ Knox and Bukard, 2009. Qualitative Research Interviews in *Psychotherapy Research* Vol. 19, Number 4 – 5 (July – September 2009).

3.0 Summary of the DIBs

This section provides further detail on the four DIBs included under the scope of this evaluation. Further details are provided in the individual case studies set out in Annex A.

The four DIBs are briefly summarised below:

- The **International Committee of the Red Cross (ICRC) Humanitarian Impact Bond (HIB) for Physical Rehabilitation** funds the building of three new physical rehabilitation centres in Mali, Nigeria and Democratic Republic of Congo (DRC). As a part of the HIB, ICRC is also piloting efficiency improvement measures testing and building a Digital Centre Management System (DCMS).

Up to CHF 26.09 million of outcome payments will be made based on improvements in the Staff Efficiency Ratio (SER), from the beginning to the end of the HIB, calculated by the number of beneficiaries having regained mobility thanks to a mobility device, divided by the number of local rehabilitation professionals. The outcome funders are the Swiss, Belgian, Italian and UK governments and La Caixa Foundation. The cornerstone investor is New Re (a subsidiary of Munich Re, a reinsurance company), alongside six other investors.

- The **Quality Education India (QEI) Development Impact Bond** aims to offer a solution at scale to the learning crises in India, by funding a range of high performing service providers to improve learning outcomes for more than 300,000 primary school aged children. A further aim of the project is to drive focus towards outcomes based contracts in the development sector, with the long-term aim to transform the way education interventions are funded in India. Therefore, engaging the Indian government is key in this project, as well as including robust measurements, and considering ways to standardise processes and produce templates for future outcome-based contracts. There are three service providers involved, delivering different interventions.

Up to a maximum of USD 9.2 million of outcome payments will be made based on improvements in learner outcomes, compared to a control group. There are five outcomes funders, including Michael & Susan Dell Foundation (MSDF) as the lead outcome funder. The UBS Optimus Foundation raised the investment from donations.

- The **Village Enterprise Micro-enterprise Poverty Graduation Impact Bond** aims to raise the income levels of a minimum of 12,660 households through Village Enterprise's microenterprise development program, known as a Graduation program. It aims to equip its beneficiaries with the resources to create sustainable businesses.

Up to USD 4.3 million of outcome payments will be made, mainly tied to increases in household income. The outcome funders are DfID, USAID and an anonymous donor. This capital has been provided by nine investors, including the Delta Fund as lead investor.

- The **Cameroon Cataract Bond** funds sight-restoring cataract surgeries, with the overall aim of enabling the Magrabi ICO Cameroon Eye Institute (MICEI), the first eye

care hospital in Cameroon, to reach self-sufficiency in five years. The loan aims to expand the market reach and provide eye surgeries for up to 18,000 low- and middle-income patients at a low cost, and to help the hospital become a training institute for the region.

Up to USD 2.8 million of outcomes payments will be made, including USD 2.68m in repayment of principal and interest to lenders and USD 0.12m in incentive payments to the hospital, tied to the achievement of three outcomes (number of cataract surgeries, quality of surgery and financial sustainability of the hospital). The outcome funders are the Conrad N. Hilton Foundation (Hilton Foundation), The Fred Hollows Foundation and Sightsavers. The investors are the Overseas Private Investment Corporation (OPIC) and the Netri Foundation.

The four DIBs are operating in development/humanitarian contexts, and the service providers are primarily non-governmental organisations. The DIBs are similar in duration (all approximately five years in length) and timescale, operating between 2017-23.

However, the four DIBs are quite different in other areas. The policy areas range from health interventions in a humanitarian setting (ICRC HIB), to livelihood programming (VE DIB), eyecare (Cataract Bond) and education (QEI DIB). The size of the impact bonds ranges from USD 2m (Cataract Bond) to CHF 26m (ICRC HIB). The repayment terms also vary significantly between the DIBs, as well as the level of capital guarantees, which ranges from 0% in the case of the QEI DIB and VE DIB, to 60% in the ICRC HIB and 100% in the Cataract Bond.

The types of stakeholders involved also vary. Investors range from primarily commercial (ICRC HIB) to primarily charitable organisations (QEI and VE), and the nature of the outcome funders range from primarily bilateral donors (ICRC and VE), to primarily foundations (QEI DIB and Cataract Bond). The ICRC HIB, VE DIB and Cataract Bond all fund one service provider each, while the QEI DIB funds three service providers.

The following sub-sections provide further detail:

- Section 3.1 compares the interventions funded by the DIBs in terms of the target groups, activities, anticipated outcomes and impact, timescale, total value and cross-cutting issues
- Section 3.2 sets out the stakeholders involved in the DIBs
- Section 3.3 categorises the four DIB structures along key characteristics, set out in more detail in Annex I
- Section 3.4 draws together initial conclusions based on this section.

3.1 Programme components

The table below sets out the four DIBs’ anticipated impact, outcomes and outputs, target groups, timescale, geographical coverage, and the extent to which the intervention aims to address issues of equity, poverty and exclusion.

Table 3.1: Programme components

Component	ICRC	QEI	Village Enterprise	Cataract Bond
Target groups	People with physical disabilities	300,000 marginalised children	People living in extreme poverty (on less than USD 1.90 per day)	Low-income patients and middle-income patients with cataracts in urban and rural areas in Cameroon
Activities	<p>Build three new physical rehabilitation centres in counties with significant unmet need (innovative reference centres).</p> <p>Train local staff to deliver high quality physical rehabilitation services in these centres.</p> <p>Pilot and rigorously assess pilot efficiency improvement measures across eight existing ICRC physical rehabilitation centres, and build a digital Centre Management System that will be rolled out across all ICRC physical rehabilitation centres with the aim of improving efficiency and maintaining patient outcomes</p> <p>Operationalise the three new centres using improved</p>	<p>Three non-government organisations (NGOs) delivering education programmes. Delivery model types include improving whole school management, supplementary learning and teacher and school leader training</p> <p>Activities include workshops, trainings and e-resources as well as meetings with community groups.</p>	<p>Identification of individuals who live on less than USD 1.90 per day</p> <p>Creation of Business Savings Groups (BSG), which are self-governing councils of businesses</p> <p>Local mentors deliver a four-month training program to equip participants with the necessary knowledge to run a business</p> <p>Seed capital is granted to each group of three participants, to enable them to start their business</p> <p>Mentors provide continuous guidance to the participants for one year, coaching them in choosing the focus of their business, as well as how to grow and manage their business and finances, including saving in Business Savings Groups.</p>	<p>The Cameroon Cataract Bond will fund cataract-related equipment and consumables and activities, involving provision of a comprehensive intervention programme at the MICEI, including outreach/awareness, diagnosis, transport, treatment and follow up care.</p>

Component	ICRC	QEI	Village Enterprise	Cataract Bond
	operational protocols that are based on effective efficiency measures.			
Anticipated outcomes	<p>People with physical disabilities receive comprehensive rehabilitation services (mobile devices and associated physiotherapy treatments)</p> <p>Through the delivery of mobility devices, children can attend school and adults can find jobs, thereby gaining mobility, autonomy, and dignity and becoming an active member of society.</p> <p>A significant amount of time is freed up for family members taking care of relatives with disabilities, who can now work more. The household as a whole can increase its sources of income and improve its living standards.</p> <p>A more socially cohesive and stable society thanks to a larger workforce actively contributing to the country's prosperity.</p> <p>The new centres operate more efficiently, and this is sustained.</p>	<p>Improved school processes, systems and infrastructure</p> <p>Higher teacher motivation</p> <p>Better content delivery and engagement with students</p> <p>Increased peer to peer learning in teachers</p> <p>Improved student retention and attendance</p> <p>Improved school infrastructure</p>	<p>People living in extreme poverty are equipped with the resources to create a sustainable business</p> <p>People living in extreme poverty are able to create businesses and sustainably increase their household incomes</p> <p>People living in extreme poverty are able to increase their household incomes and therefore increase their household assets, savings and consumption.</p> <p>Secondary outcomes resulting from improved incomes, such as wellbeing, diets, access to education and healthcare are achieved.</p>	<p>Local capacity and knowledge enhanced</p> <p>Accessibility/availability of cataract surgical service delivery improved</p> <p>Quality of cataract care improved</p> <p>Development of a self-sustaining operating model that provides more affordable cataract services</p> <p>Reduced cataract blindness prevalence (by age group)</p> <p>Greater economic and social impact</p>

Component	ICRC	QEI	Village Enterprise	Cataract Bond
Timescale	July 2017 – June 2022	January 2019 - March 2022	November 2017- November 2020	March 2018 – March 2023
Geographical Coverage	New centres in Mali, Nigeria, Democratic Republic of Congo Testing of efficiency measures in Cambodia, Pakistan, Myanmar, Zinder and Niamey in Niger, Mali, Togo, Madagascar	Gujarat and Delhi	Regions in Uganda and Kenya	MICEI hospital to serve population of Cameroon and broader Central Africa region
Total value	CHF 26.1 million (USD 26.5m as at Jan 2019)	Up to USD 11.2 million (of which USD 9.2 million relates to outcome payments)	Total committed USD 5.3 million, of which USD 4.3 million relates to outcome payments	USD 3.5 million total budget committed by outcome funders, of which USD 2.8 million relate to outcome payments (USD 2.68m to lenders and USD 0.12m to hospital)
Outcome metric(s)	Staff Efficiency Ratio (SER), calculated by the number of beneficiaries having regained mobility thanks to a mobility device, divided by the number of local rehabilitation professionals.	Difference in learning outcomes between the comparison group and intervention group, measured in standard deviation.	Increase in household income, proxied through consumption and assets.	Number of cataract surgeries Quality of cataract surgeries Financial sustainability of the hospital Equity target (linked to bonus payment to service provider only)
Addressing of cross-cutting issues (equity,	The programme targets people with physical disabilities who are often excluded from society, to provide them with comprehensive rehabilitation	The aim of the DIB is to enable 300,000 marginalised children to attain or move towards attainment of their age-	The programme targets people living in extreme poverty and aims to provide them with the resources to create and sustain businesses, enabling them to increase their	The hospital is working with a model of cross-subsidisation, and is working to a target of providing 40% of surgeries

Component	ICRC	QEI	Village Enterprise	Cataract Bond
poverty and exclusion)	services. The aim is to support them to gain mobility, autonomy and dignity so that they are able to become active members of society. Furthermore, family members who were taking care of them will be able to work more, and the intention is that the household as a whole can increase its income.	appropriate learning levels, and to address disparity between girls and boys in literacy and numeracy.	household income, increase their savings and ultimately lift themselves out of poverty.	to individuals in the bottom two wealth quintiles of the population in Cameroon by the end of year 5.

3.2 Stakeholders involved in the DIBs

The table below sets out the key stakeholders for each impact bond:

Table 3.2: Key stakeholders

Stakeholder	ICRC	QEI	VE	Cataract Bond
Designer	ICRC and KOIS	British Asian Trust, Michael & Susan Dell Foundation, UBS Optimus Foundation, Dalberg.	Instiglio and the Anonymous Donor	The Cataract Bond Design Coalition, which is formed of The Fred Hollows Foundation, the Conrad N. Hilton Foundation, Sightsavers, the African Eye Foundation and Volta Capital
Service Provider	ICRC	Gyan Shala, Kaivalya Education Foundation, SARD (Society for All Round Development)	Village Enterprise.	Africa Eye Foundation (AEF), the not-for-profit arm of the Magrabi ICO Cameroon Eye Institute (MICEI)
Service Users	Users of new ICRC centres, and the 8 pilot centres.	300,000 primary school children in Delhi and Gujarat.	A minimum of 12,660 households in Kenya and Uganda	18,000 low-income patients and middle-income patients with cataracts in urban and rural areas in Cameroon
Governments	Local governments in Mali, DRC, and Nigeria	National and district governments	Local government representatives in Kenya and Uganda	
Outcome Funders	Governments of Switzerland, Belgium, UK and Italy, and La Caixa Foundation.	Michael & Susan Dell Foundation, BT, Comic Relief, Mittal Foundation.	DFID, USAID DIV and an anonymous donor	The Fred Hollows Foundation, Conrad N. Hilton Foundation, Sightsavers
Investors	Munich Re, Lombard Odier pension fund, charitable foundations and others	UBS Optimus Foundation leads an investment pool of multiple private investors.	Nine impact investors, including Delta Fund	Overseas Private Investment Corporation (OPIC), Netri Foundation
Outcome Verifier	Philanthropy Advisors	Gray Matters India	IDinsight	AEDES
Project Manager	None	None	Instiglio	Bond manager / technical advisor: Volta Capital
Performance manager	None	Dalberg	None	None
Learning Partner	None	Brookings	Instiglio	None

Stakeholder	ICRC	QEI	VE	Cataract Bond
Knowledge Partner	None	Tata Trusts	None	None

3.3 DIB structures

The structure of the four DIBs under the scope of the evaluation were quite varied. Table 3.3 categorises the four DIBs against a range of characteristics. Further detail on these characteristics are set out in Annex I.

Table 3.3: DIBs against DIB dimensions

Characteristic	Description	ICRC HIB	QEI DIB	VE DIB	Cataract Bond
Design phase – identifying interventions					
Lead on designing intervention	<i>Nature of the promoter/designer</i>	Service provider, with advisory support	Intermediary	Intermediary	Outcome Funder
Funding for design and set-up phase	<i>Whether a grant was provided, or this phase was self-funded by the actors involved</i>	Grant received. Service provider received grant, which was used to develop the HIB and to pay the advisor. Other actors covered their own costs.	Grant received. DFID provided a grant to BAT to cover a proportion of operational, design and contracting costs; the remainder was covered by UBSOF. Other actors covered their own costs. Instiglio received a grant from the anonymous donor for initial design work and stakeholder engagement.	As the other stakeholders committed to the DIB, outcome funders (DFID, USAID-DIV, and the anonymous Donor) contributed funds to Instiglio to support to finalisation of the project design.	Outcome funders paid for the technical assistance. All other actors covered their own costs.
Level of innovation	<i>The features of the intervention, and whether it is totally new, an expansion of an existing programme or involves a programme whose underpinning principles have already been tested</i>	Expansion of the existing programme of a service provider. Implementation of a programme proven successful (efficiency improvement measures testing) and new programme (Digital Centre Management System).	Expansion of the existing programme of a service provider and implementation of a programme already proven successful in new schools (using new methods)	Expansion of the existing programme of a service provider	Implementation of a programme already proven successful but in a new context
Level of outcome orientation and flexibility versus	<i>Extent to which the contract involves a specific and well-defined intervention and service</i>	Contract involves a specific and well-defined intervention, though there is room to test and adapt	Contract focuses on achievement of specific outcomes – intervention defined but subject to change and adaptation depending on needs	Contract focuses on achievement of specific outcomes – intervention defined	Contract involves a specific and well-defined intervention

Characteristic	Description	ICRC HIB	QEI DIB	VE DIB	Cataract Bond
specific intervention defined	<i>provider, or specific outcomes which enables service providers to organise work as they prefer.</i>			but subject to change and adaptation depending on needs	
Identifying metrics and structuring payments					
Nature of payment outcomes	<i>Were payments made squarely for outcomes or was some payment made for inputs or activities?</i>	Majority of payment on outcomes. Around 4% (EUR 1m) milestone payment on construction of centres.	94% payment on outcomes 6% covers contingency costs on the DIB, including costs for evaluation and communications	100% payment on outcomes	100% payment on outcomes (though the achievement of outcomes only affects the interest payable)
Nature of capital used to fund services	<i>Risk borne by private investors or distributed among different actors through capital protection measures and risk sharing arrangements</i>	Presence of capital protection measures (60%) Presence of risk sharing arrangements – potential downside for service provider	Full risk on investors. Presence of risk sharing arrangements – potential upside for service provider	Full risk on investors Presence of risk sharing arrangements – potential upside for service providers	Presence of capital protection measures (Full protection) Presence of risk sharing arrangements – potential upside and downside for service provider
Identifying and selecting stakeholders					
Social intent of service providers	<i>Are the service providers / investors a charity or company without explicit social values?</i>	Strong	Strong	Strong	Strong
Social intent of investors		Commercial	Social	Social	Social and Commercial
Structuring the vehicle and developing the operating model					
Type of contract⁶	<i>Typologies of structure depending on which actor has the contract with the outcome funder.</i>	Direct	Managed – the key role is held by the investor	Outcomes fund. Outcome funders directly contract and disburse payments to a trustee (the independent manager of the 'fund'). The trustee separately holds a direct contract with the service provider (stipulating when and how	Direct

⁶ In a direct impact bond structure, the service provider contracts directly with the outcome funder. In a managed impact bond structure, the outcome funder holds the contract with the intermediary. The intermediary plays an important leadership role throughout the process of the deal and is responsible for performance management of the service provision. (Gustafsson-Wright et al, 2015)

Characteristic	Description	ICRC HIB	QEI DIB	VE DIB	Cataract Bond
				payments held from funders will be disbursed to the service provider for their achievement of results).	
Strength of performance management system	<i>How hands on are the other stakeholders? Is there a dedicated performance management function?</i>	Strong – internal	Strong	Strong	Strong
Lead on managing performance	<i>Who takes the lead in performance management?</i>	Service provider	Investor	Service Provider	Intermediary
Governance arrangements and level of involvement of stakeholders:					
Outcome funder		Low	Low	Low	Moderate
Investor	<i>Role of the outcome funder / investor toward service providers and its level of control over the organisations involved in the impact bond</i> <i>Role of the outcome funder / investor toward service providers and its level of control over the organisations involved in the impact bond</i>	Low	High	Low	Low
Measuring impact					
Validation of impact	<i>Payment based on experimental/quasi-experimental or validated administrative data⁷</i>	Payment based on validated administrative data. This will include verification of records and physical verification of mobility of beneficiaries.	Payment based on quasi-experimental methods	Payment based on experimental methods	Payment based on validated administrative data.

⁷ In a true experiment, eligible participants are randomly assigned to a 'treatment' or 'control' group. In quasi-experimental approaches, there is no such randomisation, but rather, statistical methods are used to mimic a randomised trial to estimate the impact of the intervention. Administrative data relates to data collected by programme staff during implementation.

3.4 Conclusion

The DIBs under the scope of this evaluation are very different, which makes them challenging to compare directly, as are the types of programmes funded by the DIBs, the contexts in which they are operating, and the types of stakeholders involved. The impact bonds have also been operationalised in a range of legislative, taxation and accounting frameworks. The structure of impact bonds have been modified to account for these contexts, actors, objectives and constraints. Perhaps what this tells us most of all is that there is no one 'DIB' model, and that different DIB can be applied to a variety of different contexts (though it is too early to say how *successfully* it can be applied).

As we show in the remainder of this report, these differences in structure, characteristics and actors can have the following implications:

- The structure and characteristics of an impact bond may affect the DIB effect (Carter et al, 2018; Arena et al, 2016), explored further in section 4;
- the types of costs incurred in setting up the DIBs, explored in section 5; and
- the lessons on how DIBs can be structured differently to improve the benefits of using DIBs, explored in section 6.

As such, it is necessary to consider these contextual factors in the analysis of findings, and when drawing conclusions and recommendations for the wider DIB sector. Our findings in the following sections are nuanced for these differences.

4.0 Analysis and Findings – DIB Effects

Summary

The DIB mechanism has made it possible to implement Payment by Results (PbR) contracts in contexts where, previously, this would not have been possible because the projects were too risky or too large. This is primarily due to the new partnerships created between governments, donors, delivery partners and (to a degree) the private sector, in which the financial risk is shared between these groups. The DIB has fostered new working relationships between stakeholders and has led to greater levels of collaboration than is normally seen, primarily because the DIB aligns all stakeholders' interests but also because the intensive design stage forces closer partnership working. A large amount of work has been done in all four DIBs to build a stronger performance management infrastructure, including investing in new monitoring systems and working closely with the service providers to embed adaptive management systems.

Perhaps two of the most significant landmarks in these projects is that they have demonstrated that private investors are willing to take on sizeable levels of risk in impact bonds (i.e. in the ICRC Humanitarian Impact Bond (HIB), which includes private investment), and it is possible to launch impact bonds at a larger scale (i.e. the Quality Education India Development Impact Bond (QEI DIB), which builds on the Educate Girls DIB).

Whilst the DIB mechanism has reduced some (financial) risks for outcome funders and service providers, it has increased others, namely reputational risk. There were quite strong concerns amongst both outcome funders and service providers around using a new funding mechanism, due to the uncertainties of using a new model, alongside the heightened attention that the mechanism brings to the projects, increasing unwanted exposure should the results not materialise. This created a level of risk aversion, which we believe has diminished the level of risk and innovation in the interventions – all four DIBs are funding service providers with strong records and interventions with strong evidence bases.

All four DIBs were complex to design and launch, which resulted in large development costs.

Some of the DIB effects seem to be closely intertwined with other effects. For example, some are more 'novelty effects' - that is they exist because these are the first set of DIBs, and will likely diminish over time. This seems to be the case for the levels of risk aversion and the costs. It is possible (though not certain) that these will reduce in future DIBs. Furthermore, because the increased rigour in the outcomes measurement is a consequence of attaching payments to outcomes, this effect was also seen in some of the PbR comparator sites, and is therefore more of a 'PbR effect' than a DIB effect per se.

The findings from these four DIBs in relation to the DIB effect broadly mirror the findings from the wider literature. This is promising – the evidence of the DIB/SIB effect is currently weak, and so this evaluation provides further validation and gives a stronger understanding around how impact bonds affect the design and set-up of projects.

This section focuses on Evaluation Question 1: How does the DIB model affect the design, delivery, performance and effectiveness of development interventions – otherwise known as the ‘DIB effect’. It focuses in particular on how the DIB model has affected the design and set-up of the four projects under examination; future waves will examine how the DIB has affected project delivery, performance and effectiveness. The section introduces the DIB effect indicators related to project set-up and design, and then describes the extent to which these DIB effect indicators were apparent in the four DIBs included in the analysis. This analysis draws primarily on consultations with stakeholders involved in the four projects. The section also considers how the presence of these indicators compares with other impact bonds; this draws on consultations with wider stakeholders and the literature review undertaken during the scoping stage.

Sections 5 and 6 draw on this analysis, in order to identify ways to improve the design and delivery of DIBs. Section 5 considers the effectiveness of the DIB effect on risk transfer, within a value for money framework. Section 6 considers how the model can be improved in order to increase the ‘DIB effect’ – that is, the benefits of using the DIB mechanism.

4.1 The DIB effect indicators

In order to isolate the ‘DIB effect’ the evaluation is using a combination of process tracing and comparative analysis. This involves the creation of hypothesised DIB effects, and associated indicators to measure the presence of the effects. The effects and indicators were drawn from a literature review and stakeholder consultations.

Table 4.1 includes a list of all the DIB effects.⁸ The DIB effects are divided into effects one would expect to see during the design and set-up of the DIB, and those one would expect to see during delivery. As Research Wave 1 focused on the design and set-up of the DIBs, only these effects were examined during this wave (these effects are highlighted in red in Table 4.1). We have categorised the DIB effects in the design and set-up phase into four types:

- Transfer of risk
- Partnerships
- Financing and funding
- Design

The evaluation will examine the other DIB effects during Research Waves 2 and 3; it should be noted that it is expected that most DIB effects will materialise during project delivery.

It should also be noted that, whilst the evaluation includes a set of indicators to measure these effects, evaluator judgement was necessary to judge the extent to which the effects were present, and the extent to which these can be attributed to the DIB. Where evaluator judgement was applied, we have tried to make this clear in the description of the presence of the effects below. These judgements were tested and verified with stakeholders during the internal learning workshop. We also shared a draft copy of this report with stakeholders and asked for comments.

⁸ An initial set of DIB effects and indicators were provided in the Inception Report. These were refined following RW1, to allow for a more nuanced description of the DIB effects.

In some instances stakeholders did not agree on the presence of some of the effects – we have made this clear in the relevant sections.

Table 4.1: DIB effect indicators

Claimed DIB effect	Indicator to measure presence of ‘DIB effect’ in DIBs and comparator sites
Claimed advantages	
Transfer of financial risk from outcome funder to investor	<ul style="list-style-type: none"> Extent to which investment capital is at risk
Funding projects which would not have been funded otherwise, or not in the same guise (including scale)	<ul style="list-style-type: none"> Extent to which outcomes funders would have either funded the project at all, or in its current form, if it were funded through a different mechanism
Crowd-in private, additional, upfront, long-term, stable and secured financing , which brings in additional finances to the development sector	<ul style="list-style-type: none"> Scale and source of funding (including whether private financing), and where this funding would have been directed if it had not funded this project Duration and ‘security’ of funding Mobilization ratio: for every \$1 of ODA mobilized \$x in private financing Extent that supplier pre-financing was required for PbR contract Opportunity cost of using own funds – i.e. has DIB financing allowed the organization to invest in other things
Shift focus to outcomes	Set up
More innovative services (or larger-scale innovative services) because: <ul style="list-style-type: none"> providers have more flexibility and autonomy to deliver what they feel will achieve outcomes Risk transfer from government/outcomes funder partly to service provider but mainly to investor, who have higher appetite for risk 	<ul style="list-style-type: none"> Perceptions on rigour of design stage Level of ‘innovation’ / risk in project delivery, in terms of: <ul style="list-style-type: none"> new type of intervention altogether (radical innovation); an established intervention that has been adapted (incremental innovation); or an established intervention that has been applied to a new context, e.g. location, policy area, target population Scale of project, in terms of delivery cost and number of beneficiaries Extent and quality of external expertise
Drives performance management	Delivery
Greater accountability , as impact bond builds leads to culture of monitoring and evaluation	<ul style="list-style-type: none"> Extent to which delivery decisions are made to maximise outcomes Extent to which a service provider feels more incentivised to offer user-specific supports (the human touch element) Level of flexibility found within the project to alter project delivery Extent to which service provider feels it can take risks and innovate Extent to which service provider feels it has autonomy over delivery Level of responsiveness and agility of partners to deal with bottlenecks, issues and challenges Extent and quality of external expertise
More careful and rigorous design of programme interventions	Monitoring
	<ul style="list-style-type: none"> Rigour of monitoring and evaluation systems developed, including verification of outcomes and duration of outcomes tracking Transparency of outcomes – i.e. frequency and quality of reporting internally and externally Strength of performance management and measurement systems Use of real time performance information to inform ongoing delivery
	Sustained impact
	<ul style="list-style-type: none"> Extent to which systems and practices implemented as part of project are embedded across the wider organisation and/or sustained once the DIB ends
All of the above factors leading to more beneficiaries supported, and more outcomes achieved,	<ul style="list-style-type: none"> Number of beneficiaries supported per GBP / FTE Number of outcomes achieved per GBP / FTE

Claimed DIB effect	Indicator to measure presence of 'DIB effect' in DIBs and comparator sites
ultimately leading to more effective and efficient services	
More service providers entering the PbR market due to transfer of risk	<ul style="list-style-type: none"> Number and type of providers participating in PbR contracts, and their historic experience with PbR contracts Level of unrestricted funding as % of overall value of PbR contract
Greater collaboration and/or coordination between stakeholders as there is an alignment of interests	<ul style="list-style-type: none"> Self-reported strength of relationship of partners involved and levels of collaboration and/or coordination
Claimed disadvantages	
Complex to design	<ul style="list-style-type: none"> Extent to which stakeholders believe the design to be complex Demands of project design in terms of time and need for external expertise Length of time it took to design and launch the project
Expensive to set up and implement	<ul style="list-style-type: none"> Set up costs Cost per outcome / beneficiary Proportion of total cost of project going to front line delivery against proportion going to project development and administration (including research and data verification, and project and funding coordination and management)
Impact bonds create perverse incentives	<ul style="list-style-type: none"> Profile of beneficiaries and evidence of 'cherry picking' Level, quality, range and duration of support, and extent to which decisions around these have been affected by the contracting model (e.g. leading to parking)
Performance management culture lowers staff morale and increases staff turnover	<ul style="list-style-type: none"> Levels of morale amongst staff Levels of staff turnover
' Tunnel vision ': Focus on primary outcomes comes at the expense of secondary outcomes; opportunities for project co-benefits are missed	<ul style="list-style-type: none"> Range and level of secondary outcomes achieved
DIB creates additional social and reputational risks , diminishing some of the claimed advantages (such as innovation)	<ul style="list-style-type: none"> Extent to which stakeholders perceive the project to hold reputational and social risks

4.2 Presence of the DIB effect indicators: Summary

In Table 4.2 we summarise the extent to which the different DIB effect indicators were present across the four DIB projects. Each effect is 'RAG' rated⁹ on the extent to which it was identified across all projects, followed by individual ratings for each DIB. It should be noted that the rating identifies the extent to which the effect is present, not whether it had a positive effect (i.e. both positive and negative effects would be marked as green if present).

Below the table we provide more analysis on the presence of each of these effects, including considering how this compares with other impact bonds.

⁹ Green = effect is present in at least three DIBs; amber = mixed evidence over presence of DIB effect; red = effect is not present in at least three DIBs

Table 4.2: Presence of DIB effect indicators in the four DIB projects

DIB Effect	ICRC HIB		Quality Education India DIB		Village Enterprise DIB		Cataract Bond	
	Anticipated	Emerged	Anticipated	Emerged	Anticipated	Emerged	Anticipated	Emerged
Transfer of risk								
1. Transfer of financial risk from outcome funder to investor	Yes	Some financial risk transferred (40% of investors' capital is at risk; 60% capital guarantee, shared between the outcome funders and service provider).	Yes	100% transfer of financial risk	Yes	100% transfer of financial risk	Yes	Some financial risk transferred (0% of investors' capital at risk; 4% of interest at risk; capital guarantee split between outcome funder (76.5%) and service provider (23.5%))
2. Reputational risks resulting from the use of the DIB	Yes	Yes	Yes	Yes	Yes	Yes	No	No
Partnerships								
3. More service providers entering the PbR market due to pre-financing and transfer of risk	Yes	Yes	Yes	Yes	Yes	Yes	No	No, could likely have been involved if no transfer of risk
4. Greater collaboration and/or coordination between stakeholders as there is an alignment of interests	Yes	Yes – though there were comments that collaboration and transparency could have been improved.	Yes	Yes	Yes	Yes	Yes	Yes - though there were comments that collaboration and transparency could have been improved.
Financing and funding								

DIB Effect	ICRC HIB		Quality Education India DIB		Village Enterprise DIB		Cataract Bond	
	Anticipated	Emerg	Anticipated	Emerg	Anticipated	Emerg	Anticipated	Emerg
5. Funding projects which would not have been funded otherwise, or not in the same guise	Yes	Yes	Yes	Yes	Yes	Yes	No	No, likely project could have been funded without DIB
6. Additional financing to the development sector	Yes	Yes.	Yes	No. Raised external finance but most of this philanthropic funding that would have gone into the sector anyway	Yes	No. Raised external finance but most of this philanthropic funding that would have gone into the sector anyway	Yes	Mixed – finance would have gone into development sector, but not eye health or Cameroon
7. Longer term funding	Yes	Yes	No	To some extent	No	No	No	No
Design								
8. Enables innovation	Yes	Yes (incremental innovation).	Yes	Yes (incremental innovation)	No	Yes (incremental innovation)	No	Yes (incremental innovation)
9. More careful and rigorous design of interventions	Yes	Mixed. Yes in terms of rigorous design of M&E, but no impact on design of intervention	Yes	Mixed. Yes in terms of rigorous design of M&E (but similar rigour in PbR), but no impact on design of intervention	Yes	Yes, though mixed opinion on whether this can be attributed to the DIB	Yes	Yes
10. Complex to design and expensive to set up	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

4.3 Risk transfer effects

This section examines how the DIB mechanism affected the levels and types of risk borne by the different stakeholders involved, including financial risk and reputational risk.¹⁰

4.3.1 Effect 1: Transfer of financial risk

4.3.1.1 DIB effect explanation

DIB effect: Transfer of financial risk from outcome funder to investor

Hypothesis: In a grant or fee-for-service mechanism the outcome funder is taking on all financial risk, as they have to pay for the intervention regardless of whether it achieves its intended outcomes. In a PbR model this risk is transferred from the outcome funder to the service provider, as the outcome funder only pays if outcomes are achieved; if they are not the service provider loses the working capital it used to fund the intervention. In a DIB this financial risk is transferred in-part from the outcome funder and service provider onto a social investor. The investor provides the service provider with the upfront working capital, which is repaid from the outcomes payments paid for by the outcome funder. If outcomes are not achieved the outcome funder does not pay, and the social investor loses their money.

4.3.1.2 Main finding: Extent to which DIB effect present across four projects

Summary: In all four DIBs some financial risk was transferred from the outcome funder and service provider to the investors, though the extent to which the risk was transferred varied.

DIB Effect	Extent to which DIB effect present across four projects			
	ICRC	QEI	VE	Cataract Bond
Transfer of financial risk from outcome funder to investor	Some financial risk transferred (40% of investors' capital is at risk; 60% capital guarantee, shared between the outcome funders and service provider).	100% transfer of financial risk	100% transfer of financial risk	Some financial risk transferred (0% of investors' capital at risk; 4% of interest at risk; capital guarantee split between outcome funder (76.5%) and service provider (23.5%))

4.3.1.3 Analysis from four projects

In order to assess whether financial risk was transferred from the outcome funders and service providers to the investors two questions need to be answered:

- Was there financial risk? i.e. was there a risk that the projects would not achieve outcomes?

¹⁰ Risk is challenging to measure without a counterfactual. We rely on discussions with stakeholders to understand their perceptions of risk, and the likelihood of involvement should a DIB not have been used.

- Was this financial risk transferred to the investors? i.e. is the working capital supplied by the investors at risk if outcomes are not achieved?

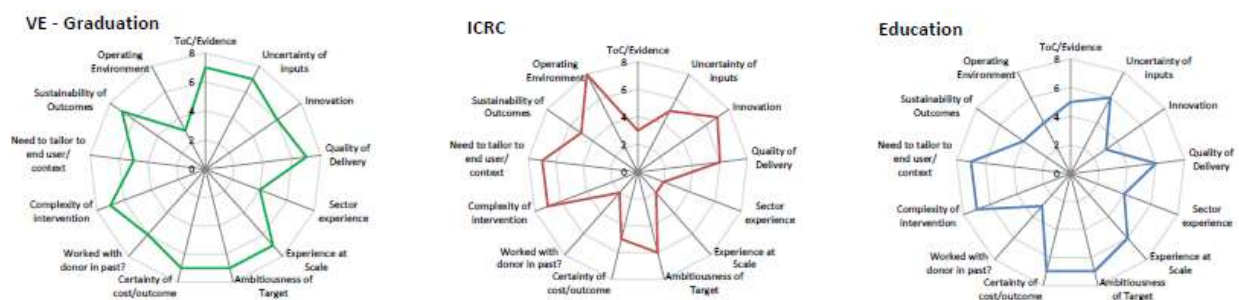
We explore each of these below.

Was there financial risk?

During the set up phase DFID assessed the risk of the three DIBs they were involved in (VE, ICRC and QEI). The results from this assessment is summarised in Figure 4.1 below. This shows that two of the projects were deemed as being medium-high risk (ICRC and QEI) and the VE DIB was classed as high risk. This perception of the level of risk was corroborated by stakeholders in all four of the DIBs during the consultations in RW1; stakeholders were of the general perception that these projects were not of high risk – they included service providers with strong reputations and involved interventions that had been delivered before with good evidence bases. However, there were some risks involved in each of the DIBs:

- In ICRC, there were risks in relation to delivering the new efficiency improvement measures, as these had not been used before.
- In the QEI DIB, there were risks around using a more rigorous assessment tool (known as measurement risk). Including a new standardised assessment of learning carried some additional risk for the service providers; while they are all familiar with being evaluated, they were not familiar with the assessment and therefore their performance in this context is unknown.
- In the Cataract Bond, there were risks in relation to launching the particular model of eye care in Sub-Saharan Africa, where the model has had only limited implementation.
- In the VE DIB, there were ‘cumulative’ risks around delivering at a larger scale, the need to achieve outcome targets at a greater scale than those achieved under previous iterations of the intervention, and the value for money uncertainty over VE deploying higher grant sizes and how their programme may need to adapt to ensure commensurately high benefits materialise from that increased grant size. It was this cumulative risk that resulted in the VE DIB receiving the highest risk score from DFID.

Figure 4.1: DFID risk assessment of three DIBs



Source: *Learning from Impact Bonds in use by DFID and others. DFID internal learning document. Risk scale: 0 = non-applicable; 2 – minor risk; 4 = medium risk; 6 = high risk; 8 = very high risk. Average risk scores: VE: 6.15; ICRC 4.9; QIE 4.9.*

Therefore, based on the above evidence, the projects can be classed as being of medium, rather than high, risk. The reason high-risk projects were not funded is partly an inherent factor

related to impact bonds - that they need a reasonable evidence base in order for potential outcomes to be modelled and produce a credible business case, and to provide some reassurances to investors. However, we believe the projects were also medium-risk because of the reputational risks related to the DIB mechanism, which created a level of risk aversion amongst outcome funders and service providers (see [Effect 2: Reputational risks](#)).

Was the financial risk transferred to investors?

In two of the DIBs (VE and QEI), 100% of financial risk has transferred to the investor – i.e. investors may lose all of the capital they provide to the projects, depending on the outcomes achieved. In the other two DIBs (Cataract Bond and ICRC) the transfer of financial risk is less as there are capital guarantees in place. In ICRC the investors have a 60% capital guarantee, shared between the outcome funders and service provider. In the Cataract Bond, some risk is transferred from the outcome funder to the service provider (if targets are not met the outcome funders must pay the investor 76.5% of the capital investment plus 4% interest and the service provider must pay the investor 23.5%), but only a very small amount of risk is transferred from the service provider to the investor, as the service provider does not have to pay any interest (which they would with a commercial loan). Therefore, the level of risk transferred in these DIBs is less; indeed some stakeholders in the Cataract Bond questioned the value of the DIB mechanism, considering the relatively small degree of risk transfer.

Therefore, the differences in risk transfer across the four projects is quite pronounced.

The level of risk transfer, and commensurability with returns, is further explored in section 5.3.

4.3.2 Effect 2: Reputational risks

4.3.2.1 DIB effect explanation

DIB effect: Reputational risks resulting from the use of the DIB

Hypothesis: Not all risks are mitigated through the DIB mechanism, as reputational risk still sits with the service provider.

4.3.2.2 Main finding: Extent to which DIB effect present across four projects

Summary: The DIB mechanism increased the reputational risk in three of the projects.

DIB Effect	ICRC	QEI	VE	Cataract Bond
Additional risks resulting from the use of the DIB	Yes	Yes	Yes	Yes

4.3.2.3 Analysis from four projects

Gustafsson-Wright et al (2015) argues that, whilst the impact bond mechanism transfers financial risk from the outcome funder and service provider, it does not transfer all risks, such as reputational risk. Our research found that many stakeholders interviewed were of the view that not only does reputational risk remain with the outcome funder and service provider in a DIB, but that the reputational risk often *increases*. Across all four projects, both outcome funders and service providers expressed concerns around the reputational risk of using such

an innovative financing mechanism. Some outcome funders and service providers expressed concerns regarding the increased attention and associated scrutiny that the impact bond may bring, and particularly the publicity if results do not materialise. They were also concerned about damages to the reputation of the organisations should they be involved in something where people ‘profit from the poor’.

This would appear to have led to degree of risk aversion in these DIBs. This affected both the selection of service providers and interventions; with careful selection to ensure both service providers and the interventions had established track records. The evidence would suggest this risk aversion limited the extent to which other DIB effects materialised, as we describe further in this section.

It is also interesting to note that the reputational risk was seen as having upsides as well as downsides. For many of the service providers across the DIBs the spotlight the DIB would create on their organisation was a motivating factor for joining the DIB. Furthermore, the backing of an external investor signals confidence in both the intervention and the service provider, and that the outcome targets can be met.

It is likely that certain elements of the reputation risk and potential benefits to reputation for the stakeholders involved will diminish over time, as the DIB mechanism becomes more familiar, and there are a large number of DIBs in operation. However, we expect that the value of signalling, and the risk of failing to meet targets, will still have implications for stakeholders’ reputation. Nonetheless, there is a combination of ‘pilot effect’ and ‘DIB effect’; i.e. it was the piloting of a new mechanism rather than the DIB itself that heightened the reputational risk.

4.3.2.4 *Comparison with other impact bonds*

Our finding that impact bonds increase other risks is consistent with the broader literature. For example, both Social Finance (2018) and Gustafsson-Wright et al (2015) note that while the funder’s risk has been reduced to some degree as payments are only made if it works, the funder is subject to new risks through increased exposure, risk of demonstrated failure or paying too much.

4.4 Partnership effects

This section examines how the DIB mechanism affected the partnership working between stakeholders, examining how the DIB affected the types of stakeholders involved in delivery, and the working relationships between stakeholders.

4.4.1 Effect 3: More service providers entering PbR market

Summary: More service providers entering the PbR market due to pre-financing and transfer of risk

4.4.1.1 *DIB effect explanation*

Hypothesis: Small and innovative service providers are excluded from PbR contracts because they cannot risk their own working capital, or cannot raise the finance, to fund the project before outcomes payments are received. This reduces the range of providers able to

deliver PbR contracts, minimising the efficacy of such contracts. DIBs overcome this barrier, as the social investor provides the upfront working capital. This enables new providers to deliver PbR contracts who would not have been able to do so otherwise.

4.4.1.2 Main finding: Extent to which DIB effect present across four projects

Summary: Without the presence of the external investment three of the service providers would not have been able to be involved in the projects; the DIB therefore enabled more service providers to be involved in PbR contracts

DIB Effect	ICRC	QEI	VE	Cataract Bond
More service providers entering the PbR market due to pre-financing and transfer of risk	Yes	Yes	Yes	No, could likely have been involved if no transfer of risk

4.4.1.3 Analysis from four projects

In three of the DIBs the service providers reported that they would not have delivered these contracts on a PbR basis at this scale due to the level of working capital required and the financial risk of not getting this money back. For example, a World Bank note on output-based aid in fragile and conflict situations (FCS) noted that, “*service providers in FCS are sometimes unable to carry the full pre-financing risk.*”¹¹

However, this was not the case in the Cataract Bond, where the Magrabi Foundation believe they could probably have accessed a loan if necessary. Furthermore, in the case of the Village Enterprise, though it would not have entered into a PbR contract, should the DIB not have materialised, it would likely have sought to access different funding to start businesses in the same regions in Kenya and Uganda.

However, this does not necessarily mean that DIBs would enable *all* service providers to be involved in PbR contracts. Other barriers existed that influenced which service providers became involved in these projects; in each DIB the organisation leading the project development undertook a robust selection process to identify suitable providers, which included in-depth due diligence. The selection process included assessing service providers’ previous levels of performance and their ability to implement adaptive management processes. For example in the QEI DIB service providers were selected on the basis that they were able to commit to the DIB requirements without needing to make substantial organisational changes. Additionally, service providers need to be comfortable with the reputational risks associated with DIBs, and may not be willing to take absorb such risks - in particular, those without strong track records or the ability to take on adaptive management processes easily, could be excluded from DIBs.

Furthermore, some service providers withdrew from the projects, as they felt they would struggle with the capacity demands from the DIB and its related performance management. For example, Educate Girls intended to be involved in the QEI DIB but the timing of this project coincided with the final year of their first DIB, limiting their organisational capacity. This

¹¹ OBAApproaches: Output-Based Aid in Fragile and Conflict Situations. Note Number 47, June 2015.

suggests that whilst DIBs enable some service providers to be included in PbR contracts, they themselves still experience barriers that may limit their participation in a project.

4.4.1.4 *Comparison with other impact bonds*

The finding that impact bonds enable some, but not all, service providers to take on PbR contracts is a common one. In the UK there is evidence that SIBs have enabled smaller service providers to enter PbR contracts who would not have been able to do so previously because of the financial risk. The CBO Evaluation (unpublished) found similar barriers for service providers entering the market - as has been seen in these four DIBs, it was found that investors work repeatedly with trusted organisations with strong and credible management teams, and entering into an impact bond requires a degree of capability and capacity that a large number of smaller service providers do not have.

Effect 4: Greater collaboration and/or co-ordination

4.4.1.5 *DIB effect explanation*

Summary: Greater collaboration and/or coordination between stakeholders as there is an alignment of interests

Hypothesis: Linking payments to outcomes leads to an interest from all parties to improve delivery and achieve better outcomes and financial returns. The close partnership can also bring together distinct expertise and addresses knowledge gaps across the partners.

4.4.1.6 *Main finding: Extent to which DIB effect present across four projects*

Summary: The DIB enabled coordination and collaboration between new actors, and also strengthened this for actors that had previously worked together.

DIB Effect	ICRC	QEI	VE	Cataract Bond
Greater collaboration and/or coordination between stakeholders as there is an alignment of interests	Yes – though there were comments that collaboration and transparency could have been improved.	Yes	Yes	Yes - though there were comments that collaboration and transparency could have been improved during the initial design phase.

4.4.1.7 *Analysis from four projects*

In all four of the DIBs stakeholders reported that the DIB fostered new working relationships, and also strengthened pre-existing ones. This increased collaboration was most apparent amongst outcome funders. In the Cataract Bond, for example, the desire to work together to contribute to a shared goal brought together three outcome funders who had never collaborated in this three-way partnership before. In the QEI DIB, all stakeholders remarked on the openness and willingness to work together in a collaborative way, but most notable was the willingness of outcome funders to share information and data with each other in an open way.

“The joint awareness and wealth of foundation knowledge that came into play on this, you can’t underestimate you know... part of the beauty of this piece in international development...it’s about the data that’s sitting within foundations, especially deep technical foundations like MSDF...to share and be open minded, and move a bit.... And to say right we’re willing to put that out there to be tested.” (Representative from British Asian Trust, QEI DIB. Comment made during case study consultations)

One outcome funder felt this greater collaboration between outcome funders was because the focus on outcomes brought about by the DIB mechanism ensured they were united towards *“one common outcome”* and although views on how to achieve this outcome varied, it was still described as *‘a single united goal’*. Interviewees valued these new partnerships and collaborative ways of working; they felt the partnerships brought together a merged expertise, whilst the willingness to share information and data enabled organisations to gain a greater understanding of the context.

“The collaboration it has been remarkable from the UBSOF and Dalberg.” (Representative from service provider, QEI DIB. Comment made during case study consultations)

This strengthening was mainly due to the alignment of interests between outcome funders and service providers to ensure the projects were designed robustly with accurate and clear outcome measures. It was also a consequence of the complexities in designing the DIB, which required strong levels of communication between the different parties.

The extent to which the DIB fostered greater collaboration differed between the four DIBs, though the collaboration appeared stronger in two (VE and QEI). There appeared to be less collaboration in the ICRC HIB because discussions were held bilaterally between ICRC and different stakeholders; this limited the opportunities for stakeholders to discuss the HIB with each other and some expressed frustration with this. In contrast, in QEI and VE, discussions were held multilaterally, with frequent joint calls and workshops between all parties. This would suggest that there is value in holding multilateral discussions with all parties during DIB development.

4.4.1.8 *Comparison with other impact bonds*

Collaboration and co-ordination is a strong theme present across impact bonds, both in terms of bringing together new partners, and strengthening pre-existing relationships. For example, there are good examples in the UK where SIBs have brought very different partners together as funders all interested in achieving similar outcomes (such as the local authority, schools and philanthropists as outcome funders in the West London Zone SIB, or different government departments in the Youth Engagement Fund).

The finding from these four DIBs therefore aligns with findings from other impact bonds.

4.5 **Financing and funding effects**

This sections examines how the DIB affected the funding of projects, including whether the DIB enabled new projects to be funded, and whether it brought additional private finance to the development sector. It is important to differentiate funding from financing. Funding is related to the question of who ultimately pays over the long term – funding is generally

provided without expectation of repayment, unless the contractual terms are not met. Financing is the upfront capital/cash needed, which is generally expected to be repaid, along with interest.

4.5.1 Effect 5: Funding projects which would not have been funded otherwise

4.5.1.1 DIB effect explanation

Summary: Funding projects which would not have been funded otherwise, or not in the same guise

Hypothesis: Political accountability can make it difficult for donors to provide public funds in advance for risky programmes; the transfer of risk in a DIB away from outcome funders enables them to fund risky programmes they could not do otherwise.

4.5.1.2 Main finding: Extent to which DIB effect present across four projects

DIB Effect	ICRC	QEI	VE	Cataract Bond
Funding projects which would not have been funded otherwise, or not in the same guise	Yes	Yes	Yes	No, likely project could have been funded without DIB

4.5.1.3 Analysis from four projects

Summary: All four interventions had been funded previously, and so the DIB did not enable completely new interventions to be funded. However, in three of the DIBs the interventions had alterations and outcome funders reported that would not have funded these without the DIB; therefore the DIB did alter the guise of the interventions, including enabling projects to operate at larger scale or with innovative elements.

The DIB did not enable completely new interventions to be funded, as all four had been funded previously in a different guise, in some instances by the same funders. For example, DFID, the Belgian and Swiss governments all provide core funding to ICRC; the same outcome funders in the QEI DIB have funded the same service providers to deliver very similar interventions; the Magrabi Foundation had already raised USD 10m of the USD 12m required to fund the hospital; and the Village Enterprise intervention is already operating in other parts of Africa. Therefore, the DIB has not enabled completely new interventions to be funded, which would not have received funding otherwise.

However, whilst the interventions themselves have been funded before, the *nature* of three of the projects is different in the DIBs (VE, ICRC and QEI), and it is the DIB element that enabled them to be delivered in a different guise. As described in [Effect 1: Transfer of financial risk](#), each project had a new element that was deemed risky by the outcome funders, and in three of the DIBs outcome funders reported they would not have funded the projects in their current guise because they deemed them to be too risky.

“We would have been unlikely to fund the Village Enterprise project if we had not had the DIB model which puts this cumulative risk onto VE and the investor and better aligns incentives toward sustained higher level impacts.” (DFID)

“The DIB has really opened new avenues...It is a way of achieving new goals, or longer-term goals, or goals at scale.” (Service provider, comment made during learning workshop)

The Cataract Bond is different to these three. Whilst at the time the Magrabi Foundation did not have the final USD 2m to operationalise the hospital, they were reasonably confident that, in the two years it took to raise the DIB finance, they could have secured funding from elsewhere. And therefore in this project the DIB mechanism did not fund a project that would not have been funded otherwise.

4.5.1.4 Comparison with other impact bonds

The finding that in some of the projects it is unlikely that the intervention would have been funded without the impact bond mechanism, but in others the intervention may have been funded anyway – is consistent with the development of impact bonds in the UK. There are strong examples in the UK where the project was deemed too risky, and without the transfer of risk the project would not have been funded (such as the Ways to Wellness and Reconnections SIBs); however there are also projects that either were already being funded (such as the MHEP SIB) or could feasibly have been funded anyway (such as the Youth Engagement Fund SIBs). In these latter impact bonds, much like the Cataract Bond, the driving motivation to use the impact bond was to test its efficacy, rather than to transfer risk.

4.5.2 Effect 6: Additional financing to development sector

4.5.2.1 DIB effect explanation

DIB effect: Additional financing to the development sector

Hypothesis: The introduction of the external investor in DIBs brings additional private finance to the international development sector that would not have been available otherwise.

4.5.2.2 Main finding: Extent to which DIB effect present across four projects

Summary: Whilst all four DIBs raised external finance, in the majority of cases this was not ‘new’ finance, as it was from philanthropic sources. In these DIBs the finance is better perceived of as existing money re-purposed rather than additional finance.

DIB Effect	ICRC	QEI	VE	Cataract Bond
Additional financing to the development sector	Yes. Private sector finance that would not have gone into international development	No. Raised external finance but most of this philanthropic funding that would have gone into the sector anyway	No. Raised external finance but most of this philanthropic funding that would have gone into the sector anyway	Mixed – finance would have gone into development sector, but not eye health or Cameroon

4.5.2.3 Analysis from four projects

In two of the DIBs (VE and QEI) the investors were mainly philanthropic investors who would have provided funding to the development sector anyway. In the VE DIB, some of the investors were organisations that had already donated to Village Enterprise before. One of the investors in the Cataract Bond (OPIC) is a Development Finance Institution (DFI), and therefore by definition this is finance that also would have been invested.

However, it was noted that without the DIB, it would be unlikely that finance would have been raised to the same level. In the QEI DIB, the investment manager (UBS Optimus Foundation) described how the investment funding they used to invest in the DIB came from donations to UBSOF by clients of UBSOF.

While these three DIBs have not attracted new finance to the development sector, such finance would not have been used in this specific context – the sharing of the risk enabled the finance to be used for a highly developmental project in a context (Cameroon and eye health) where OPIC has not invested before. This DIB, therefore, did shift finance into new areas of the development sector.

The ICRC HIB, in contrast, did bring in money from investors that would not necessarily have been invested into the international development sector. As for financing in the commercial world, the upfront finance is expected to be repaid, with interest, unless the programme does not meet its outcome targets.

What is apparent across these four DIBs is that there is a trade-off between risk sharing and the degree to which the DIBs are attracting new finance. In those DIBs that have shifted where finance is invested (ICRC and Cataract Bond) the investor is taking on less financial risk. This suggests that, if the aim is for DIBs to attract new finance into the development sector, outcome funders and service providers will have to accept that they must take on some of the financial risk.

4.5.2.4 *Comparison with other impact bonds*

Gustafsson-Wright et al (2015: 37) found that additional capital from traditional private actors has been limited, as this would require “*a different analytic mindset and acceptance of credit approval.*” Whilst there have been some mainstream investors in the United States, these have typically included much higher capital guarantees (such as the Rikers Island SIB, where Bloomberg Philanthropies guaranteed 83% of the USD 7.2m invested by Goldman Sachs). The use of private capital with more limited capital guarantees in the ICRC HIB is therefore quite a major step forward in impact bond development, as it demonstrates that it is possible to for private investors to take on sizeable levels of risk in impact bonds.

4.5.3 **Effect 7: Longer-term funding**

4.5.3.1 *DIB effect explanation*

DIB effect: Longer-term funding

Hypothesis: Projects are often funded on short-term cycles. Because impact bonds require outcomes to be achieved, and typically there is a time-lag between the intervention being delivered and the outcome achieved, impact bonds operate over longer timescales than is usual. This is beneficial as it provides more secure funding for interventions.

4.5.3.2 *Main finding: Extent to which DIB effect present across four projects*

Summary: The DIB provided long term funding to some extent in two of the DIBs, though the break clauses meant this did not make the funding more secure.

DIB Effect	ICRC	QEI	VE	Cataract Bond
Longer term funding	Yes	To some extent	No	No

4.5.3.3 *Analysis from four projects*

In ICRC, funding is generally received on an annual basis, so the ability to roll over funding between years and plan for longer term projects, such as the DCMS and EIM, was cited as a particular benefit. While the QEI service providers noted that they had received other long term grants, the longer-term funding was nonetheless cited as a benefit of the DIB, as the DIB did not require the renewal of the funding agreement on an annual basis.

Long-term grants was not noted as a particular benefit in the VE or Cataract Bonds. In the VE DIB, Village Enterprise who had already received such grants from other donors. In the Cataract Bond, interviewees noted that it was unusual for a loan to be provided for five years, but there was not anything specific about the DIB mechanism that enabled this.

4.5.3.4 *Comparison with other impact bonds*

The finding that in some instances but not all the impact bond enabled longer-term funding is again consistent with the wider literature. There are examples where the impact bond mechanism did enable longer-term and more stable funding. For example, the Evaluation of the SIB Trailblazers in Health and Social Care in the UK found that the SIB Trailblazers operated with more stable funding and had longer-term contracts than were present typically under conventional forms of financing. Furthermore, the shift away from annual funding, as we saw here with ICRC, was also cited as a benefit in the Educate Girls DIB. However, there are also multiple impact bonds where the funding is not necessarily longer than conventional contracts. Therefore, this DIB effect, both in these four DIBs and in the wider sector, is variable.

4.6 Design effects

In this section we examine how the DIB affected the design of the projects and interventions. This includes the extent to which the DIB mechanism fostered innovation, how it impacted on the rigour of the project design, and how it impacted on the costs involved in designing and setting up the projects.

4.6.1 Effect 8: Enables innovation

DIB effect: Enables innovation

4.6.1.1 *DIB effect explanation*

Hypothesis: Risk transfer from outcome funder to investor enables riskier, and more innovative, interventions to be funded.

4.6.1.2 *Main finding: Extent to which DIB effect present across four projects*

Summary: The DIB did not enable radical innovation, but all four projects had elements of incremental innovation within them, which was possible because of the DIB funding.

DIB Effect	ICRC	QEI	VE	Cataract Bond
Enables innovation	Yes (incremental innovation)	Yes (incremental innovation)	Yes (incremental innovation)	Yes (incremental innovation)

4.6.1.3 *Analysis from four projects*

Gustafsson-Wright categorises innovation in impact bonds into three types:

- New type of intervention altogether (also known as radical innovation¹²);
- An established intervention that has been adapted (incremental innovation); or
- An established intervention that has been applied to a new context, e.g. location, policy area, target population

In all four DIBs the level of innovation can be described as incremental. As mentioned previously all of the interventions have been delivered previously and have strong track records, and therefore they cannot be deemed to be radical innovations. Indeed, one service provider described how they are delivering more ‘radical’ innovations outside of the DIB. This lack of radical innovation is a consequence of two factors: first, interventions require a reasonable level of evidence in order to build a business case and reassure investors; second, the reputational risk of using a new financial mechanism has inhibited service providers’ and outcome funders’ appetites for delivering something radical under the DIB, given the significant focus on these first DIBs (see [Effect 2: Reputational risks](#)).

However, whilst none of the interventions are new they have all been adapted and include elements of incremental innovation. The Cataract Bond includes targets related to financial sustainability and equity not used in previous eye hospitals, and is also adopting a particular model of eye care that has only had limited implementation in Sub-Saharan Africa; the VE DIB is operating at a larger scale and Village Enterprise are piloting a range of innovations (changing the levels of grant provided to beneficiaries, piloting mobile money and introducing adaptive management processes); the ICRC HIB includes new efficiency improvement measures; and the QEI DIB is using new assessment tools.

Interviewees attributed this incremental innovation in part to the DIB mechanism. Outcome funders from the VE DIB, for example, stated that the DIB design helped to create ‘a space’ for innovation; the rationale was that with the transfer of risk from the outcome funder, the service provider is able to deliver the intervention as they see fit and adapt it where necessary to achieve better results. Stakeholders within the ICRC HIB also differed in terms of the extent to which they attributed the measures to the DIB mechanism. Based on these comments it is our view that the mechanism has supported innovation by providing the service provider with the funding and space to do it, though it is not yet clear that a purely outcomes focused contract could not have the same effect.

4.6.1.4 *Comparison with other impact bonds*

According to Gustafsson-Wright et al., 2015, so far impact bonds have not supported many radically innovative interventions, but some have supported interventions that are being delivered in different ways or to different populations, as is the case with these four DIBs.

¹² Koeborg et al, 2003. An empirical test of environmental, organizational, and process factors affecting incremental and radical innovation. *Journal of High Technology Management Research* 14 (2003) 21-45. Pergamon.

Similarly, the Educate Girls DIB saw incremental innovation, but not radical innovation. These four DIBs therefore strengthen the evidence base that impact bonds are better suited for testing incremental innovation than radical innovation.

4.6.2 Effect 9: More careful and rigorous design

4.6.2.1 DIB effect explanation

DIB effect: More careful and rigorous design of interventions

Hypothesis: A strong business case is necessary in order to attract external investment. This ensures interventions are well-researched and carefully designed. The attachment of payments to outcomes incentivises both outcome funders and service providers to ensure outcomes are clearly defined and robustly measured.

4.6.2.2 Main finding: Extent to which DIB effect present across four projects

Summary: In general attaching outcomes to payments led to more rigorous design of monitoring procedures than fee-for-service contracts or grants, but appeared no different than other forms or PbR. The DIB had mixed impact on the design of the intervention.

DIB Effect	ICRC	QEI	VE	Cataract Bond
More careful and rigorous design of interventions	Mixed. Yes in terms of rigorous design of M&E, but no impact on design of intervention	Mixed. Yes in terms of rigorous design of M&E (but similar rigour in PbR), but no impact on design of intervention	Yes, though mixed opinion on whether this can be attributed to the DIB	Yes

4.6.2.3 Analysis from four projects

As described in the hypothesis above, research suggests that the DIB mechanism improves the rigour and design of projects in two ways:

- Improving the design of the intervention itself, including referral criteria and ToC
- Improving the definition and measurement of outcomes

In these four projects the DIB mechanism had more of an impact on the latter (rigour of monitoring procedures) than the former (rigour of intervention design). In terms of the monitoring procedures, in most of the projects this was strengthened by the DIB compared to when these (or similar) interventions were delivered through grants (though not PbR, as we cover below). This was most apparent in the ICRC HIB, in which new efficiency improvement measures were created and new data dashboards constructed to monitor progress against these measures. In the QEI DIB the measurement tools introduced were more robust than the tools used when these interventions were funded previously through grants, and the external evaluators reported that the service providers engaged more strongly with the impact evaluation than is usual in grant-funded programmes.

In the Cataract DIB outcomes funders felt the reporting was more efficient and transparent compared to other projects they have been involved in, and more work was done with the hospital to ensure they understood the targets set. It was also strongly apparent in the VE

DIB; for example as a consequence of the DIB they have implemented enhanced cost tracking to examine spending in the DIB context versus other programs in order to improve efficiency.

“It creates a level of rigour because we want to deliver our outcomes...The idea is that this will help us to deliver better. We are developing dashboards, databases, we work around instances of collection of data and ultimately this work is going to get quality information into the hands of managers, improve our outcomes by following up with staff who may be having performance issues.” (Village Enterprise representative. Comment made during case study consultations)

This increase in monitoring across the DIBs was a consequence of attaching payments to outcomes; in all four DIBs this incentivised stakeholders to ensure outcomes were clearly defined, understood and measured. One intermediary also remarked in the learning workshop that it ensures claims around potential impact are more accurate, as they have to be delivered; it disincentives service providers from exaggerating potential impact to attract funding.

“It’s a more honest sales process.” (Intermediary, comment made during learning workshop)

Because this effect is caused by attaching payments to outcomes, it is perhaps not surprising to note that a similar effect was also seen in some of the PbR comparator sites (where payments were also attached to outcomes, albeit a lower proportion). For example, stakeholders interviewed that were involved in the GEC programme also observed that attaching payments to outcomes had the same effect of improving the measurement of outcomes (even though only 10% of payments were linked to the achievement of outcomes). Therefore it appears that this DIB effect is not necessarily different to the PbR effect.

In terms of the design of the intervention itself, there was some evidence that the DIB led to some improvements, but this effect was not as strong as the impact on the monitoring procedures. In the Cataract Bond the introduction of the equity target is leading to a greater focus on outreach, targets for it, and an understanding of whether the people reached through outreach are the poorest. There has also been a greater focus on quality – the hospital is doing a much deeper dive to understand quality of outcomes and introduce interventions, such as regular management and staff sessions, to understand and strengthen quality, something that stakeholders noted seems to be less consistently done as part of grant-funded projects. In the VE DIB, the service provider did make substantial improvements to the design of the intervention, but it is not clear whether this is due to the DIB mechanism or the involvement of DFID as a funder:

“Because of DfID there was a lot of detail required on the design but I would not say it would uniformly be the case across the DIB sector” (Village Enterprise representative. Comment made during case study consultations)

In the ICRC HIB the intervention design was no different to how it been implemented previously.

4.6.2.4 *Comparison with other impact bonds*

The measurable effects on the impact bond of performance management procedures are supported by wider evidence of the SIB/DIB effect. In the Youth Engagement Fund (YEF) evaluation (unpublished), for example, service providers substantially improved their data

collection and management systems in order to meet the additional reporting requirements to claim outcomes and report to investors.

There is varied evidence on the extent to which impact bonds affect the design of the intervention itself, with examples where interventions have been re-designed to ensure they meet the outcome metrics (again as in YEF), but also examples where this has not occurred. This is akin to these four DIBs, where some interventions have been redesigned (Cataract Bond), but others have not (ICRC). In the wider literature, as with these four DIBs, this appears to be influenced by how pre-established the intervention is and the extent to which it aligns with the outcomes metrics; where it has a strong evidence base and aligns well with the outcome metrics the intervention is not usually altered.

4.6.3 Effect 10: Complex to design and expensive to set up

4.6.3.1 DIB effect explanation

DIB effect: Complex to design and expensive to set up

Hypothesis: Impact bonds include complex relationships with multiple stakeholders. Designing new outcomes metrics that meet the needs of all parties can be particularly challenging. This lengthens the time it takes to develop new projects, increasing the set-up costs.

4.6.3.2 Main finding: Extent to which DIB effect present across four projects

Summary: In all four projects interviewees consistently held the view that the DIB was complex to design and expensive to set up.

DIB Effect	ICRC	QEI	VE	Cataract Bond
Complex to design and expensive to set up	Yes	Yes	Yes	Yes

4.6.3.3 Analysis from four projects

In all four projects the DIB was complex to design and expensive to set up. The complexities and costs are explored in further detail in Section 5.0.

4.7 Other factors influencing the DIB effect

4.7.1.1 DIB effect vs novelty effect

It is likely that some of the DIB effects identified in the four DIBs are, in fact, 'novelty effects' – the effect whereby individuals may perceive and respond differently in a situation that is novel compared with how they would in a normal situation.¹³ There are a number of DIB effects that may exist, or be stronger, because these are some of the first DIBs to be launched, and these effects may diminish over time. Whilst it is difficult to predict at this stage which effects will diminish over time, based on the current research we believe the following effects are likely to be partly due to a novelty effect:

¹³ Gravetter and Forzano, 2018. *Research Methods for the behavioural Sciences*. Cengage learning.

- Transfer of risk and types of service providers and interventions funded: We note in the previous sections that in these DIBs there has been a degree of risk aversion; the failure risk in the projects is more medium than high, there was a robust selection of high-performing service providers, and in some of the projects the level of risk taken on by the investors has been marginal. This appears to be in part because of the ‘novelty’ of the DIB, and therefore the reputational risks associated with its potential failure. We would expect the perceived risk of DIBs to diminish if and when they become more mainstream, and this may see more risky projects being funded through DIBs, and higher levels of financial risk transferred to investors.
- Costs and complexity: As reported in the previous section, it is likely that the costs associated with DIBs will reduce as people learn how best to design and launch DIBs, and replicate previous DIB designs.

The novelty effect also appears to have influenced some funders’ decisions to fund these projects. In some projects the main driving factor for funding the DIB has been the interest in the potential of the mechanism, rather than necessarily because of the benefits it could bring. One stakeholder believed that funders’ interests in DIBs was 70/30 novelty/impact, and they used the novelty factor of DIBs as the “*sales pitch*” to attract funders. There was a broad recognition that funding a DIB primarily because of its novelty factor was not sustainable, and that it is important to focus on the problem first and see the DIB mechanism as one solution to the problem amongst others, rather than deciding upfront that the DIB mechanism should be used. DFID, however, was keen to stress that a key priority for them when considering funding DIBs was to ensure the impact bond had the potential to add value to the intervention compared to alternative funding approaches; the reported discussions and decisions they made during the set-up process supports this.

4.7.1.2 *DIB effect vs PbR effect*

There is some evidence to suggest that some of the effects attributed to the DIB are more ‘PbR’ effects, in that they are effects seen when payments are attached to outcomes, regardless of whether the programme is a PbR or DIB. This is most notable in the QEI DIB, where the ‘DIB effect’ of improving the design and rigour of the outcomes measurement was also a benefit seen in the GEC PbR programme.

4.8 Additional effects not identified in the framework

As well as the DIB effects outlined in Table 4.1 above, stakeholders highlighted an additional, unanticipated effect. This was that the DIB mechanism was shifting the mindset of philanthropists, and creating a new set of impact investors. One investment fund in particular described how philanthropists who would not ordinarily use their money for impact investing were attracted by the alignment of financial and social returns associated with the DIB, and were for the first time using their funds for impact investing. Whilst this was not anticipated at the outset of the programme, there is evidence to suggest this has also been a side-effect of SIBs.

4.9 Conclusions

The focus of this section has been on how the DIB mechanism has affected the design and set up of these four projects, examining in particular the extent to which the purported 'DIB effects' set out in DfID's Theory of Change and other literature materialised. The evidence so far would suggest that the majority of the DIB effects have materialised, albeit to different degrees and with some nuances.

The strongest positive DIB effects have been that they have made it possible to implement PbR contracts in contexts where, previously, this would not have been possible because the projects were too risky or too large. This is primarily due to the new partnerships created between governments, donors, delivery partners and (to a degree) the private sector, in which the financial risk is shared between the three groups. The DIB has fostered new working relationships between stakeholders and has led to greater levels of collaboration than is normally seen, primarily because the DIB aligns all stakeholders' interests but also because the intensive design stage forces closer partnership working. A large amount of work has been done in all four DIBs to build a stronger performance management infrastructure, including investing in new monitoring systems and working closely with the service providers to embed adaptive management systems.

Many of the DIB effects were quite consistent across the four DIBs, although some were more consistently found (such as enabling innovation and being complex to design) than others (such as providing longer-term funding and impacting on the intervention design). Where these four projects quite starkly contrast with each other is in the financial risk sharing arrangements between the outcome funders, service providers and investors, which can be divided into three sets: impact bonds where the financial risk is fully borne by the investors (QEI and VE); impact bonds where the financial risk is shared between the investors and service providers (ICRC); and impact bonds where the financial risk is shared between all three – the service provider, investor and outcome funder (Cataract Bond). The remainder of the evaluation will examine how the different sharing of financial risk impacts on the delivery of the projects.

The Cataract Bond stands out as the DIB as unique amongst the four impact bonds. This is because the Cataract Bond was trying to do something quite different to the other three; in the other three these were projects where it is unlikely they would have been funded in other circumstances, and the DIB (through the transfer of risk and the attachment of payments to outcomes) enabled the projects to be funded. The Cataract Bond, in contrast, was a 'proof of concept' project; it is likely it could have been funded through a different mechanism, but the stakeholders wanted to demonstrate that it could technically be funded through an impact bond. It is for this reason that some of the benefits seen in the other DIBs (in relation to funding projects that would not have been funded otherwise and enabling service providers to access working capital) are not apparent in the Cataract Bond.

The findings from these four DIBs – including the differences in consistency of DIB effects – broadly mirrors the findings from the wider literature. This is promising – the evidence of the DIB/SIB effect is currently weak, and so this evaluation provides further validation and gives a stronger understanding around how impact bonds affect the design and set-up of projects. Where the DIB/SIB effects in these four compared to the wider literature is in relation to two areas:

- Additional financing to the development sector: There are very few examples where impact bonds have brought in additional private finance, and certainly with the level of

risk sharing seen in the ICRC HIB. Although not achieved in the Cataract Bond, the presence of a DFI in an impact bond is a marker for market-rate returns.

- Enabling scale: These four impact bonds are substantially larger – in terms of contract value and beneficiaries supported – than impact bonds in high income countries and compared to their predecessors (i.e. Educate Girls DIB).

These two areas are important landmarks in impact bond development, as they demonstrate that it is technically possible to have private investors taking on sizeable amounts of risk, and it is possible to launch impact bonds at a larger scale. It will be very interesting to monitor how these new developments affect the delivery and performance of the impact bonds, which will be explored in future waves of the evaluation.

Finally, with these benefits have come additional complexities and costs. It is too early to conclude whether the benefits outweigh these costs. Stakeholders were confident that lessons could be learnt from these DIBs that would reduce the complexity and cost of future DIBs, as we explore in the following section.

5.0 Analysis and Findings – Costs of designing and delivering DIBs

Summary

The emphasis in this research wave has been on establishing the additional costs of the DIB. Future research waves will explore the link between additional costs and outcomes, and whether the DIB led to efficiency savings. The analysis is framed around the 4Es of Value for Money, exploring economy, efficiency, effectiveness and equity.

Economy

All stakeholders confirmed there had been additional costs - either actual, in kind or pro bono – for staff time and consultancy in designing and setting up the DIBs. These costs tend to be incurred by outcome funders and service providers. They relate mainly to the investor returns that will be paid (either by the outcome funder or service providers).

Stakeholders identified that some of the design and set-up costs, were unique to DIBs (e.g. contracts requiring legal and financial consultancy), but that others are commonly seen in other similar programmes, particularly with a PBR or output-based contract (such as ongoing costs of performance management, project management and verification). Stakeholders expected some of the DIBs costs would reduce for future DIBs.

Efficiency

It is too early to draw conclusions on the efficiency of the DIBs. No savings have yet been realised, though opportunities for efficiency savings have been identified and these will be reviewed during subsequent research waves.

Effectiveness

The extent to which the risk and return trade-off for each DIB represents value for money will continue to be explored during the evaluation. At this stage, all DIBs have interest rates that are similar to those used by other impact bonds. It would appear that across the DIBs there is a positive relationship between the levels of financial and social risk, and levels of return.

Equity

We have looked at whether the DIBs have a strategy in place to promote equity as part of their design. This will be used in later research waves to confirm whether DIBs have been effective in promoting equity. However, the initial finding on this is that two of the DIBs (Village Education and Cataract Bond) have equity built into their payment targets and there is also evidence of equity being considered in the design of the QEI DIB and ICRC HIB.

This section addresses the cost analysis component of Evaluation Question 2: 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? This involves exploring the following sub-questions:

- a. What are the costs of designing and delivering a project using a DIB model?
 - o What (if any) are the extra costs of designing and delivering a project using a DIB model and how do they compare to other funding mechanisms?
 - o Where are the most prevalent extra costs and what specific items (staff, monitoring procedures etc.) have the highest costs? Are these extra costs mainly found in the design or delivery stages?
 - o Who pays for these additional costs and to what extent do they see the benefits?

In this initial report, we look at value for money using the 4 Es framework (Economy, Efficiency, Effectiveness and Equity) as detailed in the Inception Report:

- Under **Economy**, we look at the additional cost of the impact bond, on top of programming costs, by cost type and by stakeholder. We compare costs across the four DIBs, as well as against benchmark data, and, where available, PbR costs;
- For **Efficiency**, we have sought evidence of any positive or negative changes to efficiency as a result of the impact bond such as increased time or savings.
- In terms of **Effectiveness**, the focus at this stage of the evaluation is on how effectively risk has been transferred and whether the expected returns are higher than expected for the risk level, as this will present limitations to the value for money delivered.
- Finally, we have noted the approach each DIB is taking to promoting **Equity** which, along with the other elements of value for money, will be continued to be assessed as the DIBs are implemented.

At this early stage of the evaluation, it is too soon to draw firm conclusions for the evaluation questions, so we present here thematic learnings and observations from the data in relation to the evaluation questions and across the 4E value for money framework. We have started to build up a picture of what the additional costs of a DIB are. This is with a view to exploring whether the additional costs of a DIB provide additional benefits, as well as the cost drivers to developing DIBs. Section 6 sets out the early learning in terms of how these cost drivers can be managed to reduce transaction costs. We have also started to detail the risk and return expected for each DIB with a view to exploring whether the amount of risk transferred is commensurate with the return to investor. This builds on the analysis of risk transfer undertaken in section 5.

We have gathered data through semi-structured interviews with key stakeholders representing outcome funders, implementers and investors from each DIB and sourced from programme documentation. A limitation of the data collection was the availability of accurate cost estimates for additional cost of the impact bond. Stakeholders described the types of costs and in some cases provided estimates. Data from programme documents were also used to make estimates of additional costs, but these tended to be financial models and budget information rather than actuals. Finally, not all stakeholders agreed to be interviewed therefore costs will have been underestimated. We have used the information available to us, as far as possible to build up a picture of the extra costs of designing and implementing a project using a DIB model, which types of costs are most prevalent, at what stage (design, set up,

implementation) they are incurred and who pays for them. In terms of external benchmark data, it was challenging to identify comparable data. We have identified benchmark data on returns to investors, compared through annualised interest rates. We have also drawn on information from the PbR comparator sites.

Findings are set out below against the 4Es framework. Additional detail on the costs of the impact bond are set out in Annex L.

5.1 Economy

This section looks at the cost of the impact bond, on top of programming costs that would be incurred for implementing a similar programme under a different funding mechanism. Costs were identified from reviewing programme financial information (budgets, financial reports and financial models) and stakeholders' interview responses. It should be noted that this exercise was done retrospectively, and that a standardised cost template was not used by stakeholders. Stakeholders varied in terms of the extent to which costs were captured throughout the process, with staff time and pro-bono support especially challenging to fully capture. The figures provided by the different DIBs were too partial to enable a meaningful comparison. Nonetheless, the figures provide useful information as to the types of costs necessary for developing and implementing a DIB.

This section is set out as follows:

- Section 5.1.1 introduces the categories of costs used
- Section 5.1.2 discusses the costs incurred per DIB in more detail.
- Section 5.1.3 then summarises findings across the DIBs, provides a preliminary analysis of how these costs compare to PbR contracts, and the extent to which these costs are 'first-time' DIB costs, or whether they can be expected for future DIBs.
- Section 5.1.4 summarises the cost drivers across the DIBs, with further details on the cost drivers per DIB set out in Annex L.

5.1.1 Categories of *additional* costs resulting from use of the DIB

Broadly, the additional costs related to an impact bond can be split into the following three categories:

1. **Design and set up costs:** These include additional costs required for the set-up of the impact bond, including financial and legal advice and design of the impact bond.

The type of additional costs incurred during the set-up and design phase can be described under three categories:

- Staff time – this was provided largely 'in-kind' by stakeholders using their own existing resources, unless staff time was covered by a separate grant (e.g. DFID technical assistance grant for QEI and Government of the Netherlands for ICRC).
- External advice on contract design and set-up. These costs were either funded through a grant, paid for by the lead on the impact bond or provided pro-bono by the advisors, and often through a combination of the above.

- Legal and financial advice – this was a common cost which was often provided pro-bono at least in part by professional firms
2. **Implementation costs:** These include additional performance management, project management and reporting time, on top of what would have normally been spent on a grant-funded project. This also includes costs of verifying the outcome targets and, for some DIBs, escrow costs. Costs can be split into the following three categories:
- Contract management including performance management, project management and reporting
 - Verification costs
 - Costs related to the DIB transaction, such as escrow, legal fees and transaction manager costs
- As implementation is still underway, our estimate of implementation costs relating to the DIB is based on *expected* costs, as identified through budgets and discussions with stakeholders.
3. **Maximum payments to investor:** This includes the maximum return payable to the investor, should the maximum outcome targets be achieved. This incorporates any interest payment.

5.1.2 Costs for the four DIBs

The tables below set out the *additional* costs per DIB, that is, costs that would not have been incurred had the intervention been funded through a grant, using the categories introduced above. It is important to note that:

- A significant proportion of costs were provided in-kind or pro-bono, and as such, are estimates.
- Where we understand costs were incurred but could not be estimated, these are noted as 'Not estimated'. If no costs were incurred by stakeholders for a particular activity, this is noted as zero (-).

5.1.2.1 Additional DIB costs for ICRC HIB

The total ICRC maximum committed outcome funding is CHF 26.09 million.

Design and set up costs

Outcome funder costs were estimated to be the additional time spent on setting up the DIB, compared to a typical grant (based on 2 months of 2.5 FTE compared to a typical set up of 2.5 weeks of 1 FTE) for one outcome funder. Another outcome funder was unable to estimate how much longer, hence the total staff time related to outcome funders is expected to be higher.

ICRC received a grant from the Government of Netherlands for a total of CHF 1.2 million, and estimated that they spent an additional of CHF 215k. This included CHF 699k paid to KOIS for their work in developing the concept, outcome metric and due diligence work. Additionally, ICRC estimates that the pro bono work provided by the legal firms is significantly above the 50k initially budgeted for these tasks. ICRC considered that there was additional staff time and pro bono support which had *not* been quantified, and not included in our estimate above,

including support provided by a financial expert who joined the ICRC team between November 2016 and August 2017, a legal firm and a legal expert.

Cost by Activity (CHF)	Cost by stakeholder (CHF)			CHF
	Outcome Funder	Investor	Service Provider	Total
Design and Set up				
Staff time setting up contract, negotiations, meetings feasibility study	40,500	Not estimated	457,739	498,239
External advice on contract design (KOIS)	-	-	698,767	698,767
External advice on legal and financial aspects of contract (pro bono)	-	-	>50,000	>50,000

Implementation Costs

The expected additional costs related to implementation are budgeted, and will have to be reviewed for actual over the next research waves. Within the HIB budget, CHF 40k relates to verification costs, and CHF 40k to escrow. An estimated CHF 670k relates to additional management and reporting requirements, which would not have been necessary should this have been a traditional grant.

Cost by Activity (CHF)	Cost by stakeholder (CHF)			CHF
	Outcome Funder	Investor	Service Provider	Total
Implementation				
Performance management, Project management, Reporting	Not estimated	Not estimated	670,000	670,000
Verification	-	-	40,000	40,000
Escrow	-	-	40,000	40,000

Return to investors

The maximum payment to investors should the maximum outcome target be met is CHF 6.4 million.

5.1.2.2 Additional DIB costs for QEI DIB

Design and set up costs

No estimates were provided for the staff time in setting up contracts; however, stakeholders noted that significant time was involved during the design and set up phase. Development took around 2 years (June 2016 - September 2018) and involved 20-25 stakeholders in different capacities plus external advice on specific aspects, such as legal and foreign exchange. Input from stakeholders included:

- Internal project management time (e.g. reviewing documents, making internal decisions, developing internal processes related to the project)

- Attendance at cross organisation meetings to agree the model (e.g. choosing outcome metrics, pricing structures, selecting service providers)
- External meetings to raise the profile of the project or engage wider stakeholders (e.g. media, learning partners, independent evaluators)
- Legal contracting (involving a third party organisation and internal resource to review and complete contracts)
- Investing in consultancy advice on specific risks (e.g. the forex risk)
- Setting up M&E structures and processes (e.g. specific events with service providers and selecting the performance manager)
- Setting up outcome verification processes.

It was not possible to estimate the time spent on these activities. The activities for which we do have costs for are those where advisors were contracted, including advice on contract design and legal costs. These are set out in the table below.

Cost by Activity (GBP)	Cost by stakeholder (GBP)			GBP Total
	Outcome Funder	Investor	Service Provider	
Design and Set up				
Staff time spent on setting up contracts	Not estimated	Not estimated	Not estimated	-
External advice on contract design (Dalberg UK)		200,000	-	200,000
Legal costs	90,707	-	-	90,707

Implementation Costs

The total budget for performance management is estimated to be GBP 646k, of which GBP 254k is covered by DFID, and the remainder by UBSOF. Of this, GBP 55k was spent in the set up phase. Additional costs are expected for project management and reporting, and these will be captured in the next research waves. The verification costs are expected to be USD 494k.

Cost by Activity (GBP)	Cost by stakeholder (GBP)			GBP Total
	Outcome Funder	Investor	Service Provider	
Implementation				
Performance management (Dalberg)	254,263	392,137	-	646,400
Project management	Not estimated	Not estimated	Not estimated	
Reporting	Not estimated	Not estimated	Not estimated	
Verification (Outcomes Evaluation by Gray Matters India)	493,570	-	-	493,570

Return to investors

The maximum payment to investors should the maximum outcome target be met is GBP 596k.

5.1.2.3 Additional DIB costs for VE DIB

The total VE DIB is USD 5.3 million (including management and evaluation costs), of which USD 4.3 million represents the maximum committed outcome funding.

Design and set up costs

Stakeholders from both VE and Instiglio commented on the increased cost at the design and set-up stage of the DIB in the form of staff costs. VE estimated a total of 2160 hours spent on DIB design and structuring and Outcome Payment Agreement (OPA) negotiation and 1058 hours on investment fundraising and structuring. This staff time was provided in-kind.

External advice on contract design and setting up the DIB was provided by Instiglio, funded by outcome funders, as well as Village Enterprise. This cost USD 86,300 and USD 169,804 respectively. Legal support was provided pro-bono, and estimated to be USD 126,046 (168 hours) for both the OPA agreement negotiation and investments structuring/negotiation and special purpose vehicle (SPV) set up. Finally, there was a small fee for setting up the SPV. The table below provides further detail.

Cost by Activity (USD)	Cost by stakeholder (USD)			USD
	Outcome Funder	Investor	Service Provider	Total
Design and Set up				
Staff time spent on setting up contracts	Not estimated	Not estimated	158,000	158,000
External advice on contract design (Design finalisation and stakeholder engagement)	86,300	-	-	86,300
Consultancy fees for setting up DIB (Reaching Execution readiness including field trip)	104,804	-	65,000	169,804
Legal and financial advice	Not estimated	Not estimated	126,000	126,000
SPV set-up direct costs			1,986	1,986

Implementation Costs

Budgeted implementation costs relating to the use of the DIB are set out in the table below. Contract management costs cover additional grant management, financial management and reporting requirements relating to the use of the DIB. The verification costs excludes the USD 70,915 costs for the process evaluation, which is not an essential component of the DIB. Village Enterprise also have their own verification process, separate from the one delivered by IDInsight which will incur a cost. This has not been estimated and will be revisited in the following research waves.

Cost by Activity (USD)	Cost by stakeholder (USD)			USD
	Outcome Funder	Investor	Service Provider	Total
Implementation				
Contract management	42,311	-	-	42,311

Cost by Activity (USD)	Cost by stakeholder (USD)			USD
	Outcome Funder	Investor	Service Provider	Total
Implementation				
Project management	118,585	-	-	118,585
Reporting	35,958	-	-	35,958
Verification (RCT and Process Evaluation)	478,162	-	Not estimated	478,162
Trustee fees (including Escrow)	105,300	-	-	105,300

Return to investors

The maximum payment to investors should the maximum outcome target be met is USD 755,000.

5.1.2.4 Additional DIB costs for Cataract DIB

The maximum committed outcome funding for the Cataract DIB is USD 3.5 million, of which USD 2.8 million relate to outcome payments.

Design and set up costs

Design and set up costs can be split between staff time provided in-kind/pro-bono, and contracted time. The outcome funders, the intermediary (Volta) and legal counsel (Linklaters) contributed in-kind/pro-bono time. On top of the billed hours, Volta Capital provided approximately 25% of hours pro-bono, and Linklaters, approximately 33%.¹⁴ Outcome funders' costs were estimated by assuming 1 person from each outcome funder, spent 1 day each month of additional time working on the bond for 3 years.¹⁵

Additionally, outcome funders paid retainer and facility fees totalling USD 36,250 to OPIC, as a part contribution to the cost of their due diligence.

Cost by Activity (USD)	Cost per stakeholder (USD)		
	Outcome Funders	Intermediary	Total
Design and Set-up			
Staff time spent on setting up contracts	100,000	66,213	166,213
External advice on contract design (including Technical adviser Volta & Legal counsel Linklaters)	255,450	-	255,450

Implementation Costs

¹⁴ This additional cost for intermediaries was calculated by taking the sum of Volta's invoiced fees during the design phase (USD 225,250) and multiplying by 25% to represent the additional time Volta staff spent working on the Bond that was not reported on or compensated. An additional USD 9,900 was estimated for the additional time from Linklaters. This was calculated by multiplying their fee by 0.33 to represent their additional time above their compensated rate.

¹⁵ The calculation assumes a rate of USD 1000 a day for a senior staffer

The table below sets out the estimated additional costs of implementation, compared to a traditional grant funded project. Based on The Fred Hollow Foundation’s previous experience, it is estimated that the additional cost of performance management, project management and reporting is approximately 30% of Volta’s USD 175,000 fee, hence approximately USD 52,500. Similarly, should a traditional grant be used, The Fred Hollow Foundation would engage an evaluation consultant to undertake a mid-term and end of project reviewer, and a data validation approach using spot checks and internal audit. Hence, the ‘additional’ cost of verification is based on an estimate of 40% of AEDES verification fee.

Cost by Activity (USD)	Cost per stakeholder (USD)		
	Outcome Funder	Intermediary	Total
Implementation			
Performance management, project management, reporting (transaction manager costs Volta)	52,500	-	52,500
Verification (AEDES)	64,454	-	64,454
Loan fees (OPIC maintenance fees)	30,000	-	30,000
Legal fees (process agent fees - OPIC requirement)	1,325	-	1,325

Finally, there is also a success fee to the hospital should it meet its targets of USD 120,000.

Return to investors

The maximum payment to investors should the maximum outcome target be met is USD 649,333.

5.1.3 Summary of findings

We first discuss the costs across the three phases, before comparing the costs with available information on PbR costs, and discussing findings in terms of the extent to which these costs can be expected in future phases.

The types of costs incurred, and who paid for these costs, are discussed below. It must be borne in mind that across several DIBs, it was acknowledged that estimates were incomplete. Hence, it is useful to review these costs as the *types* and *minimum level* of costs required to launch and implement a DIB at this stage of the market.

Table 5.1 presents the ranges of cost estimates under these categories and which stakeholders paid for these additional costs.

Table 5.1: Additional DIB costs in the design, set up and implementation phases on top of programming costs under a grant programme

Cost categories	Costs (including actual, budgeted, in-kind and pro-bono)	Paid for by
Design and set up		
Staff time set up	Where estimated, this ranged from USD 150,000 to USD 490,000.	Generally funded by organisations (investors, outcome funders, service

Cost categories	Costs (including actual, budgeted, in-kind and pro-bono)	Paid for by
	Otherwise, stakeholders described the significant time commitment e.g. staff time over two years.	providers) providing staff time 'in-kind', as well as advisors and intermediaries providing pro-bono time. In some cases funded by a separate grant e.g. ICRC received a grant for the set up phase from the Government of Netherlands.
External advice on contract design	Three out of the four DIBs estimated to be just over USD 250,000, while one DIB estimated this to be USD 687,000.	Paid for by the outcome funder or funded by a separate grant except for QEI where Investor funded these costs.
Legal and financial advice	Not all these costs were included in budgets. Where costs had been captured, these ranged from >USD 50,000 to USD 120,000. However, in most cases this underestimated the full cost as not all the pro-bono hours had been recorded.	In general, these were <i>pro bono</i> . Where services were procured rather than provided pro bono, the costs were funded by the outcome funder or funded by a separate grant.
Implementation		
Contract management costs	These costs were reflected in budgets and ranged from between USD 52,500 to USD 670,000	Paid for by the outcome funder or funded by a separate grant. In one case performance management costs are (QEI) co-funded by investor.
Verification	These tended to be contracts with third parties but varied in size with two DIBs using validated administration data having lower verification costs e.g. around USD 50k and two with larger costs around USD 500-600k (involving experimental/quasi-experimental approaches).	Paid for by the outcome funder or funded by a separate grant.
Investment vehicle related costs e.g. Escrow and legal fees	They types of costs under this category varied between DIBs depending on how they have been set up. Total costs under this category range from USD 30k to USD 105k.	Paid for by the outcome funder or funded by a separate grant.
Maximum payments to investors		
Maximum payments	These ranged from USD 650k to USD 6.4m	Paid for by the outcome funder.

Note: Conversions done based on the exchange rate on 5 May 2019.

5.1.3.1 Costs

Design and set up phase costs.

Based on the financial information and stakeholder interviews, the additional costs incurred during the Set up and Design phase have been estimated. Stakeholders viewed these as being largely additional to programmes funded through grants. The stakeholders who bear the largest burden of these costs tend to be the lead and driver of the bond. For example, in the

case of ICRC, the majority of reported set up costs were borne by ICRC, funded in part through a grant from the government of Netherlands. In the case of QEI, it was BAT, funded by DFID and UBSOF, and in the case of the Cataract DIB, the outcome funders.

Costs provided are partial, and it is difficult to compare between the different DIBs, but an emerging finding is that design and set up phase costs are not proportional to the size of the DIBs, which ranged from USD 3.5 million to CHF 26.1 million. Across all DIBs, significant staff time spent on the design and set up was reported, involving thousands of hours of staff times, over multiple months and years. Across all DIBs, external advice was needed on design of the impact bond, financial and legal advice. External advice on contract design cost around USD 250,000 for three out of the four DIBs, and was USD 687,000 for the largest DIB. Legal and financial advice varied, but a number of DIBs reported that figures were likely to be under-reported, as not all pro-bono hours had been recorded.

Implementation costs

The additional costs during implementation, which include performance management, project management and verification have also been estimated. Organisations have estimated the *additional* costs involved, compared to traditional grant funded programmes.

Contract management costs attributable to the DIB ranged between USD 52,500 to USD 670,000. This will be further reviewed as part of the next research wave. Verification costs were around USD 50k for the two DIBs using validated administrative data, and between USD 500-600k for the two DIBs using experimental/quasi-experimental approaches.

Investment vehicle costs varied depending on ranged from nothing, to 105k. These costs depend on the contracting mechanisms used. Loan, legal and escrow fees seem to be consistently cost around USD 30,000 – 40,000. The highest costs involve fees payable to trustees.

Unlike the design and set up phase costs, the majority of implementation costs are included within the DIB budgets and hence covered by outcome funders, rather than provided in-kind or pro bono, but this will be confirmed in the next research wave.

Maximum payments to investors

The maximum payments to investors is the cost which seems to be most clearly additional compared to similar programmes, and the ones which are most clearly proportional to the size of the maximum committed outcome funding. Annualised interest rates provide the most commonly used comparison of returns. As expected, the highest maximum return is for the ICRC HIB, and the lowest, for the Cataract DIB, corresponding to the respective sizes of the DIBs. The cost of the payments to investors is borne mainly by outcome funders, though there are exceptions; in the case of underperformance in the ICRC HIB and Cataract DIB, ICRC and AEF are respectively liable for some of this repayment.

5.1.3.1 PbR comparisons

Some of the additional costs expected during implementation such as verification and performance management are also seen in other similar programmes, particularly with PBR or output-based contracts.

Across the PbR comparator sites, we received cost information for two programmes: the Helvetas livelihood programme, comparable to the Village Enterprise programme, and the

Girls Education Challenge (GEC), comparable to the QEI programme. The main costs identified related to verification. In the case of the Helvetas livelihoods programme, verification was estimated to be 5% of total project costs. In comparison, the VE verification costs are expected to be approximately 10.4% of maximum committed outcome funding, or 14.9% of estimated programme costs. In the GEC, the cost of evaluation for individual projects ranged from 5-20%, averaging 15%. In comparison, the QEI verification costs are expected to be approximately 6% of maximum committed outcome funding. An important factor is likely to be the overall size of the programme budget, with RCT and quasi-experimental approaches requiring a minimum budget and a certain amount of fixed costs that does not depend on the size of the programme.

We were unable to obtain estimates on the other areas of additional costs related to PbR funding. However, we set out briefly in the table below some considerations for how the additional DIB costs are likely to compare to additional PbR costs. This will be revisited in the next research waves. Furthermore, we will work with DIB stakeholders in order to estimate which of the additional DIB costs would also have been incurred under a PbR contract.

Table 5.2: Cost comparison between DIBs and PbR programmes

Activities linked to additional DIB costs	Comparison between DIBs and PbR
Design and Set Up Phase	
Staff time	Additional range and number of stakeholders involved in DIBs means that more costs are expected in the set up of a DIB.
External advice on contract design	The complexity of DIBs and lack of standard templates mean that this is more of a feature within DIBs.
Legal Costs	
Implementation Phase	
Performance and project management	Expected additional costs linked to both DIBs and PbR projects. However, external performance and project management costs are more common features of DIBs, which are expected to increase costs in this area.
Reporting	Expected that this will be a feature in both DIBs and PbR funded projects, though reporting in DIBs is likely to be more extensive, given the range of stakeholders involved.
Verification	Expected costs to be similar across PbR and impact bond. However, impact bonds feature additional stakeholders, such as investors, which are interested and tend to feed into the selection of the verification approach.
Return to investors	Not a PbR cost.

5.1.3.2 First time DIB costs

We looked at the extent to which these additional costs (during set-up, design and implementation) are one-off or would be incurred in future DIBs. Responses varied across the DIBs. For example, VE stakeholders commented that additional costs were likely to be one off. However, the more common opinion was, as expressed by one ICRC HIB stakeholder, that “*Some of [these costs] obviously related to the fact that it was a first-time deal, but by far not all of it.*” In the case of the Cataract DIB, the outcome funders considered that some of the costs, especially staff time were a one off as a result of it being their first DIB, but that all technical advice would be incurred in future DIBs. Further detail on the perspectives of different stakeholders is set out in Annex L. In the QEI financial modelling design document (2016), it was estimated that a quarter of additional costs absorbed by outcome funders/investors were one-off costs as opposed to ongoing.

The QEI DIB built on the experiences of the EducateGirls DIB, and provides interesting insights into the extent to which costs can be reduced for future DIBs. A core objective of the QEI DIB is to provide evidence that that DIBs can be set up more efficiently, by taking learning forward from previous projects, like the Educate Girls DIB, and reusing the tools. UBSOF stakeholders confirmed that the legal process was shorter in the current DIB, which was completed in six months, compared to two years in the Educate Girls. This was attributed to the increasing efficiency from reusing tools and applying learning from this previous experience. However, the number of stakeholders complicated the contracting process. Although no specific cost savings were identified, anecdotally stakeholders reported that activities took less time.

5.1.4 Cost drivers

Initial finding is that there are some fixed costs related to setting up an impact bond, related to legal and contracting advice, negotiation time, etc., that are more dependent on the number of stakeholders, and driven by legal and financial complexity, than the pure size of the impact bond. This has implications for determining the optimal sizes of impact bonds, and the potential for efficiencies when scaling.

The cost drivers were identified by stakeholders to help understand which elements of the DIB are the most time-intensive or expensive. There was a large degree of overlap across the DIBs. All the DIBs identified legal and financial advice as a major cost driver, taking significant staff time and expertise. Engaging outcome funders and raising finance from investors were also identified by three out of the four DIBs. Other areas of overlap included the number of organisations that are involved and the negotiations, particularly being the first time, as being time-intensive. Two DIBs identified the service provider selection process as being time intensive. The table below summarises the cost drivers, which is followed by an analysis of the relevance of these cost drivers for the different stakeholders.

Table 5.3 Summary of cost drivers identified by DIB stakeholders

Cost drivers	Legal, governance	Engaging outcome funders	Number of organisations to coordinate	Negotiation of agreements	Raising finance	Service provider selection process
ICRC HIB	X	X	X	X		
QEI DIB	X	X	X		X	X
VE DIB	X	X		X	X	X
Cataract DIB	X				X	

Complexities around **legal issues** were cited across all DIBs. These affected the costs borne by all stakeholders, in particular the stakeholders driving the development of the DIB, and stakeholders involved from the very start.

The cost of **engaging outcome funders** was a cost driver, largely borne by those responsible for fundraising. In the case of ICRC, this was ICRC, with support from the Belgian and Swiss governments. In the case of QEI, this was BAT, as the outcome convenor. In the case of VE, Instiglio and the anonymous donor led the identification of outcome funders.

The **number of organisations to coordinate** and **negotiate agreements** was cited as a cost driver. Costs in the form of staff time were largely borne by those responsible for driving the

DIB. Additionally, this also drove costs for stakeholders who were engaged from the start, and who were heavily engaged in negotiations.

The **costs of raising finance** through the identification of investors was cited as a cost driver in the QEI DIB, VE DIB and Cataract DIB. The costs fell to those responsible for raising finance, which were UBSOF, VE (with support from the anonymous donor and Instiglio) and Dalberg capital, respectively.

Finally, the **service provider selection process** was cited as a cost driver in the VE DIB. Instiglio and the anonymous donor went through an extensive selection process, in order to identify a service provider with a strong track record and evidence of achievement that had the capacity and motivation to learn and adapt through the process.

Additionally, there is evidence that it may be more cost-effective for stakeholders to join later on, provided they are willing to accept that they will be less involved in the design of the DIB and the contractual terms. Late joiners in both the QEI DIB and ICRC HIB noted that the time requirements were not much more onerous than for a traditional grant funded project, given the fact that the agreements and terms had been largely set.

5.2 Efficiency

This section looks at whether there have been any positive or negative changes to efficiency as a result of the impact bond. Stakeholders were interviewed to confirm whether there have been any savings in programming costs as a result of the impact bond.

At this stage of the evaluation, no financial savings have been reported through changes in efficiency in the intervention, as a result of use of the impact bond funding mechanism. However, certain opportunities for efficiency gains during implementation were identified, and will be followed up over the next two research waves. These are briefly summarised in the table below:

Table 5.4 Expected efficiencies

DIB	Expected efficiencies
ICRC HIB	ICRC expects some efficiencies with having a 5-year grant compared with having an annual funding cycle. For example, the ability to roll funds over from one year to the next would save time in having to renegotiate these agreements. One of the ICRC outcome funders reported they expect savings over the course of the programme in terms of management time required.
QEI DIB	No opportunities for efficiency savings related to the intervention have been identified yet.
VE DIB	VE has used the DIB as an opportunity to improve its adaptive management practices, monitoring and verification processes. It is expected that this will lead to stronger performance management of staff, and consequently, increased efficiency.
Cataract DIB	Adaptive management techniques have been adopted to support the reaching of targets.

5.3 Effectiveness

In assessing the effectiveness of the DIB funding mechanism, we are looking at the relationship between risk and return. This section first sets out a few relevant points from the

literature in terms of understanding risk and return, a summary of available benchmarked interest rates, and a discussion of the risk and return for the four DIBs.

5.3.1 Understanding risk and return

In conventional finance, the relationship between risk and return is generally regarded to have a positive linear relationship, at least at the portfolio level. In social finance, the relationship between financial risk and return is less well understood; this makes it more difficult to assess whether the amount of risk transferred is commensurate with the risk premium paid as there are no standard mechanisms to calculate this. However, there are a few useful points we can draw from the literature:

- The relationship between financial risk and return in social finance differs from conventional finance in that it is not a positive linear relationship. Rather, there appears to be initially a **positive relationship that plateaus at around 10-15% per annum**. Even with increased financial risk, returns appear to be generally capped at this level.¹⁶
- In social finance, the **investor preferences** play an important role in setting the level of expected return. Social investors may expect lower rates of return than would be typical in similar venture capital investments: 15-20% in developed markets and 12-15% in developing markets.¹⁷
- It is important to **separate financial risk and return from social risk and return**. Social risk is the “calculation of the likelihood that an intended *social* return will be realized in a given investment context”¹⁸
- Social risk can be understood as being largely driven by a distinctive set of variables, but these can be mapped to similar categories as financial risk (**probability, variance and uncertainty risk**)¹⁹

In terms of effectiveness and value for money for these DIBs, we expect the level of risk involved, both in terms of capital protection and likelihood of achieving the outcome targets, to be in line with the agreed return in terms of the interest payments. For example, if the investor expects a low return for an investment in a high-risk project or a high financial return for a low risk project then this would not be regarded as an effective transfer of risk. We are looking for a **positive relationship** of some kind. In order to fully assess this transfer for a DIB, we need to look at financial and social risk and return.

Financial risk and return: in this section, we focus on the terms of the returns to investors, including level of capital protection and annualised interest rate. This is further discussed in section 4.3.1.

Social risk and return: the outcome targets which can be understood as social return are summarised in section 3. In terms of social risk, we focus on four areas: evidence base and

¹⁶ *Risk and Return in Social Finance (A Nicholls, E Tomkinson 2015)*

¹⁷ *Projection valuation and pricing in Social Finance paper (A Nicholls, A Paton, 2015)*

¹⁸ *Risk and Return in Social Finance (A Nicholls, E Tomkinson 2015: 3)*

¹⁹ *Risk and Return in Social Finance paper (A Nicholls, E Tomkinson 2015)*

ambitiousness of targets; track record; project management systems and external risk factors.²⁰

In the absence of a mature DIBs market, it is difficult to draw conclusions on how well risk has been transferred with reference to comparators. Therefore, at this stage of the evaluation, we have focused on documenting the risk and return levels that are within the DIBs with a view to making comparisons between them and other impact bond models in future research waves.

5.3.2 Summary of available benchmarked interest rates

Based on the impact bonds to date (see the table below) 30% seems to be the upper end of expected financial return. At the lower end, a negative return could be expected, should targets not be met.

Table 5.5: Impact bond interest rates and capital protection

Deal	Interest Rate	Capital Protection
Social Impact Bond in Peterborough	3% pa	No
The Benevolent Society Social Benefit Bond	Protected Debt: 0-10% pa Equity: 0-30% pa	Equity tranche: all capital at risk Principal protected tranche: 100% capital guaranteed
Massachusetts Juvenile Justice Pay-for-Success	Maximum return Senior: 11% pa Subordinate: 18% pa	No, but deal supported by USD 6m non-recoverable philanthropic grants
Connecticut Family Stability Pay-for-Success	Expected IRR base case Senior: 6-6.5% Sub: 5-6%	No
Educate Girls	Targeted 10% IRR	No
Utkrisht Impact Bond	Expected IRR of 7%, capped 8%	No
Colombia Employability Impact Bond	8% nominal return	No

5.3.3 Findings from the four DIBs

The table below summarises the levels of risk and return across the four DIBs. All the DIBs have interest rates below 10% (the upper end of return to investors identified in the benchmarking exercise), as shown in the table below.

External risk factors were cited in the ICRC HIB and Cataract DIB, which are both being implemented in fragile contexts. Interestingly, these are the two which involve capital protection for investors. Conversely, Village Enterprise and QEI do not involve any capital protection, and are also relying on experimental and quasi-experimental approaches to verify outcomes.

The levels of risk and return vary significantly across the four DIBs. The Village Enterprise has the highest (potential) return, in terms of annualised interest rate. However, the return is expected to be below that. This is commensurate with the levels of social and financial risk, in terms of achieving this level of outcomes at this scale. The Cataract DIB has the next highest return of 8% and has 100% capital protection. Targets were considered to be reasonable, but it is involving delivering the intervention in an untested context. The ICRC HIB has the lowest rate of maximum return, though has 60% capital protection, with targets that have been set so

²⁰ The relevance of these factors when identifying suitable interventions for funding through the DIB mechanism is discussed in section 6.1.

they are ambitious yet not infeasible. QEI also has a low rate of return but has no capital protection however targets were deemed to be reasonable. Across all DIBs, there is a strong evidence base. However, in the case of the Cataract DIB, there is limited evidence in the Cameroon context, and some evidence of real challenges translating this model to sub-Saharan Africa. In the case of the VE, there is limited evidence on the delivery at this scale.

Therefore, it would appear that there is a *generally* positive relationship between the levels of financial and social risk, and levels of return.

Table 5.6: DIBs' risk and return

DIB	Financial risk and return		Social risk
	Capital protection	Interest rate on investment	Project risk ²¹
ICRC HIB	60%	Financial return range going from negative to positive (min -11.3% to 7% p.a.)	<ol style="list-style-type: none"> 1. Evidence base is strong. Targets set to be ambitious yet realistic. 2. ICRC have reputation on of implementing 3. Project management in place 4. High external risk factors Med-High risk (DFID Risk score 5)
QEI DIB	None	Financial return ranging from -100% (no capital guarantee) to 8% interest p.a. (capped at USD 0.74 million).	<ol style="list-style-type: none"> 1. Evidence base is strong. Targets set to be not too ambitious. 2. Implementers have track record of achieving outcomes 3. Project and performance management in place 4. External risk factors not especially high Med-High risk (DFID Risk score 5)
VE DIB	None	Financial return ranging from -100% to maximum of 9.9% IRR, depending on final number of households reached and VE performance.	<ol style="list-style-type: none"> 1. Strong evidence base for the intervention with extensive historical data from a previous RCT conducted. Ambitious targets set. 2. Village Enterprise have an organisational track record as service provider 3. Project governance arrangements are in place 4. External risk factors not especially high High risk (DFID Risk score 6.15)
Cataract DIB	100%	8% p.a. if performance targets met; 4% p.a. if not met (OPIC); 0% p.a. if targets not met (Netri).	<ol style="list-style-type: none"> 1. Good evidence base, though not specifically in Cameroon or Africa. Using tested Aravind model, although there have been previous challenges making this model financially viable in Africa. 2. Provider with strong track record capable of delivering the targets 3. Performance management arrangements in place 4. External risk factors high No DFID risk score available

5.4 Equity

This element of the value for money assessment will be the focus of subsequent research waves. For this research wave, we have explored two components of the interventions, with implications for equity. Firstly, we describe the targeting strategy of each DIB so that this can form the basis of assessments in later research waves as to the extent to which the targeting strategy has been effective in promoting equity. Secondly, we discuss the design of the outcome metric and verification process, and implications for equity. This will be followed up over the next two research waves.

5.4.1 Targeting strategy

The approach to equity will be guided by the individual programmes' targeting strategies, to understand the narrative around the target population. We will seek to understand the effectiveness of the targeting strategy of the DIB, especially in terms of the hard to reach. The evaluation will look at how well the programmes are fulfilling their targeting strategy and whether there are certain sub-groups which are not being reached. At this stage, the following strategies are understood to be in place:

- **ICRC** – The HIB targets disabled people in a geographic area.
- **QEI** – Poor schools were selected to participate in the programme.
- **VE** – The intervention identifies individuals who live in extreme poverty and are unable to provide for their family's basic needs. VE assesses poverty levels through a community-based Poverty Wealth Ranking exercise coupled with the Progress-out-of-Poverty Index. The targeting methodology is set out in the Outcomes Payment Agreement and 4% of direct expenses are budgeted for targeting according to the financial model.
- **Cataract DIB** – The financial model works through cross sub-subsidisation, and there is a specific equity target, to provide 40 percent of surgeries to individuals belonging to the bottom two wealth quintiles of the population in Cameroon.

5.4.2 Outcome metric and verification strategy

The use of an outcome metric has implications for equity. There is a danger of cherry picking certain sub-populations. This sub-section considers how the outcome metric, verification strategy and reporting have been designed with equity in mind. All DIBs have considered issues related to equity during the design process, and introduced mechanisms to monitor how well equity issues are being addressed. This will be reviewed over the new two research waves.

ICRC HIB: The outcome metric is based on people benefitting from physical rehabilitation services. However, the M&E data will include disaggregated data on gender and age. Furthermore, a key limitation with the verification process is that it is limited to those within urban areas, accessible by the verification firm. Over the next two research waves, the evaluation team will assess the extent to which targeting may have been affected by use of the HIB, and the extent to which the verification process will be affected by the limited geographical coverage.

QEI: The learning results measurement uses ‘distance travelled’ rather than level attained, so service providers are rewarded based on the progress from baseline, rather than reaching a specific target on the test. This avoids cherry-picking high performing students who could achieve a high level easily. However, the lack of specific targets related to equity led one outcome funder to push for the wider monitoring and reporting architecture to be showing enrolments, and dropouts, as well as performance by gender and grade start/end of grade, to enable tracking of potential concerns of cherry picking or negative behaviours. Similarly, another stakeholder proposed disaggregating the distributional attainment levels per grade at baseline and endline as part of monitoring, again to see trends of cherry picking / equity concerns. The evaluation team will review this as part of the next two research waves.

VE: The targeting strategy addresses equity concerns, and at the moment, there are no particular risks identified with the outcome target or verification process potentially driving perverse incentives. This will be monitored over the next two research waves.

Cataract DIB: There is a particular equity target that will be reported on over the course of the intervention. The evaluation team will review the process of assessing the equity target in more detail over the next two research waves, and any potential differences in terms of the quality of the services received between paying and non-paying patients.

5.5 Conclusion

The costs which are most clearly additional are those related to the return to investors. Other additional costs were harder to estimate, given the significant proportion of in-kind and pro-bono costs. Stakeholders identified that some of the design and set-up costs, were unique to DIBs (e.g. contracts requiring legal and financial consultancy), but that others are commonly seen in other similar programmes, particularly with a PBR or output-based contract (such as ongoing costs of performance management, project management and verification). Stakeholders expected some of the DIBs costs would reduce for future DIBs.

The size and types of costs incurred seems broadly similar across the four DIBs, and not necessarily proportional to the size of the DIB. Cost drivers involved a variety of factors, unlinked to the size of the DIB. This adds weight to the view held by some stakeholders that there is a certain level of fixed costs involved in setting up an impact bond, which means transaction costs will be proportionately lower in the case of larger impact bonds.

There was a large degree of overlap across the DIBs, in terms of the main cost drivers. All the DIBs identified legal and financial advice as a major cost driver taking significant staff time and expertise. Engaging outcome funders and raising finance from investors were also identified by three out of the four DIBs.

A number of stakeholders highlighted the need to put transaction costs into perspective, given impact bonds are still at an early market stage. One investor noted that in the financial industry, a new instrument is always complex to design and expensive to set up. However, the initial investment can be leveraged thereafter by launching others. This will be considered over the following two research waves.

The focus for this first research wave has been on the costs incurred in a DIB, and in comparison to grant based financing, and payment by results. The focus of the next research

waves will be to identify *actual* costs incurred during implementation, and to review the benefits arising from use of a DIB (in comparison to grant based financing and payment by results contracts).

Finally, a key challenge of this phase has been retrospectively calculating and comparing costs, without the use of a standardized cost template, and across a wide range of stakeholders. Going forward, we will continue to work with stakeholders to collect costs related to using a DIB, to add to the knowledge base of the true and complete costs of using a DIB.

6.0 Analysis and Findings – Improving the process of designing and agreeing DIBs

Summary

Identifying appropriate interventions

- DIBs require clear and suitable outcomes and a shared understanding of the policy problem. Additionally, there are other practical constraints on the type of interventions suitable, such as the timeframe of the impact bond and the level of external risk factors.
- Transaction costs are lower if the DIB design is able to draw on existing evidence, but this may limit the expansion of the DIB into new and innovative sectors.
- The benefits of using the DIB model are strongest when there is a value proposition to the use of the DIB, whereby the DIB is resolving a specific challenge that cannot be addressed by other funding mechanisms.

Identifying metrics and structuring payments

- Building a database on interest rates, outcome metrics and rate cards and drawing on private sector expertise on pricing risk would facilitate the growing of the DIBs market.
- It is important to developing outcome metrics and rate cards that are understood by all stakeholders and linked to other metrics within the sector/country.

Measuring impact

The validation process should be designed to balance costs with the evidence requirements of stakeholders. Experimental and quasi-experimental methods are significantly more expensive than validation of administrative data, and may not be necessary in all cases to measure impact.

Identifying and selecting stakeholders and managing relationships

- Transaction costs for the design and set up stage can be reduced when there is strong collaboration across stakeholders, drawing on each other's expertise and strength and clearly defining roles from the start.
- The types of investors, and the way outcome funders and investors are engaged in the DIB, have implications for the types of benefits that can be expected out of the model.

Structuring and developing the operating model

- The larger number of stakeholders involved in the DIBs to date, and the often diverse legislative frameworks, increase the transaction costs of this stage of the DIB development. The optimal solution would be to amend the legislative frameworks to accommodate DIBs. Where this is not possible, other potential solutions include:
 - limiting the number of stakeholders involved;
 - using pooled funding structures;
 - using other ways to minimise the number of contracts involved; and
 - standardising deals.

This section addresses the other components of Evaluation Question 2: 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?

This question involves identifying lessons learned from the four DIBs and exploring how they could be applied to future DIBs to improve their design and set-up. As set out in the evaluation framework in section 2, this involves exploring the following sub-questions:

- a. Under what conditions (such as project and stakeholder attributes) are DIBs an appropriate tool for key stakeholders and why?
 - In what circumstances are DIBs relevant in tackling issues in the development context?
 - Are DIBs appropriate in development contexts - is the existence of investors (and possible profits), payment only when results are made and strong expectations around measuring outcomes appropriate for donors such as DFID?
 - What social issues, target groups, geographies and project scales do DIBs fit best and have the greatest impact?
- b. How can the process of designing and agreeing DIBs be improved to reduce the associated transaction costs?
 - Are there any inefficiencies in a DIB model that can be reduced or are there any additional costs that are unnecessary?
- c. How can the process of designing and agreeing DIBs be improved to increase the model's benefits?

In order to frame our analysis and findings against all three questions, we draw on Gustafsson-Wright et al's (2017) framing of the key issue areas in the design of impact bonds, which we have reconfigured slightly to fit the DIBs under the scope of the evaluation. These are:

1. Identifying appropriate interventions
2. Identifying metrics and structuring payments
3. Measuring Impact
4. Identifying and selecting stakeholders and managing relationships
5. Structuring the vehicle and developing the operating model

The remainder of this section is structured around these five development areas, and for each development area we explore the three relevant research questions listed above (conditions where DIBs are most appropriate; improving their design; and reducing their transaction costs).

This analysis draws primarily on consultations with stakeholders involved in the four projects. The section also considers how lessons learned compare with other impact bonds; this draws on consultations with wider stakeholders and the literature review undertaken during the scoping stage.

The final sub-section then summarises the findings against the first sub-questions under EQ2, in terms of conditions required for a DIB to be a suitable tool for stakeholders. Findings against the second sub-question under EQ2, in terms of lessons learned around how the DIB design process can be improved, are summarised in section 7.

6.1 Identifying appropriate interventions

This sub-section explores the necessary considerations when selecting appropriate interventions to be funded through a DIB, and lessons learned on ways to reduce transaction costs and increase the model's benefits at this stage.

6.1.1 Identifying appropriate interventions - necessary conditions

Summary: DIBs require clear and suitable outcomes and a shared understanding of the policy problem. Additionally, there are other practical constraints on the type of interventions suitable, such as the timeframe of the impact bond and the level of external risk factors.

6.1.1.1 *Analysis from four projects*

Across all four DIBs under the evaluation, the following factors were critical in selecting appropriate interventions that were deemed appropriate to be funded through a DIB:

- **Consensus on the policy problem, target outcomes and appropriate approaches:** In all four of the DIBs there was a consensus amongst stakeholders on the policy problem, target outcomes and appropriate approaches, and this consensus was critical in launching the DIB. For example, In the case of the Cataract Bond, one investor commented that the eye sector was especially suitable, as there is agreement on approaches and measurement of prevented blindness, which is not the case in other sectors of health. Similarly, the QEI DIB stakeholders had a shared understanding of the relevance of targeting learning outcomes, as set out in the Sustainable Development Goals (SDGs), and were able to draw on a rich evidence base. Finally, the ICRC HIB and VE DIB are both funding existing programmes in areas where there is relatively strong consensus on the target outcomes and appropriate approaches. A number of the outcome funders for these DIBs are already funding similar programmes.
- **Sufficient evidence base for the proposed intervention:** Stakeholders across all four DIBs noted the importance of having sufficient evidence for the effectiveness of the intervention. In all four DIBs the interventions had a strong evidence base that offered reassurances to investors and also enabled stakeholders to build strong business cases. The evidence base was less strong in the Cataract Bond (as there is limited evidence to demonstrate the effectiveness of the intervention in Sub-Saharan Africa), but stakeholders were comfortable that there was sufficient evidence from previous interventions delivered by the service providers, in other contexts.

Investors in the ICRC HIB and QEI DIB also commented that they undertook significant work reviewing the available evidence for the hypothesised causal mechanisms within the interventions' theories of change. The rationale was that investors wanted to gain confidence that the proposed intervention would lead to the target outcomes. It is noted that in these two DIBs, the investors were commercial investors, and the UBSOF respectively. As the level of returns to investors depends on the achievement of outcomes, evidence for the intervention having led to the target outcomes would lower the risk for the investor to invest in the intervention. This was important as they were taking on the risk of achieving outcomes.

- **Clear and measurable outcomes:** The interventions' target outcomes also needed to be clear and measurable, in order to enable the development of outcome metrics (see Section 6.2.2 for further discussion on identifying metrics and structuring payments)
- **Feasible timeframe for achieving outcomes:** The target outcomes of the intervention need to be feasible within the **duration of the impact bond**. Stakeholders in the QEI DIB thought that the education sector was especially appropriate, given the fact that outcomes are attached to the academic year and possible in a shorter timeframe, which enables outcome targets to be based on actual outcomes instead of proxies. Similarly, ICRC commented that certain centres within its programmes would not have been suitable, given the difficulty of operationalising the centres within five years. Finally, the VE DIB and Cataract Bond outcomes were tailored to the duration of the impact bond.
- **Acceptable level of external risk:** The level of **external risk** is particularly relevant in humanitarian contexts. There is a practical incentive to identify interventions that are not subject to too high a level of external risk, despite the possibility of using force majeure clauses. For example, in the case of the ICRC HIB, certain locations, such as Afghanistan, were determined to be too risky to be practical for HIB funding.
- **Sector with strong service providers:** A **sector with strong providers** was cited by a QEI stakeholder as a key requirement for the use of a DIB, which facilitated the competitive process used to identify service providers. In contrast, stakeholders interviewed from the wider sector described how some impact bond projects have not progressed because of the absence of a strong service provider market in the relevant country.

6.1.1.2 *Comparison with other impact bonds*

Based on research undertaken in the UK SIB market, the LOUD model²² sets out the four factors that determine whether a social impact bond is launched: In terms of the identification of appropriate interventions, two of the factors are particularly relevant:

- **Clear Outcomes:** outcomes which are clear and attributable to the intervention, which the funder considers worth paying for, and the providers and investors believe is achievable.
- **Shared understanding:** all parties have a shared understanding about how the policy problem can be addressed, and the proposed intervention is evidence based or credible.

Our DIB level research finds strong overlap between the necessary conditions for identifying appropriate interventions and to launching SIBs in the UK. Furthermore, other impact bonds in the development sector have launched under similar conditions as those identified here (certain sectors with a stronger evidence base, more consensus on appropriate solutions) (Gustafsson-Wright and Gardiner 2015), and other impact bonds have failed to launch where

²² <https://golab.bsg.ox.ac.uk/knowledge/resources/loud-sib-model-four-factors-determine-whether-social-impact-bond-launched/>

there was a lack of shared understanding and agreement on outcomes. This suggests these are necessary conditions are somewhat general to impact bonds more generally.

6.1.2 Identifying appropriate interventions - reducing transaction costs

Summary: Transaction costs are lower if the DIB design is able to draw on existing evidence, but this may limit the expansion of DIBs into new and innovative sectors. Setting up this phase so that all stakeholders have a stake in the successful launch of the DIB may align incentives, which can then increase the efficiency of the design and set up of the DIB.

6.1.2.1 *Analysis from four projects*

Two emergent findings on the potential ways to reduce transaction costs during this stage are set out below:

Transaction costs can be reduced for this stage of the process if there is existing data already available. Across the four DIBs, there was limited additional data gathered during the design phase; rather, the availability of relevant data guided the selection of the interventions:

- The **Cataract Bond** was able to draw on data from where The Magrabi Foundation had delivered the model elsewhere
- The **QEI DIB** was able to draw on the strong track record of the three service providers, and on data on the education sector in India collected by GMI and MSDF
- The **VE DIB** was able to draw on data from a previous RCT
- **ICRC HIB** was able to draw on its extensive PRP data (though it did need to use the data in a significantly different way).

Careful consideration of the alignment of financial incentives during the set up phase can potentially reduce transaction costs. Stakeholders across the DIBs used a combination of grants for this development stage, as well as significant upfront investment of their own time²³. The grants received were cited by recipients in the QEI and VE DIBs as crucial to this stage. However, this diminishes the sustainability of the impact bond sector and the *value* of using impact bonds. Furthermore, actors covering upfront costs may mean they are more invested in the process and success of the launch. One suggestion raised for increasing the efficiency of this phase in the ICRC HIB was to ensure the DIB designers/intermediaries had a direct financial stake in the successful launch of the DIB. A few stakeholders within the ICRC HIB thought that had this been the case, this might have contributed to an increased focus on creating a workable DIB model.

6.1.2.2 *Comparison with other impact bonds*

Other research identifies that it can be expensive to create the data needed to develop a DIB when it is not already available (Oroxom et al 2018), supporting the notion that available data can reduce transaction costs.

²³This data, where available, has been included in the estimates of the cost of the design and set up phase, see section 5.

6.1.3 Identifying appropriate interventions - increasing the model's benefits

Summary: The benefits of using the DIB model are the strongest when there is a value proposition to the use of the DIB, whereby they resolve a specific challenge that cannot be addressed by other funding mechanisms.

6.1.3.1 *Analysis from four projects*

Several stakeholders across the four DIBs commented that the DIB model is best suited to specific contexts, where **the DIB is able to address specific challenges that are not resolved by other funding mechanisms, and/or to meet conditions that are not met by other funding mechanisms.** The box to the right sets out the value propositions of the four DIBs, in terms of the core benefit of using the DIB, in comparison to other funding mechanisms.

A potential limitation with the four DIBs under the scope of the evaluation was that they were all designed 'DIB first'; there was first an interest in testing the DIB mechanism, and then a suitable project was identified. This may mean that not all options are considered, and the impact bond may not necessarily be the most appropriate tool. For example, in the ICRC HIB, it was first decided to use a HIB for the PRP programme, before exploring whether there were outcome funders interested in funding the PRP on an outcome basis. This was cited as a key lesson learned by ICRC stakeholders. Similarly, certain stakeholders of the Cataract Bond thought that it may have been simpler to achieve the same outcomes with a grant. Whether the risk level in terms of the intervention and ambitiousness of targets justified using a DIB was debated by a number of stakeholders in these two DIBs.

The **ICRC HIB** enables a risk transfer to investors for the testing of efficiency improvement measures and the digital centre management system

The **VE DIB** enables the funding to expand and scale up the existing programme, and enable room to test and adapt different modalities of giving micro-enterprise grants

The **QEI DIB** enables the scaling up and improving of successful programmes. As the DIB focuses on outcomes and not specific service providers or interventions, it enabled a market approach to identifying appropriate service providers Thought why not PbR?

The **Cataract Bond** enables testing of an intervention in a risky context.

6.1.3.2 *Comparison with other impact bonds*

In terms of identifying interventions that enable the model's outcomes to be optimised, the advice is consistent that DIBs are best suited where there is market failure. Market failure can be understood as situations where the value of a particular intervention exceeds the cost, yet due to various factors, these interventions are not being delivered (Gustafsson-Wright and Gardiner, 2015; USAID). Interviews with wider stakeholders and evidence from the literature suggests that DIBs are most valuable when there is a need for more **collaboration and flexibility** than would be achieved under alternative funding mechanisms, or where there is a need for **risk transfer** that is too great to be borne by service providers:

- **Collaboration:** For example, the value proposition for an impact bond under development in a middle-income country was that the specific social area (employment) required good levels of collaboration between skills training providers, employers and the government that was not incentivised or apparent in the current

funding model. An impact bond is being developed as there is reasonable evidence to suggest that impact bonds align incentives and encourage collaboration.

- **Flexibility:** For example, the value proposition for a DIB in a low-income country was that the intervention required high levels of flexibility to adapt to different beneficiary characteristics. There was a view amongst stakeholders that impact bonds incentivise flexibility and adaptation more strongly than alternative funding mechanisms.
- **Need for risk transfer too great to be borne by service providers.**

6.2 Identifying metrics and structuring payments

This sub-section explores the process of identifying metrics and structuring payments, in terms of the necessary conditions and lessons learned around reducing transaction costs and increasing the model's benefits.

6.2.1 Identifying metrics and structuring payments - necessary conditions

Summary: DIBs require substantial data to enable the development of outcome metrics and pricing of the risk. Investor motivations and risk appetites will affect the level of robustness needed from the data.

6.2.1.1 *Analysis from four projects*

Identifying metrics

In identifying metrics, data from previous interventions was cited as a key enabler by a range of stakeholders across the DIBs. The four DIBs were able to draw on similar sources of data used to identify the intervention. These sources of data, as set out in section 6.1.2.1, were used to identify feasible and relevant metrics.

Structuring payments

The availability of historical performance data on the targeted outcomes is a key enabler to structuring payments and investor returns. For example, a key learning from the ICRC HIB was that metrics need to be aligned with historical data to enable an assessment of the ambitiousness and risk of the outcome targets. This enabled the investor to use insurance models in order to price the risk of the outcome targets.²⁴ The commercial investors noted that this was crucial to enable their participation.

Conversely, such activities can be challenging when this data does not exist. For example, the Cataract Bond did not have historical data on similar interventions within Cameroon, and drew on interventions delivered in other countries. This was cited as a key barrier and limitation which deterred certain investors.

6.2.1.2 *Comparison with other impact bonds*

²⁴ Insurance models involve the calculation of risk (based on the level of risk and volatility of outcomes based on past data), and the calculation of an acceptable return (which includes interest rate and percentage of capital at risk). Munich Re treated its investment in the ICRC HIB as an insurance product, with a potential risk premium / investor return. The main difference was that the payment terms were reversed, with Munich Re making payments in advance.

The evaluation findings on the importance of substantial data about the target population and intended outcomes echoes again the findings of the LOUD model²⁵, which identifies data as being critical to successfully launching SIBs. Some stakeholders interviewed as part of our sector level interviews also noted the challenge of creating a business case for DIBs in contexts where there was limited data, and this reflects what has been said in the wider impact bond literature to date (Gustafsson-Wright et al., 2015; Gustafsson-Wright and Gardiner, 2016).

6.2.2 Identifying metrics and structuring payments - reducing transaction costs

6.2.2.1 Analysis from four projects

Summary: Building a database on interest rates, outcome metrics and rate cards and drawing on private sector expertise on pricing risk would facilitate the growing of the impact bond market. Extensive modification to the DIB structure can be a barrier to scaling up DIBs based on standardised templates.

Identifying metrics

A few stakeholders across the DIB suggested that developing templates for outcome metrics and rate cards could reduce the transaction costs of setting up outcome metrics. This is particularly true in the case of DIBs in the same sector, and the QEI DIB was able to build on the work done in the Educate Girls DIB. Both the QEI and VE DIBs have the ambition to generate lessons and grow the DIB market in their respective sector, and the metrics are priced per outcome, which facilitates transferring the outcome metric to other interventions and providers.

Costs of delivery

Costing of the intervention can be done more efficiently and accurately when there is transparency between the outcome funder and provider, and when the outcome funder is able to draw on benchmark data. Competitively tendered processes can build in competitive pressure to the pricing. This was in the case of the QEI DIB, where a competitive selection process was used to select the three service providers. Similarly, a selection process was used to select VE. On the other hand, the Cataract Bond and ICRC HIB were eventually designed with a specific service provider in mind, and the costing of the intervention drew on existing interventions delivered by the service providers. One bilateral donor and outcome funder noted that increased use of a more competitive bidding process can reduce information asymmetry between outcome funders and service providers, as the process will enable comparison of pricing across a number of actors.

Determining outcome metrics, outcome payments and return to investors

In terms of development of the payment structure, transaction costs can be reduced when:

- **The development of outcome payments and the pricing of the risk is able to build on existing benchmarks and models used in other sectors.**

²⁵ <https://golab.bsg.ox.ac.uk/knowledge/resources/loud-sib-model-four-factors-determine-whether-social-impact-bond-launched/>

Limited market information available for setting the pricing and level of return to investors extended the time and resources necessary for this stage. A key learning from the Cataract Bond was that basing the terms of the agreement on a better understanding of the market, such as what level of risk is investible and pricing the risk accordingly, would have been helpful. Both an outcome funder and an early investor suggested that a better pricing of the risk would have probably prevented the DIB from being launched with terms that ended up being modified several times (See Annex A case studies for further details). Similarly, stakeholders within the ICRC HIB noted the challenge of finding interest rates or guarantees for comparable investments, even for intermediaries with special financial licenses, due to the limited benchmark data available.

Two potential solutions were raised by stakeholders involved in the four DIBs:

- i. More **transparency on the returns to investors and interest rates** used to date would be useful for the development of new DIBs, where relevant benchmark data exists. This was a limitation cited by the majority of stakeholders across the four DIBs.
 - ii. One of the private investors commented that they had priced the risk by using internal insurance models on the historical data. Interest was expressed by outcome funders and foundation investors in terms of **drawing on private sector expertise** in pricing risk, where limited benchmarks exist in the development sector. There may be scope to capitalise on private sector expertise in this area, particularly if the intention is to attract more commercial investors.
- **Use of tailored risk and return arrangements that best balance the preferences and needs of the different stakeholders.**

Across the four DIBs, innovative methods were used to balance the risk and return between stakeholders. These included:

- Arrangements to **share risk with service providers**, by providing them with a potential upside or downside in the case of delivery or non-delivery can be seen as a way of reducing the risk of non-delivery.
- **Force majeure clauses** also enable investors to terminate the contract in the event of non-delivery.
- Financial risk is reduced for investors, through the use of **capital protection, coupon payments** and **earlier repayments** to investors.
- The development of **different risk and return profiles for different investors** can mean that these are better tailored to investors' needs and objectives, and make the investor returns more efficient for the impact bond as a whole.

6.2.2.2 *Comparison with other impact bonds*

Stakeholders interviewed who are involved in the wider impact bond sector echoed the argument that standardised templates could help reduce transaction costs. However, one key stakeholder also argued that outcome design and pricing still involves a substantial degree of customisation, depending on the specific context, partners involved, intervention and related risk and requirements. Therefore the extent to which standardisation can apply is limited, and templates will always need to be somewhat bespoke. For example, the debate around standard rate cards is still ongoing in the UK SIB market, a much more mature impact bond

market, which suggests it may take some time before this will materialise in the more nascent use of impact bonds in middle income and developing countries.

6.2.3 Identifying metrics and structuring payments - increasing the model's benefits

Summary: Outcome metrics and targets work best when returns to investors and outcome funders, and correspondingly, incentives, are aligned. Developing outcome metrics and rate cards that are understood by all stakeholders and linked to other metrics within the sector/country can increase the value of the learning generated and also facilitate the broader DIB market and/or potential transition to a SIB.

6.2.3.1 *Analysis from four projects*

Identifying metrics

The model's benefits can be increased by developing an outcome metric that is understood by all stakeholders and linked to other metrics within the organisation/sector/country. This can increase the value of the learning generated and also facilitate the broader DIB market and/or potential transition to a SIB.

For example, the Cataract Bond draws on standards used by the WHO, and builds on standard measures used by other programmes managed by The Fred Hollows Foundation and Sightsavers. Conversely, for the QEI DIB, it was noted that the metric used is more rigorous than other assessments as it focused on attainment of grade level learnings rather than just numeracy and literacy skills. The metric is strong in avoiding in perverse incentives. However, it has three disadvantages:

- It has increased the data collection costs at the comparison schools
- the assessment system needs to be standardized over a larger data set should the DIB be transitioned into a SIB
- Service providers reported that they do not have a complete understanding of the framework. Should service providers be unable to develop a stronger understanding over the course of the DIB, this may limit the metrics' value in being a useful and accessible tool for performance management.

The model's benefits can also be increased when the **outcome metrics include considerations of quality**. However, it can be challenging to link quality indicators to outcome metrics. The ICRC outcome metric involves an element of quality (requiring the beneficiaries to undergo an assessment of their mobility). The Cataract Bond also has a quality indicator, benefitting from a WHO standard in terms of quality of outcomes which meant that it was relatively easy for the Cataract Bond to set and monitor quality. Several stakeholders in the QEI DIB requested that end user voices are added alongside quantitative measures, to better understand the quality of education provided. However, these are unlinked to the outcome metrics. Over the next two research waves, the evaluation will explore how these metrics unlinked to payment are monitored and used to drive performance.

Structuring payments

Outcome metrics and targets work best when returns to investors and outcome funders, and correspondingly, incentives, are aligned. This was cited by the majority of respondents as a key ambition in the design of the outcome metrics and payment structure.

- One approach was to develop a **unit cost per outcome** that balances what outcome funders are willing to pay for and the real cost of delivery and providing an acceptable return to investors. QEI first developed a price per outcome, and then this was checked against previous costs and expected return rates to determine acceptability. This allows for greater transferability to other interventions, and it is interesting to note that in this case the DIB was first developed before specific service providers were identified, and a semi-competitive selection process used to identify service providers.
- Another approach is to **set targets** acceptable to both outcome funders and service providers, and then **align these with an acceptable interest rate for both outcome funders and investors to determine the outcome payment.** In contrast to the VE and QEI DIB, the ICRC HIB and the Cataract Bond were designed with a service provider in mind. Hence, targets were first set, and the cost of the intervention was budgeted for, based on previous experience. The targets and budget were then linked to a maximum interest rate and return.
- The VE DIB used a blended approach. A **unit cost per outcome** was developed, and ultimately the ambition is to scale up to use other service providers. However, the payment function and targets were set once VE as a provider was selected and metrics, targets and payments were set drawing heavily on VE's theory of change, past RCT data and costing.

6.3 Measuring impact

This sub-section explores the balance between reducing the transaction costs and increasing the benefits of the impact measurement stage in terms of accuracy and usability. The necessary conditions for measuring impact largely relate to having clear outcomes that can be attributable to the intervention, and the robust metrics to capture the targeted outcomes, which are discussed in sections 6.0 and 6.2.1 respectively.

6.3.1 Measuring impact - reducing transaction costs and increasing the model's benefits

Summary: The validation process should be designed to meet the needs of stakeholders. Different considerations may apply to different contexts; where an intervention or certain causal links are sufficiently backed by evidence, there may be less value in using quasi-experimental methods compared to validated administrative data.

6.3.1.1 *Analysis from four projects*

Across the four DIBs, there were two methods of measuring impact: using validated administrative data (Cataract DIB and ICRC HIB) and experimental (VE DIB) or quasi-experimental methods (QEI DIB). We explore the alignment between the objectives and methods used across the four DIBs below:

Validated administrative data appears more straightforward, and works well when there is less of an attribution issue, and the focus is simply to pay for outputs or outcomes. For the Cataract Bond and the ICRC HIB, there is a direct link between the output (surgery and physical rehabilitation, respectively) and outcomes, namely improved vision and mobility as a result of the surgery/physical rehabilitation. Hence, the verification of the administrative data, including tests for quality (walking, post-operations visual acuity of 6/18 sight) was determined to be sufficient, simpler and cheaper, as no estimate of the counterfactual is required.

Conversely, where attribution is more challenging, or where standardized validated outcomes are not available or where there is an interest in comparing approaches with a counterfactual, with other interventions or between service providers, the use of an **experimental or quasi-experimental approach** is needed. In the case of VE, stakeholders wanted to ensure that any increases in income were attributable to the intervention itself. There was also a motivation to contribute to learning about ‘what works’ in poverty reduction. It was felt that an RCT would be the most rigorous means of achieving this. Furthermore, the use of a RCT enables demonstrating the value of the DIB in driving better performance. The return to investors is also assessed against previous improvement identified in the RCT. For the QEI DIB, a key priority was to have a rigorous evaluation that would evidence the causal effect of the intervention on a standardized scale.

However, both QEI and VE noted that this can be expensive and time-consuming.

- VE’s outcome metric is based on the ratio of increase in income based on funding transferred, and hence requires validation both on the increase in income (relying on a RCT) and on funding transferred (verification). VE’s outcome verification includes an audit to verify the transfers of seed funding from VE to beneficiary households and a RCT to estimate the effect of the programme.²⁶ VE notes that verification would be difficult to deliver at scale. It may be that certain components, such as the verification of seed funding transfer, can be subject to less rigorous verification going forward.
- In the QEI DIB, significant time and resource were spent on identifying a suitable comparison group.

As set out in section 5, the proportion of costs spent on verification is significantly higher for QEI and VE DIB, in comparison to the Cataract Bond and ICRC HIB. The issue of proportionality is closely linked to the objectives of the evaluation and verification, and the extent to which more expensive methods are required by the stakeholders involved in the DIB.

6.3.1.2 *Comparison with other impact bonds*

Similarly, other impact bonds face important considerations in terms of the objectives of measuring performance. We set out the three main objectives to measuring performance noted in the literature.

²⁶ The evaluation firm will conduct two instances of data collection, through which end line data will be collected from a sample of households from each cohort. Baseline data collected by Village Enterprise may be used for creation of covariates to be used during the analysis. Accordingly, each group of cohorts will have its own impact estimation based on which the trustee will pay Village Enterprise. The RCT design is an improved version of the RCT performed between 2014 and 2017 to evaluate Village Enterprise’s intervention in Uganda. The randomization will be made at the village level. The evaluator will randomly assign the villages to receive the Village Enterprise program.

Gustafsson-Wright et al (2017) set out **three main objectives** to measuring performance:

10. Assessing how the DIB is driving *better* performance
11. Assessing performance against targets, to protect outcome funders from paying for under-performance
12. Generate learning/evidence, in terms of identifying interventions/service providers that deliver, when compared to a counterfactual, or in comparison to other interventions/service providers.

Evaluation is an essential part of the impact bond structure. However, the objectives of the evaluation will differ among actors. Use of experimental or quasi-experimental approaches, in particular, can be a costly and time-consuming part of an impact bond. Costs can be reduced and benefits increased if the evaluation/impact measurement is designed with the specific objectives of the stakeholders in mind. The specific goals of the individual DIB are going to determine the most desirable method of evaluation, summarised in the table below (Gustafsson-Wright et al., 2017).

Table 6.1: Project focus and measurement approach

Projects focused on	Measurement
Innovation	Non-experimental
Building evidence	Quasi-experimental or experimental
Replication, drawing on an established evidence base	Against a counterfactual to further build evidence
Scaling, using established, highly evidence-based interventions	Simpler methodology

6.4 Identifying and selecting stakeholders and managing relationships

This sub-section explores the necessary conditions for stakeholders to be suitable for participation in a DIB. It then sets out five lessons learned around the process of identifying stakeholders and managing relationships, before concluding with lessons learned around how the involvement of different types of investors and outcome funders can lead to different benefits.

6.4.1 Identifying and selecting stakeholders and managing relationships - necessary conditions

Summary: The necessary conditions for DIBs are similar to SIBs developed in high-income countries, and involve strong leadership, within and across organisations. Additionally, stakeholders also need to have sufficient capacity and skills, as well as a willingness to adapt and learn. Finally, in this early stage of the market, stakeholders with strong a reputation and track records are needed to lend credibility to the DIBs.

6.4.1.1 *Analysis from four projects*

The following factors in relation to stakeholders and relationships were identified in the four DIBs as being necessary for their successful development:

- **Strategic leadership from each of the members of the leadership team:** For example, there was political commitment from the Belgian and the Swiss governments to support the ICRC, and clear alignment of interests and vision from the leadership team across the VE stakeholders. Similarly, there was strong leadership across the QEI stakeholders, and strong commitment to test the DIB model in the Cataract Design Coalition. This strong leadership was particularly important to overcoming reservations from other colleagues within their respective organisations; in particular overcoming concerns that DIBs involved ‘making money off the poor’.
- **Sufficient capacity and skills:** DIBs require financial, legal and private sector expertise, as well as experience with outcome based contracting, a good understanding of metrics and evaluation methodologies and a strong understanding of the sector. This was cited as a crucial element across all four DIBs, and a number of stakeholders noted that lack of this expertise was a key challenge which required additional time and resource. Drawing on external support to supplement this expertise was required across all four DIBs. As additional impact bonds are being implemented, a clearer sense of the capacity and skills required could make this process smoother.
- **Culture of innovation and interest in adapting and learning:** For example, systems within certain outcome funders and service providers are not set up to deal with multi-annual budgets, which require a certain flexibility and resourcefulness to address. QEI stakeholders commented on the importance of being able to achieve a high level of speed and efficiency in the decision-making, implementation and evaluation processes. One stakeholder in the QEI DIB commented that having entities happy to innovate and take on risk, such as UBSOF, is fundamental at this early stage of the market. Accommodating the DIBs required significant adaptation within organisations, and is not something suitable for all stakeholders, given the requirements involved and the reputational risks. The selection criteria used within the VE and QEI DIB to select service providers included openness to innovation and ability to adapt, in addition to track record and operational capacity.
- As discussed in section 4.3.1.3, participation of **stakeholders with a strong reputation and track record** lends credibility to the DIBs, especially during this early stage of the market, and makes it easier to secure other stakeholders. Outcome funders involved in the HIB thought that they would not have been able to test the DIB funding mechanism with other service providers, given the potential reputational risk associated with using a new funding mechanism that involved payments to private investors.

6.4.1.2 *Comparison with other impact bonds*

The necessity of strong collective leadership echoes the findings of the necessary conditions for a SIB to be launched in high-income countries, as set out in the LOUD model²⁷.

Additionally, a key finding from interviews with stakeholders from the wider impact bond sector was the importance of stakeholders being flexible enough to accommodate high levels of

²⁷ <https://golab.bsg.ox.ac.uk/knowledge/resources/loud-sib-model-four-factors-determine-whether-social-impact-bond-launched/>

internal management change, which can be a challenge in large organisations. As discussed in interviews, both USAID and World Bank are exploring how to modify their contracting procedures, legal issues and other organisational requirements, in order to better accommodate impact bonds.

6.4.2 Identifying and selecting stakeholders and managing relationships - reducing transaction costs

Summary: Transaction costs for this stage of the design and set up process can be reduced when: there is strong collaboration across stakeholders, drawing on each other's expertise and strengths; roles are clearly defined from the start; stakeholders are identified and brought in efficiently; and there is the right balance between undertaking negotiations bilaterally and collaboratively.

6.4.2.1 *Analysis from four projects*

The majority of cost drivers identified for the four DIBs, as set out in section 5.1, relate to this stakeholder management. Three out of the four DIBs identified that engaging outcome funders and raising finance were large cost drivers; two out of the four DIBs noted that the number of organisations involved in the DIB was another cost driver, as was the time it took to negotiate agreements.

The emerging finding from the experiences of these four DIBs is that transaction costs for this stage of the design and set up process can be reduced where:

1. There is strong collaboration across stakeholders, drawing on each other's expertise and strengths
2. The DIB involves the right number and balance of stakeholders
3. Roles are clearly defined from the start
4. Stakeholders are identified and brought in efficiently
5. The balance between undertaking negotiations bilaterally and collaboratively is optimal for ensuring the negotiation process is efficient, while at the same time building a shared understanding of the objectives of the DIB among stakeholders.

We discuss each of these in further detail below.

Collaboration between stakeholders with complementary experience

Stakeholders who are transparent and open to collaborating and sharing resources and expertise can make the process more efficient and reduce the costs needed of drawing in external expertise, while at the same time improving the design of the impact bond. This enables skills to be shared between stakeholders, reducing the costs of having to source this expertise elsewhere. Nonetheless, a balance is needed between obtaining the right complementary expertise across the stakeholders, and between having too many stakeholders that makes communication and collaboration unwieldy, something noted by an ICRC HIB investor.

- In the case of the VE DIB, the complementary experience of the different stakeholders was cited as a key enabler. For example, Village Enterprise and the anonymous donor had experience of poverty alleviation, while Instiglio brought in expertise in results

based financing, which helped to inform a more practical design of the DIB and limited the amount of external expertise needed.

- Similarly, in the case of the Cataract Bond, stakeholders brought in expertise in the eye care sector, as well as previous experience of operationalising the Aravind model.
- Finally, in the case of the QEI DIB, stakeholders commented on the complementary expertise brought in by the different actors; UBSOF and Dalberg brought previous experience with DIBs, while BAT, GMI and MSDF had extensive knowledge of delivering learning outcomes in the Indian context, had previously worked with the service providers involved in the DIB, and had a good network within the country. MSDF and GMI were also open to sharing their technical knowledge and data on the education sector in India, which was crucial to help identify targets and expected outcomes, compare the costs of different interventions and create performance metrics accordingly.

Involving the right number and balance of stakeholders

Increasing the number of stakeholders tends to increase the project management time needed and complexity around negotiations. One investor noted that complexity was linked to the high number of stakeholders involved, and their lack of familiarity with impact bond like instruments. It also creates complexities around undertaking due diligence on the respective partners, as explained in Section 6.4. One investor commented that in the private sector, whenever it comes to new products, one tends to limit the number of stakeholders involved to a necessary minimum. Limiting the stakeholders involved, especially at this stage of the market, can be a solution to reduce transaction costs. However, other stakeholders noted that a balance is needed, as limiting the number of stakeholders might reduce the amount of funding available, the learning opportunity stakeholders can benefit from by collaborating in different DIBs, and also the possibility of bringing on reputable stakeholders which can then give the DIB credibility.

Clearly defining roles from the start

A key lesson learned across the DIBs was that it is important to clearly define the roles and responsibilities of actors. QEI stakeholders noted that it was important to ensure clear understanding from all partners and strong governance supporting the agreements. Similarly, this was a challenge noted in the VE DIB. The function of the trustee was not clearly agreed upon, and Village Enterprise had not expected to lead the identification of investors, which delayed the process.

Stakeholders are identified and brought in efficiently

Across the four DIBs, the DIB leads structured the stakeholder engagement process in different ways. Advantages and disadvantages were identified for these different approaches. The table below summarises some of the advantages and disadvantages to the different approaches of identifying and engaging with stakeholders, which is followed by additional detail for the four DIBs in the box below.

Table 6.2: Advantages and disadvantages to different approaches to identifying and engaging with stakeholders

Approaches	Advantages	Disadvantages
Engaging with stakeholders early on in the process	Having credible stakeholders on board can attract others to the DIB.	It can be difficult for stakeholders to get involved when the terms are not developed. Lengthy negotiations can mean stakeholders consider dropping out
	Stakeholders often want or need to be involved early enough to be able to feed into the terms of the DIB.	
	Having investors involved early can mean they are able to provide financial and commercial expertise, and sense-checking of the proposed rates.	
Specific considerations for engaging with outcome funders first	Some outcome funders have procurement requirements for contracting with service providers. This can be a challenge if an outcome funder is approached when there is already a service provider in place.	Certain stakeholders in one of the DIBs noted that engagement with multiple potential outcome funders at the same time was inefficient.
	First identifying whether there is donor interest in using outcome based mechanisms to fund a certain sector of intervention can make it easier to identify outcome funders. Identifying outcome funders was cited as a challenge in all the DIBs (except for Cataract Bond, which was designed by outcome funders).	Having outcome funders locked in from the start can sometimes limit flexibility around the budget envelope available, or the terms of the outcome fund.

Box 2: Lessons Learned from the DIBs in approaches to identifying and engaging with stakeholders

Advantages of engaging with stakeholders early on in the process

- **Having credible stakeholders on board can attract others to the DIB** and signal the credibility of the funding mechanism. For example, in the ICRC HIB several outcome funders pointed to the importance of ICRC’s track record, and in the case of the VE DIB, there was limited interest from investors until USAID and DFID were signed in.
- **Stakeholders often want or need to be involved early enough to be able to feed into the terms of the DIB.** For example, an investor commented that they needed to be involved earlier, as often when they receive proposals from a service provider it is too late if they are no longer able to influence the terms and conditions and feed into the design of the impact bond. Outcome funders who joined the ICRC HIB at a later stage also commented on the limited scope to input into the HIB’s terms.

Disadvantages of engaging with stakeholders early on in the process

- **It can be easier for stakeholders to get involved when the terms are more developed.** This was noted by outcome funders in the QEI DIB and some of the investors across the other DIBs.
- **Lengthy negotiations can mean stakeholders consider dropping out.** For example in one of the DIBs, the length of the negotiations and process of identifying investors made several actors question whether they should abandon the idea of getting involved. Furthermore, the late involvement of OPIC in the Cataract Bond necessitated an updating of the terms, which prolonged the negotiation. Getting outcome funders and investors secured in parallel might be a way to mitigate this risk in the future.

Advantages of engaging with outcome funders first

- **Some outcome funders have rigorous procurement procedures in terms of the selection of service providers.** This means that it can be challenging if they are approached when the DIB already has an identified service provider, as was the case in the VE DIB. VE stakeholders thought that selecting outcome funders prior to engaging with service providers could facilitate a public request for proposal, something that was done in the case of the QEI DIB.
- **First identifying whether there is donor interest in using outcome based mechanisms to fund a certain sector of intervention can make it easier to identify outcome funders.** Identifying outcome funders was cited as a challenge in all the DIBs (except for Cataract Bond, which was designed by outcome funders). Furthermore, generally, outcome funders have priority sectors and countries, and the availability of funding will be determined by this, whereas investors are seen to be more attracted by the terms of the impact bond.

Disadvantages of engaging with outcome funders first

- Certain stakeholders in one of the DIBs noted that **engagement with multiple potential outcome funders at the same time was inefficient.**
- **Having outcome funders locked in from the start can sometimes limit flexibility.** In one DIB, a specific amount of funds was approved, which left little room for flexibility in terms of the funding value, capital guarantee or interest rate.

There is a right balance between undertaking negotiations bilaterally and collaboratively

There are trade-offs between undertaking negotiations bilaterally or in a more collaborative fashion. Negotiations in a more collaborative fashion can support a shared understanding of the objectives of the DIB, but be less efficient, an approach taken by QEI DIB and the Cataract Bond. A bilateral approach with proposed terms can make the process more efficient, but it means there is not a consistent understanding of the objectives of the impact bond and less chance for the other actors to feed into the development of the DIB. The box below sets out further details.

Box 3: Nature of negotiations

Stakeholders within the QEI DIB and Cataract Bond highlighted the importance of taking a **collaborative approach** to designing the DIBs and consistent messaging. QEI stakeholders noted they needed to organise many workshops with different stakeholders to keep messaging consistent about project objectives and details of the DIB model, and Cataract stakeholders also noted the importance of having the intermediary keeping the outcome funders regularly updated on design issues. QEI and Cataract stakeholders also commented on the importance of taking a collaborative approach to designing targets.

Conversely, the ICRC HIB involved more **bilateral discussions**, which meant that the negotiation process was more efficient. However, stakeholders commented that more collaborative discussions would have supported the development of a shared understanding of the impact bond. Additionally, a frustration noted by one outcome funder was that for a period, outcome funders could not see the terms offered to other funders and investors.

Finally, the VE DIB was initially designed to take an approach to developing impacts bonds that leverages '**market forces**'. Its design memo notes that set up costs for DIBs to date have been high, hypothesising that is due to a reliance on an 'over-engineered "consensus-on-all-things-by-all-parties" approach'. Hence, the intention was for the outcome funders to commit outcome funds and specify conditions, and leave the working capital, negotiating terms and structuring to service providers. This was expected to make the set-up of the DIB less costly and more scalable. However, it appears that in reality, multi-party negotiations were needed to develop the DIB. Interviews identified that stakeholders within VE noted that having multi-party negotiations without clear protocols slowed down the process.

For the four DIBs under the scope of the evaluation, the two models of negotiations (collaborative and bilateral) appear to have unlocked different benefits. A more collaborative approach ensures a shared understanding of the objectives of the impact bond and enables more collaborative co-design; on the other hand, more bilateral discussions can be more efficient, which can also potentially facilitate scaling up.

6.4.2.2 Comparison with other impact bonds

Costs include those needed to educate the market about the new product and concept that the DIB represents. One advisor explained this process was particularly costly because it often required one-to-one interactions, through workshops and regular communication.

The literature suggests the benefits of the earlier involvement of investors. (Gustafsson-Wright et al., 2017; Oroxom et al., 2018), and in the case of the Palestine DIB, stakeholders noted the ambition to involve investors in the co-design of the DIB. Similarly, the wider literature supports the finding that there are trade-offs between getting early buy-in and credibility from an outcome funder, versus a higher comfort level for outcome funders coming on board with something that is more developed (Gustafsson-Wright et al., 2017). A compromise may be to reach out to investors to gain initial interest and approach them again once the impact bond is better developed. If brought too early in the process of DIB development, which is likely to be lengthy, investors may lose patience (Gustafsson-Wright et al., 2017).

6.4.3 Identifying and selecting stakeholders and managing relationships - increasing the model's benefits

Summary: The types of investors, and the way outcome funders and investors engage in the DIB have implications for the types of benefits that can be expected, and require consideration in terms of the ethical framework for engagement.

6.4.3.1 *Analysis from four projects*

An emerging finding was that different types of investors and outcome funders bring different types of benefits. For example, commercial investors are able to bring in more experience with testing and implementing financing modalities, while philanthropic investors may be able to bring experience and expertise within the sector. As a result, careful consideration of the objectives of using the impact bond should be taken into account when identifying outcome funders and investors.

Investors

A hypothesised benefit of using DIBs, noted by a few outcome funders within the four DIBs, is that investors not only bring capital, but can also contribute commercial sense, expertise in pricing and quantifying risks, and market discipline in picking investments. A key advantage cited by the private investors and service provider involved in the ICRC HIB was the fact that it enabled commercial actors to be involved in providing upfront financing for the delivery of services in humanitarian contexts²⁸. One DIB advisor felt that these benefits may not materialise when traditional donors are involved as investors due to their aversion to certain types of risk (reputational, non-delivery) and other internal constraints, such as bureaucratic procedures. For example, one of the investors had internal organisation requirements that required extensive reporting from service providers, on areas such as job creation, disaggregation of jobs by gender, environmental standards and salaries. This can increase the reporting requirements of service providers rather than moving them to a focus on delivery

²⁸ It should be noted that investors are expected to be repaid at the end of the programme, depending on the performance of the programme.

of outcomes (as might perhaps be the case where investors were focused purely on financial return).

Conversely, the types of investors involved, and terms offered for their engagement, have implications for the suitability of impact bonds for the development sector. Certain outcome funders within the four DIBs highlighted the importance for them, when identifying investors, of finding an investor that is socially committed and aligned with the mission objectives of their organisation. One outcome funder noted that it was not willing to partner with investors whose primary objective is to make a profit out of the DIB. This resonates with another DIB advisor's concern about the risk of putting the investors' interests at the forefront of the project design, in terms of the returns necessary to attract them and their unwillingness to accept certain political and operational risks. The two main ethical considerations when involving investors appear to be the importance of avoiding excessive returns to investors and not prioritising development principles and priorities (for example, the humanitarian principles of impartiality and independence) over the commercial interest of investors.

Outcome funders

Another key hypothesised benefit of the DIB model is that outcome funders can focus on paying for outcomes and require less time to be spent on monitoring inputs or undertaking other project management duties. Similarly, an advisor in one of the DIBs thought that benefit of using the DIB is greater when outcome funders leave capital raising and investment structuring to service providers. Certain outcome funders within the ICRC HIB also expected savings in terms of project management time, over the course of the HIB.

However, our fieldwork identified that not all outcome funders are interested in taking a more hands-off approach in comparison to the approach taken when funding through grants. For example, for all four DIBs, outcome funders or outcome convenors undertook due diligence on the service providers, as well as some of the other actors within the impact bond. At the same time, one outcome funder noted that since 'donor payments are tied to the real costs of delivery, it is essential that all expenditure is eligible and verifiable.' Given the state of the current bilateral and multilateral donor frameworks in place, there is potentially a limit to the extent to which bilateral and multilateral donors can purely focus on outcomes. As discussed in section 5, despite being able to transfer financial risk should outcomes not be met, reputational and other types of risk remain, which limits funders ability to only focus on outcomes.

Overall finding

An emerging finding is that different stakeholders have different preferences and requirements. This depends less on the role they intend to play in the impact bond, and more on their organisational policies and their objectives for getting involved in the impact bond. For example, the level of input desired varied across different outcome funders and different investors. This was referenced to organisational policies, most notably on procurement and establishing of business cases, and to the objectives of getting involved in the DIB. This makes it difficult to generalise, even across the different DIB roles (such as outcome funder, investor, service provider, intermediary), and makes it necessary for the stakeholder engagement process to be designed on a case-by-case basis.

6.4.3.2 *Comparison with other impact bonds*

The benefits accruing to the outcome funder in outsourcing some of its management to the other actors in the impact bond is supported by the literature. A key hypothesis (Drew and Clist 2015) is that a major benefit of the DIB model is the role of the market in identifying successful projects. If the donor is involved in specifying the nature of the intervention or the contracting, the DIB model is then expected to lose an important advantage over other funding mechanisms.

6.5 Structuring the vehicle and developing the operating model

This sub-section sets out some of the necessary conditions and recommendations around reducing transaction costs during the structuring of the vehicle and development of the operational model.

6.5.1 Structuring the vehicle and developing the operating model - necessary conditions

Summary: Given the early stage of the market, organisations and legislative frameworks are often unable to accommodate the DIB, resulting in the need to set up SPVs or ‘work arounds’ in the terms of the contracts that can deviate from what a ‘standard DIB’ looks like.

6.5.1.1 *Analysis from four projects*

There are a number of conditions needed to implement a DIB. These were in place for some, but not all, of the four DIBs. Where these conditions were not in place, we summarise the approaches used to address these limitations.

A legislative framework that allows public funds to fund private sector profits

In the case of the ICRC HIB, the legal frameworks governing development assistance in Switzerland and Belgium presented an initial barrier. The investment in the HIB was ultimately able to proceed due to the granting of special waivers and exceptions. This is not yet resolved for future DIBs that may be implemented with investment from these countries. A learning is that legal feasibility can absorb considerable time. More work upfront to ascertain the legal feasibility of using an impact bond can provide stakeholders with a more realistic assessment of the potential time involved to develop an impact bond.

Taxation on the returns of the investment which is accounted for in the financial model

As impact bonds draw on both public funding and private finance, it is subject to tax regulations. Under Swiss tax regulations, profits on investments are taxed, and stakeholders involved, including those issuing the ‘bond’ need to ensure they are compliant with regulations on how and where returns are taxed.

A framework enabling public sector entities to commit themselves long-term to undefined and uncertain expenses

Certain donor budgeting and accounting frameworks do not allow a commitment to a long-term expense that is undefined and uncertain - a core component of an impact bond. For example, in the Cataract Bond, a key consideration was that the Hilton Foundation, as a grant-

making organization, did not have a mechanism to make contingent grant payments at some time in the future, as per the pay-for-success nature of a DIB. The Hilton Foundation also needed to provide the funds for the impact bond to an intermediary registered charity. As a result, the Hilton Foundation's initial outcome funding agreement was structured like a conventional grant, with a set schedule of payments and an accredited grant recipient, which is The Fred Hollows Foundation (FHF). As each grant payment is received, FHF forwards the money into a trust. Payments from the trust will be managed and released by FHF in line with the contractual agreement of the DIB.

Aligning DIB with organisational requirements

Stakeholders involved in the DIBs have to ensure the terms of the DIB are aligned with their organisation requirements and different methods were used to address this.

Firstly, in some cases it was a matter of including **specific terms in contracts**. For example, in the ICRC HIB, due to ICRC's specific legal status and specific privileges and immunities under both international and domestic law, there were challenges with setting up a contract for ICRC that was binding, and this required adding specific terms. Also, while ICRC and KOIS (who supported ICRC in designing the impact bond) originally intended to have one contract, ultimately different contracts were needed for each outcome funder, due to their different requirements and respective legal frameworks.

Secondly, the **set-up of an intermediary** can enable organisations to bypass internal restrictions, for example:

- In the QEI DIB, Tata Trusts could not pay an overseas investor, and had to find an Indian intermediary. Furthermore, UBSOF was unable to accept private investments. In hindsight, they thought it might have been beneficial to set up a special purpose vehicle (SPV) which could accept private investments. However, it would not have been a straightforward process to set up a SPV, as UBSOF is a subsidiary of UBS.
- VE was advised to set up Village Enterprise Capital Connector Corp (VECC) to act as a buffer between VE and its limited liability corporation (LLC) to enable greatest flexibility in terms of the types of investment sources that can be received into the LLC. Additionally, having a separate company filing for the VECC protects the balance sheet and operational activities of the original VE. A barrier for the mixing of funds as well as the legal buffer between the LLC and the original non-profit is advantageous in terms of potential liabilities.

Finally, organisation requirements can affect the **structure of the funding mechanism**. For example, given that OPIC is by mandate a lending organisation, the Cataract Bond had to be structured as a loan or the coalition would have had to get approval from Congress to go ahead with the investment. This affected the contractual arrangements within the DIB, which resulted in OPIC and Netri making loans to the Africa Eye Foundation, and a 100% capital guarantee for OPIC.

Setting up arrangements in which what happens in all eventualities is clearly defined

Stakeholders in the QEI DIB pointed to the importance of planning ahead for all eventualities, including agreements on who is able to end the contract or change the actors involved. Across the QEI DIB, ICRC HIB and VE DIB contracts, force majeure and exit clauses were included.

Effective processes to manage the risks of working with new actors

The number and types of stakeholders involved in a DIB tend to be larger than and different to that of a grant funded or PbR contract. This presents additional risks to stakeholders.

- **One approach to managing this risk is through undertaking and sharing due diligence assessments.** Several outcome funders commented on the additional resources needed to undertake due diligence on all the stakeholders involved. Across the four DIBs, there were examples where stakeholders tried to manage this by sharing the results of due diligence assessments, and relying on the assessments done by others.
- **Another approach is to use multiple contracts.** For example, in the QEI DIB, certain stakeholders were not comfortable signing a contract with service providers that they had not selected or conducted due diligence on. As UBSOF was also unwilling to provide an indemnity clause, eventually separate contracts were signed between the different stakeholders, to manage this risk.²⁹

6.5.2 Structuring the vehicle and developing the operating model - reducing transaction costs

Summary: The often diverse legislative frameworks increases the transaction costs of this stage of DIB development. The optimal solution would be to amend the legislative frameworks to accommodate DIBs. Where this is not possible, other potential solutions include limiting the number of stakeholders involved, using pooled financing or funding structures, using other ways to minimise the number of contracts involved, or standardising deals.

6.5.2.1 *Analysis from four projects*

As discussed in previous sections, limiting the number of stakeholders involved in the DIB and standardising templates and processes could both reduce the transaction costs associated with structuring the vehicle. However, again as noted previously, the unique nature of the DIBs (and in particular here the different legislative frameworks of the respective countries) limits the ability for standardisation.

6.5.2.2 *Comparison with other impact bonds*

A potential solution raised in our sector level findings was identifying whether a funder is more hands on or hands off. Where funders are willing, an intermediary agency can be used to channel resources through an outcomes fund; the rationale here is that an outcomes fund funds multiple SIBs designed in the same way, reducing the per-DIB transaction cost as many elements (such as the outcome metrics) only have to be designed once. Where outcome funders are willing to be more hands off, alternatives such as pooled funding mechanisms³⁰ or other financing mechanisms, as well as other contractual arrangements, may be potential solutions.

6.6 Conclusion

²⁹ One investor noted that indemnities can work in a PbR set up, due to service providers' limited assets, but that it would be very unlikely for investors to be willing to provide this indemnity.

³⁰ Pooled funds are funds from many individual investors that are aggregated for the purposes of investment, as in the case of a mutual or pension fund. Pooled funds are also used within the humanitarian and development sector to aggregate funding from multiple donors.

This section has examined the **context in which DIBs appear to be most appropriate**. It is too early (and there are not enough DIBs) to state whether DIBs are most appropriate in certain sectors or regions, but what is clear is that there are certain 'conditions' that increase the likelihood that the DIB will be launched at all, or in the least launched in a shorter timeframe and/or with lower transaction costs. These are as follows:

- Sufficient evidence base for the proposed intervention
- Clear and measurable outcomes
- Feasible timeframe for achieving the outcomes
- Acceptable level of external risk
- Sector with strong service providers
- Data from previous interventions
- Consortium that has:
 - strong and committed leadership;
 - sufficient capacity and skills;
 - a culture of innovation and interest in adapting and learning;
 - a consensus on the policy problem, target outcomes and appropriate approaches;
 - the right balance between size and breadth of expertise;
 - clearly defined roles for its members;
 - brought in stakeholders at the right time; and
 - a balance between bilateral and collaborative negotiations.
- Legislative framework that allows public funds to fund private sector profits
- Taxation on the profit of the investment which is accounted for in the financial model
- A framework enabling public sector entities to commit themselves long-term to undefined and uncertain expenses
- Alignment of DIB to organisational requirements
- Setting up arrangements in which what happens in all eventualities is clearly defined
- Effective processes to manage the risks of working with new actors.

What is particularly interesting is that many of these conditions have been identified as necessary within SIBs in high-income countries, suggesting that a lot of the learning within impact bonds is transferable to different outcome funders (donors) and regions (middle-income and developing countries). In this early stage of the market, stakeholders with strong reputation and track records are particularly important to lend credibility to the DIBs, especially where certain, organisations and legislative frameworks are often unable to accommodate impact bonds. For DIBs to be appropriate to these organisations, it can be necessary to set up special purpose vehicles (SPVs) or 'work arounds' in the terms of the contracts that can deviate from what a 'standard DIB' looks like.

As a result, to date, certain sectors appear to be particularly suitable for DIBs, in terms of having clear outcomes, a shared understanding of the policy problem and sufficient data to develop targets and price risk. For example, certain markets such as eye care and education have a strong evaluation and research history. It is too early to say in which contexts, problems, target groups, geographies and projects DIBs fit best and have the greatest impact, and this will continue to be explored in the following research waves.

This section also examined how the **process of designing and agreeing DIBs can be improved**, in order to **increase the model's benefits and reduce transaction costs**. We note that the DIBs under the scope of the evaluation vary significantly along a number of characteristics (see section 3). The process of designing and agreeing DIBs will have to be tailored to the context of the intervention, and the objectives of using the DIB.. For example, for the impact to be suitable to the humanitarian sector and ICRC's model of operations, it was necessary to reformulate the role of the investor and governance structures, and modify the impact bond structure to introduce non-private investors, capital protection and payments linked to milestones. These findings are also limited by the fact that a very small number of DIBs are operating in very different contexts, and at an early market phase.

There appears to be a **tension between testing a 'pure' DIB, and tailoring the DIB to meet the objectives of stakeholders**. For example, certain outcome funders in the Cataract Performance Loan and the ICRC HIB were disappointed in some of the terms offered. One of the outcome funders felt that the final terms dampened the most important element of the DIB to them, namely testing the integrity of the DIB model, and especially the aspect of risk sharing.³¹ Similarly, an outcome funder in the ICRC HIB expressed disappointment that a risk guarantee was included, as well as the fact that there was a payment attached to the construction of the centres. However, other actors felt that the changes were a promising step forward in terms of enabling an investor to participate. It should also be borne in mind that a key concern set out by Arena (2016) and echoed by Palladium and USAID (2016) is that during this phase of the market, as outcome funders and other actors are still building up the architecture to support DIBs, too much tailoring and 'work arounds' can introduce complications and make it difficult to standardise processes to reduce transaction costs, thus potentially limiting the model's benefits.

The **process of designing and agreeing DIBs will need to be structured differently**, depending on the **aims of the DIB**. What is evident from the research is that stakeholders use DIBs for different reasons and in different contexts, and the process of designing and agreeing DIBs have to be adjusted accordingly. The evaluation found innovations in terms of how the four impact bonds under study sought to reduce transaction costs and improve the benefits of the model. An emerging finding is that impact bonds have to be adapted to the problem and conditions at stake. When selecting suitable interventions for DIBs, stakeholders need to ensure the DIB structure is adapted to DIB objectives. Context specificity is likely to be important, with different design features working best with different combinations of actors, and in different contexts. Furthermore, DIBs will be set up with different objectives in mind, and will not be aiming for all DIB effects. Therefore, the findings around improving the process of designing and agreeing DIBs may not be relevant for all DIBs. As previously mentioned these findings are also limited by the early market stage and small number of DIBs that are operating in very different contexts.

³¹ This echoes Arena et al's (2016) work on identifying the configuration of the 'prototypical SIB structure' and their hypothesise that 'inconsistencies' with the prototype model can inhibit the expected benefits of using the impact bond model. Similarly, Carter et al (2018) discuss the four dimensions of a 'textbook' SIB that differ from PbR contracts or grants, and are hypothesised to unlock collaboration, prevention and innovation.

Transaction costs need to be put into the perspective of the stage of the market. One investor noted that in the financial industry, a new instrument is always complex to design and expensive to set up. However, the initial investment can be leveraged thereafter by launching others. The QEI DIB was able to build on the learning from the Educate Girls, with the added benefit that some actors were involved in both DIBs. The previous learning and experience facilitated processes such as structuring the DIB, deciding what outcomes must be tracked and measured, and elaborating the legal framework, reducing the initial set up phase from a year in the EducateGirls DIB to about six months in the QEI DIB.

Nonetheless, there is a **tension between reducing transaction costs and increasing the model's benefits**. Transactions costs may be reduced to the extent that this limits the model's benefits. According to one DIB practitioner, the DIB is an expensive tool, but striving to keep cost per beneficiary as low as possible by diluting the quality of services is not a wise option. A balance is needed between reducing transaction costs that do not directly link to the DIB effects, and focusing resources on those components that are expected to lead to the targeted DIB effects. However, this is not so clear cut. For example, extended discussions were cited as important to developing a shared understanding of the objectives of the impact bond. Also, addressing the legal and organisational challenges to accommodate an outcome based contract can be expensive, but taking time to elaborate an organisational structure that enables outcome based contracting can bring benefits to the wider organisation.

The key findings are set out below mapped against the five issue areas of designing and agreeing DIBs, loosely based on Gustafsson-Wright et al's (2017) categorisation. The relevance of these findings for DIBs will depend on the objectives of the specific DIB, which should be used to guide the balance between reducing costs and ensuring the DIB is structured so as to increase the model's benefits.

7.0 Lessons

Below we set out the lessons of potential wider relevance for the design and set up phase of DIBs. These are split out against the DIB effects and different stages of designing and setting up DIBs. As discussed in section 3, there is not yet a predominant design for DIBs, and it is perhaps more helpful to understand DIBs as a funding class within which there is great variation. The precise structure and nature of the DIBs depend on the stakeholders involved, their objectives for using the DIB and the organisational and regulatory requirements in place. These have implications for the DIB effects and for the process of design and set up phase. This diversity must be borne in mind when taking stock of the lessons learned to date.

DIB effects

1. The DIB effects have varied across the four DIBs, though the majority of hypothesised DIB effects were noted to some degree in at least one out of the four DIBs. The strongest positive DIB effects have been that they have made it possible to implement PbR contracts in contexts where this would previously not have been possible, due to the creation of new partnerships and strong levels of collaboration. A large amount of work has been done in all four DIBs to build a strong performance management infrastructure. Additionally, across all four DIBs, the DIB was found to have enabled innovation and been complex to design.
2. The DIB effect that varied most across the four DIBs was in terms of financial risk sharing arrangements between the outcome funders, service providers and investors. Due to the nature of the stakeholders involved, the precise risk sharing varied significantly, with some investors taking on risk only related to the rate of return, ranging to investors taking on 100% risk should targets not be met.
3. There are limited examples where DIBs are bringing in private finance, and for the most part investors are philanthropic organisations. However, the impact bonds are substantially larger, in terms of contract value and beneficiaries supported, than social impact bonds in high-income countries and compared to their predecessor DIBs.

Identifying appropriate interventions

13. Transaction costs are lower if the DIB design is able to draw on existing evidence, reducing some of the costs associated with designing outcome metrics and the evidence base required to determine pricing. However, the requirement for a strong evidence base may limit the expansion of the DIB into new and innovative sectors.
14. The benefits of using the DIB model are the strongest when there is a value proposition to the use of the DIB, whereby they resolve a specific challenge that cannot be addressed by other funding mechanisms. Many of the benefits of using the DIB model are similar to the benefits of using PbR. However, there are some benefits unique to the DIB model, such as enabling service providers to participate in PbR without upfront capital, and the tendency for the DIB model to draw in a wide range of stakeholders and require and support collaboration.

Identifying metrics and structuring payments

15. Building a database of impact bond returns, outcome metrics and rate cards and drawing on private sector expertise on pricing risk would facilitate the growing of the DIBs market. However, context specificity may limit the usefulness of standardisation and caution is also advised in terms of developing rate cards, due to the early stage of the market and limited data available.
16. Outcome metrics and targets work best when returns to investors and outcome funders, and respective incentives, are aligned. Developing outcome metrics and rate cards that are understood by all stakeholders and linked to other metrics within the sector/country can increase the value of the learning generated, and also facilitate the broader DIB market and/or potential transition to a SIB. It is noted that there can be a tension between using a robust model and using a less robust model that is aligned with measures used by others in the sector.

Measuring impact

17. The validation process should be designed to meet the needs of stakeholders. Different considerations may apply to different contexts. We note that there can be an automatic preference to use experimental approaches or quasi-experimental approaches. However, where an intervention or certain causal links are sufficiently backed by evidence, there may be less value in using experimental or quasi-experimental methods compared to validated administrative data.

Identifying and selecting stakeholders and managing relationships

18. Across three of the DIBs, it was challenging to engage outcome funders. There is a benefit to identifying outcome funders interested in using outcome based contracting, and the types of interventions they are interested in earlier on, and recognising that outcome funders need to be involved in the design of the DIB. Identifying outcome funders first could also enable a competitive process for selecting service providers. On the other hand, outcome funders are concerned about the risks of getting involved with a new funding mechanism, and it can be easier for outcome funders to get involved at a later stage, when the other stakeholders have been identified and the terms are more developed.
19. Transaction costs for the design and set up stage can be reduced when there is strong collaboration across stakeholders, drawing on each other's expertise and strengths; when roles are clearly defined from the start; when stakeholders are identified and brought in efficiently; and when there is the right balance between undertaking negotiations bilaterally and collaboratively.
20. Different types of investors and outcome funders bring different types of benefits. For example, commercial investors are able to bring in more experience with testing and implementing financing modalities, while philanthropic investors may be able to bring experience and expertise within the sector. As a result, careful consideration of the objectives of using the impact bond should be taken into account when identifying outcome funders and investors.

Structuring and developing the operating model

21. The larger number of stakeholders involved in the DIBs to date, and the often diverse legislative frameworks, increase the transaction costs of this stage of the DIB

development, due to the larger number of 'work-arounds' and negotiations required. Furthermore, contracting with different currencies introduces foreign exchange risk. The optimal solution would be to amend the legislative frameworks to accommodate DIBs. Where this is not possible, other potential solutions include limiting the number of stakeholders involved, considering other pooled financing or funding structures, using other ways to minimise the number of contracts involved, or standardising deals.

8.0 Recommendations

Recommendations are split into two categories: those applicable to all DIB stakeholders, and those particularly relevant to DIB designers. This report covers research wave 1 of the evaluation of a pilot programme. We also caveat that it must be borne in mind that these pilot projects may also be affected by the increased attention and hence risk adverseness related to these projects being pilots. As a result, it is anticipated that these recommendations will be further refined over the course of the evaluation.

8.1 Recommendations to all DIB stakeholders

- Be transparent and share lessons learned and key successes and failures (including DIBs that failed to launch) to facilitate dissemination of learning across the sector
- Make contracts, payment terms, feasibility studies, investor documents and learning documents publicly available;
- Building a database on interest rates, outcome metrics and rate cards and drawing on private sector expertise on pricing risk would facilitate the growing of the DIBs market
- Prioritise the documentation of lessons learned and evaluation, in order to facilitate the development of a more finely-grained understanding of what works, in what contexts.

8.2 Recommendations to DIB designers

- Clearly agree upfront the roles and responsibilities of all involved parties, including how these responsibilities may change depending on circumstances;
- When structuring the DIB, ensure that the contracts and governance arrangements have provisions for a range of potential eventualities;
- Be clear about the objectives of using the DIB, and how the DIB is expected to resolve a policy problem. Then, structure the DIB so it focuses on delivering the targeted DIB effects, and seek to reduce transaction costs that do not contribute to the targeted effects of using the DIB. Be clear what is needed from stakeholders, including investors, outcome funders and advisors. This can affect whether hands-on or hands-off stakeholders are more appropriate.
 - Based on the emerging evidence on the DIB effects and our review of failed DIBs, DIBs appear to be a worthwhile financing approach when it enables PbR in cases where it would not have been possible otherwise, or when the DIB mechanism is expected to bring about benefits beyond those provided by a PbR approach. For example, this could be the involvement of an investor, or the increased collaboration between a range of stakeholders within the sector.
- Consider carefully the number and types of stakeholders involved, as, in this early stage of the market, complexity increases with the number of stakeholders. Consider

solutions to reduce this complexity, such as limiting the number of stakeholders involved or using contractual arrangements that simplify the processes required.

- Develop outcome metrics and rate cards that are understood by all stakeholders and linked to other metrics used in the sector / country, to increase the value of the learning generated, minimise the costs of data collection and facilitate the broader DIB market and/or potential transition to a SIB.
- Collaboration is important to reducing transaction costs. Seek to draw on the expertise and experience of stakeholders within the DIB.

Annex A: Case study reports

The case studies summarise findings from consultations undertaken as part of the DFID commissioned independent evaluation of the DIBs pilot programme. The case study reports focus on the DIB model and early successes and lessons learned during the design and set up phase. Consultations were undertaken with the main stakeholders involved in the design and set up of the four DIBs. A full list of consultations is set out in the Annex H. Interviewees have been given the opportunity to review the case studies and rectify the findings when needed, and their feedback has been incorporated in the version of the case studies inserted below.



ICRC Humanitarian Impact Bond for Physical Rehabilitation:

A case study produced as part of the independent evaluation of the Department for International Development's Development Impact Bond Pilot Programme



“ Today’s humanitarian challenges are immense, causing suffering for many millions of men, women and children around the world. This funding instrument is a radical, innovative but at the same time, logical step for the ICRC. It is an opportunity not only to modernise the existing model for humanitarian action, but to test a new economic model, designed to better support people in need.

We hope that once the pilot project is proven, it will demonstrate that non-traditional financing models can work. There is great potential for investments that are built around improving the social, environmental and economic conditions so that humanitarian action advances in impact, effectiveness and scale in ways never seen before. ”

Peter Maurer, ICRC president (News release September 2017)

<p>TIME PERIOD: July 2017 – July 2022</p> <p>THEMATIC AREA: Physical rehabilitation in humanitarian contexts</p> <p>COUNTRIES: Mali, Nigeria, and the Democratic Republic of Congo</p> <p>TARGET POPULATION: Persons with physical disabilities in Mali, Nigeria, and the Democratic Republic of Congo</p> <p>OUTCOME METRIC: Staff Efficiency Ratio (SER), calculated by the number of beneficiaries having regained mobility thanks to a mobility device, divided by the number of local rehabilitation professionals.</p> <p>LOAN VALUE: 26.09 million CHF</p>	<p>SERVICE PROVIDER: International Committee of the Red Cross</p> <p>OUTCOME FUNDERS: The Swiss Confederation ('Switzerland') The Kingdom of Belgium ('Belgium') The Republic of Italy ('Italy') The United Kingdom ('UK') La Caixa Banking Foundation ('La Caixa')</p> <p>INVESTORS: Munich Re, Lombard Odier pension fund and charitable foundations and others</p>
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This case study report covers the ICRC Humanitarian Impact Bond for Physical Rehabilitation, which funds the building of three new physical rehabilitation centres in Mali, Nigeria and Democratic Republic of Congo (DRC). As a part of the HIB, ICRC is also piloting efficiency improvement measures testing and building a Digital Centre Management System (DCMS).

The case study report focuses on the Humanitarian Impact Bond (HIB) model and early successes and lessons learned during the design and set up phase of the HIB. It summarises findings from consultations undertaken as part of the DfID commissioned independent evaluation of the DIBs pilot programme. Consultations were undertaken between July-November 2018 with the main stakeholders involved in the design and set up of the HIB. This included the service provider, outcome funder, investors, and advisor. A full list of consultations is set out at the end of the case study.

The ICRC HIB launched in July 2017 and will conclude in July 2022. The funders have committed a maximum of 26.09m CHF to the intervention, the majority of which is payable in 2022 depending on the results of the programme. The social investors provide the working capital to launch the centres, paying a total of 18.6m CHF. The final amount payable by the outcome funders depends on the Staff Efficiency Ratio, calculated by the number of beneficiaries having regained mobility thanks to a mobility device, divided by the number of local rehabilitation professionals. The returns are scaled to incentivise efficiency savings. If the new centres operate less efficiently than past centres, the investors will make a loss on their investment and ICRC will be liable to make a loss payment; however, if the centres deliver more efficiently, then the investors will recover their investment and can make a moderate return.

ICRC led the development of the HIB. ICRC designed the HIB with the support of Kois, and led the discussions with potential outcome funders. Funding from outcome funders was lower than initially expected. ICRC started approaching investors at the end of 2016. The main focus of negotiations was the outcome metric, outcome target, interest rate and capital protection and timing of payback. Contracting was a particular challenge as the legal frameworks in Switzerland and Belgium had no provisions for the HIB model.

The key enablers to the set up of the HIB was the strong leadership of ICRC and its partners, the development of a clear outcome metric, sufficient evidence for the intervention, data to build up the business case, the strong reputation and track record of ICRC and financial and private sector expertise within ICRC. Challenges included identifying outcome funders, making the necessary shifts within outcome funders and ICRC to accommodate the HIB and adapting the social impact bond (SIB) model to the humanitarian sector.

The key lessons learned were that:

- 1 HIBs should be developed to meet a specific need;
- 2 It is important to test the legal feasibility of operating a HIB at an early stage of the process;
- 3 Additional time and costs are required to manage multiple investors and donor requirements;
- 4 Investors need to be involved at an early stage;
- 5 Outcome metrics need to be designed to reflect existing data;
- 6 There needs to be flexibility in terms of understanding what an impact bond is, in terms of the structuring of the impact bond and the roles of different stakeholders; and
- 7 There are trade-offs between undertaking negotiations in a bilateral or more collaborative fashion.

The main advantages were that the HIB provided longer term upfront capital to ICRC, brought together existing ICRC partners and new partners, brought in private sector finance which enables the funding of the DCMS and efficiency improvement measure testing, in addition to the three new physical rehabilitation programme centres. The main disadvantages were that the HIB was complex to design and expensive to set up. There is mixed opinion about the extent to which the HIB led to a more careful and rigorous design of the intervention.

The following sections cover the DIB's model and the intervention funded, the history of development, the enablers and challenges to setting up the DIB, the lessons learned and advantages and disadvantages to using the DIB before concluding.

Intervention

The International Committee of the Red Cross (ICRC) is an impartial, neutral and independent organisation that manages humanitarian operations in conflict zones through its national delegations in over 80 countries. The ICRC Humanitarian Impact Bond (HIB) funds the following activities:

- 1 Build 3 new Physical Rehabilitation Programme (PRP) centres to provide people with physical disabilities with mobility devices and physiotherapy in countries with significant unmet needs (Mali, Nigeria, Democratic Republic of Congo);
- 2 Train local staff to deliver high quality physical rehabilitation services in these centres;
- 3 Pilot and rigorously assess efficiency improvement measures (EIM) across eight¹ existing ICRC PRP centres, and build a Digital Centre Management System (DCMS) with the aim of improving efficiency and maintaining quality patient outcomes; and
- 4 Use the DCMS and improved operational protocols based on the findings from the efficiency improvement measure testing to operationalise the three new centres.

ICRC is delivering the intervention within its Physical Rehabilitation Program (PRP)² using the same reporting structure and procedures.

¹ Cambodia, Pakistan, Myanmar, Zinder and Niamey in Niger, Mali, Togo, Madagascar

² The PRP has been operating since the 1970s, formerly the Physical Rehabilitation Unit

HIB Model

The ICRC Humanitarian Impact Bond is the first humanitarian bond, so named because it is an impact bond operating in a humanitarian context. The HIB launched in July 2017 and will conclude in July 2022.

The funders have committed a maximum of 26.09m CHF, which is made up of 10.0m CHF from the Swiss Confederation; 9.31m CHF (8.7m EUR) from the Kingdom of Belgium; 3.21m CHF (3.00m EUR) from the Republic of Italy; 2.50m CHF (2m GBP) from the United Kingdom and 1.07m CHF (1m EUR) from La Caixa Foundation. The final amount payable by the funders will be based on the results of the programme, payable in September 2022, with the exception of La Caixa's EUR 1m funding, which will be payable upon the successful construction of the centres.

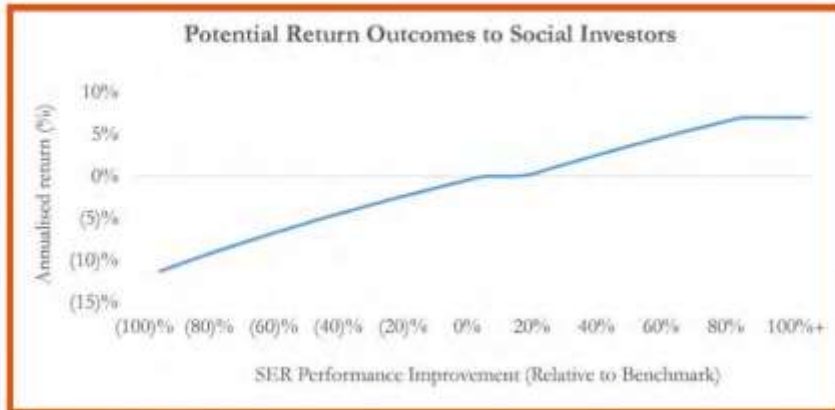
As the outcome funders only pay at the end of the project, the social investors provide the working capital to launch the centres. New Re (the cornerstone investor) provided 10m CHF, and the other private investors identified by Lombard Odier, the placement intermediary, provided 8.60m CHF. This was paid in two equal tranches, in July 2017 and July 2018.

Amounts payable by the outcome funders, and therefore returns to social investors, will be based on the Staff Efficiency Ratio (SER), calculated by the number of beneficiaries having regained mobility thanks to a mobility device, divided by the number of local rehabilitation professionals. The SER in the final year of the programme will be compared to the baseline SER (established from historical data from other comparable ICRC centres in Africa). ICRC's self-reported results data, which will be used to calculate the SER, will be verified by an independent auditor. The auditor will visit a 5% sample of beneficiaries to confirm that they have regained mobility, based on a standardised physical functionality test used by ICRC.

The returns are scaled to incentivise efficiency savings. If the new centres operate less efficiently than past centres (or do not open), the investors will make a loss on their investment and ICRC will be liable to make a loss payment corresponding to 10% of investor capital. However, if the centres deliver more efficiently, delivering services to more people with the same resources, then the investors will recover their investment and can make a moderate return.

If the outcome measure is less than or equal to one (i.e. there is no improvement in the SER of the HIB centres relative to the baseline centres), the ICRC will make a first loss payment to the investors of 10% of the commitments. The return to the investors ranges from a loss of 11.3% per year (equating to a loss of 40% of their initial commitment) if there is a 100% deterioration in the SER compared to the benchmark, to a return of 7.0% per year (equating to 134.5% of the commitments) if there is a 80% performance improvement. Returns are calculated inclusive of the 2% annual coupon payments, that is, the annual interest paid to investors based on the amount owed. Figure 1 below sets out the range of potential returns to investors.

Figure 1: Range of Potential Returns



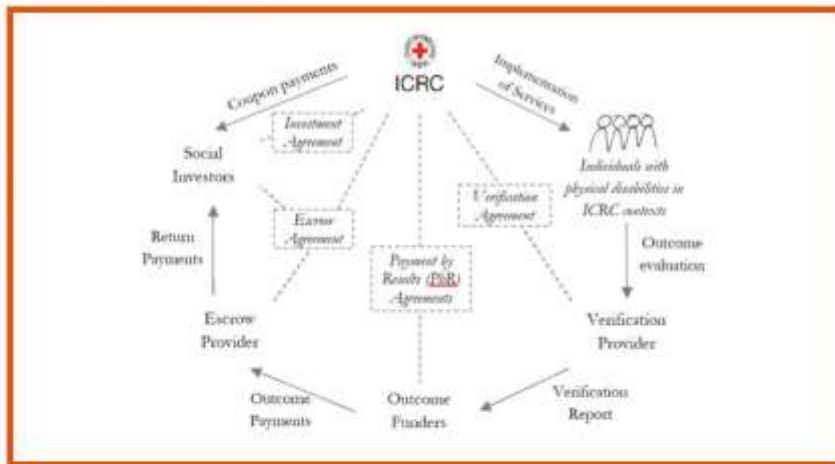
Source: ICRC Summary of the Transaction

The payment made by the outcome funders will be made to the Escrow Account, governed by the terms of the Escrow Agreement between the ICRC, the social investors and the Escrow Bank, which sets out that all withdrawals and transfers relating to the final payments will be done in accordance with the contractual agreements, as set out above.

The Operating Review Committee Meeting (ORCM) meets twice a year, for the ICRC to inform stakeholders on the progress of delivery. Additionally, ICRC reports quarterly on the use of the funds, and leads on performance management of the intervention.

ICRC has a direct contract with both the outcome funders and the investors. Figure 2 below summarises the contractual relationships:

Figure 2: ICRC HIB Structure



The table below sets out the roles played by the stakeholders within the ICRC HIB:

Table 1: ICRC HIB Stakeholders

	DESIGNER ICRC and Kois
	SERVICE PROVIDER ICRC
	SERVICE USERS Users of new ICRC centres, and the 8 pilot centres
	GOVERNMENTS Local governments in Mali, DRC and Nigeria
	OUTCOME FUNDERS Swiss Confederation; Kingdom of Belgium; Republic of Italy; United Kingdom; La Caixa Foundation
	INVESTORS Munich Re, Lombard Odier pension fund and charitable foundations and others
	OUTCOME VERIFIER Philanthropy Advisors
	LEGAL ADVISORS Norton Rose Fulbright and Oberson and Abels

Background

ICRC had been exploring new ways to bring in private donors and access innovative financing, and the idea of using a HIB first arose from a discussion between ICRC and Kois. ICRC discussed this with its traditional donors and also sought new ones.

Discussions at various levels were held with a range of governments. For example, the President of the ICRC led strategic discussions with the Swiss and Belgian governments, with whom there were already broader discussions on income diversification and innovation. The Swiss and Belgian governments were interested in supporting ICRC to test this new funding mechanism, which was seen as a potentially useful way to build stronger relationships with the private sector and contribute to the closing of the humanitarian financing gap. Building on strong, existing partnerships, the Belgian government, followed by the Swiss government, made a political commitment to supporting ICRC. ICRC received a grant from the Government of Netherlands of 1.2m EUR to cover the costs incurred during the set up phase.

ICRC also discussed this with new donors. The World Bank expressed interest. However, as ICRC had not previously worked with the World Bank, it proved too challenging to navigate both a new funding mechanism and a new relationship.

Design of intervention

ICRC decided that the Physical Rehabilitation Program (PRP) should be the focus of the HIB, as it had strong 'measurability' and extensive amounts of historical data. Kois was commissioned to undertake a feasibility study, and, following that, to support ICRC in developing the HIB instrument. Kois worked with ICRC to identify a way in which the PRP data could be used to develop an outcome metric as well as to improve the efficiency of operations. Feasibility studies for building and operationalising new PRP centres were undertaken in nine locations. Within these, ICRC identified five centres which fit within the constraints of an impact bond, which were namely operationalisation within the 5 year timeframe of the impact bond and security and cost constraints.

Identification of outcome funders

ICRC led the discussions with potential outcome funders. The La Caixa Foundation was one of the early backers of the HIB, and represented a new donor for ICRC. Additionally, the Swiss and Belgian governments, already committed, supported ICRC with reaching out to other potential donors. A side event was held at the World Economic Forum and other bilateral donors and foundations were contacted in an attempt to recruit additional outcome funders. While there was interest in the model generally, there was limited uptake from other donors because of the concerns with the risk of using a relatively untested model and a model that did not necessarily fit within their existing structures and funding mechanisms.

The exceptions were DfID, who were interested in learning lessons from the piloting of the HIB and included it within its DIBs pilot programme and the Italian government. The list of confirmed outcome funders was finalised towards the end of 2017, and the lower than anticipated level of funding from outcome funders meant that only three centres were eventually funded through the HIB, instead of the five originally planned for.

Identification of investors

ICRC started discussing the impact bond with investors at the end of 2016, when a number of the terms of the impact bond had been agreed with the outcome funders confirmed at that stage. As a 'bond' is a particular market product within Switzerland, ICRC had to call the HIB the Program for Humanitarian Impact Investing (PHII) when approaching investors. ICRC led the bilateral discussions with the investors. The names of the investors were not shared with the other actors until confirmed, for confidentiality reasons. The investors included the cornerstone investor, Munich Re and its subsidiary New Re, and other investors identified by the placement intermediary, Lombard Odier.

Investors undertook a comprehensive risk assessment and due diligence, that is, the process through which an organisation's strengths and weaknesses are assessed by a potential investor considering investment. This was used to generate a credit rating for ICRC, which was used as a basis for the investment decision.

Negotiations

ICRC, with Kois support, designed the proposal and model, which were presented to outcome funders and investors to review. ICRC led the negotiations on the terms of the HIB. ICRC led most of the negotiations directly with the other actors, though there was some collaboration between the investors themselves and the outcome funders, in particular between the Swiss, Belgian and UK governments, to discuss contract modalities.

The following terms were the main focuses of the negotiations:

Outcome metric: There was a wealth of data on the PRP, which was used to explore potential outcome metrics. The challenge was finding a metric that would take into account diversity, given the range of contexts where ICRC operates PRP centres, and which would make use of the historical data available. The metric adapted the cost-saving focus of social impact bonds (SIBs)⁵ in the UK to improved efficiency, which was considered more relevant to the humanitarian sector and ICRC's operating model. A key discussion was on the trade-offs between efficiency and attribution in the design of the outcome metric, and the balance between focusing on outputs and outcomes.

ICRC and Kois jointly designed the SER. The formula was designed to make physical rehabilitation centres comparable between each other and to prevent perverse incentives. Stakeholders commented that it is a comprehensive measure, 'boiling down' something complex into a number that can be compared across centres. It also takes into account the majority of activities and outcomes funded within the PRP programme, and considers the quality of delivery by focusing on the outcome of regained mobility. Furthermore, the HIB activities are intended to make a difference not only in the three new centres, but also across the entire PRP. Hence, the outcome metric which focuses on efficiency, instead of number of outcomes reached, is useful in capturing whether the DCMS and EIM testing is leading to increased efficiency, and the likely value of the capital investment for the broader PRP. However, the SER does not capture the effects of certain ICRC activities, such as supporting beneficiaries with social inclusion and participation programmes, mental health and sport activities. The SER focuses on mobility regained, and does not monitor delivery against social inclusion outcomes or longer term social and economic inclusion outcomes.

Outcome target: ICRC worked with Kois in order to set an ambitious yet feasible maximum SER, aligned with the maximum potential rate of return. Firstly, ICRC and Kois set a benchmark SER, using historical data from comparable Africa PRP centres. The target SER was set based on the percentage improvement between the global best performing and average centres, based on 2015 PRP centre data.

Interest rate and capital protection: These two terms were discussed iteratively between the stakeholders. A balance was needed between the risk premium paid and risk taken.

The payment model aligns SER improvement with the interest rate, which results in alignment of increased efficiency (and correspondingly, beneficiaries reached) with increased return for the investor.

In terms of the maximum return corresponding to the target SER, as a starting point, Kois provided ICRC with interest rates for investments in India as a benchmark, as well as interest rates used within the existing Educate Girls DIB. The key consideration was what would be acceptable to investors, and what would be accepted by the public as 'reasonable' and 'defendable'. Common ground was agreed around 7%. One outcome funder noted that 2% was too low and 15% too high, and 7% seemed to be a middle ground. Another outcome funder commented that an informal benchmark used was the 3-5% interest rate on a risk free loan, against which the maximum 7% return seemed reasonable.

In order to balance this return with the risk, ICRC and Kois decided to introduce an element of capital protection. This was an area of contention, as it reduced the risk transferred to investors. In order to balance the different preferences of the different actors, it was agreed between stakeholders that 60% of investors' capital would be protected, with ICRC covering the first 10%.

ICRC presented potential investors with these draft terms. To test the acceptability of the risk and return profile, investors compared the proposed 7% return with the risk profile of the investment, using insurance models to calculate acceptable levels of return, and concluded that the return proposed was acceptable.

⁵ There are three different types of impact bonds, depending on the funder and context of implementation: Social Impact Bonds (SIBs) were the first type, and inspired DIBs (DIBs) and Humanitarian Impact Bonds (HIBs). While broadly comparable in their basic principles and setup, SIBs refer to impact bonds in which the outcome funder is the government of the country in which the intervention is implemented. These types of bonds have been developed in high, middle and low-income countries. DIBs are impact bonds typically implemented in developing countries, where the outcome funder is a donor agency or foundation often operating in a different country. HIBs are essentially DIBs operating in humanitarian situations.

Timing of payback: The majority of outcome funding is payable at the conclusion of the HIB, based on the SER. There were many discussions on how to structure the deal. A first tranche repayment linked to the construction of the centre was proposed. There were two considerations around this. One outcome funder expressed an opinion that this detracted from the impact bond mechanism, and made it more similar to a grant. On the other hand, another outcome funder pointed that the milestone was still linked to a tangible output, and the earlier repayment would have made the deal cheaper, as it would have reduced the interest component of the repayment to investors. As not all outcome funders agreed with two payment milestones, ultimately the majority of the deal reverted to one outcome funder payment at year 5, with the exception of La Caixa's contribution of EUR 1m, which is pledged for when ICRC meets the construction milestone.

Contracting: Contracting was a particular challenge. Challenges included legal frameworks in certain countries not having provision for the HIB model and restrictions on the ability of donors to pay interest to a social investor. These challenges required extensive time to navigate on the part of all actors. Finally, there were certain Swiss legal and tax issues affecting ICRC, including considerations of whether a non-profit organisation's issuance of an impact bond is admissible under Swiss law or other legal sources such as the organisation's constitution, requirements regarding the public offering of bonds and implications for withholding tax.⁴

While ICRC and Kois originally intended to have one contract, ultimately different contracts were needed for each outcome funder, due to their different requirements and respective legal frameworks. On the other hand, the investors agreed upon one investor contract which was signed by all investors.

⁴ https://www.obenschnabel.com/sites/default/files/articles/juristler_swiss-legal-and-tax_30c1e226ee_en.pdf

There were a number of enablers, which facilitated the setting up of the HIB. These are set out below. We have structured these around the LOUD framework, which identified the critical success factors to launching a SIB in the UK (collective leadership; clear outcomes; shared understanding; and data). It is interesting to note that these same enablers in the UK existed for the ICRC HIB:

Enablers

1 Collective Leadership

- Strategic (between members of the leadership team);

Stakeholders generally agreed that ICRC built strong relationships with all actors, which facilitated the setup of the impact bond. Furthermore, the political commitment of the Belgians and the Swiss to support the ICRC, and the commitment from senior leadership within the ICRC to launch the HIB, was crucial for enabling the launch of the impact bond.

- Organisational (between these leaders and their internal stakeholders)

There was strong commitment to using the HIB within ICRC and a number of outcome funders, and significant staff time was dedicated to exploring and launching the HIB. While there was originally not a set team with ICRC working on it, over time the roles were clarified, and a core team was set up.

There were some reservations with using the HIB within the ICRC and outcome funders. In order to gain buy-in, there was significant work done to explain the HIB model and the reasons for exploring this innovative mechanism of financing.

2 Clear outcomes – measurable outcomes and linked to overall objective of the intervention.

Kois supported ICRC with the development of the SER, which enabled measurement of outcomes as well as efficiency improvements with reference to benchmark data, one of the key objectives of the intervention. The use of a physical functionality test enables a focus at the outcome level, and on the quality of outcomes.

3 Shared understanding of the policy 'problem' and sufficient evidence for the intervention so that it is credible or knowledge-based.

The PRP has been running since 1979, and hence there is strong evidence for the approach, and established policies, procedures and systems in place. It was noted that the majority of stakeholders were already convinced of the value of the PRP. The DCMS and efficiency improvement measures testing were the new components of the HIB. ICRC had some evidence of the potential of using efficiency initiatives, in certain 'case study' centres.

4 Data to build up a business case, including data on the eligible cohort and outcomes likely to be achieved.

Benchmark data on 163 PRP centres was used by ICRC and Koīs to develop the target outcomes, as well as for the investors to calculate the risk of their investment. The PRP model and use of the physical functionality test to measure regained mobility is well established and the monitoring and evaluation system and expected outcomes clearly defined.

5 Other factors

Service provider track record and reputation: Another key factor that enabled the launch of the HIB was the strong reputation of ICRC. Certain outcome funders expressed the fact that they thought they would not have been able to test this funding mechanism with any other service provider, given the potential reputational risk. However, given ICRC's strong reputation, and the fact that they have 'everything to lose' should something go wrong, conversely, this reduced the reputational risk for outcome funders.

Credit score and due diligence: Munich Re undertook a due diligence review of ICRC in order to assess its risk profile. ICRC received an adequate credit score.

Financial and private sector expertise: The support of an ex-banker within the ICRC team also facilitated discussions with the private investors, as he knew how to work with investment bankers and non-traditional stakeholders.

Challenges

Firstly, one stakeholder commented that a challenge was that there was already a commitment to using the HIB and the PRP programme. Instead of matching programmes to the most appropriate financing mechanism and responding to donor requirements, and taking a 'responsive process of designing', the commitment to using the HIB and PRP was 'constructing it the wrong way round'. The stakeholder commented that it would have been better to identify if there were stakeholders interested in funding this type of funding mechanism and the PRP. Instead, it proved challenging to raise the target level of outcome funding, due to reservations with taking part in the untested HIB mechanism.

Secondly, the use of a HIB involved a significant shift, especially for outcome funders and service providers, and innovative thinking of how the HIB might fit within existing frameworks and systems:

- **Legal and taxation frameworks:** The different applicable legal and tax frameworks within the respective countries meant adaptations were needed to accommodate the HIB;
- **Internal buy-in:** There were concerns within some of the outcome funders and ICRC that the HIB was 'making money off the poor', and extensive discussions were needed to explain the purpose and rationale.
- **Skill set:** Some outcome funders noted that there was a lack of experience and expertise within their organisations in results based financing and development finance, which required a lot of learning 'on the job'.
- **Systems:** Systems within some of the outcome funders and ICRC were not set up to operate on a multi-annual budget, which was a challenge in terms of accounting and budgeting. Furthermore, ICRC rarely receives funding which is 'tightly' earmarked and generally does not operate projects which is directly financed by a specific donor. Accommodating the HIB required adaptation within the organisation.
- **Diverse donor requirements:** It was challenging and very time-consuming to find alignment between the requirements of the outcome funders.

Thirdly, it was a challenge to adapt the SIBs model to the humanitarian sector. There was tension between developing a 'pure' impact bond, and ensuring the HIB was adapted to the sector and needs of actors. One stakeholder commented that the development of the HIB took a long time because original models were 'textbook' impact bonds, which were not 'marketable'.

- One outcome funder noted that a key internal justification for testing impact bonds was that it enabled risk transfer to the private sector. However, there were payments linked to milestones, and capital protection for investors, which reduced the risk transfer and meant the HIB was less 'pure'.

- It was challenging to adapt the SIB to the humanitarian world and ICRC's model of operation. ICRC was wary of investors having a say in the project, something that was a pillar of the SIB model. ICRC operates independently, and is unable to allow donors or investors to drive the selection and design of projects, or the implementation process. As such, the governance structures in place are intended to serve as a transparency mechanism and provide investors and outcome funders with information about the progress against targets, instead of as a mechanism to enable investors and outcome funder to influence delivery.
- One stakeholder also noted that ICRC led bilateral discussions, which meant the process was more efficient. However, other stakeholders noted that more collaborative discussions would have supported the development of a shared understanding of the impact bond. One outcome funder also noted that the deal was relatively finalised when they were reviewing it, and hence there was limited scope to influence the terms. A frustration noted was that for a period, outcome funders could not see the terms offered to other outcome funders and investors, and hence the outcome funder could not be certain that the terms offered were the same across the different actors.

Building on the challenges faced in designing and launching the ICRC HIB, stakeholders shared a number of lessons learned:

- 1** HIBs should be developed to meet a specific need. In the case of the ICRC HIB, it was first decided to use a HIB, and then the project was designed. Rather, the HIB should be considered if it enables service providers to access funding in a sector where outcome funders are interested in funding using an outcomes based approach. This will enable the matching of programmes to the right funding mechanism.
- 2** It is important to test the legal feasibility of operating a HIB at an early stage of the process, and identify potential taxation implications.
- 3** Use of a financing structure or pooled funding mechanism that enables investors and/or outcome funders to finance/fund an intermediary may reduce inefficiencies arising from the need to manage multiple investor and donor requirements.
- 4** Investors want to be involved earlier, so that they are still able to feed into the design of the terms and conditions of the impact bond.
- 5** Outcome metrics also need to be designed to reflect data, and returns to the investor and outcome funder should be aligned. Historic data is needed to model risk, for impact bonds to be 'investible'. Calculation of risk is crucial for putting a price tag on the investment.
- 6** There needs to be flexibility in terms of understanding of what an impact bond is. Not all components will be applicable to all contexts and organisations. Organisations take part in impact bonds for different reasons, and the impact bond needs to be adapted with this in mind. For this HIB to launch, it was necessary to reformulate the role of the investor and governance structures, and modify the impact bond structure to introduce non-private investors, capital protection and payments linked to milestones.
- 7** There are trade-offs between undertaking negotiations bilaterally or taking a more collaborative approach. A more bilateral approach, with defined terms, can make the process more efficient, but result in a lack of a shared understanding of the objectives of the impact bond.

Advantages

The following were cited by stakeholders as advantages to using the HIB during the set up phase:

- The HIB brought in additional private-sector finance, which provided upfront capital to ICRC, enabling it to participate in an outcomes based contract.**

The HIB attracted financing from private sector investors, which enabled the outcome funders to pay on results. While ICRC is also involved in other results based payment contracts, the significant upfront capital required meant it would be unlikely to enter into the HIB model had there been no investors.
- The HIB brought together existing ICRC partners, as well as new partners (La Caixa and private investors) around aligned interests.**

Private investors are brought 'closer to delivery' through participation in the operating review committee. One outcome funder said that an ambition was for investors to change their opinion of the risk of investing in conflict and humanitarian areas. The HIB also gave ICRC the experience of working with intermediaries and new actors, and going through the due diligence process. One stakeholder commented that this was an avenue for ICRC to build relationships with the private sector and show the private sector how it could get involved in philanthropy. On the other hand, another stakeholder thought the investors were there primarily to enable the outcome funder to pay only based on results, and that engagement with philanthropic arms of private sector actors was done through different avenues and contact points.
- The HIB de-risks outcome funds and enabled the funding of the efficiency measures improvement testing component, to bring innovation to improving the efficiency of the PRP.**

Outcome funders pay on results, reducing the risk of outcome funds not delivering results. One outcome funder noted that this was especially relevant given the capital investment required for the DCMS and efficiency improvement measures testing, and the risk that these measures do not translate into increased efficiency, and increased beneficiaries reached. The outcome based contract transfers the risk to investors, while at the same time incentivising these components of the programme to lead to real efficiencies. Given these factors, the outcome funder stated that it was preferable to fund this using an outcomes based contract, and that they would have been unlikely to fund the programme on an input basis.
- The HIB brought in longer term funding for ICRC.**

While the funding is more tightly earmarked than funds normally accepted by ICRC (down to the country and project level), the HIB funding is for five years, which provides more flexibility in terms of transferring funds between years, and more security in committing to longer term projects (such as the DCMS and EIM).

Additionally, going forward, the following advantages were expected:

- The HIB requires and enables ICRC to look at data and explore how it can be used to bring more efficiency to the programme.**

ICRC operates in a rather decentralised fashion, and looking at data across the PRP enables a better understanding of the drivers of efficiency, and facilitates comparison across centres. This is expected to be useful to support the improvement of efficiency in a systematic way.
- There was difference in opinion on the role of the governance structures.**

Some stakeholders thought that the requirement to be accountable to investors and donors, as well as the skills within the ORCM would drive efficiency. However, certain investors commented that their role on the ORCM was simply to obtain an update to ensure the investment was accurately valued in their accounts, and to monitor delivery. Other stakeholders commented that the role of the ORCM was not to influence ICRC's implementation and mode of delivery, as this would pose a danger to ICRC's independence.

- The ability to test a new funding mechanism, and its applicability in the humanitarian sector.
- For outcome funders, the ability to test a more outcome focused way of funding, and to set target outcomes.

Disadvantages

In terms of disadvantages of using the HIB, stakeholders cited that it was complex to design and expensive to set up. However, whether this poses a true disadvantage depends on whether the benefits outweigh the costs. Stakeholders commented that one should be careful with what we are comparing with. The HIB costs can be better put into perspective if we consider how much a change management project costs. Similarly, an outcome funder noted that a HIB 'externalised' certain costs which were hidden when delivered under a normal grant, such as costs incurred by outcome funders to launch a call for proposal, review bids and undertake feasibility studies to explore potential topics and themes.

The focus on the SER may introduce the risk of 'cherry picking' of beneficiaries or services provided, if staff feel pressurised to adapt the beneficiaries supported or services provided in order to meet the SER targets. However, there are key mitigations in place. ICRC's core approach is to deliver neutral, independent and impartial humanitarian action. For this reason, other stakeholders have no say in the way the project is implemented. Furthermore, the project is operating under ICRC's standard PRP procedures and ICRC has purposefully ensured that PRP centres and staff have nothing to gain by delivering a higher or lower SER. Furthermore, the SER relies on regained mobility, which incorporates an element of quality.

Other

There is mixed opinion about the extent to which the HIB led to a more careful and rigorous design of the intervention. There are three components of the design process, which was affected by the use of the HIB to varying degrees:

- **Selection of HIB centres and design of the PRP intervention was done using the standard PRP procedures.**
Feasibility studies were done in potential centres. Normally, ICRC goes on to fund all centres deemed feasible. In this case, centres more suited to the constraints of an impact bond were selected to be funded by the HIB, and ICRC sought to fund the other centres through other funding. The PRP intervention will integrate the efficiency initiatives tested during the EIM testing phase.
- **Design of outcome targets and outcome metric involved a rigorous design process.**
It involved the design of an outcome metric that drew on existing centre data, prevented perverse incentives and enabled comparison between PRP centres. The process also involved analysis of drivers of efficiency and analysis of the potential scale of improvements possible, which was used to develop a target outcome and return profile. The HIB provided the framework and incentives to systemise existing data management, so that it could be used for the design of the outcome targets and metric. In order to attract investors and outcome funders, ICRC was also required to present and justify these targets and metrics. One outcome funder commented that they thought ICRC was more 'business-like' and provided more detailed project reporting during the HIB process.
- **Design of the DCMS and efficiency improvement measures testing elements, which are key components of the HIB, is being undertaken during the first phase of the HIB.**
The testing of the measures in the eight centres before roll-out in the three new centres enables course correction and adaption. There is mixed opinion about the extent to which this can be attributable to the HIB. One stakeholder commented that the HIB finances these components, but that nothing is done differently in comparison to what would have been done if it were financed differently.

The ICRC HIB is the first HIB. It successfully launched in July 2017, and enables the financing of the development of three new PRP centres, and the testing of DCMS and efficiency measures. It is one of the few impact bonds that has brought in financing from commercial, private investors.

The focus of the HIB is on increasing the efficiency of the PRP, and the outcome metric is linked to increased efficiency compared to an established benchmark instead of outcomes achieved, though with increased efficiency, increased outcomes are also expected. The HIB aligns outcome funders, investors and ICRC incentives to improve efficiency.

The main challenges to developing the HIB was the difficulty with contracting due to the applicable legal and taxation frameworks in place in the countries of the outcome funders, the lack of expertise at the start of the project within ICRC and the outcome funders, and the difficulty of adapting the SIB model to the humanitarian sector and ICRC's operational model. Furthermore, some compromises on the terms have been necessary, which some outcome funders are uncomfortable with, for example, the element of capital protection.

The ICRC HIB was nonetheless able to launch due to the strong commitment of ICRC to testing the HIB, and the strong support of key outcome funders throughout the development. Additionally, the PRP had a large amount of historical data which was crucial for developing the outcome metric and target outcomes, and enabling the calculation of risk and return.

The next case study will be published following the next research wave, in the third quarter of 2020. The focus of the next research wave will be on progress in delivery of the HIB, and how the use of the HIB is affecting delivery.

Stakeholders Consulted

- ICRC
- Kois
- Munich Re
- Swiss Agency for Development and Cooperation
- UK Department for International Development

This in-depth review is a series being produced as part of the DFID DIBs pilot programme evaluation, commissioned by the Department for International Development and undertaken by Ecorys UK.

Kay Lau, Senior Research Manager at Ecorys, wrote the report.

The report is based on a review of documents provided by stakeholders and consultations with key stakeholders involved in the HIB. Consultation took place during 2018, during the second year of implementation for the ICRC Humanitarian Impact Bond for Physical Rehabilitation. The report will be updated in subsequent years to provide an account of the HIB's progress.

In total, the evaluation will produce in-depth reviews of three DIBs funded or supported by DFID. More information about the DFID DIBs pilot programme evaluation, including other in-depth reviews, can be found at <https://devtracker.dfid.gov.uk/projects/GB-1-204722/documents>

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About this report





Quality Education India Development Impact Bond:

A case study produced as part of the independent evaluation of the Department for International Development's Development Impact Bond Pilot Programme



“ The DIB will not only drive meaningful improvement in learning outcomes at scale, but also catalyze an outcome-based philanthropic sector where long-term funding is directed towards funding and scaling proven approaches. The long-term objective would be the adoption of proven learning outcome-based delivery models and innovative financing mechanisms by the government. ”

Representative from MSDP

TIME PERIOD: April 2018 – July 2022	SERVICE PROVIDERS: Gyan Shala Kaivalya Education Foundation (KEF) Society for All Round Development (SARD)
THEMATIC AREA: Education	OUTCOME FUNDERS: Michael & Susan Dell Foundation (MSDF) Comic Relief BT The Mittal Foundation The Ellison Foundation
COUNTRIES: India	OUTCOME CONVENOR: British Asian Trust (BAT) (of all outcome funders except MSDF)
TARGET POPULATION: Primary school-aged children	INVESTOR: UBS Optimus Foundation (UBS – OF)
OUTCOME METRIC: Improvement in numeracy and literacy learning	PERFORMANCE MANAGER: Dalberg Consultants
LOAN VALUE: 11.2 million US Dollars	OUTCOME EVALUATOR: Gray Matters India (GMI)
	TECHNICAL ADVISORS: Educate Girls
	KNOWLEDGE PARTNER: Tata Trusts

This case study report focuses on the model and early successes and lessons learned during the design and set up phase of the Quality Education India Development Impact Bond (QEI DIB). The report is written as part of the independent evaluation of the DIBs pilot programme, commissioned by Department for International Development (DfID). It summarises findings from consultations completed between July - October 2018 with key stakeholders involved in the DIB, including outcome funders, investors, service providers and intermediaries.

Planned to run from April 2018 – July 2022, the QEI DIB is the world's largest education DIB, funding four interventions by three service providers (Gyan Shala, KEF, SARD), in three districts of India: New Delhi, Ahmedabad and Surat. The total value of the QEI DIB contract is \$11.2 million, of which the total outcomes funding is \$9.2 million, funded collectively by public and private sector organisations in India and the UK. The project is building on the successes of the first DIB in education, Educate Girls, which funded one service provider to achieve outcomes in enrolment and learning in Rajasthan. A full list of consultations is set out at the end of this case study.

UBS-OF is providing the risk investment as upfront working capital, before outcome payments can be made. MSDF is the lead outcome funder, with BAT convening payment from four others (Comic Relief, the Mittal Foundation, BT and the Ellison Foundation). BAT are also coordinating a technical assistance grant from DfID to support the set-up and technical elements of the project, including the outcome assessment and part of the performance management. The performance manager for the project is Dalberg and the outcome evaluator is GMI.

The overarching aim of the QEI DIB is to offer a solution at scale to the learning crises in India. There is concern that, despite evidence of improving enrolment, children in India perform lower than expected in literacy and numeracy due to low quality primary school education. The QEI DIB aims to support this issue by funding a range of high performing service providers to improve grade appropriate learning outcomes for more than 300,000 primary school aged children.

A further important aim of the QEI DIB is to drive focus towards outcomes based contracts in the development sector in India and provide evidence of the benefits of private sector participation in service delivery. The set-up of the QEI DIB has the potential to transform the way education interventions are funded in India. By measuring the cost and effectiveness of a range of education delivery models, it supports the development of a robust body of evidence to inform the allocation of future funding in the sector. Alongside including robust measurements, engaging the Indian government and considering ways to standardise processes and produce templates for future outcome-based contracts are equally key.

Summary of learning from the set-up phase of the QEI DIB project

Successes

- The DIB has successfully brought together multiple sector-leading experts to work collaboratively and openly in shared areas of interest in education and impact investing, creating a significant opportunity to support high performing Non-Governmental Organisations (NGOs) to deliver at scale.
- The performance management in the DIB is significant, with a tightly defined shared management framework to help service providers reflect on implementation and adapt to achieve more impact.
- The DIB has successfully leveraged learning from the first DIB in education (delivered by Educate Girls) to improve the design and set-up approach. This includes involving an outcome evaluator earlier in the project, deciding the outcomes to measure, and allowing flexibility within the contracting process.

Challenges

- There have been additional costs and time in project management due to the size and nascent scope of this project, including: the logistics of engaging multiple outcome funders and service providers, as well as the financial restrictive regulations on financial flows to and from India.
- These challenges have limited the potential efficiencies from re-using templates from the first DIB in education. However, stakeholders felt that many of these additional costs were essential to ensuring that they achieved the aspirations of the project, to compare a portfolio of interventions in terms of their cost and effectiveness, and that there was rigour in the overall design. In the long-term the project has the potential to add value, not just to impact investing, but the education sector in India.
- Despite efforts to keep the technical model simple, the assessment of learning, due to the nature of the intervention and unavailability of standardised data, is complex and elements are difficult to explain to others, including potential outcome funders and the service providers.

Lessons learnt

- It is important to involve all actors upfront and clearly define the role and responsibilities of each.
- Workshops help to support clarity and consistent messaging across the different stakeholder groups.
- Including flexible budget lines and not tying outcome funding to only pre-decided outcomes helps to support design adjustments.

This section describes the overall structure of the QEI DIB and then the details of the three service providers funded in the model (implementing four interventions).

DIB model

The total value of the QEI DIB contract is \$11.2 million, of which outcomes funding is \$9.2 million, funded collectively by organisations in India and the UK. It was designed and developed through a partnership between UBSOF, MSDF and BAT. MSDF was the first organisation to commit to the project, providing \$4 million. Then BAT, acting as the outcome convener, raised funds from Comic Relief (\$1.4 million), British Telecom (\$0.4 million), the Mittal Foundation (\$1 million), and the Ellison Foundation (\$1 million). TATA Trusts contributed \$2 million as knowledge partners, and DFID contributed \$1.5 million through a technical assistance grant.

Before outcome payments can be made in the DIB, there is a gap in funding for the service providers in the first year. In a straight payment-by-results contract service providers would be expected to cover these costs; in DIBs, though, this upfront working capital is covered by a private investor. The UBS-OF is the investor and manages the payments to the service providers. Outcome funders will then make a payment to UBS-OF at the end of each year, which enables the working capital to be recycled once an independent assessment is made and it is decided if the outcomes have been met. UBS-OF have raised almost \$2.5 million client donations to the QEI DIB.

However, there is no capital protection for the investment. This means that if the service providers underperform against their targets, UBS-OF is at risk of losing the money. If service providers achieve above a base case, UBS-OF will receive a return on their investment. However, there is a cap on this return: if service providers achieve above 120 per cent of their targets, the maximum return the investor will receive is 8 per cent. However, because UBS-OF is a Swiss Foundation, any returns will be re-invested into other development projects as the foundation cannot return funds to donors. Service providers are also incentivised to overachieve on their targets in the DIB, as the contract includes a bonus payment in the final year if they achieve over 100 per cent of their targets.

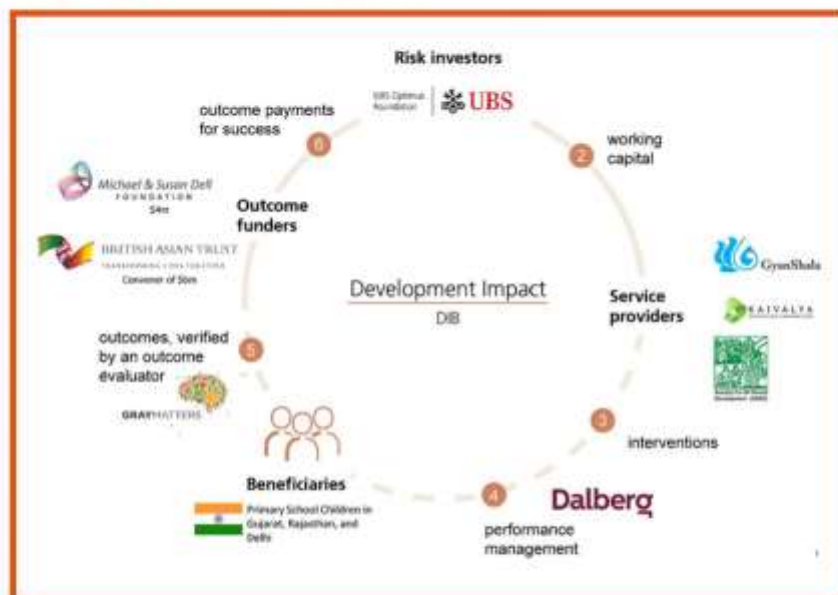
Dalberg is the performance manager for the QEI DIB, who will oversee the service providers and their delivery on behalf of UBS-OF. Dalberg has worked with the service providers to develop a shared performance management framework that reflects their theories of changes and objectives. Dalberg will use data from this framework to manage risks and help service providers adapt their implementation during the contract, to maximise their chance of achieving outcomes. Dalberg will also provide quarterly reports to the steering group with updates on the performance of the project.

GMI is the independent outcome evaluator in the QEI DIB, who is responsible for verifying student learning outcomes on behalf of the outcome funders. GMI have been responsible for setting the targets for the DIB and selecting comparison schools. They will also produce annual reports for the outcome funders and investors comparing the performance of beneficiaries with those from a comparison group.

Finally, DFID are supporting the QEI DIB via a Technical Assistance Grant (£1.5 million) paid to BAT. In this grant, £1 million is available to support the launch of the new DIB in education, and the remaining £0.5 million is available to support learning on the effectiveness of DIBs and to develop tools, resources and partnerships to help replicate DIBs (in South Asia and globally). The DFID grant will also pay for the outcome evaluator and part of the performance management (also part funded by UBS-OF) in the QEI DIB.

Figure 1, summarises the QEI DIB and the main stakeholders involved.

Figure 1: Key stakeholders in the QEI DIB



Source: Adapted from a PowerPoint presentation delivered jointly by BAT and UBS-OF (AVPN June 2010).

Three service providers

The QEI DIB plans to fund three service providers for four years: KEF, GyanShala, and SARD. These service providers represent the well-established market of high-performing NGOs in India. All have over 10 years' experience providing education interventions, experience operating at scale and have engaged in independent evaluations to measure their effectiveness. The service providers were selected in a competitive process from over 70 NGOs in India. The process of selecting the service providers is described on p.11.

In the DIB, the three service providers are delivering four interventions with a mix of direct and indirect education model types. KEF is delivering an indirect, whole school management programme that focuses on school leader training. GyanShala is delivering a direct classrooms for children in urban slums. SARD is implementing two interventions, one direct model (remedial education) and one in-direct (teacher training). Educate Girls (the service provider in the first DIB in education) was originally included as a fourth service provider in the DIB. However, the timing of this project meant that it coincided with the final year of their first DIB, which limited their organisational capacity to be involved. They continue to remain engaged in a technical advisory capacity.

Details of three service providers included in the QEI DIB are described in Table 1.

Table 1: Four interventions in the QEI DIB

ORGANISATION	KAIVALYA EDUCATION FOUNDATION (KEF)	GYANSHALA	SOCIETY FOR ALL ROUND DEVELOPMENT (SARD)	
BACKGROUND	KEF has been working in India for 10 years with experience implementing the programme in 5 states and 1400 schools	GyanShala was set up by IRMA. The programme has been independently assessed since 2004.	SARD is a non-profit organisation with over 20 years' experience implementing education interventions. SARD aims to increase the participation of minority and disadvantaged communities	
SERVICE MODEL	School leader training	Directly operating classroom	Teacher training	Remedial education
MODEL TYPE	In-direct	Direct	In-direct	Direct
DESCRIPTION	A change management programme that aims to improve student learning levels by providing leadership training to school principals and teachers. Kaivalya Gandhi Fellows train school leaders and teachers through executive coaching, group workshops and self-learning materials	A programme implementing grade 1 – 3 education through low cost private schools for children in urban slums who do not attend any other school	SARD is implementing a model where the trainers go to schools to train teachers	Organise and run remedial centres in the school. Focused on literacy and numeracy learning outcomes
TARGET NUMBER OF BENEFICIARIES	68,866	19,244	210,000	21,000
DISTRICT OF OPERATION	Ahmedabad	Ahmedabad and Surat	North Delhi Municipal Corporation	
IRMA = IIM, Ahmedabad and Institute of Rural Management, Anand				

Outcomes and metrics

The primary outcome in the QEI DIB is improvement in learning outcomes (namely grade appropriate numeracy and literacy skills). This is different from the Educate Girls DIB, which included both enrolment and learning (basic numeracy and literacy skills) as outcomes.

Improvement in learning is defined as the difference between a baseline¹ and endline score on a standardised test, at the start and end of each school year. Measuring distance travelled for each individual, rather than achieving a certain level of a test (i.e. a binary outcome²), was to ensure the service providers were properly incentivised to focus on achieving improvement in learning, and with all young people, rather than cherry picking³ those who were high performing at the start of the school year. To support attribution⁴ of effectiveness, the performance of the students receiving the intervention is then compared to the performance of students from a comparison group of schools.

The assessment of learning used in the DIB is based on a robust, standardised test of grade level skills in numeracy and literacy. This is different from ASER, which assesses learning at a comparably basic level. Using a different test requires the DIB to conduct baseline and endline assessments in both the intervention and comparison schools. It may also require additional work to engage the different stakeholders in the assessment methods used in the DIB.

“ It’s important to have quality markers that are based on grade level learning outcomes as that puts a focus on the academic progression of the students and not just on the attainment of basic skills. ” Representative from MSDF

Although only learning outcomes are linked to payment in the DIB, the monitoring framework devised by Dalberg comprises a wider range of metrics, which aim to provide evidence on the quality of the interventions. At the demand of outcome funders, this includes feedback from the beneficiaries on the experience of the service, as well as monitoring of enrolment and attendance.

¹ Enrolment is not part of the independent outcome assessment by OMI; however, the financial model that links the outcomes to payments is a composite metric which is enrolment numbers x learning gains (numeracy and literacy).

² The state before the intervention, against which progress can be assessed or comparisons made. Baseline data is collected before a programme or policy is implemented to assess the before state. The availability of baseline data is important to document balance in pre-programme characteristics between treatment and comparison groups.

³ A binary outcome is a type of hard outcome that has only two states, either an outcome is achieved or it is not. For outcomes based contracts, they are used where it is deemed unacceptable for the public sector to pay for outcomes that include negative events.

⁴ This is a perverse incentive whereby providers, investors or intermediaries select beneficiaries that are more likely to achieve the expected outcomes and leave outside the cohort the most challenging cases.

⁵ The extent to which changes in the relevant outcomes can be attributed to a particular intervention.

Payment structure and targets

The payment structure reflects the education models in the DiB: a higher payment is attached to models that work directly with students (e.g. implementing class teaching/directly operating classrooms); and a lower payment is attached to in-direct models (e.g. teacher or school leader training). The difference between the models reflects the delivery costs and targets, which are higher for the direct models. The targets are expressed as the difference from the comparison group performance in standard deviation (standard points of variation around the mean).

GMI, the independent outcome evaluator, developed the targets for each of the models based on existing literature and data available on different interventions, including evidence of each of the service provider's own track record and costs in previous delivery.

The outcome pricing structure, outlined in Table 2, comprises a fixed price per beneficiary for reaching the improvement target and the standard deviation target for the different models.

Table 2: Outcome pricing framework

OPERATIONAL MODEL / BENCHMARKS	DIRECTLY OPERATING CLASSROOMS (I.E. IN CLASS TEACHING)	REMEDIAL PROGRAMMES	TEACHER/PRINCIPAL TRAINING
PROPOSED TARGET COST PER BENEFICIARY (US DOLLARS, PER ANNUM)	\$71	\$16.2	\$5
PROPOSED TARGET OUTCOMES IMPROVEMENT (STANDARD DEVIATION, PER ANNUM)	0.4	0.23	0.18/0.17

Governance

The section describes the governance arrangements for the QEI DIB. These arrangements have been set up to align the interest of the different groups, but also to ensure there is efficiency in the decision making processes given the number of stakeholders involved in the model.

The main governance for the project is the responsibility of the steering committee. Key features of the QEI DIB steering committee are summarised in Figure 2.

Figure 2: Key stakeholders in the QEI DIB

- The QEI DIB steering committee comprises strategic representation from UBS-OF, MSDF, and BAT, who meet on a quarterly basis to discuss progress, challenges, and emerging knowledge. Tata Trusts has also joined this steering committee as a knowledge partner for the DIB. This meeting is organised by the performance manager, Dalberg.
- BAT represents the interests of the other outcome funders in its convening role for the DIB. This includes Comic Relief, BT, the Mittal Foundation and the Ellison Foundation. BAT also reports to DfID on decisions made by the committee. This representation and engagement is to ensure that outcome funders and DfID are engaged in the decision making process for the DIB, and that their contributions are streamlined to keep the committee meetings focused.
- Although not present at the meetings, the outcome funders that are convened by BAT have final say in decisions made by the other steering committee members, pertaining to issues which may alter the initial design of the DIB. This may include changing the outcomes, pricing or targets, terminating or adding a service provider, geography (e.g. for political reasons), reallocation of unused funds, issues with data collection or outcome evaluator results.
- Force majeure events are included as events which may require project termination. This includes natural disasters, political risks/policy changes that directly affect the intervention, and events such as riots/violence. In India the main risk to the project relates to political changes.
- UBS-OF has the power of veto on the continuation of the DIB. This is based on the projected returns each year based on outcome performance. Every quarter, UBS-OF has to inform the steering committee about whether performance is on track. If too few children are reaching the expected targets, and the return is zero or negative, UBS-OF will halt the project as the investment is no longer viable.

Supporting the steering committee is an advisory committee. The advisory committee comprises sector experts (innovative finance, education, representatives from the Indian Government, not for profit) who provide advice and oversight of the programme.

This section will describe the history of developing the DIB. First it will describe the rationale, then it will describe key design considerations in the development process.

Rationale of the QEI DIB

There were four principal factors underlying the rationale of the QEI DIB:

To galvanise the market of high performing NGOs in India to support the learning crisis.

Despite promising evidence of increased enrolment at school, there is ongoing concern that children in India perform lower than expected in their literacy and numeracy skills due to low quality primary school education. While there is an established market of service providers in India, and a number of high performing NGOs with viable solutions, they are often limited by the availability in capital, inadequate performance management systems and poor coordination between stakeholders. The flexible outcomes-focused financing mechanism in the DIB model offers the opportunity to test a range of proven models, at scale, with the opportunity to compare their performance within a shared framework of monitoring and evaluation.

To engage the government and explore the potential transition from DIBs to social impact bonds (SIBs) in India.

Many of the stakeholders in the DIB reported that it was a priority to engage the government in the DIB from early on to ensure success of the project. In particular, GMI and the service providers needed to engage the local governments to be able to select suitable comparison schools. However, a wider aim of this engagement is to provide evidence to the government on the benefit of private sector participation in service delivery and driving a shift towards outcomes based approaches that can help deliver a more consistent and greater impact. There is interest in transitioning into SIBs, where the Indian Government would act as outcome funders and take ownership of the interventions that are being delivered.

To scale the learning and successes of the Educate Girls DIB.

UBS-OF, who was the risk investor in the first DIB in education, and Dalberg, who was the process evaluator, believed that this project was proof of concept for DIBs in the education context. Both were motivated to test the model on a larger scale to explore the opportunities to reduce transactions costs in DIBs. Others, like BAT and MSDI, were aware of the success of the first education DIB and motivated to understand the potential of DIBs within the development context.

To test the applicability of a rate card⁶ with a standard pricing framework of potential outcomes, as used in SIBs.

By including a range of interventions, rather than just one, the model is able to compare outcome performance for different education models within the same assessment framework. This will help to test how the outcome-focused approach works for different education models. It will also generate helpful data to inform government decisions about the costs of delivering the different outcomes.

⁶ In the context of payment-by-results, a rate card is a schedule of payments for specific outcomes a commissioner is willing to make for each beneficiary/service user that verifiably achieves each outcome.

Designing the model

From inception, the QEI DIB took two years to design and launch. The main design phase lasted six months, involving UBS-OF, Dalberg, BAT and MSDF. The stakeholders agreed that it was important to include sector leading experts in the design phase of a project with this scope, to ensure maximum credibility and impact of the DIB. UBS-OF also explained that engaging organisations with strong local connections was part of the project's objective to support a transition to procuring SIBs.

“ In the journey towards the SIB, it was important to work with outcome funders that have a strong local knowledge and understanding that are very important funders in the Indian context...we felt that local ownership was important in the transition towards a SIB.

Representative from UBS-OF

”

This section describes the main considerations in the design, relating to outcomes, metrics, payment, service provider selection, performance management, engagement of the government and contracting.

Outcomes, metrics and payment

Designing the outcomes, metrics and payment structure was the most significant element of the DIB development process. MSDF led the work initially and then drew on expertise from GMI to create the outcome targets. MSDF reported that it was important that an independent organisation developed the benchmarks for the outcomes to ensure there was external validity in the model.

It was MSDF who ensured that the model included an assessment of grade level learning outcomes, rather than basic numeracy and literacy; whereas for others, like BAT and UBS-OF, the main consideration was to ensure the model was attractive and understandable to investors and outcome funders. From MSDF's perspective attainment of just basic literacy and numeracy skills was not sufficient for the project objectives and would not make a significant change in the life outcomes of the students. Therefore it was essential that the assessment in the DIB included a more rigorous assessment and measure the grade appropriate learning outcomes.

Including a new standardised assessment of learning carried some additional risk for the service providers. While all were familiar with being evaluated, a couple of the service providers were not familiar with the assessment and therefore their performance in this context is unknown. Those that were familiar with this type of assessment were new to using it as the basis for payment and the added focus this created on performance. However, because all the service providers were confident in their interventions, and believed that the targets make sense and could be achieved, they were comfortable taking on the potential reputational risks.

Some of the outcome funders, such as Comic Relief, raised concerns about a model that focused only on attainment, rather than including wider outcomes associated with high quality education or representing the service user experience. However, stakeholders agreed to include only one outcome linked to payment to keep the model simple. Other qualitative measures, including service user experience, are still captured in the DIB – in the performance monitoring metrics and quarterly updates – but the data is not linked to payments.

Several other compromises were reached to keep the model simple without affecting the overall integrity of the design. This included representing the targets as average learning gains on a standardised scale, in addition to standard deviation, to make it easier to explain to those not familiar with statistical methods. Similarly, beneficiaries are counted discretely, which means each individual is counted in the contract, rather than using a weighted discrete method, which counts each individual but also accounts for the number of years that the individual has received the intervention. The latter would reflect level of engagement with the intervention; however, it is harder to explain and stakeholders felt it was important when engaging others in the project to be able to clearly communicate the target number of beneficiaries in the project (300,000 total).

Service provider selection

The three service providers included in the QEI DIB were selected following a competitive process and an in-depth due diligence⁷ process during the design phase. UBS-OF, Dalberg, MSDF and BAT reviewed applications from over 70 NGOs in India considering a range of criteria in the decision making, including:

- Track record of running interventions supporting learning outcomes
- Focusing on primary education for low incomes populations
- Ability to scale
- Service costs
- In-house monitoring and evaluation capabilities; and
- Government relationships at the local level.

UBS-OF reported that it was essential to include service providers who were open to innovation, could be flexible in their implementation and had a track record delivering the outcomes. This was to ensure that the service provider was able to adapt and respond to the demands of the DIB, particularly in the set-up phase and the on-going performance management structure. In addition it was essential that the service providers had strong links with the government in the relevant districts to be able to help GMI identify the appropriate comparison schools.

All of the service providers of the QEI DIB are well-established organisations with a known track record in education. They were all able to commit to the DIB requirements without needing to make substantial organisational changes. Although the focus on performance management and the focus on outcome-based targets is new for all, representatives from the organisations reported that they are familiar with being evaluated, and all were open to learning and supportive of this different way of working.

Performance Management

A key part of the QEI DIB is the performance management framework. Dalberg is leading this element of the project and worked closely with the representatives from each of the selected service providers during the design phase to understand the theory of change of each of their interventions, as well as the potential risks in the DIB and their existing monitoring and evaluation systems. This work built on the due diligence conducted during the selection phase (described above) and aimed to ensure that the organisations were able to respond and deliver on the requirements of the DIB.

As well as supporting delivery and impact in the DIB, the performance management support represents an important capacity building element of the project. Using the new processes and reports, service providers will be able to take the processes forward beyond the DIB to improve their overall monitoring capabilities. Dalberg described positive feedback from the service providers regarding this process of developing the frameworks, citing that it is already changing the way the teachers reflect and monitor their practice.

⁷ The process whereby an organisation or company's strengths and weaknesses are assessed in detail by a potential investor with a view to investment

Engaging the government

To support the engagement with the government, key stakeholders were selected into the project partly on the basis of their existing relationships and connections. As suggested above, service providers were also partly selected on the basis of their links with the government. This was to help identify a suitable comparison group and to conduct the assessment within the evaluation design.

Contracting

The legal contracting process for the DIB took six months (January to June 2018). This was noted by several stakeholders as an improvement on the experience in the Educate Girls DIB, which took two years to contract. This supports the idea that with each DIB project some of the time and costs associated with the routine transactions can be reduced.

UBS-OF's initial preference was to have a single contract for all the stakeholders involved in the DIB, as this would keep the governance arrangements simple. However, it was challenging to align the interests of the range of stakeholders within one framework. It was made harder because the outcome funders had concerns about signing a contract that directly associated them with the service providers, who they had not selected and whose operations they were not overseeing. This concern arose following the high profile scandals involving Oxfam in 2017. UBS-OF were not able to offer indemnity clauses in the contract to cover this, which left too much risk for the outcome funders. As a solution, UBS-OF has signed separate contracts with the outcome funders and with the service providers. The contract arrangements for the stakeholders in the QEI DIB are described in Figure 2.

Figure 2: Key stakeholders in the QEI DIB

- Outcome Payment Agreements: One between BAT and UBS-OF, and another between MSDF and UBS-OF.
- Implementation Agreement: Between the Service Providers, Dalberg, UBS-OF and GMI.
- Side letter with DfID and Dalberg and Performance Management Agreement with Dalberg: The arrangements cover the costs and delivery of the performance management activity being funded by DfID and UBS-OF.
- Outcome Evaluation Agreement: Between BAT and GMI. This covers the costs of outcome evaluation activity being funded by DfID.
- Grant Funding Agreements: Bilateral agreements between BAT and each of the outcome funders (Comic Relief, Mittal Foundation, the Ellison Foundation, and BT).
- Technical Assistance Grant: Between BAT and DfID. This covers the technical assessment to ensure due diligence on the DIB, which in part is used to pay the costs of GMI and Dalberg.

This section describes the enablers and challenges in setting up the QEI DIB.

Enablers

There were a number of enablers which facilitated the setting up of the DIB. These are set out below. We have structured these around the LOUD framework⁸, which identified the critical success factors to launching a SIB in the UK (collective leadership; clear outcomes; shared understanding; and data), as well as a few specific to this project.

1 Collective Leadership

Given the range of different interests represented in the QEI DIB, strong collective leadership at a strategic level, both within and across organisations, was integral to the successful development and mobilisation of the contract. UBS-OF also reflected that it had been a priority for them to involve stakeholders from organisations that were like-minded in their commitment to achieving social impact, and with a high level of expertise, in order to support the complex design phase of the project. In choosing the right partners they were able to navigate through the difficult decisions and agree a model for the DIB.

“ We were able to get consensus on those pieces [outcome assessment] relatively easily...I think that has to do with the fact that we selected like-minded partners.”

Representative from UBS-OF

BAT also commented that the high level of openness to share organisational and technical knowledge was an asset to the project, and was different to other types of collaboration in grant making, particularly in the international development sector. BAT reported that it was refreshing to work on a project where all of the stakeholders, particularly those from sector leading organisations, like MSDF and UBS-OF, were motivated to share their resources and apply their skill-sets in a way to optimise the final design.

“ The joint awareness and wealth of foundation knowledge that came into play on this, you can’t underestimate you know... part of the beauty of this piece in international development...it’s about the data that’s sitting within foundations, especially deep technical foundations like MSDF...to share and be open minded, and move a bit... And to say right we’re willing to put that out there to be tested.” Representative from British Asian Trust

⁸ <https://global.bcg.com/en-us/knowledge/resources/sib/sib-model-four-factors-determine-whether-social-impact-bond-launched/>

At an organisational level there has also been positive feedback on the support provided by UBS-OF and Dalberg to the service providers. Service providers described the development phase as a collaborative one, with Dalberg making the effort to learn the details of their different interventions to inform the design of the monitoring system.

“ We have been given the opportunity to talk about our work...the collaboration, it has been remarkable from the UBS-OF and Dalberg. They have been really engaging with us and have developed the right monitoring and evaluation mechanism in place. ” Representative from service provider

Finally, it was essential that Dalberg and the senior stakeholders at the three service providers worked together to engage with stakeholders at all levels of the service provider organisation. This was to ensure that there was full buy-in to the new way of working and commitment to the requirements of the project.

2 Clear outcomes – measurable outcomes and linked to overall objective of the intervention

UBS-OF stakeholders reported that for a number of reasons it is reasonably straightforward to create a DIB financial model comprising education outcomes. Firstly, there is justification to assess outcomes within a reasonably short timeframe, assessing student performance at the start and end of the school year. Secondly, it is possible to directly measure the outcome of interest, student learning, rather than relying on proxy measures, an indirect measure strongly correlated to the desired outcomes, as is often needed in healthcare DIBs. Therefore in education there is opportunity to develop a payment model that suits the interests of both the investors, who want to receive their repayments within a reasonable timeframe, and the outcome funders, who want reliable evidence that the intervention had impact as intended. While at a high-level including education outcomes suits an outcome-based contract, there were challenges in defining the outcomes in this DIB and implementing an appropriate outcome-payment framework. These challenges are discussed on the next page.

3 Shared understanding of the policy ‘problem’ and sufficient evidence for the intervention so that it is credible or knowledge-based

All of the main stakeholders are bringing a high level of knowledge of the issues facing the education system in India as well as from their respective sectors. This broader expertise includes evaluation (MSDF and GMI) and networks of grant-making organisations (MSDF and BAT). Many of the stakeholders have also been able to take forward knowledge from the Educate Girls DIB, which has helped them to be efficient in decision making around the different issues, as well as building confidence in the effectiveness of the new DIB model. UBS-OF commented that because of the high-level of expertise within the team, little additional consultancy was needed to develop the DIB, beyond legal and financial advice.

4 Data to build up a business case, including data on the eligible cohort and outcomes likely to be achieved

It was possible to set the learning outcome targets for the DIB because MSDF could supply the data necessary to GMI to create the benchmarks for the targets.

The targets for the DIB have been purposively set at the cusp of achievable, but still aspirational level for the service providers, with lower targets in the first year, allowing for set up, and variation in targets for the model types (i.e. lower targets for indirect model and higher targets for direct models). Part of the reason for setting these targets is to balance the risk to the service provider in using the robust measurement but still push them to be efficient and vigilant in delivery. All of the service providers reported that they were confident about achieving the outcomes in the DIB. A few expressed concern about assessing learning using the new test, but were reasonably confident about taking on the risks in the DIB model.

5 The nascent and high profile nature of the project

Many of the organisations partly engaged on the basis that they would be involved in a high profile project in the impact investing space. The outcome funders in particular were all keen to understand how this nascent model of impact investing works. They could see the benefits to their own organisations of learning from direct experience. The reputation of the main stakeholders, including MSDF, BAT and UBS-OF, also gave the project credibility and the service providers were also well known in India for their programmes. For the service providers, there was also potential to increase their reputational standing if their intervention is a success in the DIB; this stems partly from media exposure through the DIB but also in improving their track record through the rigorous evaluation in the DIB.

6 Technical assistance grant from DfID

Stakeholders reported that the grant available from DfID has significantly supported the set-up process, as it covers the costs of the outcome evaluator and performance manager, and the legal costs, which would otherwise have had to be absorbed by the consortium or by another funder. UBS-OF reported that the benefit of having this grant is reflected in their overall experience in the QEI DIB, which has been more straightforward than others. Furthermore, when DfID were approached, several of the outcome funders had not joined the consortium and there was a considerable funding gap. DfID were told that the grant was essential to attract the other outcome funders and make the deal attractive to them as well as viable. BAT reported that the involvement of DfID also gave the project international credibility, which helped with the fundraising for the project.

Challenges

This section describes the main challenges that were experienced in the set-up of this QEI DIB. These reflect the scope of the project, which required a significant commitment from outcome funders, but also the priority placed on a robust assessment of learning and a rigorous evaluation of impact.

Considerable time and resource needed to engage the outcome funders.

After MSDF confirmed their contribution of \$4 million, BAT needed to engage with contacts in their networks to raise the remaining \$8 million. For BAT this process was resource intensive, and for others, including UBS-OF, it caused delays in the development process. The process of engagement was resource intensive, as BAT needed to adopt a tailored, personal approach, rather than a generic one with their whole network. The engagement process was also made harder because BAT needed to explain some of the basic principles of outcome-based contracts and investment terminology, as the potential outcome funders were new to the area and had limited understanding of the differences in what their role would be. Specifically BAT needed to be clear that:

- Outcome funders would have less of a direct role in managing the service providers they were funding. They would receive updates on progress and engage in decision making through the steering committee; however, Dalberg and UBS-OF would be responsible for direct management and feedback.
- Outcome funders would also have less of a role in designing the model, including selecting the outcomes, the type of assessment or the service providers. This was due the timing of the engagement, which followed the main design phase. Again this differs from typical grant making, where the funder is involved from the beginning and has the main responsibility for setting up the project.

While the process in engaging outcome funders contributed to the set-up time and costs, on reflection BAT stakeholders felt that the organisations that engaged are well suited to the project in terms of their interests and skills in education and impact investing, as well the mix in terms of public and private funding and the involvement of both UK and Indian organisations. Together, this puts the project in a strong position to achieve the longer-term aim of reforming education interventions and funding in India and to support the wider adoption of outcome-based contracts in the country.

Striking a balance between a robust, technical model and one that is attractive to investors and outcomes funders

UBS-OF stressed the importance of keeping the financial model in the DIB simple, to ensure that it was attractive to investors and easy to implement. However, it was a priority for MSDF to ensure the model of assessment was robust and credible. A number of stakeholders, including BAT and the outcome funders, also raised concerns about implementing an overly technical framework, and one so narrowly focused on learning outcomes. It was a stipulation from Comic Relief to include service user voices and experience as part of the monitoring framework. Including this type of measure of quality, as well as monitoring the enrolment and attendance of students and teachers, was also essential for DIB.

A range of stakeholders discussed the need to ensure the model was straightforward to communicate to others. During the fundraising phase, it was important that BAT was able to explain the model to secure commitment from potential donors. It was also important that service providers understood the assessment and their targets, as well as the Indian government, who stakeholders wanted to engage through the project.

A number of compromises were made to keep the model simple; however, service providers reported that they do not have complete understanding of the outcome-payment framework, as the approach is very different to the standard fee-for-service contracts that they are used to. Despite this, service providers were generally open to working in this way and learning from the approach in practice.

“ We are not very clear about the logarithmic scale measure that we going to use, so to be honest we don't really understand...other than the fact that the performance is going to be compared...then payment will be made. But we take a somewhat relaxed attitude towards it...and we are confident that we will meet the requirements. ”

Representative from Service Provider

Time and resource spent identifying a suitable comparison group

A third challenge has been the process for identifying a comparison group, which has been both complex and resource intensive in the DIB set-up. The service providers needed to engage the local government for permission to access other government schools, identify suitable schools to serve as comparison schools, engage them in the assessment by GMI and then explain the monitoring requirements of the DIB. This has been a demanding task for all service providers, in particular, GyanShala, because the government did not grant permission in the areas where it operates. GyanShala therefore needed to spend additional time recruiting enough alternative schools, delaying the process of piloting and baseline data collection.

Resolving financial challenges

A further challenge during the set-up phase related to the financial implications of a contract comprising organisations from multiple countries and the forex risk - the difference in the exchange rate between the currencies in the DIB (US Dollars, British Pounds and Indian Rupees)⁹. Following external financial advice to BAT, partners have agreed to take on the risk, with the exception of those convened by BAT (i.e. Comic Relief, Mittal Foundation, the Ellison Foundation and BT), who will only pay the amount in their respective currencies. If the value of the Indian rupee appreciates against the US Dollar, BAT will be liable to cover the funding gap. The overall contracting of the DIB has been set in Indian Rupees since contracts with service providers are in Indian Rupees.

⁹ Although there is a relatively consistent correlation between GBP/USD and GBP/INR, one does not exist between GBP/USD and USD/INR, which creates exposure for the stakeholders in the DIB.

This section describes a number of the lessons learned, described by stakeholders from their experiences of designing and launching the QEI DIB.

- 1** **Involve all actors upfront and clearly define their role within the DIB.**
 BAT reported that it would be more efficient to engage all actors prior to designing the details of the DIB model, reflecting on their challenges in the current project engaging outcome funders. This would mean that those funding the model would have the opportunity to shape the DIB design and selection of service providers.
- 2** **Clearly define the roles and responsibilities within the DIB.**
 BAT emphasised the importance of communicating the details of the model, including the sharing of risks, the level of investor returns, and the scope of the intermediary role. This is to ensure that there is clear understanding from all parties of their roles and responsibilities during implementation. In the current project a lot of stakeholders needed support to understand the terminology and structure of the DIB.
- 3** **Workshops with the different stakeholders work well to keep messaging consistent about project objectives and solve challenging issues.**
 UBS-OF reported that organising workshop events to discuss the model and the requirements of the project helped considerably, given the scale of the project and the number of stakeholders involved. This includes the meetings with outcome funders, but in particular, those with the service providers, engaging them in their role and ensure there is buy in to the requirements of the DIB. While challenging to organise with stakeholders in different places, providing all stakeholders with the same information at the same time reduced the risk of misunderstanding and miscommunication.
- 4** **Templates and standardised processes have helped, but more is needed.**
 There was evidence in this DIB that learning has been taken forwards from the Educate Girls DIB to improve design and increase efficiency in transactions, for example, in the legal processes. However, the development process overall was still long and complex, particularly as the DIB framework includes multiple outcome funders and multiple service providers. Developing templates to standardise processes will help with efficiency but will also help maintain organisational knowledge on a project. For example, there is only a narrow group of stakeholders at UBS-OF who were involved in developing the financial model in full, so if it was replicated elsewhere it would still take time to set-up. UBS-OF stakeholders reflected that with templates for the routine processes, DIBs should become easier to share and adapt. BAT also reflected that where DIBs include 'new' elements, time should be allowed in the process. In this project it was important to allow enough time to support the complex contracting to enable a multi-party, global transaction.
- 5** **Potential benefits of including a special purpose vehicle¹⁰ (SPV).**
 In the current model, UBS-OF manages all the financial flows from outcome funders and to the service providers. However, on reflection it would have preferred a SPV to separate out the finances. This would have allowed a more arms-length approach to management and the possibility to engage with commercial investors. However, it is not straightforward to set up an SPV as UBS-OF is part of UBS.

¹⁰ A legal entity (usually a limited company) that is created solely for a particular financial transaction or to fulfil a specific contractual objective.

This section describes the advantages and disadvantages of using the DIB described by stakeholders based on their experiences of the set-up phase of the QEI DIB.

118

Advantages

- **The DIB brought together sector-leading experts to work collaboratively to support initiatives in shared areas of interest.**
This relates to a commitment to support the learning crisis in India, but also to engage the Indian Government and to explore the potential transition from DIBs to SIBs. Although some of the organisations in the DIB had worked together previously, stakeholders reported that the level of collaboration was different in the DIB compared to other types of grant making, and stakeholders were motivated to work openly and share their resources and skill-sets. Through their open collaboration, stakeholders were able to offer greater access and more insight into the workings of the different sectors, which then contributed to the quality and credibility of the outcome framework and assessment in the final model. This strong collaborative element is also evidence in the clearly defined roles and responsibilities within the steering group committee, who will work collaboratively to oversee the DIB implementation.
- **The DIB was a significant opportunity to support high performing NGOs with a proven track record in delivering education outcomes to deliver at scale.**
Although each of the service providers were used to delivering contracts at scale, the opportunity to pool resources from multiple funders in the DIB offered created a shared framework to fund a range of education models at scale, with a view to collectively achieve larger impact with the beneficiaries. Using BAT in the role of an outcome convener, it was possible to engage a range of partners to raise funding for this collective project.
- **The outcome-focused structure in DIBs creates an opportunity to directly compare different education interventions, as well a chance to standardise measurement and assessment of learning.**
These benefits have the potential to improve assessment methodologies in the education sector more widely and was an integral motivation for high profile stakeholders like MSDF to engage in this project. Including a range of interventions also supports the ambition to transition to SIBs in India and to reduce transaction costs in DIBs as stakeholders will be able to compare performance across the interventions and see where this type of model works most appropriately.
- **The set-up phase the outcome-focused and rigorous approach to performance management in this DIB is also significant.**
The role of Dalberg working closely with each service provider, on behalf of UBS-OF, has the potential to build capacity amongst the service providers and reform their approach to internal programme monitoring. Dalberg will support the service providers to reflect on their performance to quickly detect risks and inefficiencies, and improve operations. A key learning point from Educate Girls was that this outcomes-focused approach contributed directly to the strong performance of the DIB in the final year. A representative from Educate Girls explained that the support and data from the performance manager and UBS-OF during implementation helped them to make different decisions in their recruitment, training and operations, which then contributed to the outcomes they achieved, particularly in the final year. Educate Girls now plans to scale the organisational changes they made during the DIB to achieve a similar volume of outcomes in other parts of their service.

Disadvantages

- The main disadvantage of the DIB was the transaction costs and the additional time required to engage in the project management and meetings.
Even with the efficiency in some processes by taking forward learning from the Educate Girls DIB, and a shorter time to complete the legal contracting, the overall negotiations in the QEI DIB still took two years. The scope of the project, and involvement of 20-25 stakeholders, meant that the negotiations in the DIB were significant, and it was resource intensive to resolve the differences. In comparison, in a comparable payment by results contract in education, there was complexity and high cost (accounting for around 20 per cent of the project), involved in defining the outcomes, the metrics and the comparison group; however, the main contracting process between the funders and the service providers was relatively straightforward.
- Although some of the expense is supported by the technical assistance grant from DFID, stakeholders reported that some of the costs were either unexpected or under-anticipated. For example, the forex risk was an unexpected cost for BAT. Service providers also reported that they had engaged in more meetings for the DIB than they had expected, both to develop the model but also in their engagement with the media for communication on the DIB. The time spent in meetings was a business cost for them and was very different from the standard contracting in other elements of their service. Overall though, stakeholders felt that many of these additional costs were essential to ensuring that they achieved the aspirations of the project, to compare a portfolio of interventions in terms of their cost and effectiveness, and there was rigour in the overall design. In the long-term the project has the potential to add value, not just to impact investing, but also the education sector in India.

This section provides some final concluding remarks on the set-up and design phase of the QEI DIB.

The main achievement in this DIB has been the bringing together a number of sector-leading organisations that operate within the same areas of international development to focus on a prominent issue in India. The end result is a model that is impressive in scale, implementing multiple interventions, but also comprises a high level of integrity in its design and in the evaluation assessment. In particular, the inclusion of a robust assessment tool means that the evidence from the project has the potential to provide important learning about the effectiveness of different types of education models as well as the suitability of the DIB model in different contexts, and the potential to develop a rate card.

The level of collaboration underlying the achievements in the design and set-up phase illustrate the potential for DIBs to offer collective solutions to important global issues, at scale and to restructure existing ways of funding and systems thinking. The governance arrangements in the DIB will support the ongoing benefits of collaboration during the implementation. This will hopefully maximise the role of the performance manager, working on behalf of the UBS-OF, to support impact from the services providers. This is essential given the learning from the first education DIB that adaptive service management, with a focus on outcomes rather than activity, contributed to their significant success, particularly in the final year.

However, the challenges in the QEI DIB have also arisen from the ambitious scope of the project. The scale of the project, in terms of the size of the contract, the involvement of multiple outcome funders and different service providers created challenges in the complexity of the engagement in the project. This is also complicated by the restrictions set on funding in India. Stakeholders have been able to use templates to support the transaction, but additional time has been needed to resolve some of these specific issues. As a result, it has not been possible to realise some of the objectives to reduce the time and cost for stakeholders in setting up the second DIB in education.

While the development phase has required significant time and cost, there is confidence that the learning from this project will be taken forwards to support the development of the DIBs market. Many of the stakeholders cited their motivation to be involved in future projects and enthusiasm for understanding how outcomes-based contracts can be used in the development context through this project. In addition, the Technical Assistance Grant from DFID includes wider objectives, which aims to support learning and the replication of DIBs where relevant in the South Asian context and globally. Therefore, it seems there is interest in the sector to take forward key lessons.

Stakeholders Consulted

- UBS Optimus Foundation
- Dalberg
- British Asian Trust
- Michael and Susan Dell Foundation
- Comic Relief
- Tafa Trust
- Gray Matters India
- GyanShala
- Kaivalya Education Foundation
- Society for All Round Development
- Educate Girls
- UK Department for International Development

This in-depth review is a series being produced as part of the DFID DIBs pilot programme evaluation, commissioned by the Department for International Development and undertaken by Ecorys UK.

Catie Erskine, Senior Research Manager at Ecorys, wrote the report.

The report is based on a review of documents provided by stakeholders and consultations with key stakeholders involved in the DIB. Consultation took place during 2018, during the second year of implementation for the Quality Education India Development Impact Bond. The report will be updated in subsequent years to provide an account of the DIB's progress.

In total, the evaluation will produce in-depth reviews of three DIBs funded or supported by DFID. More information about the DFID DIBs pilot programme evaluation, including other in-depth reviews, can be found at <https://devtracker.dfid.gov.uk/projects/GB-1-204722/documents>

This material has been funded by UK aid from the UK government; however, the views expressed do not necessarily reflect the UK government's official policies.



About this report





Village Enterprise Development Impact Bond (DIB):

A case study produced as part of the independent evaluation of the Department for International Development's Development Impact Bond Pilot Programme



“ The DIB creates incentives to focus on results and provides flexibility in implementation to adapt and innovate for greater efficiency and impact. It will create an evidence-based, innovative funding mechanism to effectively scale up Village Enterprise’s graduation out of extreme poverty program. ”

Village Enterprise

<p>TIME PERIOD: November 2017 - November 2020</p> <p>THEMATIC AREA: Livelihoods, using a graduation approach</p> <p>COUNTRIES: Uganda and Kenya</p> <p>TARGET POPULATION: People living in extreme poverty (on less than \$1.90 per day)</p> <p>OUTCOME METRIC: Increase in household income, proxied through consumption and assets</p> <p>OUTCOME PAYMENT: \$4.3 million tied to the achievement of the outcome metric; \$5.3 million in total, including costs for management and evaluation</p>	<p>SERVICE PROVIDER: Village Enterprise</p> <p>OUTCOME FUNDERS: DFID USAID Anonymous donor</p> <p>INVESTORS: Total of nine investors, including the Delta Fund</p>
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This case study report covers the Village Enterprise Development Impact Bond, which aims to raise the income levels of the extreme poor through Village Enterprise’s microenterprise development programme, known as a Graduation program. It seeks to equip its program participants with the resources to create sustainable businesses. The DIB launched in late 2017, with final payment expected by mid-2021¹.

This case study report focuses on the model, early successes and lessons learned during the design and set up phase. It summarises findings from consultations undertaken as part of the DFID commissioned independent evaluation of the DIBs pilot programme. Consultations were undertaken with the main stakeholders involved in the design and set up of the DIB between July-November 2018. A full list of consultations is set out at the end of this case study.

There are a variety of stakeholders involved in the DIB, including outcome funders (DFID, USAID and an anonymous donor), the service provider (Village Enterprise), the intermediary (Instiglio), the trustee (GDI), the evaluator (JDI Insight) and several investors. Stakeholders mentioned several motivations for their involvement, including cost effectiveness, achieving better impact, contributing to learning, accessing more funding and publicity.

The prevailing view among stakeholders was that the DIB has been a positive experience. Although there have been challenges throughout the process, it has led to greater levels of collaboration between stakeholder types, helped to create space for innovation and given Village Enterprise access to the funding that enables it to scale its intervention to more programme participants.

While the design and set up of the DIB was complicated and costly, stakeholders hope that the learning taken from this experience will enable a smoother process in the set-up of future DIBs.

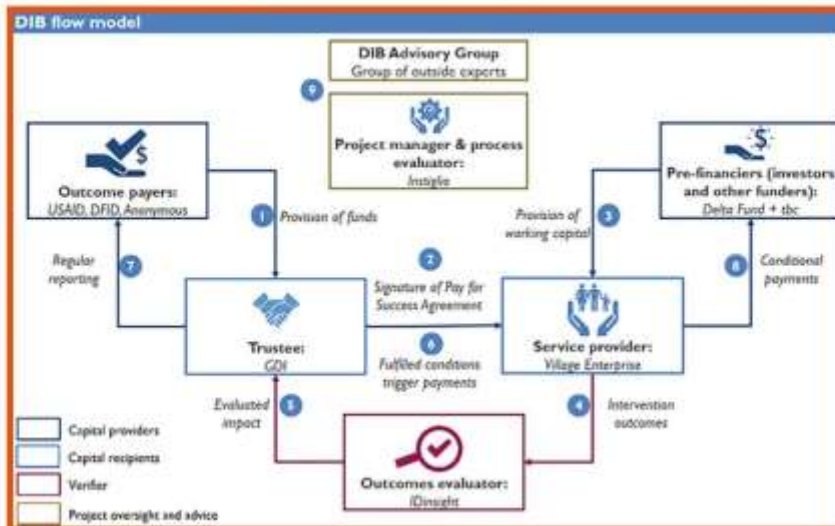
The following sections cover the DIB’s model and the intervention funded, the history of development, the enablers and challenges to setting up the DIB, the lessons learned and advantages and disadvantages to using the DIB before presenting final conclusions.

¹ The intervention itself is due to complete at the end of 2020

This DIB was designed with Village Enterprise around their micro-enterprise graduation programme, which aims to raise incomes for those earning less than \$1.90 per day in Uganda and Kenya. Village Enterprise itself has existed for approximately 30 years but the 'poverty graduation' model used in this intervention has been running since 2011, funded by individual donations and grants. Payment-by-Results (PbR) has not previously been used.

The DIB design process began in 2016 with implementation beginning in November 2017. The DIB is only running in approximately 30% of the programme, in two specific regions of Kenya and Uganda. The remainder of the programme is continuing to operate under the traditional model. Figure 1 sets out the structure of the DIB, the various stakeholders and their roles:

Figure 1: DIB flow model²



² The DIB flow model originally appeared in the design memo developed by Insight.

Interventions

The 5 components of the planned programme are:

- **Targeting:** VE works to identify individuals who live on less than \$1.90 a day and who are unable to provide for their family's basic needs. VE assesses poverty levels through a community-based Poverty Wealth Ranking exercise coupled with the Progress-out-of-Poverty Index.
- **Business Savings Groups (BSGs):** BSGs are self-governing councils of ten businesses comprising 30 individuals, each BSG has its own constitution. BSGs create the platform through which VE carries out the training programme, as well as develop trust and respect between the participating community members.
- **Training:** Local mentors deliver a four-month training programme to equip participants with the necessary knowledge to run a business. The participants then form groups of three, and agree and plan for a small microenterprise that they will start together. Business Mentors guide each new group in selecting an enterprise that is best positioned to flourish, considering the team's skill set, local market conditions, risk factors, and profitability. The majority of participants start activities that involve livestock (41%). Other types of business include retail (35.4%), crops (24.3%), services (2.4%) and skilled work (1%). When creating their business plans, some participants will plan for multiple income generating activities (IGAs). This practice helps programme participants ensure income is smooth all year-round and helps hedge against risks of devastation in the case of failure of one IGA.
- **Seed Funding:** Seed capital is granted to each group of three, to enable them to start their business. In the past VE has provided seed capital of \$150. Using the flexibility available under the DIB, VE has decided to give 65% of businesses a \$150 seed, and the remaining 35% of households \$450, to experiment with a larger seed transfer and observe the impact. The capital investment is a grant rather than a loan.
- **Mentoring:** Mentors provide continuous guidance to the participants for one year, coaching them in choosing the focus of their business, as well as how to grow and manage their business and finances, including saving in Business Savings Groups. This is a critical capacity-building phase for beneficiaries.

The Development Impact Bond

There are three Outcome Payers who have committed to paying for results that are achieved and verified:

- Department for International Development, UK (DFID)
- the Development Innovation Ventures division of United States Agency for International Development, USA (USAID)
- An anonymous philanthropic fund based in the USA

Village Enterprise is the service provider who has committed to delivering the services to the target population and to be paid based on results. There are two types of payments:

- Reimbursement of seed capital. These are payments made to Village Enterprise following verification of disbursements by IDInsight after the transfer of seed capital to the groups of three households. As stated in the DIB design memo, there is little uncertainty around this income.
- Outcome payments. These are tied to the RCT conducted by IDInsight, with Village Enterprise being paid approximately \$1 for every \$1 increase in household income.

Income will be measured at household level using consumption and assets. The rationale behind this was that growth in assets provides some evidence that impact will be sustained. The total budget committed by outcome payers is approximately \$5.32 million with \$4.28 million committed to pay Village Enterprise, based on results.³ The remaining \$1.4 million was spent on pre-contract fees such as design finalisation, stakeholder consultations and a field visit as well as future post-contract costs such as the RCT, the process evaluation and the trustee's fees.

Global Development Incubator (GDI) is the Trustee, with responsibilities including receiving funds from donors, signing an outcomes contract with Village Enterprise in accordance with the DIB design (as approved by all parties), holding some donor funds in escrow⁴ during the project, disbursing payments for the achievement of results as reported by the outcomes evaluator and holding the outcomes evaluation contract.

Village Enterprise raised \$2.325 million as working capital for programme implementation. This capital has been provided by nine investors, including the Delta Fund as lead investor, the Brückes Impact Foundation and SV2, who will be paid by Village Enterprise, if results are achieved, as verified by the outcomes evaluator.

IDInsight is the independent outcomes evaluator.

Instiglio is the project manager and process evaluator. Having already provided the technical expertise for the design of the DIB, Instiglio will provide project management and interface for outcome payers and the service provider, and will evaluate the process of creating and implementing the DIB to document lessons learned for future DIB and Social Impact Bond (SIB) deals.

³ Information is from the Village Enterprise DIB Design Memo.

⁴ An escrow is a financial arrangement where a third party holds and regulates payment of the funds required for two parties involved in a given transaction.

A number of steps were taken in the development of the DIB. These are set out in the diagram below.

Figure 2⁵: History of Development



- [Service provider selection](#)

The first step was the selection of VE as the service provider. In their first process review from July 2018, Instiglio stated that the idea of developing a market for outcomes in poverty alleviation first emerged in discussions with the anonymous donor in early 2014. The anonymous donor and Instiglio agreed to engage with potential service providers implementing poverty alleviation interventions in Africa. From a long list of 80, Village Enterprise were selected as they had good evidence of impact and strong operational capacities.

- [Outcome payer engagement](#)

This process began in May 2015 with a strategy of engaging foundations. However, this did not result in any commitments to provide outcomes funding and so in late 2016, the anonymous donor and Instiglio worked with Village Enterprise to develop a more detailed design and shift the focus to identifying potential bilateral funders. After signalling interest in the project, USAID and DfID undertook a comprehensive assessment of Village Enterprise as well as the DIB design. The total amounts (outcome payments, evaluation, project management, etc.) committed are \$1.30 million (USAID), \$2.02 million (DfID) and \$2 million (anonymous donor).

- [DIB design](#)

There then followed a more detailed design process, beginning in June 2017. The discussions involved DfID, USAID, the anonymous donor, Village Enterprise and Instiglio. Discussions covered design components such as the payment functions, discount rates and the number of households to be reached. The process lasted until November 2017.

⁵ The DIB set up process chart is from Instiglio's first process review.

- **Trustee selection**

Stakeholders agreed to contract a trustee with the responsibility of collecting, holding, managing and disbursing the funds as well as drawing, signing, holding and managing the various contracts. The rationale for using a trustee was to reduce the burden of contracting and fund management from the other stakeholders, including the outcome payers. Two candidates were invited to submit proposals and through a trustee assessment matrix, GDI were ultimately selected as the trustee.

- **Impact evaluation design and evaluator selection**

Stakeholders wanted to ensure that any increases in income were attributable to the intervention itself. There was also a motivation to contribute to the learning of 'what works' in poverty reduction. It was felt that an RCT would be the most rigorous means of achieving this. Therefore, in July 2017 the anonymous donor, Village Enterprise and Instiglio developed an initial evaluation design, using an RCT to evaluate the results of the intervention. There then followed an evaluator selection process including a request for proposals and interviews with potential candidates. IDInsight was selected in late 2017 as the independent evaluator and outcome verifier.

- **Financier engagement**

Village Enterprise needed to raise \$2.325 million as upfront working capital to begin programme implementation. This process began in late 2016, with the support of Instiglio and the anonymous donor. Village Enterprise started to engage with potential investors in mid-2017 and were ultimately able to raise the full amount from nine different investors, closing their fundraising round in June 2018.

Rationale

Stakeholders cited a variety of motivations for their involvement in the DIB, including:

- **Cost-effectiveness**

As the intermediary, Instiglio saw the DIB as a way to increase the cost-effectiveness of spending on poverty alleviation. Instiglio believed that the DIB would shift outcome payers' focus from monitoring outputs to measuring outcomes, resulting in a reduction in monitoring costs. Stakeholders from the anonymous donor agreed with this assumption, saying that the DIB was an opportunity to test how the graduation model could be implemented in a way that moderates transaction costs. Finally, the DIB means that funders do not need to pay when the intervention fails to produce results; the prevailing view among all stakeholders was that this would produce greater value for money.

- **Better impact**

Both Instiglio and stakeholders from the anonymous donor felt that the paying for results mechanism generally (rather than a DIB specifically) creates conditions more conducive to impact. Instiglio stated that as funders contributing only pay the service provider when results are achieved, the service provider is incentivised to not only better track and manage results but also is granted the flexibility to adapt elements of their intervention based on what is achieving better results. This view was reinforced by the anonymous donor who stated:

“ ...accountability to results not only incentivizes efficient resource allocation; it naturally selects for it. This allows the private sector to learn by reinforcement, much like biological systems do. ” Anonymous donor

- **Contributing to learning**

As the service provider, Village Enterprise had a different rationale for their involvement in the DIB. Stakeholders commented that for them this was a 'very new type of mechanism', and they were motivated to test the efficacy of the DIB model.

“ We had not done this for poverty alleviation in Africa... we are a small organisation and for us it was a way to contribute to learning around what makes impact in the sector. ” Village Enterprise

This was also cited by the anonymous donor as a key motivator for their involvement in the DIB. The view was that the DIB, as a fairly new funding mechanism, would be an opportunity to learn not only how the graduation model could be implemented at scale but also how to implement a 'pay for success' project in a way that moderates transaction costs. The anonymous donor hoped that this learning would contribute to the evidence base for future poverty alleviation interventions.

- **Achieving scale**

As well as contributing to learning, Village Enterprise saw the DIB, through the increase in funds that would be available to them, as an opportunity to scale their intervention whilst maintaining impact. Furthermore, as a financing mechanism, the DIB was seen as 'a good strategic fit' for what they wanted to achieve in the future, namely to attract more funding for their services. The DIB achieved this through generating additional funds from investors. However, stakeholders could not say that these additional funds would not have been possible with another mechanism.

“ We had ambitious goals and thought the DIB would be a good opportunity for us to achieve them. ” Village Enterprise

This 'achieving of scale' was also cited by stakeholders from the outcome funders and investors as their motivation for getting involved in the DIB.

- **Opportunity to get more funding**

In order to achieve this scale, stakeholders from Village Enterprise also spoke of the DIB being an opportunity to attract more funding for their intervention. This additional funding has enabled them to not only potentially achieve scale but also implement other things, such as adaptive management and launch another RCT to provide further evidence of impact across Kenya and Uganda.

- **Publicity**

Stakeholders from the Delta Fund (one of the investors) felt that the DIB would 'bring government attention' to the poverty graduation model. The investor was on the board of Village Enterprise and strongly believed in their work. Having attended some conferences they saw the DIB as an interesting mechanism to be involved with.

“ It seemed like a potentially sustainable model for funding, not only to scale it but also in the long term not having to continually scrap for fund raising. But ultimately we believed in their (Village Enterprise's) work, who have proven to be an efficient model of offering help to extreme poor. The DIB was a potential way to scale that funding and draw attention to a sustainable and efficient model. ”

Delta Fund

Enablers

1 Strong working relationships

The key enabler in the setting up of the DIB was a strong working relationship between all stakeholders. This was stated by interviewees from the outcome funders, the service provider and the intermediary who all felt it enabled a 'constructive and positive' experience.

2 Strong evidence of potential impact

Stakeholders commented that a previous RCT conducted on the Village Enterprise graduation programme provided strong evidence of the impact of their operations. This evidence was particularly important for some of the outcome funders. For example, Instiglio stated that DFID in particular gained confidence in Village Enterprise's ability to deliver results.

3 Clear presentation of the design

Instiglio's process review also stated that clearly presenting the design of the DIB to potential outcome funders and investors enabled conversations to advance quickly. Stakeholders from the anonymous donor and investors agreed that this enabled them to get a good and clear understanding of the DIB.

4 Complementary experience

Another factor cited was the complementary experience of the different stakeholders involved. For example, Village Enterprise and the anonymous donor had experience of poverty alleviation whilst Instiglio had experience of results based financing. This helped to inform a more practical design of the DIB.

Challenges

Instiglio's process review mentioned a number of challenges that emerged in the design phase of the DIB. These, along with stakeholder views, are set out below:

- **Outcome payer engagement**

Instiglio and the anonymous donor spent considerable time engaging with foundations, which resulted in no commitments to provide outcomes funding. Furthermore, Instiglio felt that engaging with multiple outcome payers at different times created inefficiency. Also, capacity constraints meant assessment of the project was challenging for both USAID and DFID.

- **Design**

Stakeholders stated that negotiations lacked clear protocols for ensuring the views of all were included. This, according to Instiglio and Village Enterprise, increased the amount of time it took, and therefore staff time required, to finalise the design of the DIB. Furthermore stakeholders also commented that having multi-party negotiations slowed the process down as all views needed to be accommodated.

- **Trustee selection**

This process also took longer as conversations with trustee candidates began without a clear agreement on the function of the trustee.

- **Contracting**

There was a poor understanding of outcome payers' procurement burden which delayed the start of the contracting process.

- **Investor engagement**

Village Enterprise had to not only raise the investments but also to create the investment structure, an SPV, to receive the investments and outcome funds.

- **Due diligence**

Stakeholders from DFID stated that there needed to be a higher level of due diligence undertaken for this DIB than for their traditional grant funded mechanism. This included conducting due diligence on the trustee, the service provider and the investors. Although it is normal for DFID to look at a service provider's ability to deliver, the evidence base and other reputational risks, the increased number of stakeholders involved meant that this process was longer.

Advantages to using the DIB

Stakeholders cited many advantages to using a DIB during the set-up and design phase of the programme. It is important to stress that stakeholders did not fully attribute the following to the DIB mechanism specifically but rather stated that this particular DIB helped to enable the following:

- More performance focused

The DIB has enabled a strengthening of systems and processes at Village Enterprise, including the adaptive management system, financial system and safeguarding processes.

“ It creates a level of rigour because we want to deliver our outcomes. ” Village Enterprise

For example, when Village Enterprise implemented the previous RCT, they did not have a cost tracking mechanism fully established in order to assess cost effectiveness. As mentioned earlier, part of the rationale for Village Enterprise and the anonymous donor to enter this DIB was to contribute to learning. As part of this learning, they have now implemented a rigorous cost-tracking mechanism to analysis cost under the DIB structure versus under traditional grant funding. Stakeholders felt that this type of rigour helps to ensure that staff are delivering efficiently and productively, creates a higher accountability for outcomes, a greater incentive to perform and ultimately improves the performance focus.

- Brings more finance to the development sector

Stakeholders had mixed views on this potential advantage. Stakeholders from Village Enterprise stated the mechanism enabled them to raise larger sums of money than they would have been able to through grant funding. However, outcome funders and investors, as international development agencies and philanthropists, felt that the funding would have gone into the development sector in any case. Therefore the funding did not attract new finance into the development sector as a whole.

Having said that, the additional funding still enabled Village Enterprise to invest more in the service as they were able to develop adaptive management and monitoring and evaluation systems which they believe will also help to improve their performance.

“ The idea is that this will help us to deliver better. We have developed new M&E dashboards, database and ultimately this work is going to get quality information into the hands of managers, improve our outcomes by following up more rapidly to improve our performance. ” Village Enterprise

- **More innovation**

The additional funding has also allowed Village Enterprise to have more flexibility and deliver other innovations, such as adaptive management practices, piloting of mobile money and using different grant sizes. Stakeholders from Village Enterprise felt it would have been more difficult to do this with a smaller amount of money.

Furthermore, outcome funders stated that the DIB design helped to create 'a space' for these innovations; the rationale was that with the transfer of risk from the outcome funder, the service provider is able to deliver the intervention as they see fit and adapt it where necessary to achieve better results. Therefore the mechanism enabled innovation by providing the service provider with the funding and space to do it.

- **Greater collaboration and coordination between stakeholders**

The prevailing view from stakeholders was that the design phase of the DIB did see high levels of engagement, collaboration and negotiation between different stakeholders. The working group consisted of the outcome funders, Instiglio and Village Enterprise and was meeting twice a week, sometimes for multiple hours which was described as 'way above what you would normally see for a regular project'. Furthermore, the stakeholders were united towards 'one common outcome' and although views on how to achieve this outcome varied, it was still described as 'a single united goal' by a stakeholder from DfID. This higher level of collaboration meant the various stakeholder types built working relationships and trust with one another, potentially setting the base for future collaboration as well.

Stakeholders felt that there were two factors behind this; firstly, as a relatively new funding mechanism it took longer for the various parties to get to grips with and agree what was required from each of them and secondly, with the involvement of various stakeholders, the mechanism was seen as 'more complicated', with higher levels of discussion and negotiation seen as a natural element of the DIB.

Following on from greater levels of collaboration, stakeholders were not fully convinced that this led to more rigorous design. The view was that although there was a more rigorous design process, this was more dependent on the level of engagement of the outcome funders. For example, DfID was mentioned as showing a keen interest in the design of the programme. While the core programme was already designed a lot of work still needed to go into defining how the programme works, particularly for DfID's priority areas of gender-based violence and protection. However, stakeholders stated that this seemed to be a result of the donors involved, rather than a result of the DIB.

“ Because of DfID there was a lot of detail required on the design but I would not say it would uniformly be the case across the DIB sector. ” Village Enterprise

Disadvantages to using the DIB

Stakeholders also mentioned some disadvantages of using a DIB. These tended to focus on the complicated and costly design process. All stakeholders agreed that the process of getting the DIB 'off the ground' was a rigorous process which took considerable time, energy and effort. In the case of Village Enterprise, there was a need to consult with external professionals such as lawyers and accountants (over 200 hours of time in total). Village Enterprise estimated a total of 3,218 hours of staff time (approximately \$158,000) was spent on the DIB design and set up. One staff member stated that half of their time in 2017 was spent on this DIB.

Stakeholders felt, however, that this may only be a 'one-off' disadvantage as learning taken from this process can be applied to future DIBs where the design and set-up phase will be more efficient.

“ An area is the cost-benefit of investing so much time and energy into the financing mechanism, almost 50% of my time for the whole year, which I did not spend on securing other type of funding for Village Enterprise...But hopefully for the next transaction it will not be so much. ” Village Enterprise

Stakeholders from DFID also stated that learning from this design phase will help in the future. For example, the contracting process will be smoother with better knowledge of what is required and clearer idea of the roles.

“ We are not at the stage of having a standardised template but some of the terms in the contract can be standardised. ” DFID

Stakeholders mentioned a number of lessons learned from the DIB design process:

- 1 **Ensure outcome metrics are well aligned with the Theory of Change.**
Stakeholders stated that with regards to the outcome metric and payment function, there is a need to make sure outcome metrics are well aligned to the programme's Theory of Change. This will create the incentive to achieve impacts.
- 2 **Have trust in the service provider.**
Stakeholders, in particular investors, felt that it is important to have trust in the service provider. As part of building that trust, it is important to go through a stringent vetting process.

“ From there my advice is to do all you can to get out of [the service provider's] way and enable them with few restrictions on their work...once you have vetted them just trust them to implement.” Investor

- 3 **Ensure all stakeholders have the capacity to deliver what is expected of them.**
This was raised in Instiglio's process review as a key recommendation. It was felt that using the DIB funding to support service providers, for example, in gaining access to independent experts (such as lawyers or investment structuring experts) would mean less strain on their capacity. Similarly, funds should also build in technical capacity for outcome funders who may not be as versed in results based financing.

More generally, stakeholders felt that having strong legal, financial and accounting skills was very important when negotiating deals. Furthermore, having a culture of innovation in the organisation (of whatever stakeholder type) was seen as vital in designing the DIB.

The Village Enterprise DIB has been a learning experience for all stakeholders involved. Stakeholders saw the DIB as an opportunity to achieve better impact in a more cost effective way. With an increase in available funds, stakeholders from Village Enterprise saw the DIB as an opportunity to achieve scale through expanding their intervention and reaching more people. Furthermore, with donor agencies only paying for outcomes, stakeholders hoped it would lead to cost effectiveness, through a reduction in costs related to monitoring outputs. This combination, it is hoped, helps outcome funders to achieve better value for money than through traditional grant funded mechanisms.

Some positive effects of the DIB mechanism have already been seen on this programme. At its outset, as a relatively new type of funding mechanism, it has created greater levels of collaboration between different stakeholder types, including outcome funders, the service provider, investors and the intermediary. Furthermore, the service provider has innovated, particularly by experimenting with different grant sizes, using mobile money and introducing new adaptive management techniques. Stakeholders felt that the DIB helped to create an 'innovation space' to make it possible. This is a positive sign for the future.

There are also some potentially negative effects. For this DIB, the service provider was responsible for approaching and bringing investors into the intervention. Although they were able to do this with success, stakeholders from Village Enterprise felt that this was a costly process and a challenge for them. However, stakeholders hope that in the future Village Enterprise will be better equipped to undertake such a task and will do so more efficiently.

The next case study report will be published in 2020, with a focus on delivery and outcomes.

Stakeholders Consulted

- Village Enterprise
- Instiglio
- Anonymous Donor
- Anonymous investor
- Bridge Fund
- UK Department for International Development

This in-depth review is a series being produced as part of the DFID DIBs pilot programme evaluation, commissioned by the Department for International Development and undertaken by Ecorys UK.

Hashim Ahmed, Research Manager at Ecorys, wrote the report.

The report is based on a review of documents provided by stakeholders and consultations with key stakeholders involved in the DIB. Consultation took place during 2018, during the second year of implementation for the Village Enterprise Development Impact Bond. The report will be updated in subsequent years to provide an account of the DIB's progress.

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About this report





Cameroon Cataract Bond:

A case study produced as part of the Cameroon Cataract Bond Evaluation



“ The Cameroon Cataract Bond utilized a Development Impact Bond (DIB) structure as a financing tool to draw additional and more inclusive social capital to achieve the elimination of avoidable blindness, particularly in the underserved regions of Central Francophone Africa.

Several key features of the DIB structure made this type of financing model well suited for eyecare interventions. The DIB’s diverse stakeholder coalition facilitated an effective sharing of risk, allowing new sources of private financing to flow into this geography and sector. Additionally, the Cataract Bond improved transparency and accountability, while also improving the design of impact measurement by incorporating new targets in the eye care sector such as operational and financial sustainability.

Most importantly, the DIB’s rigorous focus on measuring results and building a strong evidence base of best practices will have a powerful demonstration effect. By proving that this model works in this context, it will allow for scale up and replication of this model in new, underserved regions. The evidence base and learnings resulting from the Cataract Bond will facilitate substantial efficiency gains when replicating the model, including greatly reduced setup and transaction costs. In addition, as the Cataract Bond continues to build local capacity in healthcare expertise and management practices, the Magrabi ICO Cameroon Eye Institute (‘MICEI’) will serve as an example of a regional center of excellence, and a hub for knowledge-sharing for future hospitals seeking to replicate its model. ” Cameroon Cataract Bond Steering Committee

Cameroon Cataract Bond case study report

TIME PERIOD: March 2018 – March 2023	SERVICE PROVIDER: Magrabi ICO Cameroon Eye Institute (MICEI)
THEMATIC AREA: Sight restoring cataract surgery	OUTCOME FUNDERS: The Fred Hollows Foundation Conrad N. Hilton Foundation Sightsavers
COUNTRIES: Cameroon	INVESTORS: Overseas Private Investment Corporation (OPIC) Netri Foundation
TARGET POPULATION: Low-income patients and middle-income patients with cataracts in urban and rural areas in Cameroon	BOND MANAGER: Volta Capital
OUTCOME METRIC: Number of cataract surgeries, quality of the surgeries, financial sustainability and equity target	INDEPENDENT VERIFICATION: AEDES
LOAN VALUE: \$2 million	

This case study report covers the Cameroon Cataract Bond, a pay-for-performance loan (also known as a development impact bond (DIB) designed to provide funding to prevent blindness through the provision of cataract surgeries. The bond aims to provide eye surgeries at a low cost for middle income patients and no cost for low income patients, while enabling the hospital to reach self-sufficiency in five years. The bond also aims to contribute to helping the hospital become a regional training institute for the Central African Economic and Monetary Community (CEMAC) region after the bond.

The DIB is led by the Cataract Bond Design Coalition, which is formed of The Fred Hollows Foundation, the Conrad N. Hilton Foundation, Sightsavers, the African Eye Foundation and Volta Capital. The outcome funders were interested in being involved as early adopters of DIBs and wanted to pave a new market in innovative financing. The Cameroon Cataract Bond launched in March 2018 and will conclude in January 2023. \$2 million of funding from OPIC and the Netri Foundation to top-up the \$10 million already raised has been committed to fund the operations of the Magrabi ICO Cameroon Eye Institute (MICEI), the AEF's flagship project and the first subspecialty eye care hospital and training institute in Central Africa to provide cataract surgery to treat avoidable blindness. The DIB model involves risk sharing between the outcome funders and the service provider in the case of non-performance and a full capital protection for the investors. Cameroon was selected by the Africa Eye Foundation as the country for the intervention because the number of avoidable blindness cases in the country is set to double by 2020 if there is no systemic change in the service delivery strategy of eye care intervention.

The key factors that enabled the successful development of the DIB were the strong relationship between outcome funders and service provider and their shared commitment and understanding of the problem and the clarity of the outcome measurement and its linkage to the objective of the intervention. However, the DIB faced several challenges during its set up phase. The difficulty in finding investors and the complexity of the contracting made the set up phase longer and more costly than anticipated. In addition to this, the bond coalition struggled to keep all stakeholders involved throughout the process and faced difficulties in ensuring the buy-in of certain stakeholders due to the complexity of the model.

We have identified some key advantages of using a DIB. First, the risk sharing between outcome funders and service provider has successfully brought impact investing into the eye care sector in Sub-Saharan Africa. Secondly, the DIB has allowed the stakeholders involved to collaborate in a new capacity by creating common

goals and designing targets together. Thirdly, the DIB has improved the accountability and design of impact measurement and incorporated new targets in the eye care sector such as sustainability and accountability. Fourthly, the design of outcome metrics has brought in innovation in the design of the intervention by incorporating an outreach programme to achieve the equity target.

The case study report focuses on the DIB model and early successes and lessons learned during the design and set up phase of the DIB. The following sections cover the DIB's model and the intervention funded, the history of development, the enablers and challenges to setting up the DIB, the lessons learned and advantages and disadvantages to using the DIB before concluding.

The case study is based on findings from consultations undertaken between October-November 2018 with the main stakeholders involved in the design and set up of the DIB and draws from the findings of the CGD report 'Envisioning Pay-for-Success: Learning from an Eye Health DIB in Cameroon'. This included the service provider, outcome funders, investors, bond manager and other advisors. A full list of consultations is set out at the end.

Intervention

The Cameroon Cataract Bond funds cataract-related equipment, consumables, and activities within the intervention programme at the Magrabi ICO Cameroon Eye Institute (MICEI).

MICEI was created by the Africa Eye Foundation as a non-for profit organisation. The Africa Eye Foundation was set up by the Magrabi Foundation (a non-profit foundation organised in Egypt), the International Council of Ophthalmology (ICO), and the That Every Life May Count Foundation (a non-profit foundation organised in Switzerland). The aim was three-fold: to advocate for and promote better eyesight, to construct and operate a network of integrated self-sustainable eye hospitals across Sub-Saharan Africa and to train and equip African eye care experts. MICEI is their flagship project and the first subspecialty eye care hospital and training institute in Central Africa.

The pay-for-performance loan contributes to the funding of the following activities:

- Comprehensive, high-quality and affordable eye care procedures, including outreach and awareness building, diagnosis, transport to hospital and follow-up care for surgery patients,
- Certified training (through the University of Yaoundé) to grow the next generation of African eye care experts.

MICEI is adopting the Aravind model of cross-subsidisation pricing, high service volume, and revenue diversification strategies to provide quality cataract treatment services to the poor at low or no cost in Cameroon. The Aravind model is a social enterprise model of eye care first popularized in India by the Aravind Eye Care System that has had limited implementation in Sub-Saharan Africa due to lack of flexible capital in less-densely populated and lower income areas. The model has been adopted by the Magrabi Foundation, in Egypt, and has proven to be a successful model of financing low-cost cataract surgeries.

In order to operationalise the cross-subsidisation pricing model, MICEI has two target groups: low-income patients and middle-income patients. Between 30% and 40% of the patients are expected to be middle-income patients from urban areas, who will pay between \$100 and \$545 and contribute to the financial sustainability of the hospital. The funds generated will enable MICEI to provide cataract surgery for free or at a subsidised price for patients from urban and rural areas that are unable to pay for transport to the hospital and for the treatment itself. These patients will be reached through the outreach programme including education campaigns, community visits, radio outtakes and awareness raising.

¹ Based on the Aravind Eye Care System in India, patients will be directed to pay as much as they can for surgery, allowing the hospital to recover more costs. An approach successfully used in Aravind and similar hospitals is to keep the per-unit cost of cataract surgery equal to the average monthly income of the bottom 50% of the local population.

DIB Model

The Cameroon Cataract Bond is a pay-for-performance loan designed to provide funding to prevent blindness through the provision of cataract surgeries with the ultimate goal of making the hospital self-sufficient after five years. It was launched in March 2018 and will end in 2023.

The Africa Eye Foundation secured funding from Dr. Akef El-Maghraby (anchor donor and Chairman of the AEF) as well as leading, global health and disability NGOs, for the completion of the hospital (MICEI), which began in 2012. The hospital required an additional \$2 million of funding to operationalise the hospital after construction was completed in 2016, which was financed through the DIB. The DIB is led by the Cataract Bond Design Coalition, which is formed of The Fred Hollows Foundation, the Conrad N. Hilton Foundation, Sightsavers, the African Eye Foundation and Volta Capital. The coalition is a partnership comprised of leading non-profit eye health funders, private sector advisors and the service provider.

The Cameroon Cataract Bond provides \$2 million in financial support for MICEI's operational costs, including the funding of cataract-related equipment, consumables, and activities. The Conrad N. Hilton Foundation serves as the bond's primary outcome funder, and covers approximately 80% of what is owed to the investors if the intervention succeeds. The Fred Hollows Foundation and Sightsavers—organisations focused on preventing and treating avoidable blindness—cover roughly 10% each.

There are four outcome metrics that payments are linked to:

Performance Targets

NUMBER OF CATARACT SURGERIES: 18,000 over 5 years (7,000 by year 3)

QUALITY OUTCOME: At least 50% of cataract surgeries achieve a 'good' outcome according to WHO guidelines for visual acuity of cataracts patients post-surgery²

FINANCIAL SUSTAINABILITY: positive EBITDA (earnings before interest, tax, depreciation and amortisation) at the end of 5 years

Impact Target

EQUITY TARGET: at least 40% of surgeries provided to individuals belonging to the bottom two wealth quintiles of the population in Cameroon by the end of year 5

The Overseas Private Investment Corporation (OPIC) and the Netri Foundation provided 87.5% and 12.5% respectively of the \$2 million upfront capital in January 2018. The loan involves 100% capital protection, though the interest rate payable will depend on the performance against the outcome metrics.

Outcome payments will be made in year 3 and year 5 and the risk of non-performance is split between the outcome funders and the service provider, who is liable to repay in the case of non-performance according to the terms below:

- In year 3, 60% of the principal is repayable. If performance targets are met, outcome funders repay the principal at an 8% interest rate to investors. If performance targets are not met, 76.5% of the principal is repaid by outcome funders, and 4% interest to OPIC only, and the service provider repays the remaining 23.5%, interest-free.
- In year 5, the remaining 40% of the principal is repayable. If performance targets are met, outcome funders repay the principal at 8% interest rate accrued to investors and pay a bonus payment to the service provider of \$120k if the equity target is met. If the performance targets are not met, outcome funders repay 55% of the outstanding principal to investors, and 4% interest to OPIC only and the service provider repays 45% of the outstanding principal, interest-free.

² This is a target recommended by the WHO. Vision tends to improve dramatically in the weeks following surgery. If 50% of surgeries achieve good vision one day after surgery, then it is estimated that in the long term 80% of patients will have a good visual outcome, hence what appears to be a relatively low target for Day 1.

Figure 1 below sets out the structure of the Cameroon Cataract Bond.

Figure 1: Cameroon Cataract Bond Structure

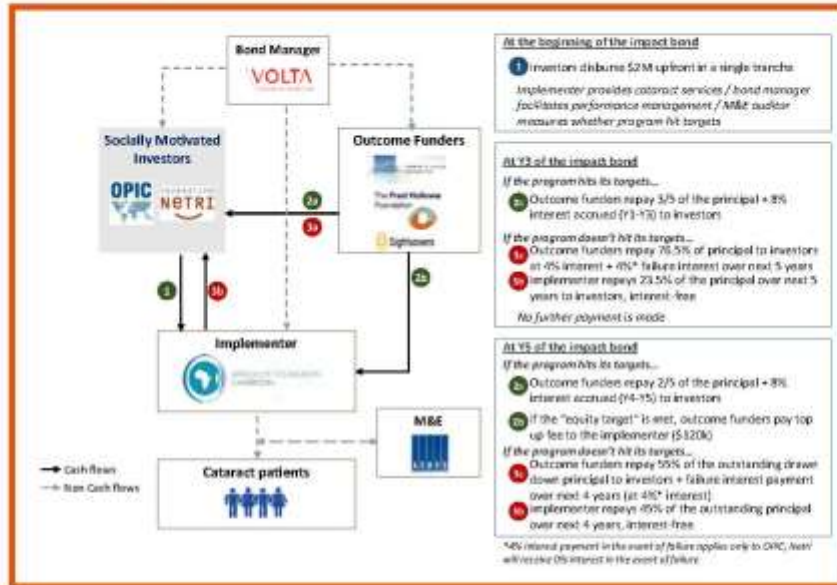


Table 1 below sets out the roles played by the stakeholders within the Cameroon Cataract DIB.

Table 1: Cameroon Cataract Bond stakeholders

	DESIGNER Coalition of outcome funders, bond manager (Volta Capital) and service provider
	SERVICE PROVIDER The Magrabi ICO Cameroon Eye Institute (MICEI) hospital, which has been established by the Africa Eye Foundation
	SERVICE USERS Users of MICEI eye care hospital in Cameroon
	GOVERNMENTS Government in Cameroon
	OUTCOME FUNDERS The Fred Hollows Foundation, Conrad N. Hilton Foundation and Sightsavers
	INVESTORS OPIC and Netri Foundation
	OUTCOME VERIFIER AEDES

Background and identification of outcome funders

The Fred Hollows Foundation started brainstorming ways to crowd in additional investments to reduce preventable blindness given their portfolio focus on avoidable blindness in 2013 as a result of a report commissioned from PwC which found that there was insufficient financing going into eye care to eliminate avoidable blindness in high and low-income countries. The Foundation also had a strong interest in being an early adopter of DIBs and creating public goods that could be shared with other parties interested in applying the DIB model and decided to develop a DIB to finance cataract surgeries in large-scale outreach eye camps in 2013. Selecting the specific eye care intervention that would best suit the DIB financing model took The Fred Hollows Foundation about 8 to 12 months. The Fred Hollows Foundation presented a proposal for outcome funding in South East Asia to the Australian Department of Foreign Affairs and Trade (DFAT) in 2014, but DFAT did not pursue the proposal as the agency was pivoting away from service delivery toward a health systems strengthening approach.

In January 2015, The Fred Hollows Foundation approached the Conrad N. Hilton Foundation to become an outcome funder. The Fred Hollows Foundation decided to shift the intervention to Cameroon because the Conrad N. Hilton Foundation has a portfolio focused on avoidable blindness in Sub-Saharan Africa and a previous relationship with the Africa Eye Foundation.

The Africa Eye Foundation was motivated to be involved with a DIB because of the international recognition that came from working together with the outcome funders and the potential to receive upfront financing with more favourable terms than a commercial loan, while sharing the risk of its operations with the outcome funders.

The Fred Hollows Foundation was appointed as lead outcome funder. The Fred Hollows Foundation engaged D. Capital (now Volta Capital), as the deal's technical advisor in April 2015. Volta Capital had previously acted as an intermediary for the Roll Back Malaria bond piloted in Mozambique. During the development process, Sightsavers joined the bond's design team as an outcome funder. Sightsavers also provided additional specialised knowledge of the eye care sector in Cameroon and substantial experience with monitoring and evaluation. All outcome funders shared a common objective of preventing avoidable blindness and supporting the expansion of innovative financing in the eye care sector.

Initial development costs incurred between May-Oct 2015 were split between the Fred Hollows Foundation and Sightsavers. The Conrad N. Hilton Foundation covered some of the "pre-launch" costs, which were taken out of the first payment made by the grant, which was approved in November 2015. At this point, the Conrad N. Hilton Foundation committed funds to the DIB and joined as the final outcome funder.

Design of the intervention

The Fred Hollows Foundation and the Conrad N. Hilton Foundation agreed that the focus of the intervention should be the MICEI eye care hospital in Cameroon. The targets were put together in consultation with the MICEI management team and verified by experts such as the Aravind Foundation and the Africa Eye Foundation. The setting of these targets was based on the country demand for eye surgeries, benchmarks from other eye hospitals, the service provider's track record and WHO standards. Data from the Africa Eye Foundation was used to build the financial modelling behind the performance indicators. The quality indicator specifically aligns to the World Health Organisation's benchmark for a good cataract surgery outcome.

Stakeholders considered the setting of the targets to be rigorously researched and well-informed by evidence, which was facilitated by the extensive knowledge of the outcome funder and the implementers in the eye care sector. However, some outcome funders and investors considered that the quantity and quality targets were less ambitious than the sustainability and equity targets, especially given the size of the eye health challenge in Cameroon.

In addition to this, including equity as an incentive was considered by all stakeholders to be ambitious and innovative, despite it not being attached to the payments beyond a bonus in year 5. The reason for this was due the challenge in measuring whether the hospital was reaching the poorest both in urban areas and rural areas. MICEI uses EquityTool³ to compare the wealth of its patients to the wealth of a national sample of population. The equity tool measures against both the urban wealth distribution and the national wealth distribution. For outreach activities, the national measure is more accurate as it encompasses rural populations as well, while in Yaoundé and other urban areas the urban measure is more accurate. Initially many patients were from the

³ <http://www.equitytool.org>

urban areas, so the consortium considered whether the right benchmark for comparison was actually the urban benchmark. However, now many patients are also from rural areas, so they are performing well against the national benchmark too.

Identification of investors and negotiations

The identification of investors began in 2016. In January, a meeting was held with prospective investors, who were provided with background to the bond, the intervention and the proposed terms. Although a number of leads were identified, none committed to being the main investor. There were two main reasons. Firstly, certain prospective investors noted that the intervention did not align with their priorities in terms of country (Cameroon) or sector (eye care). Secondly, other investors were reluctant to join due to the risk attached to the investment, and the fact that there was not yet a significant and credible investor on board.

Some stakeholders highlighted that they may have misread the risk appetite in investing in a hospital that, at the time, was still under construction. The changes in terms from what was originally planned raised questions for some outcome funders such as the Conrad N. Hilton Foundation given the move from a fractional principle guarantee to 100% coverage of all principle losses.

In March 2017, the Overseas Private Investment Corporation (OPIC)—the United States development finance institution providing direct loans, guarantees, and risk mitigation products to help American businesses invest in emerging markets—agreed to being the main investor and to providing a loan of \$1.75 million to the bond. OPIC's interest in and ability to finance the cataract bond with a loan was facilitated by the Conrad N. Hilton Foundation's presence in the outcome funder coalition, given that OPIC must support the interests of an American organisation. The Netri Foundation, who had already shown interest in 2016 but were waiting for another investor to join the DIB, committed the remaining \$250,000.

However, OPIC's mission only enables the organisation to provide debt financing. This resulted in a change in the final terms of the DIB with 100% capital protection for investors, split between outcome funders and the service provider. The fact that the service provider had 'skin in the game' (i.e. they took on some of the risk of project failure) gave confidence to the investors and showed Africa Eye Foundation's commitment to reaching their targets.

The most substantive change to the terms was the move from a relatively small portion of the principle being covered to 100% coverage. The principle protection was increased to account for the commercial and political risks of the investment. The final terms involved a lift in the interest rate to investors from 5% to 8% if targets were met, and a 4% interest rate for OPIC if targets were not met. The Netri Foundation refused the term of a 4% interest rate if targets are not met. These changes were a result of an iterative negotiating process, first through negotiations with Deutsche Bank and other prospective investors and, then, through negotiations with OPIC. The resulting terms of the DIB were agreed on with the service provider with reluctance, particularly after realising the extent of the due diligence costs, but accepted given that the terms of the loan were better than those provided by a commercial loan and because they were confident that they could achieve the targets that had been set.

There were a number of enablers, which facilitated the setting up of the DIB. We have structured these around the LOUD framework⁴, which identified the critical success factors to launching a SIB in the UK (collective leadership, clear outcomes, shared understanding, and data). It is interesting to note that these same enablers in the UK existed for the Cataract Bond.

⁴ https://pau.sblm.ac.uk/assets/Resloud_sb_model.pdf

Enablers

1 Collective Leadership:

- Strategic (between members of the leadership team);

Stakeholders generally agreed that the Cataract Bond Design Coalition built strong relationships with all actors, which facilitated the setup of the impact bond. Furthermore, the alignment in the objectives that outcome funders have and their shared mission of preventing avoidable blindness ensured a shared sense of priorities during the set-up phase.

- Organisational (between these leaders and their internal stakeholders)

There was a strong commitment amongst outcome funders to develop a DIB and the fact that the DIB was launched and implemented despite the complexity and difficulty in finding suitable investors highlighted this commitment. In addition to this, the staff time devoted to the set-up phase and the pro bono work that some of the advisors provided strengthened the team as it ensured continued resources throughout the set-up phase.

2 Clear outcomes – measurable outcomes and linked to overall objective of the intervention.

Selecting the specific eye care intervention that would best suit the DIB financing model took The Fred Hollows Foundation about 8 to 12 months. Stakeholders consider that focusing on the delivery of cataract surgery services has a number of advantages from the results-based financing perspective given that it is a well-known intervention that is cost-effective and with clearly measurable outputs and outcomes, compared to other health interventions. For example, the link between outcomes and financing for interventions related to human resources development and health system strengthening were deemed to be too imprecise and difficult to attribute to the DIB.

3 Shared understanding of the policy 'problem' and sufficient evidence for the intervention so that it is credible or knowledge-based.

The shared understanding amongst outcome funders of the importance of the intervention and how it contributes to addressing the health challenge in Cameroon is a key enabler of the launch of the Cameroon Cataract Bond. Given that outcome funders were engaged in the eye care sector, they shared their ambition in preventing avoidable blindness. The alignment between outcome funders and service provider in terms of their ambition also contributed to the setting of ambitious targets, based on extensive evidence and knowledge of the intervention. Advisors from the Africa Eye Foundation and Aravind provided feedback on the targets. While stakeholders argued that the quantity and quality targets could have been more ambitious, there was strong consensus on the inclusion of an equity target added the required level of ambition and understanding of the challenge. The longer term needs in Cameroon for cataract surgeries are reflected in the inclusion of a sustainability target.

4 Data to build up a business case, including data on the eligible cohort and outcomes likely to be achieved.

In terms of the measurement of outcomes, the setting of the targets was based on the country demand for eye surgeries, benchmarks from other eye hospitals, the service provider's track record and WHO standards. The cataract surgical volume targets set for MICEI were based on the unmet demand for cataract surgeries in the region, benchmarks from other existing eye hospitals, as well as Magrabi's track record in other countries. Data from the Africa Eye Foundation was used to build the financial modelling behind the performance indicators.

Nevertheless, some stakeholders highlighted that the lack of data to benchmark the risk appetite for similar interventions in similar country contexts made the pricing of the risk difficult, as discussed further in the challenges below.

5 Service provider track record and reputation:

Magrabi's track record in running for-profit hospitals in other countries and their experience in applying the Aravind model gave investors' confidence. In addition to this, investors highlighted that DIBs work particularly well for service providers that already have an M&E system in place, and are flexible enough to change their strategy based on the feedback they receive. One of the investors noted that having an independent evaluator and an M&E system already in place provided them with more confidence in the project, and incentivised them to participate. The M&E system is expected to support more rigorous reporting, which will enable stakeholders to track the progress made and impact of the investment.

Challenges

- **The main challenge identified by outcome funders and the bond manager was the difficulty in finding investors who were willing to invest.**
Different stakeholders point to different reasons why this might have been the case. The misreading of the risk appetite was considered one of the key reasons as the initial terms proposed by the bond coalition (5% interest rate and no capital guarantee) were often challenged and rejected by prospective investors. Other stakeholders commented that other reasons why prospective investors rejected the investment were the early presentation of the bond, which meant the strengths of the bond were not sufficiently capitalised on; the perceived risk of investing in Cameroon; the newness of the hospital; and the lack of alignment with investor priorities.
- **As a result, the process of setting up the DIB took two years, which was longer and more costly than expected. This resulted in stakeholders involved in the set up incurring higher costs than anticipated in terms of staff time, consultant fees and legal advice.**
Some stakeholders considered that a significant proportion of these costs were 'first DIB costs' which could be considerably reduced in future DIBs. The development of the bond also required a steady stream of financial support that led the bond coalition to request multiple grants such as a grant proposal of USD 200,000 to Standard Chartered Bank's competitive "Seeing is Believing" Innovation Fund, which did not go through and forced partners to assume more costs than anticipated.
- **In addition to this, the set up phase of the DIB also took longer due to several challenges in contracting. In order to set up the bond, a total of 13 contracts had to be executed.**
Given that some of the stakeholders involved such as OPIC and the Conrad N. Hilton Foundation were restricted in the type of contracting tools they could or wanted to engage in to get involved in a DIB, these had to be created from scratch. The bond manager and outcome funders had to work together to create a blueprint for OPIC to invest in Cameroon and allow the investment to be made as a loan. The Conrad N. Hilton Foundation, as a grant-making organisation, did not have a mechanism to make contingent grant payments at some time in the future, as per the pay-for-success nature of a DIB. As a result, the Conrad N. Hilton Foundation's initial outcome funding agreement was structured like a conventional grant, with a set schedule of payments and an accredited grant recipient (The Fred Hollows Foundation).
- **An additional challenge mentioned by stakeholders was the need to ensure the involvement of all stakeholders throughout the process to ensure a good flow of information.**
For instance, it was not originally anticipated that representatives from the Conrad N. Hilton Foundation needed to join the regularly scheduled calls about the DIB, which resulted in them not being up-to-date with the changes to the terms of the deal during negotiations with prospective investors.
- **Finally, a challenge that the bond coalition had to face throughout the process was the limited buy-in of certain stakeholders within their organisations due to the complexity of the model, and concerns about the alignment of risk and return across the different actors.**
For example, one organisation's board members asked why the money for the hospital could not be obtained via a large grant instead of via the DIB. The board members felt the additional costs of the bond seemed high, while the obvious benefit to parties involved seemed unbalanced, given that the investors had full capital protection.

Given the challenges faced in setting up and launching the Cameroon Cataract Bond, stakeholders shared a number of lessons learnt:

- 1** Alignment in priorities and a shared understanding of how the problem can be addressed supports the rigorous and ambitious design of outcome metrics. There was agreement on the importance of quantity, quality, sustainability and equity, which resulted in the design of rigorous and comprehensive metrics.
- 2** Having a strong service provider with a proven track record gives confidence to investors that targets are reachable. A strong management system also supports rigorous and timely monitoring and reporting on outcome metrics.
- 3** Stakeholders involved in developing a DIB should be aware of the time and resources needed during the design phase and the contracting phase, especially if it is their first time working on a DIB.
- 4** It is important to try to engage outcome funders and investors simultaneously to avoid delays in launching the DIB and avoiding several iterations during the negotiation of the terms. In addition to this, timing the launch of the DIB to the opening of the hospital would have enabled the Coalition to provide prospective investors with more specific information.
- 5** Lack of historical data on similar interventions in similar contexts poses a real challenge to assessing the level of risk and makes it difficult to price the intervention. This complicates the negotiation process between outcome funders, investors and service providers.
- 6** Having a clear plan for coordination and communication for all stakeholders engaged from an early stage is essential to ensure that all stakeholders feed into the design and the negotiations equally. It is also important to have a defined leader with experience in developing DIBs as a bond manager.

The following were cited by stakeholders as advantages to using the DIB during the set up phase:

- **The DIB brought impact investing and results based finance into a space that did not exist before by sharing the risk of the investment between outcome funders, service provider and investors.**
Given that none of the outcome funders could assume the risk of investing in the eye care sector in Sub-Saharan Africa on their own, the risk sharing between them and the service provider opened up a new space for results based financing impact investing, despite the limited risk transfer to the investor.
- **The DIB brought together different funders in the eye care sector working towards a common goal, collaborating in a new capacity.**
Although some of the stakeholders had worked together before, it was the first DIB all outcome funders got involved in and stakeholders considered it was beneficial for them to work together in a different capacity.
- **Stakeholders agree that the use of a DIB led to more a careful and rigorous design of intervention and targets.**
Involved stakeholders consider the setting of the targets to be rigorously researched and well-informed by evidence given the extensive knowledge of the outcome funders and the implementers in the eye care sector, as well as the expertise from Aravind and WHO standards. The Fred Hollows Foundation remarked that it can be difficult to insist on strong performance management frameworks; attaching payments to outcomes ensured this was a key focus in the project. According to Sightsavers, the DIB also helped the hospital gain ownership of their targets and improve management and efficiency, promoting more efficient management and use of data. Aravind contributed to this by ensuring the hospital staff appreciated and understood the targets, and set the budget accordingly. In health care this rigour is important, as providers need to know the number of patients they are able to reach. Only in the case of the Cameroon hospital, targets are attached to payment.
- **Stakeholders also argued that the DIB model enabled stakeholders to be ambitious in the setting of sustainability and equity targets that are unusual in the eye care sector.**
The innovative element of having a target that ensures the financial sustainability of the hospital is seen as key to ensure the impact of the intervention continues after the DIB ends. In addition to this, it is considered innovative to have a clinical quality target, which is being considered as a tracer indicator for surgical quality more generally as part of the SDG indicator set because of its ease of measurement.
- **The inclusion of an equity target that was facilitated by the DIB has brought innovation in the design of the intervention by leading to Magrabi adapting an outreach programme to ensure that they succeed in reaching the poorest.**
While outreach programmes are common, using tools to measure the income of those they are reaching is innovative. Stakeholders in the Fred Hollows Foundation also expect increased innovation in delivery to reach the sustainability target and equity target, which may be conflicting targets.
- **The DIB provided upfront capital to MICEI, which enabled them to initiate the operations of the hospital.**
Stakeholders argued that although the intervention could have been financed through other payment by results financing models, it was unlikely that commercial banks would have been willing to finance the operations of a hospital that was under construction through a loan.

In terms of disadvantages of using the DIB, stakeholders cited that it was complex to design and expensive to set up. The key factors that contributed to increasing the cost of the set up phase were the difficulty in finding suitable investors and the complexity of the contracting phase. However, some stakeholders did argue that the complexity and cost of the set up may be lower in future DIBs given that all outcome funders involved were developing a DIB for the first time.

The Cameroon Cataract Bond is the culmination of five years' work, instigated by The Fred Hollows Foundation but supported by others, to bring new finance into the eye care sector and shift the payment challenge away from outcomes funders. By sharing the financial risk between outcomes funders, service providers and an investor, it has achieved this aim. Although it has attracted private foundation finance into the sector but not commercial finance, stakeholders are hopeful that the project, and the investment from a development finance intermediary, will 'prove the concept' and encourage future impact investing with commercial capital.

The DIB mechanism has also led to benefits in the design of the project; the introduction of rigorous performance metrics, including a focus on quality, sustainability and equity, are seen as highly innovative.

In achieving this aim, however, partners have had to make compromises, and for many stakeholders the final design of the project is not how they envisaged at the outset. In particular, some stakeholders were disappointed in the changes in the investment terms - from a 50% capital guarantee to a 100% guarantee, from an increase in interest rate from 5% to 8% and the service provider taking on a reasonable amount of financial risk. These compromises have made some of the stakeholders involved hesitant of the value of the DIB.

However, stakeholders also recognise that the true test of the DIB's success will come from how it affects the performance of this project, and whether it does indeed provide a 'proof of concept' that leads to further finance being brought into the sector. These will be areas that will be explored in future waves of the evaluation.

The next case study will be published following the next research wave, in the third quarter of 2020. The focus of this next wave will be on progress in the project, and how the use of the DIB is affecting delivery.

Stakeholders Consulted

- VOLTA CAPITAL
- THE FRED HOLLOWES FOUNDATION
- CONRAD N. HILTON FOUNDATION
- SIGHTSAVERS
- OPIC
- NETRI FOUNDATION
- AFRICA EYE FOUNDATION
- ARAVIND EYE CARE SYSTEM

This in-depth review is a series being produced as part of an evaluation of the Cameroon Cataract Bond and the DFID DIBs pilot programme, commissioned by the Fred Hollows Foundation and the Department for International Development and undertaken by Ecorys UK.

Alma Agustí Strid, Research Manager at Ecorys, wrote the report. The report is based on a review of documents provided by stakeholders and consultations with key stakeholders involved in the DIB. Consultation took place during 2018, during the first year of implementation for the Cameroon Cataract Bond. The report will be updated in subsequent years to provide an account of the DIB's progress.

In total, the evaluation will produce in-depth reviews of four DIBs. More information about this evaluation, including other in-depth reviews, can be found at: <https://devtracker.dfid.gov.uk/projects/GB-1-204722/documents>



About this report



Annex B: Terms of Reference

Terms of Reference Independent Evaluation of the Development Impact Bonds (DIBs) Pilot programme

Purpose of Evaluation

The primary purpose of the evaluation is to generate learning and recommendations that could inform decisions on the future use of DIBs as an instrument for aid delivery. The evaluation will cover all three projects under the DFID-supported DIBs Pilot programme.

In particular, this evaluation is expected to generate learning that will inform DFID's future policy aiming to make the most effective use of DIBs as we look to commission new instruments, or incorporate DIBs and similar structures into existing programmes.

The evaluation will also help DFID and pilot project partners evaluate whether the tools they are developing are useful, scalable and replicable.

B.1 Background and Context

Programme Context. DIBs are a new mechanism for financing development programmes. DFID has been piloting DIBs in order to assess the costs and benefits of using DIBs compared to other mechanisms, and the conditions that make DIBs a suitable mechanism and enable DIBs to work best.

What is a DIB? A DIB is a mechanism for drawing external finance into payment-by-results (PbR) projects. In a DIB a donor commits to paying for development results if and when they are achieved (donors are often referred to as "outcome funders"). A service provider steps up to deliver the prescribed results. The key difference from standard PbR is that a DIB brings in third party "investors" (public or private organisations) who provide the service provider with the investment/working capital needed to deliver results. Under the DIB model, therefore, the investor takes on a portion of the financial risk associated with failing to deliver the prescribed outcomes – if outcomes are not delivered, the outcome funder does not pay and the investor can lose their investment. If the project delivers more results than expected, the investor can make a return.

Theory of Change for how the DIB model can drive better outcomes? The DIB model aims to improve the efficiency and cost-effectiveness of development programmes. In theory the DIB design process and structure helps align and increase stakeholders' focus on achieving the desired outcome. The involvement of investors enables:

- ✓ Donors to use pbr incentives that work to increase focus on the end result and on performance management, while
- ✓ Enabling a wider range of service provider organisations to take on pbr contracts (many would otherwise struggle because they do not have access to sufficient working capital); and

- ✓ Giving service providers more flexibility and building capability to adapt, course correct, and innovate their service delivery models (e.g. Through working with investors to build performance management systems, or because the provider is enabled to take innovation risk because the investor carries the financial risk).

See [Annex A1 for DFID Theory of Change for DIBs](#)

B.2 What do we mean by other aid mechanisms?

Alternative aid mechanisms used by donors (e.g. outcome funders such as DFID and other development partners) include **grants** to not for profit organisations and **pay for services contracts** where the provider is paid in alignment with the inputs/activities they are delivering to achieve the desired programme outcomes, as well as **pay for results** contracts where the provider is paid only after they have delivered pre-agreed results. In some circumstances these aid mechanisms may have limitations. There is extensive literature on these considerations. The table highlights some of these considerations:

Table B.1: Alternative aid mechanism

Alternative aid mechanism	Possible limitations
Grants and pay for services contracts	<p>Under these funding models the donor will pay the provider for the inputs and activities they deliver in accordance with the providers agreed programme of work. In situations where the outcome funder is uncertain about the right mix of inputs / activities needed to achieve the outcome efficiently (e.g. due to a lack of evidence), the donor is accepting the risk that the activities and inputs paid for may not achieve the desired outcome.</p> <p>During the life of the grant, providers may have fewer incentives to identify the most efficient approach to achieving the outcome and to cut less efficient/ineffective inputs.</p> <p>This risk can be reduced through additional investments by the donor, e.g. in real time data gathering, to help identify what is/isn't working.</p>
Pay for Results approaches	<p>Payment by Results approaches enable donors to transfer the risk/uncertainty over whether an intervention will achieve results to the provider.</p> <p>However, research indicates that some providers (particularly those with smaller balance sheets, or less access to commercial loans) would be unable pre-finance their intervention and wait for payment on delivery of results, or would be unwilling to take on the financial risk associated with underperforming on a PbR contract. As a result providers that may be most capable of achieving the</p>

outcomes may not be able to take on these types of contracts.³²³³

B.3 How strong is the evidence on DIBs?

DIBs are a new tool for delivering development projects. Prior to the DFID DIBs pilot programme only two DIBs (the Educate Girls DIB in India, and Rainforest UK's DIB in coffee and cocoa production in Peru) have been implemented, both are very small. Existing evidence on DIBs is therefore limited.

However, DIBs are part of a wider impact bond family – originating from social impact bonds (SIBs) used domestically by governments to commission public services. To-date, over 60 social impact bonds have been commissioned. The UK is a leader in the SIB market, with 32 SIBs. Governments in the US, Netherlands, Belgium, Germany and South Africa have also made use of the instrument.

A qualitative review of thirty-eight existing impact bonds by the Brookings Institute (2015) found the following (more detail is included in DFID Business case):

- **Existing impact bonds have focused on specific sectors:** areas where government is already contracting third parties to deliver services and where service inputs are complex, but outcome are simple to measure
- **Impact bonds can improve service delivery but deals so far have been complex**
- **Deals have varied in terms of their structure, mechanics and stakeholder roles**
- **Rigorous experimental or quasi-experimental evaluation was not always necessary for measuring impact and triggering payment**
- **Impact bonds lead to a shift in focus to outcomes:** the study found that existing SIBs encouraged transparency and accountability in commissioning public services. Instead of paying for services, government pays for outcomes. At the same time, SIBs push providers to deliver on these outcomes.
- **Impact bonds drive performance management:** Bringing private sector mentality into the provision of services can lead to more efficient and effective delivery of social services. This has been mainly seen through the push toward outcome achievement and fidelity to the intervention delivery model and less in terms of adaptation of service provision along the way.
- **The impact bond mechanism stimulates collaboration:** this applies to all parties involved in impact bonds.

³² National Audit Office (2015). Outcome-based payment schemes: government's use of payment by results <https://www.nao.org.uk/wp-content/uploads/2015/06/Outcome-based-payment-schemes-governments-use-of-payment-by-results.pdf>

³³ Sherene Chinfatt and Melissa Carson (2017) Supplier Access to Prefinance in Payment by Results Contracts. Dalberg Intelligence <https://www.gov.uk/dfid-research-outputs/supplier-access-to-prefinance-in-payment-by-results-contracts>

- **Impact bonds have enabled the development of strong monitoring and evaluation systems:** the impact bond mechanism incentivises evidence collection and can therefore lead to improving outcomes for service users through identifying interventions that work.
- **Impact bonds can shift the focus of government toward preventive services:** this could have economic implications for government and society

While implementing impact bonds in a development context brings specific challenges and we have to be mindful that the portfolio of SIBs projects target different outcomes, emerging evidence on SIBs shows that the impact bond mechanism has the potential to improve effectiveness and efficiency of outcome delivery, and generate valuable impact evidence.

B.4 What is the DFID DIBs pilot programme?

DFID has designed a programme to pilot the DIBs mechanism and assess the costs and benefits of using DIBs, and the conditions needed for a DIB to be an appropriate programme financing tool.

In line with the Paris Principles, the DFID pilot programme consciously works with other donors who are considering DIBs and aims to deliver an evaluation that generates learning that is useful for donors and service providers considering DIBs as a funding mechanism, The evaluation questions have been informed through DFID's engagement with these stakeholders, and representatives of these stakeholders will be included in the steering group for this evaluation (see [governance section](#)).

Under the pilot programme DFID is funding three DIB projects, each in a different way. The evaluation aims to draw out and synthesise learning about the DIBs mechanism from these projects, while recognising the wider context of Social and Development Impact Bonds.

The table below summarises the three DFID supported DIB projects. More detail on each project as well as a Gantt chart showing the activities and timeline for each project and the DFID programme overall are provided in [Annex C](#) & [Annex D](#).

At the programme design stage DFID recognised that it would be difficult to directly compare effects of the DIBs mechanism with other aid mechanisms³⁴. However, each of the DIB pilot projects will be delivered by service providers that have significant experience of running similar interventions under different funding mechanisms such as core-funding or private philanthropic grants. Where available, data on their interventions' performance could provide some comparisons on programme delivery and performance/cost-effectiveness.

B.5 Users of the Evaluation

The primary user of the evaluation will be the DFID DIBs team, who will use the findings to inform DFID's future application of the impact bond mechanism. We want the evaluation to deliver early findings regarding the structuring and design of Pilot DIBs – this will help us assess options for tailoring the mechanism to ensure value for money. For example, we will consider whether DIBs should be commissioned directly at a larger scale, or incorporated into programmes that intend to use PbR structures. Later evaluation findings on how DIBs are managed and how they affect the performance of service providers will help us improve interaction with project managers, service providers and investors throughout the project life cycle. These findings will also continue to inform how and when we use DIBs, and how the design, commissioning and management of DIBs can continue to be improved to deliver ever increasing value for money.

Secondary users of the learning generated by the evaluation will be organisations that are using or thinking about using impact bonds or similar approaches to financing development programmes. Such organisations include outcome funders (i.e. local and national governments in developing countries as well as public and private donors who want to achieve results for a given population), investors (private and public sector organisations that are willing to pre-finance social impact projects in developing countries and be repaid on a pay-for-success basis), and service providers (NGOs, charities, social enterprises, private sector organisations that deliver services to achieve development outcomes). They will benefit from the findings produced by the evaluation, and the practical recommendations it contains for using DIBs and DIB-like structures in the future. Please see [governance section](#) for how users are represented or engaged in the evaluation.

B.5.1 Evaluation Purpose and Questions

The table below sets out the Key Evaluation Questions, their purpose, and some proposed subsidiary evaluation questions mapped to a proposed timeline for obtaining learning.

The 2 Key Evaluation Questions are:

- **EQ1: Assess how the DIB model affects the design, delivery, performance and effectiveness of development interventions.**

³⁴ For example, input based grants and pay for service contracts or standard payment by results.

- **EQ 2: 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?**

When reading the table below, please see the [Evaluation Outputs Section](#) for the proposed content of each 'Evaluation Output (EO)' referenced in the table.

The OECD-DAC criteria on **relevance**, **efficiency** and **effectiveness** are relevant to this evaluation. The evaluation focuses on the DIB funding mechanism, and the process of designing DIBs including the **relevance** and **efficiency** of the activities involved in designing, launching and managing a project using a DIBs model for the various stakeholders in the DIB; and assesses how the DIB model improves (if at all) the **performance** and **effectiveness** of development programmes in terms of achieving results efficiently. The evaluation should consider how the DIB model takes into account cross-cutting areas that mean some beneficiaries are more vulnerable or harder to reach (e.g. due to disability, power relations, environment, gender, poverty).

Evaluation Questions Table – mapped to the purpose of the evaluation, key Evaluation questions, proposed subsidiary questions, evaluation outputs, and potential data sources

Purpose of Evaluation	Key Evaluation Questions	Proposed Subsidiary Evaluation Questions	Findings should be produced for following Evaluation Outputs (EO):	Possible data collection methods and data sources
<p>To confirm whether the DIB model actually improves performance and effectiveness of development programmes, covering factors, such as:</p> <ul style="list-style-type: none"> - Enabling outcome funders to use PbR with more providers - Changing incentives of the stakeholders - Increasing focus on desired outcome, and managing for results - Transferring delivery risk from outcome funder to provider/investor - Role of investors, outcome funders and service providers in design and delivery of intervention - Incentive structure encourages provider fidelity to implementation of activities that works - Increased flexibility/ autonomy for providers enabling more innovation in service delivery to improve performance/ results - Service provider is incentivised to deliver for the whole cohort – despite cohort having differing vulnerabilities &/or capabilities <p>We want to produce shared learning from across the 3 DFID funded DIB projects which should serve as case studies.</p>	<p>EQ1: Assess how the DIB model affects the design, delivery, performance and effectiveness of development interventions.</p>	<p>1.1 How does the DIB model affect key stakeholders including service providers, outcome funders, investors, beneficiaries, and what are the reasons behind the effects</p> <p>1.2 can we say anything about the sustainability of the effects on stakeholders?</p>	<p>EO1 – Design Report: should include an enhanced theory of change for how DIBs improve programmes.</p> <p>EO2 – Report on process of designing and launching DIBs incl. findings on effect of DIB design process on DIB stakeholders</p> <p>EO3 – Mid-Term Evaluation Report: on emerging findings</p> <p>EO4 – Final Evaluation Report</p>	<p>Methods: Mostly qualitative. Quantitative methods could be considered for beneficiaries. Sources: Access to stakeholders in the DFID funded DIBs; quarterly/ 6monthly project progress reports, internal monitoring data; project level process review/evaluation activities focused on project implementation and DIB model. See Data Annex for more detail.</p>
		<p>1.3 Which factors in a DIB are most important in improving the performance of a development programme, if at all, in terms of achieving results efficiently?</p>	<p>EO3 – Mid-Term Evaluation Report: on emerging findings – there will be some interim outcome results and payments for 2 of 3 projects.</p> <p>EO4 – Final Evaluation: final findings after project outcomes have been verified.</p>	<p>Methods: Qualitative Sources: As above + access to the data used to verify if the desired programme outcomes have been achieved. See Data Annex for which outcomes will have been measured by expected Mid Term and Final Evaluation Report dates.</p>
		<p>1.4 How does the performance and effectiveness³⁵ of development programmes financed using a DIB mechanism compare with providers’ experience of</p>	<p>EO4 – Final Evaluation Report: produced after project outcome results have been verified.</p> <p>EO3 – Mid Term Evaluation Report if evaluator is able to draw some initial conclusions</p>	<p>Methods: Qualitative Sources: As above + access to past performance data for at least 2 of the 3 DIB projects (ICRC & VE) – including past cost & effect data for same</p>

		other funding mechanisms in terms of efficiency and results?		providers, delivering similar interventions in similar contexts.
DFID and others are interested to use DIBs and similar financing models in the future. However, we need process of commissioning DIBs to be more efficient, accessible to more providers, funders and investors, and less costly. Stakeholders need a roadmap for an improved/optimal design process – covering the necessary conditions (e.g. projects attributes, stakeholders attributes) for DIBs to be suitable; key tools; and the roles of stakeholders at different design stages.	EQ 2: 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?	<p>2.1 Under what conditions are DIBs an appropriate tool for the key stakeholders (outcome funders, investors, service providers, beneficiaries), and why?</p> <p>2.2 How can we improve the design process to produce DIBs that maximise the benefits for stakeholders (outcome funders, investors, service providers, beneficiaries) while reducing transaction costs? Including making the design process more efficient and accessible to more service providers, outcome funders and investors.</p>	<p>EO2 – <i>Evaluation Report on the Process of designing and launching DIBs</i> – should include findings under this evaluation question</p> <p>EO3&4 – continue to make recommendations to improve process of commissioning and structuring DIBs based on lessons that emerge as the DIB project continue and complete their implementation phase.</p>	<p>Methods: Qualitative Sources: As above + access to programme design documents; and project level process review/ evaluation activities focused on design and implementation of DIB projects – including service provider selection, outcome funder engagement, metric selection.</p>

³⁵ “Effectiveness” means the OECD DAC criteria of Effectiveness – A measure of the extent to which an aid activity attains (or is likely to attain) its objectives.

DFID completed an evaluability assessment ahead of developing this Terms of Reference. The evaluability assessment produced a useful framework that articulates the assumptions for how the DIB model can improve the performance and cost-effectiveness of development programmes, and provides some evaluative questions. This is included in [Annex A2 to this ToR](#), and may be useful to the evaluator in envisaging the breadth and depth of assumptions to be tested through the evaluation.

There is also an opportunity for DFID and the evaluation supplier to develop a DIB evaluation framework that helps other stakeholders who will use impact bonds in the future and have the opportunity to commission parallel learning activities, to encourage the building of a larger body of evidence that can be synthesised.

The evaluation questions above supersede the evaluation questions and framework set out in the DIBs Pilot programme Business Case (see [‘Documents/References’](#) section for link to the Business Case).

Scope of the Evaluation

The focus of the evaluation is the *DIBs funding mechanism*. The evaluation is intended to evaluate the impact bond mechanism and its effect on how the intervention was delivered, and the results produced by the intervention.

The evaluation should focus on the three DIB pilot projects that DFID is supporting. Based on the scope of the evaluation questions/objectives above, we expect that the evaluation will include

- A retrospective review of the process of selecting interventions and structuring the dibs to inform first evaluation report in 2018,
- Collection and analysis of the costs of different stages,
- Consideration of the appropriateness of the outcome targets and payment mechanism,
- Analysis of the roles and engagement of different stakeholders throughout the lifecycle of the DIB.

Country coverage: DFID does not require the evaluator to visit all project countries – it is up to the evaluator to specify the field activities that are necessary to deliver the requirements of this evaluation efficiently. For information, the three DIB pilot projects are delivering activities in multiple countries: Village Enterprise is in Kenya & Uganda; the Education DIB is in Gujarat and Delhi; and the ICRC HIB programme is managed from ICRC HQ in Geneva, but involves the building and running of new rehabilitation centres in Mali, Nigeria, and DRC). The wider stakeholders involved in each DIB (funders, investors) are based in Europe (mainly UK and Geneva) and the Americas (Canada, US, Colombia) and are easily contactable via phone and videoconference. It is possible that some of the stakeholders in each project will come together for project review meetings and broader DIBs market/knowledge sharing events.

Linkages to other relevant projects: The evaluator is expected to review work that is happening in the DIBs field more generally so that we can draw on learning outside of the 3 pilot projects DFID is supporting. A number of other impact bonds are in design, have halted

design, or are reaching implementation stage (see Brookings Report)³⁶. These include, for example, a new poverty graduation Impact Bond in Mexico, the Educate Girls DIB aiming to improve girls' learning outcomes in Rajasthan, and the Maternal Health Impact Bond in Rajasthan. These projects are considering including learning activities that consider the role of the funding mechanism.

DIBs by design include an evaluation or verification of the outcomes/ impact as defined in the payment conditions of each DIB. **Therefore there is no need for a standard impact evaluation to assess whether the desired outcomes of each intervention were achieved.** The evaluation should note that none of the DFID pilot DIBs include current *project level evaluation activities* that assess "how" the particular intervention or its components achieved the measured outcomes.

Relevant project level learning activities: A range of learning activities are planned for each DIB, focused on the DIB design process and the effects of using the DIB model. The supplier will therefore be required to work with learning providers to take advantage of any synergies (see Ways of Working and [Annex C](#)).

B.6 Evaluation Methodology

It is the responsibility of the Supplier to propose an evaluation methodology. The supplier should propose an evaluation approach and methods that are best able to meet DFID's evaluation purpose, objectives, questions and timelines DFID does not have a preferred approach or data collection method. DFID expects the supplier to make their causal reasoning explicit in their evaluation reports.

When assessing the evaluability of the programme, DFID felt that experimental designs for assessing the effectiveness of the DIB mechanism would be difficult to implement given the structure of the programme, and that most of the DIB projects have started implementation. We also recognise that these are 3 different projects, and the evaluation will only provide indicative learning/evidence, potentially identifying some commonalities across the three projects, but not generating evidence that can be generalised.

A key risk associated with the novel nature of these projects is that various evaluation and learning activities are planned within each project and for the sector overall. Engaging with all the activities is onerous for the project stakeholders, particularly service providers who are also focused on implementing effective programmes.

As far as possible, the evaluation supplier should work to avoid duplicating learning activities that are being completed under each programme. In the interests of transparency and efficiency, the evaluator should consider where it can reasonably collaborate with project level learning providers to leverage the data and learning outputs they are producing, in order to synthesise evidence across the three DFID DIBs pilots and non-DFID impact bonds as opposed to repeating data collection activities.

³⁶ https://www.brookings.edu/wp-content/uploads/2017/09/impact-bonds-in-developing-countries_web.pdf

To provide confidence in the findings, it is important that the evaluation supplier uses an approach that enables them to provide an independent and unbiased perspective when answering the evaluation questions, but we also believe this does not remove the option for the supplier to collaborate and leverage programme level learning activities, for example through using data already generated in DIBs (e.g. budgets, activity costings, outcomes data, process reviews occurring under some of the projects that include document reviews and interviews with project level stakeholders on the process of designing, engaging with and implementing a project on a DIB basis). Our focus is on generating and disseminating relevant and reliable learning to inform future practice.

As part of their tender, Bidders are expected to set out their proposed evaluation approach and methods, an evaluation framework and demonstrate how this is best able to meet DFID's evaluation purpose objectives, questions and timelines. Bidders should explain the limitations and risks of their proposed approach and methods – and how these will be managed. Bidders should also explain what data they will rely on and collect. There is scope for bidders/ evaluation supplier to propose amendments or suggestions to the evaluation questions, and to work with DFID to refine the evaluation questions further during the inception phase. The bidder is expected to clearly define the supply chain utilised in delivering this evaluation and that sufficient due diligence has taken place.

B.7 Data Sources

[Annex C](#) includes a table summarising the types of data that is expected to be made available by service providers and other parties to the DIB, and lists the key stakeholders in each DIB.

Access to key-stakeholders: DFID will facilitate access to the key stakeholders and decision makers in each DIB (service provider, other outcome funders, outcomes verification agent, project managers and project level process evaluators – as named in [Annex C](#)). Further these partners are willing to share with the supplier their process data, performance management data, and qualitative data, such as beneficiary feedback, subject only to privacy concerns and provided that doing so does not place an undue financial burden on providers. DFID will try to facilitate access to investors, but evaluators should note that DFID does not have a direct relationship with any of the investors, and the investors have not formally committed to share their data. The location of the stakeholders is also included in [Annex C](#).

Outcome Funder Management information: DFID is able to provide programme documents including: business case; memos explaining decisions to fund each pilot DIB; a record of the project appraisal process, negotiations, and decisions taken during the negotiation of each DIB; as well as project monitoring reports received from each DIB partner. We are aware that other outcome funders have similar project approval memos (but cannot guarantee access to these documents).

DFID can also facilitate the Supplier to connect with other organisations that are using impact bonds e.g. key stakeholders in the Mexican Poverty Graduation Impact Bond, the Maternal Health DIB in Rajasthan, Educate Girls DIB and others, depending on need.

The Evaluation Supplier should not expect the DIB project service providers to provide all the data that they may desire in the following categories: beneficiary feedback, unintended outcomes, long-term results.

Evaluation Activities

DFID expects bidders to propose in their bids the activities that they think are necessary to meet the evaluation objectives and answer the evaluation questions. DFID expects that the activities would include, but would not be limited to:

- Initial planning and consultation
- Evaluation design. The overall technical approach and design for the evaluation should be clearly explained along with reasons for choosing the proposed design instead of other possible designs.
- Desk review of work that is happening in the field that we can learn from (including existing research and evaluation of development and social impact bonds) so as to draw on learning outside of the DFID DIBs Pilot programme
- Design of data collection instruments (which should be reviewed by DFID)
- Data collection. Proposal should specify how qualitative and quantitative methods (if proposed) are going to be used together in a complimenting fashion. The methods and scope of data collection should be supported with clear arguments for need. Mechanisms for ensuring quality of data should be included in the proposal.
- Analysis and reporting. Details should be provided on how the analysis will be conducted, especially if mostly qualitative methods are used.
- Activities associated with a process evaluation of the DIBs Pilots and the DIB programme over their lifetime, including documenting relevant processes where this is not otherwise being done
- As far as possible, the supplier is expected to collaborate with the pilot project partners and work to use the data being generated by each pilot and their dedicated learning activities. This is to avoid stakeholder fatigue or mounting costs of engaging with various learning activities and to minimise duplication of effort. The evaluator is still expected to generate independent findings. During inception, clear lines of responsibility will need to be drawn to ensure the independence of the evaluation is maintained.
- The evaluation design and implementation must meet standard ethical practices.

Bidders should set out how they will deliver these activities in their proposals, and over what timeline, demonstrating the best value for money approach to deliver the evaluation while minimising costs.

B.8 Evaluation Outputs and Timeframe

The Evaluator is expected to produce the following evaluation outputs (“EO”). Each output will be reviewed by DFID’s Evaluation Management Team, the Evaluation Steering Group, and the DFID’s independent evaluation quality assurance service. It will be accepted if it covers the required content, evaluation questions and scope, and is designed, implemented and written to a good or excellent quality – as assessed by DFID’s evaluation quality assurance criteria. The evaluator will also be expected to submit evaluation instruments for quality assurance before starting data collection activities.

Table B.2 EO 1: Inception Report

<i>EO 1: Inception Report by 1 June 2018 (close of business)</i>	
Expected Content	<ul style="list-style-type: none"> • The Supplier is expected to set out the design of the evaluation in their bid. They will then have the opportunity to add further detail or make adjustments during the inception phase. • The inception report should include a detailed Evaluation Design that confirms the evaluation questions to be answered, the methodology, analytical plan, final staff resource allocation, work plan, timeline and milestones • The Report should include an updated Evaluation Framework for evaluating Development Impact Bonds, and a theory of change for how DIBs improve development programmes. • The Supplier should explain how they will leverage existing learning and evidence generation activities that are planned at the DIBs pilot project level – and how this will result in an efficient and cost-effective evaluation. • The design report should also include the instruments that the evaluator will use in upcoming evaluation activities e.g. to produce first evaluation report. • The report should also include an updated financial plan for the evaluation – including highlighting any savings that are possible following detailed design phase and engagement with project level learning providers. • The evaluation design must meet standard ethical practices and should have been subject to the supplier’s internal quality assurance process before submission. • A brief evaluation communications plan

Table B.3: EO2 – Evaluation Report on the Process of designing and launching DIBs

<i>EO2 – Evaluation Report on the Process of designing and launching DIBs by 17 September 2018 (emerging findings sooner if possible)</i>	
Expected Content	<ul style="list-style-type: none"> • This report will provide early feedback on process of selecting and structuring DIBs to inform potential expansion of DFID’s DIBs programme. • This should include estimates of the costs involved in the feasibility and structuring stages of the DIB for all parties. • It should make recommendations on the conditions that are needed for DIBs to be suitable, and recommend possible ways

	<p>to reduce costs in the design, structuring, and implementation of DIBs.</p> <ul style="list-style-type: none"> • The supplier should plan to deliver an initial findings presentation by 30 August 2018
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Table B.4: EO3 – Mid-Term Evaluation Report on DIBs

EO3 – Mid-Term Evaluation Report on DIBs by 30 September 2020	
Expected Content	<ul style="list-style-type: none"> • This report is expected to answer most of the evaluation questions, by drawing out emerging lessons from the DFID DIBs pilot projects, as well as from evidence generated by other DIBs. By this time, two of the DFID supported DIBs pilots (Village Enterprise, and BAT Education Impact Bond) will be measuring outcomes that may trigger interim outcome-tied payments. • The report should pay particular attention to whether there is any evidence of perverse incentives being created through the DIBs. • It may not be possible to comment on the sustainability of the benefits at this time. • The report should include individual <i>case-study report / briefing</i> on each of the three DFID supported DIB pilot projects – drawing out findings for each DIB, noting any significant changes in implementation, and relevant performance management information and lessons learned.

Table B.5: EO4 – Final Evaluation Report on DIBs

EO4 – Final Evaluation Report on DIBs by 30 January 2023	
Expected Content	<ul style="list-style-type: none"> • The Final Report should cover the full scope of the evaluation as set out in this TOR, unless any adjustments to the scope have been agreed with DFID. • The report should summarise the lessons from the DIBs pilots and DFID pilot programme, with disaggregated reports by project where applicable. • The report should comment on the sustainability of outcomes post-intervention. For this reason, we propose that this final report should be completed at least 6 months after the ending of each DIB. [See Annex D Gantt Chart for anticipated DIB Pilot project timelines] • The Final Report should include case-study reports for each of the DFID supported DIB pilot projects – drawing out findings for each DIB against the evaluation framework, summarise the overall costs and benefits of each DIB, and commenting on the sustainability of the results achieved, and the lessons learned.

Each of the Evaluation Reports above is expected to conform to key content standards:

- An Executive Summary of 1-4 pages
- A methodological section detailing the evaluation design and methods and how the approach covered all aspects of the terms of reference. This section should also highlight any constraints and how these were overcome
- Terms of reference, and explanation of any deviation from the tor that has been agreed by DFID
- List of people consulted / interviewed at different stages of the evaluation (check that people are happy to be listed and/or any reason why names should not be listed)
- List of documents reviewed
- Key findings that clearly follow from the evidence
- Relevant, useful and implementable recommendations based on the evaluation findings
- Evaluation outputs should provide clear findings and *practical* recommendations for DFID and other stakeholders on ways we can develop and improve the DIB mechanism to drive innovation and value for money in development programmes.
- DFID's standard evaluation report template represents good practice for evaluation report
- Supplier will need to build in time to respond to any comments following the DFID review process

B.9 Lighter-Touch Interim Outputs

It is important that emerging findings inform the rapidly evolving landscape of Development Impact Bonds and similar impact-focused instruments, in particular DFID and other Stakeholder's use of them.

- **Annual Briefings:** The evaluation Supplier is expected to provide DFID and the Evaluation Steering Group with an annual briefing (a power-point presentation or short report) on the evaluation's progress, and setting out the next year's evaluation activities & timelines. Where appropriate, the briefing should highlight any learning or findings from the past year's evaluation activities (if there were any, and have not already been covered in an Evaluation Output) – helping the findings inform stakeholders earlier. This should be a low cost activity, not requiring any additional evaluation activities by the supplier. The evaluator is not expected to conduct evaluation activities every year. The opportunity to highlight findings will depend on the evaluation design proposed, and annual briefings may be limited to updating stakeholders on evaluation activities.
- **Evidence Webinars:** In their bid the evaluation provider should plan for a short 2 hour webinar and presentation that would help disseminate the findings from each Evaluation Report / output. The supplier would be expected to present at the event and respond to questions from the audience. DFID would coordinate each event and invite the relevant audience members. The supplier should anticipate that the webinar would be run first for the Evaluation Steering Group (during review of each Evaluation Report), and potentially

then re-run or recorded for a wider audience of stakeholders interested in DIBs and similar mechanisms.

Contract Duration, Contact Adaptability and Break Points

The evaluation should get underway as soon as possible, with the ideal start date being 1 April 2018, and will last until March 2023 to allow all outputs to be produced and quality assurance to be completed.

DFID reserves the option to break the contract after each of the Evaluation Report outputs is completed. Continuation of the services after each output is produced will be based on agreement of the deliverables and on satisfactory performance and the progress of the Supplier against the specified outputs.

Skills and Qualifications of evaluation team

- Experience evaluating international development projects, including their cost-effectiveness
- Knowledge of social and development impact bonds, and the evidence and arguments for and against their use
- Knowledge and experience of other / traditional mechanisms used to fund international development projects
- Experience in assessing the costs of developing and managing international development projects and an understanding of how these might be different under different funding mechanisms
- Experience in joint or collaborative evaluations
- Relevant thematic expertise suited to each of the DFID pilot DIB projects, including in education outcomes, and livelihoods/income generation for very poor households, as well as cross cutting expertise in gender and disability.
- DFID welcomes the use of national/local consultants where this is appropriate to the delivery of the evaluation activities.

B.9.1 Ways of Working

There is an opportunity for the supplier to collaborate with the other learning activities funded at project level. To make use of this data, the supplier may benefit from a close engagement with the learning providers, to support them to enhance their analytical approach or data collection activities to reduce risks of bias and make the evidence they produce more reliable and sharable. The service providers and other donors to the evaluation have formally committed to participate in the DFID evaluation and to share data (see Annex C). We do not have a direct relationship with the investors but most are interested to participate in the evaluation. DFID will have access to the material produce by the providers as expressed in DFID accountable grant/MoU terms.

DFID will provide connections and contact details to the main stakeholders involved in each of the DIB projects as soon as the inception phase starts.

DFID will not provide any travel / logistical support to the provider, nor any support for any in-country appointments.

Evaluation Governance Arrangements and Stakeholder Involvement

The evaluation supplier's key point of contact will be the DFID DIBs Team Programme Manager.

B.10 Evaluation Management Team

- Role: Commissions, approves and manages the evaluation. Supplier reports to Management Team.
- Formed of: DFID DIBs Advisor and DIBs Programme Manager and PSD Evaluation Advisor.
- The DFID DIBs Programme Manager will be the evaluation supplier's day to day point of contact.

B.10.1 Evaluation Steering Group:

- Role: To review and agree the content and methodology at design stage. To review the products and the findings, and consider relevance of the recommendations. To confirm that the evaluation was implemented as planned, with robust methods robust, and that the findings follow from the evidence. To consider if recommendations are suitable/feasible and how recommendations will be acted on in the future. To take on board and disseminate the evidence.
- Formed of: Representatives of the stakeholders involved in each of the 3 DIBs – including the service providers: ICRC and Village Enterprise; other donors e.g. USAID, Belgium, Switzerland, British Asian Trust, MSDF; investors e.g. UBS Optimus Foundation; and involved project managers such as Instiglio, the DFID DIBs team, DFID PbR Advisor, and DFID Evaluation Advisor.
- Coordination: DFID Programme Manager will ensure the draft evaluation products are shared with members of the Steering Group, inviting the Steering Group's comments and feedback – either in writing or via a coordination session. DFID will consolidate the feedback into concise actionable comments that will be shared with the evaluator.
- Decisions: The Steering Group advises DFID. While DFID will seek to achieve consensus where differences of opinion emerge, DFID ultimately has discretion over the action to take.

B.10.2 EQUALS – DFID's Independent Evaluation Quality Assurance Service

- Formed of: Independent expert evaluation quality assurance service.
- Role: To review evaluation design and each evaluation report for content and quality, providing a quality score for each product based of specific quality criteria.

B.10.3 Contract Key Performance Indicators

The following indicators set out what DFID considers to be Good Performance by the Evaluator these indicators will be reviewed annually by DFID and the Supplier based on evidence of supplier performance during the contract lifetime. These may be adjusted during the life of the contract in consultation with the supplier:

Table B.6: Good Performance Indicators

Area	Description	Target Indicator
Delivery and VfM	Outputs are delivered on time, and do not leave any evaluation questions unanswered, and the analytical reasoning is clearly set out.	100% of outputs are delivered on time, answer all agreed evaluation questions and are rated good/ excellent by EQUALS.
	Supplier demonstrates how evaluation approach and activities chosen represent value for money across life of contract. Including proactive identification of efficiencies and savings – e.g. where opportunities arise that enable evaluator to leverage learning synergies and remove duplicative activities.	Qualitative reporting by Evaluator Value of savings generated.
Risk Management	Evaluator manages risks proactively, letting DFID know if risks are emerging that could push the evaluation off track. If some questions are difficult to answer, informing DFID well in advance. Maintains a transparent and open relationship with DFID.	100% of outputs answer all evaluation questions, or have sought agreement from DFID to amend or remove a question well in advance.
Financial Management	Robust cost control in line with contract. Accurate and timely submission of forecasting and invoices.	Costs remain within budget Forecasts are submitted on time, with ≤5% variance with actual expenditure.
Performance and availability of personnel	High quality team of personnel with relevant skills is maintained across life of evaluation. Knowledge is maintained across staff changes.	Performance of team. Personnel with appropriate level of expertise are available across life of requirement.
Stakeholder Engagement	Transparent, honest and collaborative relationship with the Service Providers and learning providers in DFID DIBs – with advance warning provided to stakeholders of need to engage with evaluator	Fewer than 4 complaints from service providers/ DIB stakeholders over (a) unexplained duplication of activities already complete by learning providers, (b) excessively onerous engagement of stakeholders by evaluator.

Consideration of the wider Outcomes tied / Impact Bond Field	Consideration given to the evidence being generated in the wider impact bond field, and proactive effort to facilitate the wider field to generate evidence	Evaluation outputs show how learning from the wider field has been considered.
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B.10.4 Budget and Payments tied to Outputs

The Evaluator is expected to tie payments to delivery of the four main Evaluation Outputs – the Evaluation Reports – with each payment commensurate to the work involved in that stage. The payments will be made when each output is accepted by DFID as being of good or excellent quality, where the requirements have been met with no shortcomings.

We expect to see an efficiently designed evaluation that meets these requirements. We welcome efforts by the evaluator to find savings during the life of the evaluation.

The maximum budget available for this evaluation is GBP 300,000 (exclusive of VAT)

Documents / References

- DIBs Pilot Business Case
- DIBs Pilot Business Case Addendum
- DIBs Pilot programme Logframe
- Village Enterprise DIB – Instiglio’s Learning/Process Review document (giving more info on their approach)

B.10.5 Duty of Care

The Supplier is responsible for the safety and well-being of their Personnel (*as defined in Section 2 of the Contract*) and Third Parties affected by their activities under this contract, including appropriate security arrangements. *They will also be responsible for the provision of suitable security arrangements for their domestic and business property.*

The Supplier is responsible for ensuring appropriate safety and security briefings for all of their Personnel working under this contract and ensuring that their Personnel register and receive briefing as outlined above. Travel advice is also available on the FCO website and the Supplier must ensure they (and their Personnel) are up to date with the latest position.

This contract will require the Supplier to operate in conflict-affected areas and parts of it are highly insecure. The security situation is volatile and subject to change at short notice. The Supplier should be comfortable working in such an environment and should be capable of deploying to any areas required within the region in order to deliver the Contract.

The Supplier is responsible for ensuring that appropriate arrangements, processes and procedures are in place for their Personnel, taking into account the environment they will be working in and the level of risk involved in delivery of the Contract (such as working in dangerous, fragile and hostile environments etc.). The Supplier must develop their response on the basis of being fully responsible for Duty of Care in line with the details provided above and the risk assessment matrix developed by DFID (see Annex 1) of this ToR). The Supplier must confirm in their response that:

- They fully accept responsibility for Security and Duty of Care.

- They understand the potential risks and have the knowledge and experience to develop an effective risk plan.
- They have the capability to manage their Duty of Care responsibilities throughout the life of the contract.

Acceptance of responsibility must be supported with evidence of capability and DFID reserves the right to clarify any aspect of this evidence. In providing evidence Tenderers should consider *and respond* to the following questions:

- a) Have you completed a risk assessment for this project that does not rely solely on information provided by DFID and are you satisfied that you understand the risk management implications?
- b) Have you prepared a plan that you consider appropriate to manage these risks (or will you do so if you are awarded the contract) and are you confident/comfortable that you can implement this effectively?
- c) Have you ensured or will you ensure that your staff are appropriately trained (including specialist training where required) before they are deployed and will you ensure that on-going training is provided where necessary.
- d) Have you an appropriate mechanism in place to monitor risk on a live / on-going basis (or will you put one in place if you are awarded the contract).
- e) Have you ensured or will you ensure that your staff are provided with and have access to suitable equipment and will you ensure that this is reviewed and provided on an on-going basis?
- f) Have you appropriate systems in place to manage an emergency / incident if one arises?

The positive evaluation of the Supplier's proposal for the provision of the Services and the award of this Contract is not an endorsement by DFID of any arrangements which the Supplier has made for the health, safety, security of life and property and wellbeing of the Supplier Personnel in relation to the provision of the Services.

We recommend that you make it easy for the review team to assess your responses by including a table in your tender pack that shows your responses to each of the Duty of Care acceptance and capability questions, and guides the review team to any supplementary evidence of capability that you provide.

Annex 1 – Initial Country Risk Assessment by DFID

The programme under evaluation involves activities in multiple countries. DFID has provided an overall initial risk assessment for the programme locations as shown below:

DFID Overall Initial Project/Intervention Summary Risk Assessment Matrix

Dec-17

Read in conjunction with the FCO Travel Advisory on each country

Country	HIGH RISK LOCATIONS	MEDIUM RISK LOCATIONS
Date Conducted	Dec-17	
Theme	DFID Risk Score	DFID Risk Score
Location	For example: Abuja and Borno State in Nigeria; Mali; Kinshasa in DRC; parts of Kenya, including Nairobi; and the immediate vicinity of the India-Pakistan border.	For example, other project locations incl: Uganda (excluding Karamoja, which is not relevant to this project); Gujarat, Rajasthan, and Delhi in India (with exception of the area in immediate vicinity of the border between India and Pakistan where the Supplier is not required to travel).
Overall Rating	5 - VERY HIGH RISK	3 - MEDIUM RISK
FCO Travel Advice	5	2
Host Nation Travel Advice	N/A	N/A
Transportation	5	5
Security[*]	5	3
Civil Unrest	5	3
Violence/crime	5	3
Terrorism*	5	4
War	4	1
Hurricane	1	3
Earthquake****	1	3
Flood*****	2	3
Medical Services**	5	3
Nature of Project Intervention	3	2
<i>Mean (ignoring nature of project)</i>	4	3
<i>Mode (ignoring nature of project)</i>	5	3

1	2	3	4	5
Very Low Risk	Low Risk	Medium Risk	High Risk	Very High Risk
Low		Medium	High Risk	

*The FCO travel advice for Uganda, Kenya, Nigeria and Mali advises that there is a general threat from terrorism

**Medical facilities outside of Capital Cities, and particularly away from cities are limited

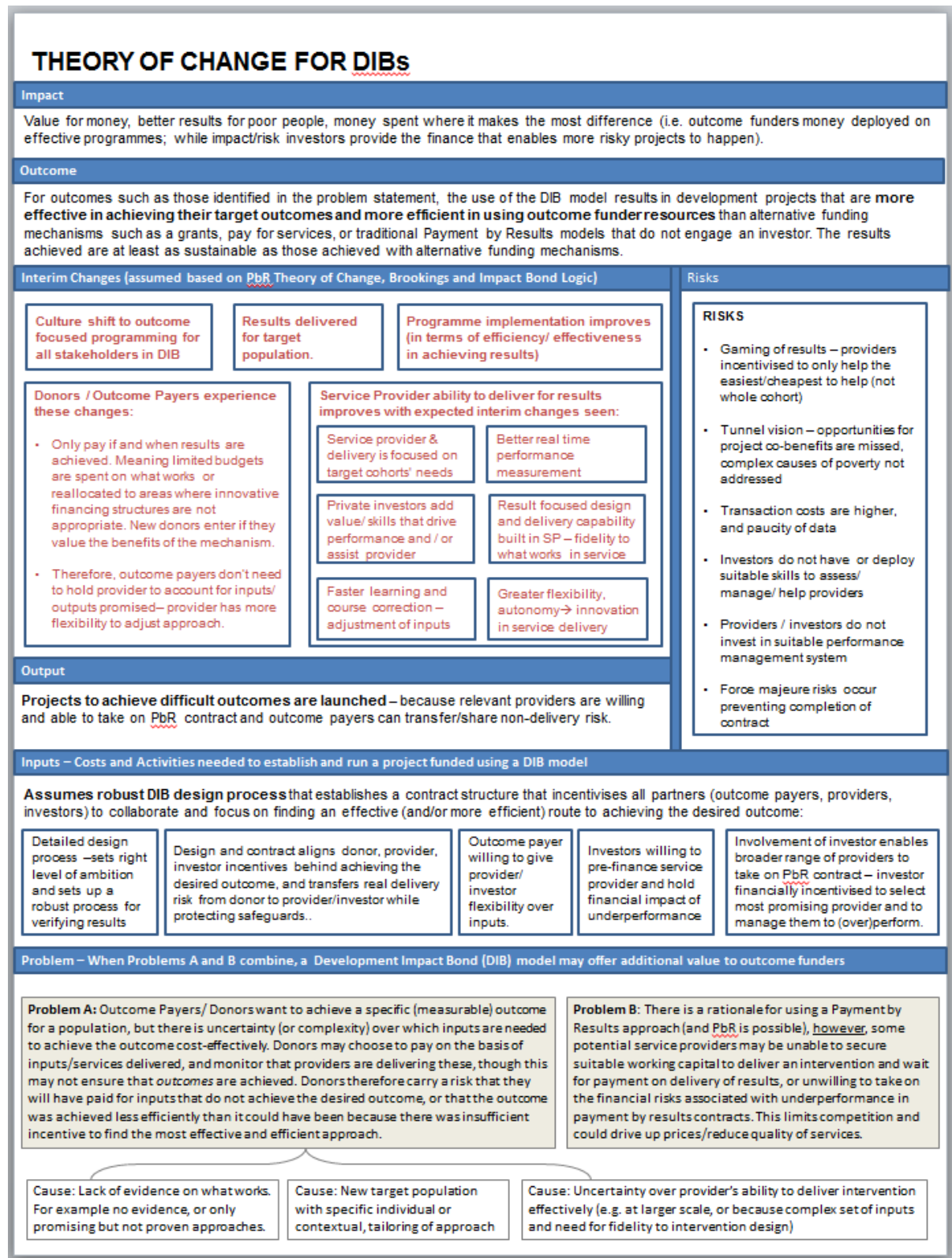
***FCO advise against all travel to Borno State. There is also a High Risk (4) threat of kidnapping across Nigeria and Maiduguri in particular

**** Earthquake risk is (3) on Indian border with Pakistan and in Delhi

***** Flash flooding can occur during the wet season in Nigeria; Eastern Uganda; and monsoon in North India.

SUPPLEMENTARY ANNEXES

Annex A1: DFID Theory of Change for DIBs

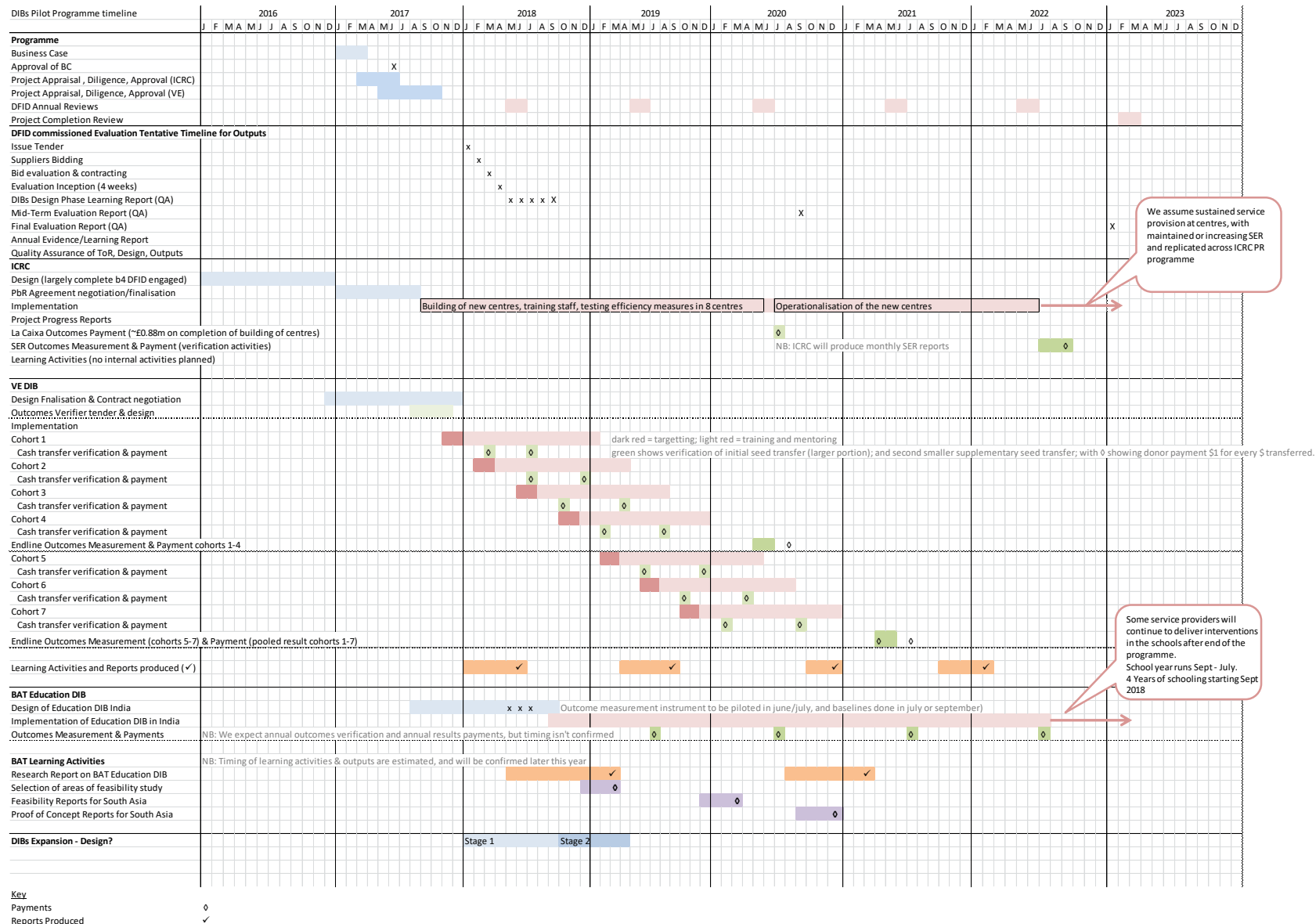


Annex A2: Initial Framework for Assessing Theory of Change for DIBs

Initial framework for assessing the Theory of Change behind DIBs, developed during DFID evaluability assessment

Inputs	Processes		Outputs/Impact
<p>Appropriate projects: What are their attributes (eg, sector, problems/opportunities addressed, innovative/scaling/up mature interventions, preventive, measurable baselines etc)?</p> <p>Funders/payers: How many? What are their goals and motivations? Was perceived transfer of risk/motivation? Were they easy/difficult to find/engage? Why?</p> <p>Providers: What are their characteristics (eg, are they resource & capital constrained, are they used to PBR contracts, do they already have an appropriate monitoring system etc.)?</p> <p>Investors: What are their characteristics (eg, commercial or foundations, established or new to development, how many)?</p> <p>Intermediaries: Which intermediaries are involved? What roles do they play? Who do they represent? How were they funded?</p> <p>Capacity-building: What, if any, support has been provided to help stakeholders prepare for the DIB? Has it been useful?</p> <p>Context: What contextual factors significantly influenced the development of the DIB?</p>	<p>1. Feasibility</p> <p>Were there any deal-breakers/critical success factors identified early? What were they?</p>	<p>4. Evaluation and payments</p> <p>What measures & methods were used to estimate impact? Were these appropriate (eg, were the measures good predictors of positive effects)?</p> <p>What were the timings of the payments (and investments)? Were outcome payments recycled as operating costs?</p> <p>What were the challenges in validating the outcome measures (eg, data quality, collection capacity etc.)?</p> <p>How were external factors that influence outcomes addressed?</p> <p>Were repayment terms renegotiated? If so, why?</p>	<p>Estimates of impact: Was the intervention successful? Does it seem that the funding instrument played a role in whether or not it was (ie, via the mechanisms in the Implementation)?</p> <p>Comparability to impact from using other funding instruments: Were the results different to past/similar projects funded using other instruments?</p> <p>Unintended outcomes: Were there any unintended outcomes, positive or negative?</p> <p>Engagement with beneficiaries: Did the DIBs create more or less engagement between beneficiaries and service providers?</p> <p>Sustainability: Are there reasons to believe any outcomes/impact achieved will be more or less sustainable than those achieved using other instruments?</p> <p>Repeatability: Would the various stakeholders participate in similar instrument in the future? Under what conditions?</p>
Cost-effectiveness			
<p>Costs and cost drivers: What were the duration and costs of the different stages? How were costs divided across the different participants? What factors drove the costs of the different stakeholders? Which costs show potential to decrease in future deals? What steps can be taken to reduce future costs?</p> <p>Comparison with other funding instruments: How do costs compare (higher or lower) with alternative funding mechanisms (for both provider and for funder/payers)? For which stages did the costs differ?</p> <p>Cost-effectiveness: How does the effectiveness of the DIB funded projects (ie, impact/cost) compare with similar projects funded by different mechanisms?</p> <p>Additionality of funding: Was the funding for the DIB net new to development? Or does DIB funding shift existing resources to more effective uses? How was this judged?</p>			

Annex D – DFID Indicative Programme Gantt Chart (subject to change)



End of ToR

Changes to the Terms of Reference

Changes to the Terms of Reference were agreed during the inception phase, and set out in the inception report. No other changes have been made during this research wave.

The main changes and developments to the ToR are the following:

1. A revision and development of the proposed evaluation questions, set out in section 2;
2. A revision of the Theory of Change, set out in section 1.1.3.
3. The inclusion of annual consultations with key stakeholders in the workplan, to enable the evaluation team to keep abreast of developments within the DIBs and ensure that relationships between the DIB stakeholders and the evaluation team remain strong. These consultations will form the basis of the 'Keeping in Touch' reports in the years between the research waves.

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Annex D: EQUALs criteria mapped to report sections

Ref	EQUALs Criteria	Corresponding Section
1. STRUCTURE AND CLARITY		
1.1	The product is accessible to the intended audience (e.g. free of jargon, written in plain English, logical use of sections, appropriate use of tables, graphs and diagrams).	n/a
1.2	It is clear who has carried out the evaluation.	Disclaimer
1.3	An executive summary is included, and it can stand alone as an accurate summary of the main product.	Executive Summary
1.4	The annexes contain – at the least – the original TORs, the evaluation framework, a bibliography and a list of consultees.	Annex B, Annex E.1, Annex C and Annex H.
1.5	Annexes increase the usefulness of the product.	Annexes
1.6	Any departures from the original TOR been adequately explained and justified.	Annex B, “Changes to the ToR”
1.7	The product is of publishable quality.	n/a
2. CONTEXT		
2.1	The product provides a relevant and sufficient description of the intervention to be evaluated. At the least, this should include detail on the intervention’s anticipated impact, outcomes and outputs, target groups, timescale, geographical coverage, and the extent to which the intervention aimed to address issues of equity, poverty and exclusion.	Section 3
2.2	The product describes the intervention logic and/or theory of change.	Section 1.1.3
2.3	The product provides a relevant and sufficient description of the local, national and/or international development context within which the intervention was operating.	Section 1.1
2.4	The product identifies key linkages between the evaluated intervention and other relevant projects / programmes / donors. If no linkages are identified, the product justifies why other projects / programmes / donors were not relevant to the evaluation.	Annex E.4 and Annex E.7
2.5	There is an assessment of the policy context for the intervention and this includes reference to poverty reduction strategies, gender equality, environmental protection, and human rights.	Section 3.1
2.6	The product describes the extent to which the intervention has been managed and delivered against Paris Declaration principles.	Annex E.7
3. PURPOSE, SCOPE AND OBJECTIVES		
3.1	The product describes what information is needed through the evaluation, and how that information will be used.	Section 1.4, Annex E.1, E.2, E.3 and E.4, and Annex F
3.2	The product describes whether the evaluation is for accountability and/or learning purposes.	Section 1.2
3.3	The product describes the target audience(s) for the evaluation.	Section 1.2 and 2.2.3

Ref	EQUALs Criteria	Corresponding Section
3.4	The product justifies the timing of the evaluation.	Section 1.4
3.5	The product clearly outlines what aspects of the intervention are and are not covered by the evaluation.	Section 1.3
3.6	The evaluation's objectives are specific and realistic. They are clearly related to the evaluation purpose.	Sections 1.2
4. EVALUATION METHODOLOGY AND DESIGN		
4.1	The evaluation framework is clearly explained. It establishes the evaluation questions, data sources and methods for data collection.	Section 2.1 and Annex E.1
4.2	The product describes and justifies which evaluation criteria are applied (e.g. OECD DAC). This includes discussion around which criteria were <i>not</i> relevant for this evaluation.	Section 2.1
4.3	The evaluation methods are described and justified. These methods are appropriate for addressing the evaluation questions.	Annex E.1, E.2, E.3, E.4, E.5 and E.6
4.4	The methodology is appropriate for assessing the cross-cutting issues of gender, poverty, human rights, HIV/AIDS, environment, anti-corruption, capacity building, and power relations.	Section 5.4.2 and Annex F
4.5	The sampling strategy is described, and is appropriate. Primary and secondary data sources are appropriate, adequate and reliable. Sample sizes are adequate.	Annex E2.3, E2.5, E6.2, E7.2; Annex C, Annex H; Annex J and Annex M
4.6	The design provides for multiple lines of inquiry and/or triangulation of data.	Sections 2.1 and Annex E.1, E.2, E.3, E.4
4.7	The methodology enables the collection and analysis of disaggregated data to show difference between groups.	Section 5.4.2 and Annex F
4.8	Any methodological limitations are acknowledged and their impact on the evaluation discussed. The limitations are acceptable and/or they are adequately addressed.	Section 2.3
4.9	Any departures from the TOR, inception phase and / or original evaluation design are adequately explained.	Annex B, "Changes to the ToR"
4.10	The product discusses any inherent imbalances or biases that interviews and other data collection may have created.	Section 2.3 and Annex E.5
4.11	The product describes how any bias has been overcome.	Section 2.3 and Annex E.5
5. IMPLEMENTATION		
5.1	Instruments were tested and validated (e.g. pre-testing of questionnaires).	Annex E.5
5.2	Data was collected in an appropriate and respectful manner, taking into account cultural, ethical and legal concerns.	Annex E.5
5.3	There was an appropriate level of involvement from the various stakeholders in the design and implementation of the evaluation.	Annex E.5 and E.7
5.4	The evaluation process provided affected stakeholders with access to evaluation-related information in forms that respect people and honour confidentiality.	Annex E.5, E.7 and E.9

Ref	EQUALs Criteria	Corresponding Section
5.5	The evaluation process was transparent enough to ensure its legitimacy.	Annexes E and Annex K
5.6	Where primary stakeholders were not consulted due to the scope of the evaluation, the evaluation drew on relevant documentation and secondary data sources were identified and referred to.	Annexes H and J
5.7	Any summary or description of consultees takes into account ethical, privacy and security concerns. <i>(The document should only provide a summary of number and level of staff interviewed, by organisation)</i>	Annex H
5.8	To what extent has the evaluation been implemented in accordance with Paris Declaration principles? Have issues of country ownership and management been addressed? To what extent has the evaluation used country systems? How far has the evaluation harmonised approaches with other donors? Has the evaluation contributed to building evaluation capacity within partner countries?	Annex E.7
6. ANALYSIS		
6.1	Information is presented, analysed and interpreted systematically and logically.	Sections 4, 5 and 6
6.2	The analysis is presented against the evaluation questions and criteria.	Sections 4, 5 and 6
6.3	The evaluation is transparent about the sources and quality of information, and references or sources are provided.	Annexes C and H
6.4	Evidence can be traced through the analysis and into findings and recommendations. There is sufficient cross-referencing.	Sections 4, 5 and 6
6.5	The analysis includes an appropriate reflection of the views of different stakeholders (reflecting diverse interests).	Sections 4, 5 and 6
6.6	The analysis is disaggregated to show impact and outcomes on the different stakeholder groups.	Sections 4, 5 and 6
6.7	The analysis explores the cross-cutting issues of gender, poverty, human rights, HIV/AIDS, environment, anti-corruption, capacity building, and power relations.	Sections 4, 5 and 6
7. FINDINGS		
7.1	Findings follow logically from the analysis.	Sections 4, 5 and 6
7.2	Findings address the evaluation questions and criteria.	Sections 4, 5 and 6
7.3	The relevance of the context (e.g. developmental, policy, institutional) is taken into account.	Sections 3, 4, 5 and 6
7.4	The evidence is clear and sufficiently triangulated.	Sections 4, 5 and 6
7.5	Findings are useful and they are presented in ways that are accessible to different users.	Sections 4, 5 and 6
7.6	Findings reflect diverse views and interests. If not, there is adequate explanation for omissions.	Sections 4, 5 and 6
7.7	There are appropriate and sufficient findings provided around the cross cutting issues of gender, poverty, human rights, HIV/AIDS, environment, anti-corruption, capacity building, and power relations.	Sections 4, 5 and 6
7.8	Issues of attribution are considered.	Section 4
7.9	Unintended and unexpected findings are identified.	Sections 4, 5 and 6

Ref	EQUALs Criteria	Corresponding Section
8. RECOMMENDATIONS		
8.1	Recommendations follow logically from the findings and evidence cited.	Section 7
8.2	They are relevant to the evaluation and targeted at the intended users.	Section 7
8.3	They are prioritised and clearly presented, enabling individuals or departments to follow up on each specific recommendation.	Section 7
9. LESSONS		
9.1	Lessons contribute to general knowledge and they are useful.	Section 6
9.2	Lessons are valid (i.e. they have not been generalised from single point findings).	Section 6
9.3	Lessons reflect the interests of different stakeholders, including different sexes.	Section 6
9.4	Lessons are presented separately with a clear logical distinction between findings, recommendations and lessons learned.	Sections 4, 5, 6 and 7
10. USEFULNESS		
10.1	The report addresses the needs of the TOR, and evaluation questions are adequately covered by the report. If not, departures from the TOR are justified.	n/a
10.2	The evaluation has been designed and managed to meet the information and decision-making needs of the intended users.	Annex E.7
10.3	Stakeholders and end-users have been given opportunities to comment on the draft findings, recommendations and lessons. The evaluation report reflects those comments and acknowledges disagreements.	Annexes E and K
10.4	There is a communications plan within the report. It suggests how dissemination of evaluation results could lead to improved accountability.	Annex E.9.3.3
11. INDEPENDENCE		
11.1	Differences of opinion (within the evaluation team, or amongst stakeholders consulted) are fully acknowledged in the report.	Annex E.11
11.2	Any conflicts of interest are openly discussed.	Annex E.12
11.3	The report indicates whether the evaluation team was able to work freely and without interference.	Annex E.10 and E.12
11.4	Information sources and their contributions were independent of other parties with an interest in the evaluation.	Annex E.10

Annex E: Evaluation methodology

This Annex sets out the full evaluation methodology. The annex focuses on Research Wave 1, but where appropriate, reference is also made to the following research waves.

The Annex includes:

E.1 Evaluation Framework, along with the DIB effect indicators, which supplement the evaluation framework

This is followed by the three levels of research

E.2 DIB-level research, including detail on

E2.1 Data analysis

E2.2 Document Review

E2.3 DIB consultations and field visits

E2.4 Use of process tracing

E2.5 Research in comparator sites

E2.6 Cost analysis

E.3 Programme-level Research

E.4 Sector-level Research

We then summarise the other areas of our evaluation methodology

E.5 Approach to data collection

E.6 Analysis, Reporting and Dissemination

E.7 Involvement of stakeholders

E.7.1 Validation of findings

E.7.2 Confidentiality

E.7.3 Independence

E.7.4 Differences of opinions

E.7.5 Conflicts of interest and other limitations

E.1 Evaluation Framework

Table E.1: Evaluation Framework

Key evaluation questions	Relevance, efficiency, effectiveness (and additionality cross cutting)	Indicators	Research Wave			Methods									
			RW1	RW2	RW3	DIBs level research				Programme level research		Wider impact bond sector			
						Data analysis	Document review	DIB consultations	Comparator sites	Cost analysis	DFID consultations	Programme document review	Literature review	Stakeholder consultations	Learning workshops
EQ1: Assess how the DIB model affects the design, delivery, performance and effectiveness of development interventions.	Effectiveness³⁷														
	To what extent were the three DIB projects successful in realising their aims, outputs, outcomes and impacts?	See DIB effect indicators set out in Annex E.		x	x	x	x	x	x				x		x
	To what extent was the level of success and failure due to the DIB model - was the DIB model a small, medium or large driver of success and was it at all critical to the projects' overall performance?			x	x										
	Did the DIB model provide added value in relation to the cross-cutting issues of gender, poverty, human rights, HIV/AIDs, environment, anti-corruption, capacity building and power relations?			x	x										

³⁷ "Effectiveness" refers to the OECD DAC criteria of Effectiveness – A measure of the extent to which an aid activity attains (or is likely to attain) its objectives.

Key evaluation questions	Relevance, efficiency, effectiveness (and additionality cross cutting)	Indicators	Research Wave			Methods											
			RW1	RW2	RW3	DIBs level research					Programme level research		Wider impact bond sector				
						Data analysis	Document review	DIB consultations	Comparator sites	Cost analysis	DFID consultations	Programme document review	Literature review	Stakeholder consultations	Learning workshops		
Where was the DIB model most effective - was its greatest value in terms of the design, delivery, relationship development, cost effectiveness, time efficiency or impact on beneficiaries?			x	x	x												
Comparisons																	
To what extent does the effectiveness vary across the three projects and why?				x	x	x	x	x	x		x	x					x
How does the effectiveness compare to other DIBs and funding mechanisms and why?				x	x	x	x	x	x				x				x
Spillovers																	
To what extent did stakeholders involved in the DIB use any of the working practices of the model in their other work? To what extent did good practice within the DIBs spread to other interventions or organisations?	Extent to which systems and practices implemented as part of project are embedded across the wider organisation and/or sustained once the DIB ends			x	x		x	x	x		x	x	x				x
Does the increased evidence base developed in the DIB enable the	Funding accessed by the projects resulting from				x		x	x			x	x	x				x

Key evaluation questions	Relevance, efficiency, effectiveness (and additional cross cutting)	Indicators	Research Wave			Methods									
			RW1	RW2	RW3	DIBs level research				Programme level research		Wider impact bond sector			
						Data analysis	Document review	DIB consultations	Comparator sites	Cost analysis	DFID consultations	Programme document review	Literature review	Stakeholder consultations	Learning workshops
	projects to access additional funding?	the evidence base developed in the DIB													
EQ 2: 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?	Efficiency														
	What (if any) are the extra costs of designing and delivering a project using a DIB model and how do they compare to other funding mechanisms?	Additional costs of the impact bond, disaggregated where possible by: • stage (design, set-up, delivery, learning); • actor who incurs this cost; and • type of cost (staff time, consultancy and expertise costs, and the risk premium (return to investors, including interest)	x	x	x	x	x	x	x	x	x	x	x	x	x
	Where are the extra costs most prevalent and what specific items (staff, monitoring procedures etc.) have the highest costs? Are these extra costs mainly found in the design or delivery stages?	Savings in programme costs (including staff time) as a result of the impact bond. How effectively has risk been transferred - what is the alignment of	x	x	x	x	x	x	x	x	x	x			x
	Do the extra costs represent value for money - to what extent do they lead to additional results, impacts and benefits?			x	x	x	x	x	x	x	x	x	x		x
	Do any aspects to a DIB model (e.g. involving an investor, undertaking verification of outcomes) shorten or extend the timeframes of projects?				x	x		x	x		x	x	x	x	x
	Who pays for these additional costs and to what extent do they see the benefits?			x	x	x	x	x		x	x	x	x	x	x

Key evaluation questions	Relevance, efficiency, effectiveness (and additional cross cutting)	Indicators	Research Wave			Methods									
			RW1	RW2	RW3	DIBs level research					Programme level research		Wider impact bond sector		
						Data analysis	Document review	DIB consultations	Comparator sites	Cost analysis	DFID consultations	Programme document review	Literature review	Stakeholder consultations	Learning workshops
Are there any inefficiencies in a DIB model that can be reduced or are there any additional costs that are unnecessary?	transferred risks with return?			X	X	X	X	X		X	X	X	X	X	X
Comparisons															
To what extent does the efficiency of the DIB set up vary between the three DIB projects and why?	Level of transaction costs of setting up a DIB compare with the average costs for other funding mechanisms (e.g. fee-for-service contracts)			X	X					X					X
How does the efficiency compare to other DIBs and funding mechanisms and why?	Changes in transaction costs over time (as projects start to learn from previous experience) Number of direct beneficiaries with improved outcomes as a result of DFID funded DIB projects			X	X				X	X			X	X	X
Relevance															
In what circumstances are DIBs relevant in tackling issues in the development context?	Level of returns and profit made by the		X	X	X			X			X	X	X	X	X

Key evaluation questions	Relevance, efficiency, effectiveness (and additionality cross cutting)	Indicators	Research Wave			Methods									
			RW1	RW2	RW3	DIBs level research					Programme level research		Wider impact bond sector		
						Data analysis	Document review	DIB consultations	Comparator sites	Cost analysis	DFID consultations	Programme document review	Literature review	Stakeholder consultations	Learning workshops
What social issues, target groups, geographies and project scales do DIBs fit best and have the greatest of impact?	investors and extent to which that influences future involvement in both DIBs and development projects				x			x			x	x	x	x	x
Are DIBs appropriate in development contexts - is the existence of investors (and possible profits), payment only when results are made and strong expectations around measuring outcomes appropriate for donors such as DFID?	Number of DFID supported DIB projects with improved cost-effectiveness ratio compared with service providers' own past performance		x	x	x			x			x	x	x	x	x
To what extent are DIBs applicable to DFID's work - are they relevant across most, some or a few of DFID's priority result areas?	Proportion of new DFID DIB instruments commissioned that are informed by recommendations of DFID DIBs evaluation reports. Number of new DFID programmes interacting with DIBs guidance, evaluation findings and reports.				x						x	x			

The table below provides a breakdown of the potential ‘DIB effect’, and the indicators we used within the DIBs and comparator sites to identify the extent to which these effects are present. The potential ‘DIB effect’ is drawn from:

- Programme Theory of Change
- DFID DIB Business Case
- Advantages and disadvantages identified during the literature review
- Advantages and disadvantages (perceived or experienced) identified during inception phase consultations

An initial set of DIB effects and indicators were provided in the Inception Report. These were refined following RW1, to allow for a more nuanced description of the DIB effects.

Table E.2: DIB effects and indicators

Claimed DIB effect	Indicator to measure presence of ‘DIB effect’ in DIBs and comparator sites	RW1	RW2	RW3
Claimed advantages				
Transfer of financial risk from outcome funder to investor	<ul style="list-style-type: none"> • Extent to which investment capital is at risk 	x		
Funding projects which would not have been funded otherwise, or not in the same guise (including scale)	<ul style="list-style-type: none"> • Extent to which outcome funders would have either funded the project at all, or in its current form, if it were funded through a different mechanism 	x		
Crowd-in private, additional, upfront, long-term, stable and secured financing , which brings in additional finances to the development sector	<ul style="list-style-type: none"> • Scale and source of funding (including whether private financing), and where this funding would have been directed if it had not funded this project • Duration and ‘security’ of funding • Mobilization ratio: for every USD 1 of ODA mobilized USD x in private financing • Extent that supplier pre-financing was required for PbR contract • Opportunity cost of using own funds – i.e. has DIB financing allowed the organization to invest in other things 	x		
Shift focus to outcomes	Set up	x	x	x
More innovative services (or larger-scale innovative services) because: <ul style="list-style-type: none"> • providers have more flexibility and autonomy to deliver what they feel will achieve outcomes • Risk transfer from government/outcome funder partly to service provider but mainly to investor, who have higher appetite for risk 	<ul style="list-style-type: none"> • Perceptions on rigour of design stage • Level of ‘innovation’ / risk in project delivery, in terms of: <ul style="list-style-type: none"> • new type of intervention altogether (radical innovation); • an established intervention that has been adapted (incremental innovation); or • an established intervention that has been applied to a new context, e.g. location, policy area, target population • Scale of project, in terms of delivery cost and number of beneficiaries • Extent and quality of external expertise 	x		
Drives performance management	Delivery		x	x
Greater accountability , as impact bond builds leads to culture of monitoring and evaluation	<ul style="list-style-type: none"> • Extent to which delivery decisions are made to maximise outcomes 		x	x

Claimed DIB effect	Indicator to measure presence of 'DIB effect' in DIBs and comparator sites	RW1	RW2	RW3
More careful and rigorous design of programme interventions	<ul style="list-style-type: none"> Extent to which a service provider feels more incentivised to offer user-specific supports (the human touch element) Level of flexibility found within the project to alter project delivery Extent to which service provider feels it can take risks and innovate Extent to which service provider feels it has autonomy over delivery Level of responsiveness and agility of partners to deal with bottlenecks, issues and challenges Extent and quality of external expertise <p>Monitoring</p> <ul style="list-style-type: none"> Rigour of monitoring and evaluation systems developed, including verification of outcomes and duration of outcomes tracking Transparency of outcomes – i.e. frequency and quality of reporting internally and externally Strength of performance management and measurement systems Use of real time performance information to inform ongoing delivery <p>Sustained impact</p> <ul style="list-style-type: none"> Extent to which systems and practices implemented as part of project are embedded across the wider organisation and/or sustained once the DIB ends 		x	x
All of the above factors leading to more beneficiaries supported, and more outcomes achieved, ultimately leading to more effective and efficient services	<ul style="list-style-type: none"> Number of beneficiaries supported per GBP / FTE Number of outcomes achieved per GBP / FTE 		x	x
More service providers entering the PbR market due to transfer of risk	<ul style="list-style-type: none"> Number and type of providers participating in PbR contracts, and their historic experience with PbR contracts Level of unrestricted funding as % of overall value of PbR contract 	x	x	x
Greater collaboration and/or coordination between stakeholders as there is an alignment of interests	<ul style="list-style-type: none"> Self-reported strength of relationship of partners involved and levels of collaboration and/or coordination 	x	x	x
Claimed disadvantages				
Complex to design	<ul style="list-style-type: none"> Extent to which stakeholders believe the design to be complex Demands of project design in terms of time and need for external expertise Length of time it took to design and launch the project 	x		
Expensive to set up and implement	<ul style="list-style-type: none"> Set up costs Cost per outcome / beneficiary Proportion of total cost of project going to front line delivery against proportion going to project development and administration (including research and data verification, and project and funding coordination and management) 	x	x	x

Claimed DIB effect	Indicator to measure presence of 'DIB effect' in DIBs and comparator sites	RW1	RW2	RW3
Impact bonds create perverse incentives	<ul style="list-style-type: none"> Profile of beneficiaries and evidence of 'cherry picking' Level, quality, range and duration of support, and extent to which decisions around these have been affected by the contracting model (e.g. leading to parking) 		X	X
Performance management culture lowers staff morale and increases staff turnover	<ul style="list-style-type: none"> Levels of morale amongst staff Levels of staff turnover 		X	X
' Tunnel vision ': Focus on primary outcomes comes at the expense of secondary outcomes; opportunities for project co-benefits are missed	<ul style="list-style-type: none"> Range and level of secondary outcomes achieved 		X	X
DIB creates additional social and reputational risks , diminishing some of the claimed advantages (such as innovation)	<ul style="list-style-type: none"> Extent to which stakeholders perceive the project to hold reputational and social risks 	X	X	X

E.2 DIB-level research

The purpose of this level of research is to assess how the DIB mechanism has impacted on the set up, delivery, performance and costs of each of the three DFID DIB pilots. To achieve this, the team undertook the following tasks, which are detailed below:

- Data analysis
- Document review
- DIB consultation and field visits
- Use of process tracing
- Research in comparator sites
- Cost analysis

E.2.1. Data Analysis (including DQA)

As part of the evaluation the evaluation team aimed to gather quantitative data on the performance of the DIBs, including progress in supporting beneficiaries, achieving outcomes (including secondary outcomes and the extent to which these sustained) and outcome payments and returns to investors. Due to the early stage of the four DIBs, the evaluation team collected the planned figures, and the actual figures will be collected over the next two research waves, in order to assess the performance of DIBs against expectations.

Annex E sets out the individual DIB level data collection and consultation plans in terms of the indicators that data will be collected against and the expected data sources (including both programme documentation, monitoring data and consultations).

As the evaluation team will be relying on data collected by the project themselves, the team has assessed the quality of the monitoring and evaluation systems through our Data Quality Assessment (DQA) Checklist. These are set out in Annex G.

E.2.2. Document Review

The evaluation team reviewed key documents related to each DIB to understand further the set up phase (See Annex H for list of documents reviewed).

E.2.3. DIB consultations and field visits

The purpose of the consultations with stakeholders involved in the DIB projects is to identify how the DIB mechanism is affecting the set up, delivery and performance of the project; and lessons learnt in implementing the DIB that could be applied to either later stages in the DIB, or future DIBs.

The table below sets out the stakeholders consulted in research wave 1, and the areas discussed. The precise areas discussed were tailored depending on the role of the interviewee within the DIB and the point of progress of each DIB, and sent in advance to DIB stakeholders.

Table E.3: Stakeholder consultations in RW1

Stakeholder type	Areas discussed: Wave 1 (Set up)
Project managers / performance managers / intermediaries	Progress and lessons learnt in setting up project; what factors affected this progress (including the DIB); and how things could be improved for this DIB and future DIBs View on DFID's role in the DIB
Service provider: Project managers	Reasons for getting involved in project, including what they hope to achieve and concerns Progress and lessons learnt in setting up project; what factors affected this progress (including the DIB); and how things could be improved for this DIB and future DIBs View on DFID's role in the DIB
Service provider: Service managers	Progress and lessons learnt in setting up project; what factors affected this progress (including the DIB); and how things could be improved for this DIB and future DIBs
Outcome funders / donors (including DFID and other donors)	Reasons for getting involved in project, including what hope to achieve and concerns Progress and lessons learnt in setting up project; what factors affected this progress (including the DIB); and how things could be improved for this DIB and future DIBs View on DFID's role in the DIB
Investors	Reasons for getting involved in project, including what hope to achieve and concerns Progress and lessons learnt in setting up project; what factors affected this progress (including the DIB); and how things could be improved for this DIB and future DIBs View on DFID's role in the DIB
Outcomes verification agents	Progress and lessons learnt in setting up project; what factors affected this progress (including the DIB); and how things could be improved for this DIB and future DIBs
Project level process evaluators / learning partners	Findings from activity completed to date

The sampling strategy used was purposive. Given the focus on the set up phase, there was a limited number of stakeholders involved, and random sampling was not considered necessary or appropriate. For the DIB-level research, for the most part, the evaluation team contacted all relevant stakeholders, namely investors, service providers, outcome funders, performance managers and outcome evaluators, with the aim of gathering and comparing different perspectives, and trying to avoid biases. On certain occasions, the team managed to interview more than one representative from the same organisation, as their role within the DIB differed and this allowed us to collect more accurate information. Some stakeholders did not participate in the evaluation. However, the team has tried to address this by drawing on a range of programme documentation, and triangulating the findings and data from the existing stakeholder interviews.

The table below sets out the number of organisations interviewed, and the number of organisations per impact bond stakeholder category. By stakeholder group, we mean the key stakeholders involved in the impact bond model, including outcome funders, investors, service providers, outcome evaluators and advisors/performance managers. The list of stakeholders per DIB is set out in section 3. This is summarised in the ‘total’ columns. The structures of the DIBs varied quite significantly. Hence, for example, there were 3 service providers in the QEI DIB, but only 1 in the other 3 DIBs.

In parenthesis in this table under the ‘interviewed’ columns, we have included the number of individuals interviewed. A full list of stakeholders interviewed is set out in Annex H. For the most part, we sought to speak to all stakeholders, with the following exceptions:

- In the case of the ICRC HIB, we did not receive responses from 2 of the outcome funders, nor from 1 investor.
- In the case of the QEI DIB, we were informed that the engagement of two outcome funders was too recent unstable, and was advised to wait to consult with them during the next research waves.
- In the case of the VE, two out of the three outcome funders were sampled. We will speak to the third outcome funder over the next two research waves. Additionally, VE has a consortium of investors, and a purposive sample was taken. The research team interviewed the lead investor and a secondary investor recommended by the lead investor.
- Finally, where there had been minimum activity on the part of the outcome evaluators/verifiers, we decided to not consult with them during this first research wave.

Table E.3: Stakeholder consultations per DIB

	ICRC		QEI		VE		Cameroon Cataract	
	Interviewed	Total	Interviewed	Total	Interviewed	Total	Interviewed	Total
Outcome Funders	3 (4)	5	3 (5)	5	2 (3)	3	3 (4)	3
Investors	1 (1)	2	1 (3)	1	2 (2)	-	2	2

	ICRC		QEI		VE		Cameroon Cataract	
PbR Comparator sites	1 (2)	n/a	1 (2)	n/a	0	n/a	0	n/a
Advisors / Intermediaries / Performance Managers	1 (3)	1	3 (4)	3	1 (4)	1	1(2)	1
Service Providers	1 (2)	1	3 (3)	3	1 (4)	1	1 (2)	1
Other funders	0	1	1 (2)	1	-	-	-	-
Outcome Evaluator	0	1	1 (1)	1	0	1	0	1
DIB researchers	-	-	-	-	-	-	1 (1)	1

Notes: The “interviewed” column sets out the number of organisations interviewed, and in parenthesis, the number of individuals interviewed (in certain organisations, we interviewed more than one individual). The “total” column sets out the total number of organisations within this stakeholder category.

During research waves 2 and 3 the evaluation team will undertake a field visit to each DIB to consult with local stakeholders face-to-face. These visits will be undertaken by members of the central evaluation team and local researchers, who will assist in understanding the local context. A proposed list of consultations agreed with the DIBs is set out in the individual DIB level plans in Annex F.

E.2.4. Use of process tracing

One of the most challenging aspects of the evaluation is to isolate the effect of the DIB on project performance and delivery – the ‘DIB effect’. There is a substantial range of factors exogenous to the DIB mechanism that could influence performance and delivery, particularly the national and local economic, social and political context, and the extent to which this remains stable throughout project delivery. Depending on the metrics used to measure outcomes, these external factors may confound the intervention effect or DIB effect. Some stakeholders, particularly those incentivised to grow the impact bond market (such as investors who wish to invest in more DIBs), may be inclined to exaggerate the ‘DIB effect’, and attribute all aspects of performance and delivery to the DIB mechanism. Equally, other stakeholders (such as practitioners) may be ideologically opposed to the mechanism, and inclined to exaggerate its negative effects. Finally, others (such as local organisations and beneficiaries) may be unaware of the DIB, and would attribute no aspects of performance and delivery to the model. It is therefore important to implement a robust approach that identifies the DIB effect in a structured and independent manner.

Ecorys has, through its previous impact bond evaluations, developed an approach for identifying the DIB effect. This involves estimating the counterfactual (what would have happened if the projects were delivered through alternative funding mechanisms) by identifying the differences between delivery of this project and other similar interventions, and using process tracing to understand the extent to which these differences can be attributed to the DIB. Process tracing is a qualitative research method for assessing causal inference within small-n studies. The method seeks to assess the causal chain that link independent variables and outcomes. The method recognises that there will not be one single factor that can explain why an outcome was achieved; instead it seeks to assess the relative contribution of different factors. This approach, and how it was used in this evaluation, is detailed below.

This approach aligns with DFID's Evaluation Framework for PbR. The Framework notes the importance of identifying and measuring the effects of PbR and proposes this is done by identifying and testing "to what extent expected outcomes are caused by the payment approach and how" and "comparing PBR with other available aid instruments to establish appropriateness and value for money in different development interventions".

1. *Process induction and creation of 'DIB effect' indicators:* The evaluation team produced a set of indicators through which to measure the outcomes the DIB mechanism is expected to achieve. This indicator set draws on the ToCs and has been developed in consultation with DFID and stakeholders from the DIB projects during WP1: Inception.
2. *Examine presence of indicators in DIB areas:* We examined the extent to which the DIB effect indicators are present within the DIBs. We used both qualitative data (for example, consultations with DIB stakeholders) and quantitative data (for example, the number of beneficiaries supported and outcomes achieved) to identify the indicators. Whilst this provides a structured approach for identifying the DIB effect, we also asked more open-ended questions in relation to the impact of the DIB on project performance and delivery, in order to identify unintended factors outside of the programme ToC. We also examined the presence of these indicators in other impact bonds (through a literature review and consultations with stakeholders involved in other DIBs), to assess the extent to which indicators hold true across multiple contexts.
3. *Examine presence of indicators in non-DIB areas:* During WP2: DIB-level research we also identified whether the DIB effect indicators are present within similar interventions delivered through alternative funding mechanisms. This include VE's traditional programming; schools and geographies where the service providers of the QEI DIB deliver their interventions through grant funding; the generic Physical Rehabilitation Programme (PRP), in the case of ICRC; and eye care hospitals in low-income countries funded through traditional mechanisms, in the case of the Cameroon Cataract. The analysis of the comparator sites was conducted through both primary research (for example, interviews with DIB stakeholders who have been involved in previous or simultaneous similar interventions) and secondary research (for example, evaluations and research of similar interventions).

We undertook the following activities to identify the presence of DIB effect indicators:

- Consultations with stakeholders involved in DIBs: A number of the stakeholders involved in the DIB pilots were involved in similar interventions funded through alternative mechanisms. We asked stakeholders to compare the delivery and performance of the intervention in the DIB to alternative funding mechanisms.
- Analysing qualitative data from comparator sites: A number of the DIB effect indicators are qualitative in nature, and cannot be identified and analysed through quantitative data (such as, for example, the level of flexibility found within the project, or the level of collaboration achieved between stakeholders). During the literature and programme document review we therefore identified the extent to which the qualitative DIB effect indicators were present in the comparator sites.

The Ecorys team reviewed the evidence from comparator sites during this research wave, which enabled the evaluation team to use the consultations to explore what might explain the differences between the DIB and non-DIB areas (including the use of the DIB), as part of the process verification approach. As illustrated in the conceptual framework, the analysis of the comparator sites is important to illuminate whether the DIB mechanism provides advantages – in terms of effectiveness and efficiency - over alternative funding mechanisms used in similar interventions.

4. *Analyse difference between DIB and non-DIB areas:* This analysis identifies the elements that are specific to the DIBs and that are not present, or are present to a lesser degree, when the interventions are delivered through alternative funding mechanisms.
5. *Process verification:* The evaluation cannot assume that any differences between the DIB and non-DIB areas can be attributed to the DIB mechanism. We used process verification to assess the extent to which the DIB mechanism contributed to the DIB effect indicators, relative to the other possible explanations. This involved analysing the qualitative and quantitative data to understand the relative contribution of different factors on the outcomes, as well as holding structured discussions with stakeholders about their own interpretations of the main DIB effects, through interviews and workshops.

E.2.5. Comparator sites

In order to identify the DIB effect, one would ideally want to compare the DIBs with a similar programme not funded by a DIB, but through other funding mechanisms. In order to do this, we identified two forms of comparisons. Firstly, we identified similar programmes being delivered by the same service providers funded by the DIBs, but which were funded under grants. Secondly, we identified programmes working in similar sector and contexts, funded under payment by results. The table below summarises the comparator sites:

DIB	Grant funded programme	PbR funded programme
ICRC HIB	Physical Rehabilitation Programme, delivered by ICRC	World Bank Global Partnership on Output-Based Aid
QEI DIB	One programme per service provider (three in total)	Girls Education Challenge
VE DIB	Current grant-funded programme.	Helvetas livelihood programme

Due to the late engagement of the Cameroon Cataract Bond, no comparator sites have yet been identified, although there are potential sites which are being discussed with stakeholders. Additional work will be undertaken as part of the KiT review, in order to undertake comparative analysis between the Cameroon Cataract Bond and its comparator sites. Further detail is set out below.

Grant funded programmes

As part of the inception phase, a list of parameters which would affect the comparability of programmes was developed based on discussion within the evaluation team and DFID. The evaluation team then worked with the service providers and intermediaries, in order to identify potential comparator sites, and assessed the similarity to our impact bonds along the parameters of: project purpose and objectives, service provider and processes used, countries of operation, context, time period, size of project, level of donor oversight/influence, payment

structure and availability of data and stakeholders. The comparator sites used for each DIB is discussed in further detail below:

ICRC: As the centres are functioning within the broader Physical Rehabilitation Programme (PRP), one can find natural comparisons in the other ICRC centres running under the PRP. During RW1, we compared the HIB to the broader PRP. It may be that during the subsequent research waves it would be useful to focus on particular, comparable sites. This can include either historic comparisons, such as the centres providing historic data for the benchmarking of the outcome measure, the centres where the efficiency measures are being piloted and other new centres. In order to understand how comparable the centres are, the evaluation can draw upon ICRC's analysis on the different factors (such as ownership of centre, location, level of ICRC involvement etc.) which are considered to be the main drivers of efficiency. Monitoring and evaluation (M&E) data will be available at all centres, and the additional measures of efficiency will be available to different degrees for the other centres.

QEI: The three NGO organisations are all expansions of programmes with existing evidence of their effectiveness (improvements in outcomes compared to a counterfactual). Therefore, we worked with the service provider to compare data on performance, and qualitatively explore the differences in how the project was set-up and developed, at what cost, and what was the working relationship between the stakeholders involved, in areas affected by DIB and non-DIB contracts.

Village Enterprise: The programme has been running since 2013, under a traditional grant funded model, and currently the DIB funds 30% of the programme. Hence, potential comparison sites include the historical programme, for which there is a RCT, and the current programme currently running under the grant funded model. Management and monitoring information are being collected for both the DIB and non-DIB elements of the current programme. While the non-DIB element of the programme has a slightly different focus area, it nonetheless provides a useful comparison in terms of understanding any changes in processes and motivations.

Our initial plan was to identify a separate, comparator site, and to first undertake interviews with a stakeholder involved in this comparator site. However, given the fact that we were provided contacts with the DIB stakeholders, and the fact that there were no comparator sites fully comparable to the DIB funded interventions, it was more practical to interview stakeholders with both experience of the comparator site, and the DIB funded programmes. Interviewees were able to reflect and compare the comparator sites and DIB funded interventions. The consultations involved first discussing the comparator site, using the DIB effect indicators as a framework for discussion, before asking stakeholders to compare this with the DIB funded programme. In doing so, we sought to obtain a clearer picture of the effects of the DIB funded mechanism.

PbR Comparisons

One PbR comparator site was identified per DIB. The criteria was PbR funded interventions working in similar sector, and, where possible, similar geographies. DFID supported with introductions, and we undertook one interview per comparator site.

The interview covered the successes and challenges to using PbR and the transaction costs involved in using PbR. The interview also covered the extent to which these were unique to

the sector and geographical location of operation. Finally, interviewees were also asked their opinion on the extent to which using a DIB would address the challenges of using PbR.

The PbR funded programmes identified worked in similar sectors (VE DIB and QEI DIB) and contexts (ICRC HIB), but differed along other dimensions. Hence, a focus of the interview was on understanding the successes, challenges and costs to using the PbR, and the extent to which these were affected by the type of intervention and the context.

E.2.6. Cost analysis

The **objectives** of the cost analysis are to:

- Collect and analyse the costs of different stages;
- Understand the extra costs of designing and delivering a project using a DIB model, and how this compares to other funding mechanisms;
- Assess the extent to which these extra costs lead to additional results, impacts and benefits, and how efficiency compares to other DIBs and funding mechanisms;
- Understand who pays for these additional costs and the extent to which they see the benefits; and
- Consider the appropriateness of the outcome targets and payment mechanisms, which will affect the risk and return transferred between the different impact bond stakeholders

Table E.4: Research Waves

Research Wave	Focus
Research Wave 1	<ul style="list-style-type: none"> • Set up costs and any cost savings expected • Design of outcome target and payment mechanism, and alignment of risk and return
Research Wave 2	<ul style="list-style-type: none"> • Full costs of the programme, and cost savings • Outcome measures • Disaggregated data on outcomes • Qualitative data on outcomes and effects on equity arising from the impact bond funding mechanism
Research Wave 3	<ul style="list-style-type: none"> • As above • Levels of returns and profit made by the investors, and service providers if relevant

The table below sets out the **evaluation framework for VfM**, summarising the approach to each of the 4Es.

Table E.5: VfM Framework

4Es	Definition	Detail
Economy	The cost of the impact bond, on top of programming costs.	DIBs costs (feasibility study, delivery, design) for all actors, compared with other DIBs, as well as PbR and grant funding mechanisms?

4Es	Definition	Detail
Efficiency	Any positive or negative changes to efficiency as a result of the impact bond.	Any savings in programming costs as a result of the impact bond. i.e. lower reporting/audit costs.
Effectiveness	Any positive or negative changes to effectiveness as a result of the impact bond.	How effectively are the risks being transferred, and how well is this aligned with risk? What are the effects on outcomes (including those not captured by the outcome measure)
Equity	Any positive or negative changes to equity as a result of the impact bond.	How well are the programmes fulfilling their targeting strategy? Are there certain sub-groups that are not being reached? The approach to equity will be guided by the individual programmes' targeting strategies, to understand the narrative around the target population. We will seek to understand the effectiveness of the targeting strategy of the DIB, especially in terms of the hard to reach.

The equity component of the VfM framework has a particular focus on assessing the cross-cutting issues of gender, poverty, human rights and power relations. In assessing the extent to which programmes are fulfilling their targeting strategy, we will review the beneficiary data collected, with a particular focus on dimensions of gender, poverty and access. There is a real risk when programmes are paid on outcomes, that there may be incentives to focus on those who are easier to reach. Our assessment of equity will include an assessment to the extent to which the use of a DIB affected programme's focus and targeting strategy, and the extent to which different groups are reached, both in design and practice.

The VfM **indicator framework** set out by Barr and Christie (2014) is used to organise the proposed indicators. This provides clarity on the type of indicators we are using (monetary, quantitative and qualitative) and the measurement typology, in terms of the comparison to be used. The table below sets out the VfM indicators relevant for this research wave.

Table E.6: VfM Indicators

	4Es	Indicator typology	Indicator	Measurement typology
1	Economy	Monetary	Additional costs of the impact bond, disaggregated where possible by: <ul style="list-style-type: none"> stage (design, set-up, delivery, learning); actor who incurs this cost; and type of cost (staff time, consultancy and 	Benchmark: Against other DIBs (Total costs, and as % of programme cost), including the three DIBs under the programme. Compared to similar PbR programmes. Changes over time in new DIB projects.

	4Es	Indicator typology	Indicator	Measurement typology
			<p>expertise costs, and the risk premium (return to investors, including interest) (Clist 2017).</p> <p>This should cover the full cost, including staff time not charged, of all actors.</p> <p>Where possible, this will be disaggregated by 'first time' DIB costs which hypothetically wouldn't have to be incurred again for any subsequent DIBs.³⁸</p> <p>Cost drivers to be analysed to understand which elements of the DIB are the most time-intensive/expensive.</p>	<p>Comparison: Between the 3 centres running under the ICRC HIB and the 4 service providers running under the BAT DIB. Changes between years during the delivery phase.</p>
2	Efficiency	Monetary	Savings in programme costs (including staff time) as a result of the impact bond.	As above.
3	Effectiveness	Qualitative	<p>How effectively has risk been transferred - alignment of transferred risks with return (in relation to the outcome target and payment mechanism of return of investors and service provider).</p> <p>We can also explore the range of potential returns and capital at risk.</p>	<p>Benchmark: Against other DIBs, including the 3 DIBs under the programme. Against commercial investments.</p> <p>Standalone: with reference to investment approaches used in commercial and blended finance.</p>

A **costing structure** is set out below, aligned to the 6 actors within an impact bond:

Table E.7: Costing Structure

Stakeholder	Changes in programme costs attributable to the impact bond
Outcome Funder	<ul style="list-style-type: none"> Staff time relating to set up of the DIB (additional or reduced set up time compared to grant funded projects) – see below for staff time monetisation Staff time relating to delivery of the programme (additional or reduced)

³⁸ The costing structure is set out in more detail below

Stakeholder	Changes in programme costs attributable to the impact bond
	<ul style="list-style-type: none"> Costs paid out, on top of the costs incurred by the service provider in delivery (i.e. the return paid out to the investors and/or service providers)
Service Provider	<ul style="list-style-type: none"> Transaction costs incurred (payments to consultants and intermediary, legal costs, set up costs) based on invoiced amount (assumed to be market value, where in-kind support is provided the market value should be estimated) Staff time relating to set up of the DIB (additional or reduced set up time compared to grant funded projects) Staff time relating to delivery of the programme (additional or reduced), including M&E costs Verification costs (staff time and invoiced) Other significant costs incurred as a result of the use of the impact bond
Investor	<ul style="list-style-type: none"> Transaction costs and time should be captured within their return (costs to the outcome funder), so no additional costs included. However, costs additional to those which would have been incurred for other investments are included.
Verifier	<ul style="list-style-type: none"> This will form part of the programme delivery costs, so no additional costs to include.
Intermediary / Fiduciary	<ul style="list-style-type: none"> Staff time relating to the service provided, if these are not charged to the service provider/outcome funder. To assess whether these represent fixed or recurrent costs.
Target population	<ul style="list-style-type: none"> Any additional costs needed to access the service (e.g. out of pocket payments, transportation costs), or in-kind delivery on the part of beneficiaries or local government.

In order to try and identify additional costs resulting from the DIB, the team was primarily guided by discussions with stakeholders. The team probed using findings from the literature, and reviews of budgets (and comparison to other non-DIB budgets where available).

For all costs, the team worked with stakeholders to estimate the proportion of costs that can be seen as 'capital costs', or one-off costs related to the fact that the stakeholder is using a DIB for the first time, and recurring costs which would be incurred no matter how many DIBs had been set up. It is important that where possible, in-kind costs and other costs not formally charged are still included in the analysis.

Where information was available, staff costs were calculated based on an estimate of time * rate, which will include:

- Staff salaries
- On-costs (including national insurance and pension costs to the employer)
- Overhead costs, to account for rent and utility costs
- Staff expenses, including travel and subsistence expenses.

For investors, verifiers and intermediaries, costs were estimated at the market rate. For example, market day rates were used in the estimates.

E.3 Programme-level Research

The purpose of this level of research is to compare the findings on the individual DIBs, in order to understand further how the DIB effect differs (or remains) across different contexts. We contextualised these findings within the wider DIB sector, and considered the implications of the findings for both improving the DIB mechanism and how DFID could utilise the model in the future. To achieve this, we undertook the following tasks:

- DFID consultations
- Programme document review
- Learning workshops

E.3.1. DFID consultations

The purpose of the consultations with DFID was to further understand the programme aims; DFID's perspective on the progress and success of the programme and its implications for the wider DIB landscape; and changes to relevant DFID strategies, such as the DIB or PbR Strategies. This information helped ensure the reports and recommendations are relevant and situated within wider developments within DFID. We had consulted with the PbR team during the inception phase, and consultations with DFID in this research wave focused on the selection and structuring of the 3 DIBs under the pilot programme.

E.3.2. Programme document review

We reviewed key programme-level documents, such as any internal reports written by DFID. As with the DFID consultations, this ensured the evaluation is situated within wider developments in DFID. The full list of documentation reviewed is set out in Annex H.

We have already reviewed key documents as part of the inception phase, and will review further key documents during Research Waves 2 and 3.

E.3.3. Internal Learning workshops

The internal workshop brought together key stakeholders from across the three DFID DIB pilots and the Cameroon Cataract Bond. The purpose of this workshop was to focus on the similarities and differences across the DIBs and what might explain these differences, including the DIB effect. The evaluation team presented the main effects of the DIB mechanism and lessons learned in delivery, including how challenges can be overcome and how the DIB mechanism can be improved for future DIBs. The presentation was used to spark a discussion on the validity of these findings for the different DIBs, and additional perspectives and nuances across the range of DIBs present. Results from the learning workshop were used to refine the evaluation team's analysis and findings, and have been incorporated in this evaluation report. Further detail is set out in Annex K.

E.4 Sector-level Research

E.4.1. Literature review

The purpose of the literature review is to contextualise the findings from the programme within the wider impact bond sector. The review focused predominantly on DIBs, but also included SIBs operating in low- and medium-income countries.

We undertook the initial literature review as part of the inception phase (see Annex M). Given the short intervening period between the inception report and this research wave, the literature review has not been updated. However, additional, relevant literature has been drawn on during the evaluation. For future research waves, each evaluation report will include a full updated literature review.

E.4.2. Other consultations

In order to contextualise our findings within the wider sector, the evaluation is also interested in consulting other stakeholders within the sector, who had worked on other DIBs, including those that had failed to launch, to understand if there are certain contexts not suitable for DIBs, or necessary conditions. The evaluation team worked with DFID and the DIB expert within the team in order to approach other stakeholders, including DIB advisors, researchers, outcome funders and service providers. The team managed to contact at least one stakeholder per DIB, including outcome funders, technical advisors, and intermediaries. A snowballing approach was also taken whereby stakeholders would recommend other stakeholders for consultation. A full list of consultations is set out in Annex H. This allowed the evaluation team to develop a broader understanding of the DIB wider sector, main issues and related challenges, from a range of different perspectives.

E.5 Approach to data collection

The process of data collection took place between August and December 2018.

Interview guides were created for different types of interviews, including stakeholders of the DIB under the pilot programme, other DIBs, DIBs that did not launch, DIB advisors and stakeholders providing their perspectives on multiple projects, and stakeholders working on comparable PbR programmes. These interview guides were peer reviewed and included in the inception report, so as to be refined based on feedback from DFID. The guides were then updated throughout the process, based on feedback from interviewees, and tailored to the specific DIB and stakeholder group.

Data was collected in an appropriate and respectful manner, taking into account cultural, ethical and legal concerns. Given the focus of research wave 1 on the set up and delivery of the DIB, interviews were undertaken with outcome funders, intermediaries/advisors, service providers, investors and outcome verifiers only. No interviews were undertaken directly with beneficiaries. Interviews were undertaken with individuals from different backgrounds, and the evaluation team liaised with 'gatekeepers' in terms of the best way to undertake these interviews. For example, in the case of the QEI DIB, the evaluators worked closely with BAT, Dalberg and MSDF in order to understand how best to conduct interviews with the India based service providers. Data was collected with due consideration to ethical concerns. The evaluation took a participatory, collaborative process, working closely with DIB stakeholders in order to tailor the evaluation process. For each DIB, the evaluation worked closely with the DIB stakeholders in order to finalise the particular research approach and information required. The evaluation team considered how best to communicate research findings to participants,

in order to actively engage participants with findings and implications. This is discussed further in the next section. Data was collected in compliance with GDPR.

In the next two research waves, we envisage speaking directly with beneficiaries. We will work closely with our peer reviewer, our local researchers and the service providers, in order to ensure our research is conducted in an ethically appropriate manner.

Privacy and security concerns were taken into account during the consultations, as interviewees were ensured confidentiality in the treatment of interview data and their informed consent was obtained for the recording, use and storage of the interview material. The interviewees were given the opportunity to review and if necessary rectify the findings presented in the individual DIB case studies.

For certain stakeholders, the evaluation team also drew upon the introductions and support of other stakeholders. This intermediation facilitated the interview process, and ensured it was conducted in a transparent and respectful manner. For example, for the QEI DIB, the team asked Dalberg, the performance manager working closely with the Indian service providers, to make introductions and share advice on the best ways to engage with the service providers. In terms of the sector level research, the evaluation team was introduced to relevant stakeholders by DFID, DIB experts within the team, or DIB advisors.

E.6 Analysis, Reporting and Dissemination

The purpose of the analysis, reporting and dissemination phase is to analyse the findings from across the evaluation and share these with external stakeholders through a variety of outputs. We discuss the analysis, reporting and dissemination steps in further detail below.

E.6.1. Analysis

The evaluation generated a variety of qualitative and quantitative evidence, which provided multiple lines of enquiry and enabled the triangulation of different data sources, including literature and document review, consultations with DIB and DFID stakeholders, cost analysis and research on comparator sites. To ensure detailed and consistent analysis a clearly structured approach to the analysis is essential. The recommended analytical stages and tasks are as follows.

For the qualitative analysis, this has been organised into two distinct phases - data management and data interpretation³⁹. The evaluation team drew upon the topic guides and early stages of fieldwork to develop a framework of themes and sub-themes organised around the key research questions. This has been reviewed as the fieldwork progressed. The data from the transcripts and field notes will be summarised and synthesised under the headings and sub headings within the Evaluation Framework.

The subsequent data interpretation stage involved synthesising findings across the multiple sets of interview respondents and case study areas, searching for similarities and differences or any other patterns occurring in the data according to key variables.

The findings from the qualitative analysis were triangulated with the findings from the quantitative analysis, which was described above. The two sets of data were examined to

³⁹ Ritchie, J., and Lewis, J. (2013) *Qualitative Research Practice*, SAGE, Sections 8-9.

assess the extent to which the findings are complementary. Where findings between the data sets contradicted each other, each data set was further interrogated to examine possible explanations. We have held debriefings during the analysis with all team members, including the external experts, to support in this analysis stage. As mentioned in Methodological considerations, we adopted process tracing to specifically analyse the effect of the DIB on the delivery and performance of the services.

The findings from the qualitative and quantitative data were then examined alongside the cost data to gain an overall assessment of the cost effectiveness of the DIBs. Analysis took place at three levels, focusing firstly on the individual DIBs; bringing this together to analyse progress at a programme level; and finally considering the implications for the wider DIB sector.

The evaluation team also undertook sub-analysis to disaggregate the data to show differences between groups. The team examined the extent to which key findings differ between the three DIBs, and whether different stakeholder groups have different experiences of the DIB mechanism.

E.6.1.1 Robustness of Findings

To ensure that analysis is undertaken consistently, the Analytical Lead and Team Leader quality assured interview notes and findings. Furthermore, detailed research guides and briefings were provided to all researchers, and regular catch-ups were planned to ensure emerging issues were discussed in a timely fashion. Finally, the same researcher led the research in the DIB and non-DIB programme, which ensured the consultations around the DIB effect indicators were delivered consistently.

To assess the robustness of findings, the following assessments undertaken as part of the process tracing were key:

- Assessing the reliability of data sources, including their potential limitations and biases;
- Assessing the strength of evidence for each DIB effect. Where data was more limited or where there was disagreement between stakeholders, this is discussed.

The Lead Analyst and Team Leader provided technical support on this.

E.6.2. Reporting

E.6.2.1 Evaluation reports

This forms evaluation report 1, which includes early feedback on the set-up of the DIBs (including an estimate of set-up costs) and recommendations for expanding and improving the DIB programme and these DIB mechanisms

This is also complemented by specific case study reports focusing on each of the three DIBs (See Annex A).

E.6.2.2 Annual briefings

We will meet with the DFID team and Evaluation Steering Group to provide an annual briefing on the evaluation progress to date. This will include the latest evaluation findings; areas of focus for the upcoming research wave; and reflections on the effectiveness of the evaluation methodology, and any suggested amends.

E.6.3. Dissemination

E.6.3.1 External workshops

Following the publication of the evaluation report, an external workshop will be planned which will bring stakeholders from across the DIB sector. The purpose would be twofold: firstly, to bring learning into the programme and to understand the DIB effect and lessons learnt in delivery in other DIBs to contextualise the programme evaluation findings; secondly to share learning out of the programme; to share lessons from the programme and consider the implications for the wider sector.

E.6.3.2 Learning outputs

Furthermore, following the publication of the evaluation report, we will produce short stand-alone 'lessons learnt'/'how tos'/'top tips', focusing on specific learning themes that will be useful for DFID and the wider sector. The evaluation team discussed possible themes with DFID and the DIBs during the inception phase, and the main area of interest was in the extent to which the DIB mechanism has impacted on set up and delivery. We proposed that for RW1, the learning outputs focus on Top Tips in designing DIB structures such as: outcome metrics, verification, pricing, contracting, origination, involving stakeholders and governance. The research tools were structured to capture information to feed into the learning outputs.

E.6.3.3 Communication Plan

In the inception report, we undertook a stakeholder analysis, which categorised stakeholders into primary users (DFID), secondary users (stakeholders involved in the pilot DIBs) and tertiary users (those involved in other DIBs or SIBs or considering implementation of DIBs or SIBs).

Our communications plan is set out in the table below summarising the reporting and dissemination activities and outputs. Further details of the communications strategy, including the types of communications outputs envisaged, are included in the Inception Report.

Table E.8: Communication Plan

Phase	Period	Focus	Communication Activities
Wave 1	July – February 2019	Process of designing and launching the DFID DIB pilot projects	<ul style="list-style-type: none"> • Case study on each DIB • Report • Internal and external workshop • Annual briefing • Learning outputs (2-3)
Wave 2	April- November 2020	Emerging lessons from the DFID DIBs pilot projects, and evidence generated by other DIBs.	<ul style="list-style-type: none"> • Case study on each DIB • Report • Internal and external workshop • Annual briefing • Learning outputs (2-3)
Wave 3	April 2022 – March 2023	Legacy of the DIBs and the programme, including the extent to which outcomes and DIBs were sustained.	<ul style="list-style-type: none"> • Case study on each DIB • Report • Internal and external workshop • Annual briefing • Learning outputs (2-3)
Keeping in touch	2019 and 2021	Annual update on the progress of the DIBs.	<ul style="list-style-type: none"> • Annual briefings

The target audience groups for the communication activities are as follows:

Phase	Primary users: DFID stakeholders	Secondary users: Stakeholders involved in the pilot DIBs	Tertiary users: those interested in DIBs and/or SIBs
Case studies	✓	✓	✓
Reports	✓	✓	
Internal workshops	✓	✓	
External Workshops			✓
Annual Briefing	✓	✓	
Learnings outputs	✓	✓	✓

E.7 Involvement of stakeholders

The evaluation has been designed and managed to meet the information and decision-making needs of the intended users. Discussions were carried out with DFID and stakeholders of the pilot DIBs in order to inform the approach and needs of stakeholders, as part of the inception phase. DFID is also coordinating the evaluation stakeholder group for this purpose. Additionally, during this first research wave, the evaluation team has held bi-weekly catch up calls with DFID, to inform DFID of emerging issues and to ensure DFID input in the implementation of the evaluation. The scope of the evaluation and individual DIB level plans, in terms of data to be shared and consultations to be undertaken over the course of the

evaluation, have been discussed and agreed with the DIB level stakeholders. The individual DIB level plans are set out in Annex E.

The evaluation process has been set out transparently. The inception report has been published and clearly sets out the scope and proposed approach to the evaluation. Each interview began with a clear explanation of the research process, aims, and objectives. This included an explanation of how collected data would have been used, and in what form. Interviewees were then provided with an opportunity to ask questions.

The balance of primary and secondary sources varied across the different levels of research. For the DIBs under the scope of the evaluation, extensive primary research was conducted, as well as review of relevant secondary documentation, such as M&E protocols, business cases, minutes and appraisal documents. For the sector level review, there was a blend of primary and secondary sources reviewed. Often, only one or two stakeholders were interviewed per DIB, and a review of programme documentation enabled the evaluation team to triangulate findings and obtain a broader perspective on the DIB. The methods and quality of data collection of the M&E data collected for the DIBs under the scope of the evaluation has been reviewed using our Data Quality Assessment checklist, set out in Annex G.

Additionally, the evaluation has sought to support **the harmonisation of approaches** used in the DIB/SIB sector. The evaluation has drawn on the following frameworks and approaches, in order to better support the synthesis of evaluation findings and learning across the sector:

- The evaluation is taking a harmonised approach by using the same evaluation approach, and synthesising findings for the 3 DIBs under DFID's pilot programme, as well as the Cameroon Cataract Bond;
- The evaluation team is undertaking a range of sector level consultations and attending sector events, such as conferences and working groups, in order to keep abreast of emerging learning and findings;
- The DIB effect model builds on DFID's PbR evaluation framework, to facilitate consolidation of learning;
- Our findings have been aligned broadly with the Brookings Institutes' issue areas as set out in Gustafsson-Wright et al's (2017) early findings report and builds on their findings;
- The framework for categorising DIBs builds on the work undertaken by GOLab at Oxford, and other key efforts to categorise DIBs;
- The evaluation categorises the other DIBs consulted in terms of the stages of development as set out with Gustafsson-Wright et al's (2017) deal book;
- The process tracing approach builds on a tested approach used by Ecorys for other SIBs evaluations, which enables cross-sector learning; and
- For the DIBs under the scope of the evaluation, we have drawn on relevant and existing studies, such as BOND's report on lessons learned from the Girls Education Challenge⁴⁰ and the CGD paper on lessons from the Cameroon Cataract Bond.

⁴⁰ <https://www.bond.org.uk/resources/does-skin-in-the-game-improve-the-level-of-play>

The approach is also guided by the principles of the Paris Declaration⁴¹. Low- and medium-income countries must lead and manage their own development if aid is to contribute to sustainable development.

In line with the Paris Declaration, the evaluation is aiming to avoid duplicating data collection and learning activities, by leveraging data and learning outputs, in order to synthesise evidence. The need to generate an independent and unbiased perspective is being balanced with the need to ensure that the evaluation team builds on data already generated. As such, the evaluation relies on data collected by the service providers. We have undertaken an initial assessment of this data in the Data Quality Assessments. The Paris Declaration also highlights the need to develop better tools and systems to measure impact, and we have factored in time to support the DIB projects to improve their measurement systems, if necessary. Furthermore, the evaluation team is committed to building evaluation capacity within partner countries. The evaluation team includes experts from the countries where the DIBs are in operation. The experts provide valuable context and input into the evaluation.

Finally, an important part of understanding the effects of using DIBs includes consideration of the sustainability of the intervention and mechanisms, and the extent to which there may be potential for take up by the national government. This will be a focus of research waves 2 and 3, and we have planned for extensive consultations with the relevant government officials.

E.7.1. Validation of findings

Stakeholders and end-users have been given opportunities to comment on the draft findings, recommendations and lessons. The evaluation report reflects those comments and acknowledges areas of disagreement. Interviewees have been given the opportunity to ask questions, review and rectify emerging findings, when needed. Draft findings were presented at a stakeholder workshop held in December. A summary of the discussions and how these have affected the evaluation findings is set out in Annex K. The feedback will also be used to orient and structure the next wave of research. Additionally, individual DIB case studies were reviewed and fact checked by the relevant stakeholders, and used to refine the case studies.

E.7.2. Confidentiality

The evaluation process provides information in ways that honours confidentiality. The evaluation team obtained interviewees' informed consent for the treatment of interview data and use of programme documents. Security and privacy concerns have been taken into account in storing, using and reporting this information. Data has been stored in a secured folder on Ecorys's drive, which is only accessible to members of the research team. No sensitive or confidential information has been shared via email. We have anonymised opinions, and have only included a record of the number and positions of staff interviewed, in order to avoid identification issues, particularly around sensitive topics.

E.7.3. Independence

It is important that the central evaluation remains independent and credible. In reviewing available data, we investigated how the data was collected and verified to assess quality. This

⁴¹ <http://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm>

involved providing advice, guidance and a QA role to ensure the evidence is sufficiently reliable.

Whilst the evaluation team includes external technical experts, it is also important that the final conclusions are reached independently by the evaluation team. The role of the external experts has been to act in an advisory capacity, but the report and its findings have been written by the evaluation team.

E.7.4. Differences of opinions

Differences of opinions arising from the consultations are set out in the Analysis and Findings sections in sections 4, 5 and 6. Annex K also summarises the findings from the learning workshop, the feedback received and discussion, as well as referencing to how these were addressed in the report. The learning workshop offered a further opportunity openly to discuss and verify emerging findings, so as to complement any information missing and incorporate stakeholders' opinions and feedback.

E.7.5. Conflicts of interest and other limitations

No conflicts of interest were identified, and the evaluation team were able to work freely and without interference. Each consultation was conducted by a lead analyst who was then responsible for the analysis and the reporting of the information gathered through interviews and document review. All key informant interviews were conducted under conditions of confidentiality.

The impact bond space is a small one, and undoubtedly information sources and their contributions are not completely independent of other parties with an interest in the evaluation. We have sought to address this by triangulating findings between different respondents and other sources of information, and by disaggregating findings by type of respondent, and role in the DIB.

Annex F: Individual DIB level plans

The tables below set out the DIB-level evaluation plans. These have been discussed with the stakeholders across the four DIBs.

The three tables below set out the proposed consultations, VfM and other data to be collected from each DIB. We have also set out, where relevant, which research wave and to which stakeholders the data request relates to, and whether the data is also requested for the identified comparison programme. This will be confirmed as part of the research wave.

Table F.1 : Proposed consultations

Stakeholder type	RW2	RW3	ICRC	Village Enterprise	QEI	Cataract
Project managers / performance managers / intermediaries	x	x	n/a	Instiglio (Project Manager, Process Learning lead, CEO, Financial Model Developer)	Dalberg (Performance manager)	Volta Capital (bond manager)
Service provider: Project managers/service managers/practitioners	x	x	PRP Lead, Director of Finance, HIB Head, Staff at the 3 HIB centres and identified comparison centres	Director of MEL; Kenya and Uganda country Director, CEO, COO	Gyan Shala, SARD, Kaiyvala Education Foundation	The Magrabi Foundation
Outcome funders / donors (including DFID and other donors)	x	x	Governments of Switzerland, Belgium, UK and Italy, and La Caixa Foundation	DFID, USAID, the Anonymous Donor	British Asian Trust, Tata Trusts, MSDF, Comic Relief,	The Fred Hollows Foundation, Conrad N. Hilton Foundation and Sightsavers
Investors	x	x	Munich Re, Lombard Odier pension fund, charitable foundations and others	Group of private family foundations and SV2, via ImpactAssets	USB OF	OPIC and Netri Foundation
Outcomes verification agents	x	x	Philanthropy Associates	IDInsight	Gray Matters India	AEDES
Project level process evaluators / learning partners	x	x	N/A	Instiglio	N/A	N/A
National and district/local governments	x	x	Local Governments in Mali, DRC, and Nigeria	TBC	Regional governments in the states where the service providers are operating	N/A

Stakeholder type	RW2	RW3	ICRC	Village Enterprise	QEI	Cataract
Local organisations that work with the project	x	x	Ministry of Health in countries of operation	TBC	N/A	N/A
Advisors (designers)	x	x	KOIS	N/A	Dalberg	Volta Capital Aravind Foundation
Service users / beneficiaries	x	x	Sample of users in new ICRC centres, and the 8 pilot centres.	Sample of participating households in Kenya and Uganda	Sample of young people in the treatment schools	Sample of patients in hospital in Cameroon from middle and low income backgrounds

Table F.2: Value for Money data

	Indicator	RW1	RW2	RW3	Comparison programmes	Stakeholder	ICRC	VE	QEI	Cataract
1	<p>Additional costs of the impact bond, disaggregated where possible by:</p> <ul style="list-style-type: none"> stage (design, set-up, delivery, learning); actor who incurs this cost; and type of cost (staff time, consultancy and expertise costs, and the risk premium (return to investors, including interest). <ul style="list-style-type: none"> This should cover the full cost, including staff time not charged, of all actors. Where possible, this will be disaggregated by 'first time' DIB costs which hypothetically wouldn't have to be incurred again for any subsequent DIBs. Cost drivers to be analysed to understand which elements of the DIB are the most time-intensive/expensive. 	x	x	x		All stakeholders		VE have stated that this data is available and can be shared with us.		Possibility to get the data from Volta but might not be very detailed

	Indicator	RW1	RW2	RW3	Comparison programmes	Stakeholder	ICRC	VE	QEI	Cataract
2	Savings in programme costs (including staff time) as a result of the impact bond.	x	x	x		Service provider; outcome funder		Likely to be largely qualitative data		Unlikely to be able to receive this information
3	How effectively has risk been transferred - alignment of transferred risks with return (in relation to the outcome target and payment mechanism of return of investors and service provider). Range of potential returns and capital at risk.	x				All stakeholders				
4	Level of returns and profit made by the investors.			x		Service provider				
5	Outcome measure. Other intended outcomes as set out in the M&E framework.		x	x	x	Service provider			Unlikely to be able to receive disaggregated information on participants	
6	Difference in: <ul style="list-style-type: none"> Quality of outcomes Sustainability of outcomes Organisation approach to performance management (spillovers) Positive and negative unintended effects 		x	x	x	Service provider				
7	% of participants in the different sub-groups (with reference to targeting strategy). Targeting costs if relevant (with the assumption that targeting costs increase when trying to access the hard to reach)		x	x	x	Service provider	Targeting costs will be difficult to obtain		Unlikely to be able to receive disaggregated information on participants	
8	Change in targeting approach based on the identified effects of the impact bond.		x	x	x	Service provider				

Indicator	RW1	RW2	RW3	Comparison programmes	Stakeholder	ICRC	VE	QEI	Cataract
Different effects of the intervention on the different sub-groups.									

Table F.3: Other data

Data type	Examples of relevant reports	How this data will be used	Comparison programmes	RW1	RW2	RW3	Stakeholder	ICRC	VE	QEI	Cataract
M&E data (Beneficiary numbers and outcomes)	Internal progress reports; Project monitoring reports received from each DIB partner; Summary of beneficiary feedback	To understand the status and success of the programme, and to compare the DIB funded programmes with other similar programmes (where similar M&E data are collected).	x	x	x	x	Service provider	Quarterly reports	Village Enterprise (quarterly report) includes all the metrics for the project	BAT / DfID (a quarterly report that includes all the metrics for the project)	a quarterly report from The Magrabi Foundation that includes all the metrics for the hospital
Outcome Verification	Outcome verification reports (baseline and endline)	Outcome verification data will be used to understand the returns payable. The data can also be compared against the other outcome data, to understand the extent to which these are correlated (improvement in the target outcome but worsening across other outcomes may	x	x		x	Service provider	Verification reports	IDInsight has outcome verification report for each cohort (the first of these reports has already been received)	Gray Matters India (we have already received the baseline report)	Volta has already provided

Data type	Examples of relevant reports	How this data will be used	Comparison programmes	RW1	RW2	RW3	Stakeholder	ICRC	VE	QEI	Cataract
		suggest perverse incentives).									
Learning Activities	Internal and external learning reports	Learning will be compared across DIBs and contextualised within the learning from other impact bonds.	x	x	x	x	Service provider	Learning reports	Instiglio process review (the first of these reports has already been provided)		
Investment returns	Progress reports	To understand how the DIB performs against targets.		x	x	x	Service provider	Quarterly reports	VE biannual interim reports	UBSOF	
Outcome payments				x	x	x	Service provider	Quarterly reports	As above	BAT	
Data supporting set up phase	Programme design documents; Business and financial cases; memos explaining decisions to fund each pilot DIB; records of project appraisal process, negotiations and decisions	To better understand the set up process, and key challenges and enablers.		x			All stakeholders	Stakeholders already provided	VE, Instiglio already provided	UBSOF, BAT	Volta and Fred Hollows have already provided

Annex G: Data Quality Assessment

As explained in the Methodology section, at the start of each research wave the evaluation team will review the evidence provided prior to any consultations or field visits, and assess the quality of the data through Ecorys' Data Quality Assessment Checklist. This will enable the team to plan questions to clarify the evidence sources and quality of data collection and to work with the DIB projects to identify potential gaps and limitations affecting the evaluation. These findings can then be used to support the DIB projects to improve their measure systems if necessary, or to re-focus Ecorys' primary research on areas not sufficiently covered through local data collection and learning activities. The tables below illustrate the Data Quality Assessment Checklist that the team conducted for each of the four DIBs under study, as part of RW1. The data being assessed relates to the monitoring and evaluation data, which goes beyond the outcome assessment data. We intend to draw on this data as part of the next two research waves.

G.1 ICRC

Question	Yes/No	Comments
Validity – Data should clearly and adequately represent the intended results		
Does the information collected measure what it is supposed to measure?	Yes	Indicator and collection methods are clear and sensible.
Do results collected fall within a plausible range?	Yes	TBD.
Is there reasonable assurance that the data collection methods being used do not produce systematically biased data (e.g. consistently over- or under-counting)?	Yes	Indicators are sensible
Are sound research methods being used to collect the data?	Yes	Yes, based on centre records.
Reliability – Data should reflect stable and consistent data collection processes and analysis methods over time.		
When the same data collection method is used to measure/observe the same thing multiple times, is the same result produced each time?	Yes	Clear guidelines in instructions per cell. Some cells are protected etc., to ensure consistent.
Are data collection and analysis methods documented in writing and being used to ensure the same procedures are followed each time?	Yes	As above.
Timeliness- data should be available at a useful frequency, should be current, and should be timely enough to influence management decision-making.		
Are data available frequently enough to inform program management decisions?	Yes	Yes, done monthly.
Are the data reported the most current practically available?	Yes	Yes, done monthly.

Question	Yes/No	Comments
Are the data reported as soon as possible after collection?	Yes	
Precision – data have a sufficient level of detail to permit management decision-making; e.g. the margin of error is less than the anticipated change.		
Is the margin of error less than the expected change being measured?	N/A	All users calculated and not calculated based on a sample basis.
Has the margin of error been reported along with the data? (Only applicable to results obtained through statistical samples)	N/A	N/A.
Is the data collection method/tool being used to collect the data fine-tuned or exact enough to register the expected change? (e.g. a yardstick may not be a precise enough tool to measure a change of a few mm).	Yes	Service users and equipment provided calculated. No estimates used.
Integrity – data collected should have safeguards to minimize the risk of transcription error or data manipulation.		
Are procedures or safeguards in place to minimize data transcription errors?	Yes	Data checks included within the spreadsheet to minimise error.
Is there independence in key data collection, management and assessment procedures?	Not sure.	To ask for our centres.
Are mechanisms in place to prevent unauthorized changes to the data?	Yes	Template secured with password.

Summary: Based on the assessment relative to the five standards, the quality of ICRC's PRP programme seems to be of good quality. For the centres whose data we will be relying on, we will ask additional questions as to whether there is independence in key data collection, management and assessment.

G.2 QEI

Question	Yes/No	Comments
Validity – Data should clearly and adequately represent the intended results		
Does the information collected measure what it is supposed to measure?	Yes	Information is collected against a variety of indicators relevant to the outcomes of interest.
Do results collected fall within a plausible range?	Yes	The number of schools selected to collect data shall ensure adequate accuracy in estimating variance components between and within schools.
Is there reasonable assurance that the data collection methods being used do not produce systematically biased data (e.g. consistently over- or under-counting)?	Yes	Stratification by school size, urban/rural location and school type ensures that all parts of the population are included in the sample.

Question	Yes/No	Comments
Are sound research methods being used to collect the data?	Yes	Dalberg collects data through field observations to intervention schools, individual and group interviews with school staff, and in person interviews with service provider leadership as well as program staff.
Reliability – Data should reflect stable and consistent data collection processes and analysis methods over time.		
When the same data collection method is used to measure/observe the same thing multiple times, is the same result produced each time?	TBD	
Are data collection and analysis methods documented in writing and being used to ensure the same procedures are followed each time?	Yes	Service providers need to report data collection and analysis procedures in quarterly reports provided by Dalberg.
Timeliness- data should be available at a useful frequency, should be current, and should be timely enough to influence management decision-making.		
Are data available frequently enough to inform program management decisions?	Yes	Using the performance management system established by Dalberg, service providers enter and report data on a variety of indicators on a quarterly basis. Dalberg then uses this information to propose course correction measures.
Are the data reported the most current practically available?	TBD	This is what Dalberg recommend, but the first quarterly report related to the implementation phase has not been published yet.
Are the data reported as soon as possible after collection?	Yes	Data are reported on a quarterly basis by service providers, and this feeds into Dalberg quarterly reports.
Precision – data have a sufficient level of detail to permit management decision-making; e.g. the margin of error is less than the anticipated change.		
Is the margin of error less than the expected change being measured?	TBD	
Has the margin of error been reported along with the data? (Only applicable to results obtained through statistical samples)	TBD	
Is the data collection method/tool being used to collect the data fine-tuned or exact enough to register the expected change? (e.g. a yardstick may not be a precise enough tool to measure a change of a few mm).	Yes	Indicators are sensible and based on historic data related to the sector and the specific service providers.
Integrity – data collected should have safeguards to minimize the risk of transcription error or data manipulation.		

Question	Yes/No	Comments
Are procedures or safeguards in place to minimize data transcription errors?	TBD	
Is there independence in key data collection, management and assessment procedures?	Yes	Data is collected by service providers against the performance management framework provided by Dalberg, which complements with other data collection methods and independently assesses data.
Are mechanisms in place to prevent unauthorized changes to the data?	Yes	Triangulation of data sources and independent assessment prevent unauthorized changes.

Summary: Based on the assessment relative to the five standards, the quality of data of the QEI DIB seems adequate. In terms of the performance management and outcome evaluation data collection, the information is adequate for the purpose of the measurement; collected and processed according to clear and rigorous procedures and through a variety of methods; and collected in a timely fashion used to improve the intervention. There are a few areas which will be followed up by the evaluation team during the next research wave.

G.3 Village Enterprise

Question	Yes/No	Comments
Validity – Data should clearly and adequate represent the intended results		
Does the information collected measure what it is supposed to measure?	Yes	Indicator and collection methods are clear and sensible.
Do results collected fall within a plausible range?	Yes	TBD.
Is there reasonable assurance that the data collection methods being used do not produce systematically biased data (e.g. consistently over- or under-counting)?	Yes	Indicators are sensible and based on historic successful RCT. VE routinely monitors all five aspects of program implementation – targeting, business training, savings groups, business formation, and mentoring. Village Enterprise’s monitoring and evaluation staff continuously monitor data synced into the database for accuracy.
Are sound research methods being used to collect the data?	Yes	Yes. Village Enterprise staff collects data using android devices equipped with TaroWorks, a suite of mobile data collection tools built on the Salesforce platform. Use of TaroWorks facilitates remote data collection through offline data entry in areas without mobile or WiFi signal.
Reliability – Data should reflect stable and consistent data collection processes and analysis methods over time.		

Question	Yes/No	Comments
When the same data collection method is used to measure/observe the same thing multiple times, is the same result produced each time?	Yes	Yes, see above.
Are data collection and analysis methods documented in writing and being used to ensure the same procedures are followed each time?	Yes	As above.
Timeliness- data should be available at a useful frequency, should be current, and should be timely enough to influence management decision-making.		
Are data available frequently enough to inform program management decisions?	Yes	Monitoring and evaluation staff routinely monitor completeness of training attendance, assign monitoring spot-checks, and report results to relevant staff.
Are the data reported the most current practically available?	No	
Are the data reported as soon as possible after collection?	Yes	
Precision – data have a sufficient level of detail to permit management decision-making; e.g. the margin of error is less than the anticipated change.		
Is the margin of error less than the expected change being measured?		TBD.
Has the margin of error been reported along with the data? (Only applicable to results obtained through statistical samples)		TBD.
Is the data collection method/tool being used to collect the data fine-tuned or exact enough to register the expected change? (e.g. a yardstick may not be a precise enough tool to measure a change of a few mm).		TBD.
Integrity – data collected should have safeguards to minimize the risk of transcription error or data manipulation.		
Are procedures or safeguards in place to minimize data transcription errors?	Yes	Data checks included within the spreadsheet to minimise error.
Is there independence in key data collection, management and assessment procedures?	No	Data collected by Village Enterprise.
Are mechanisms in place to prevent unauthorized changes to the data?		Not sure.

Summary: Based on the assessment relative to the five standards, the quality of Village Enterprises' graduation model programme data seems to be of good quality. For the centres whose data we will be relying on, the evaluation team will ask additional questions as to whether there is independence in key data collection, management and assessment.

G.4 Cameroon Cataract Bond

Question	Yes/No	Comments
Validity – Data should clearly and adequately represent the intended results		
Does the information collected measure what it is supposed to measure?	Yes	The performance metrics against which the performance of MICEI is evaluated are consistent with the outcome of interest.
Do results collected fall within a plausible range?	Yes	The Monitoring Cataract Surgical Outcomes (MCSO) software is used with all cataract patients. The EquityTool questionnaire will be administered to all cataract patients operated at MICEI, or to a representative sample.
Is there reasonable assurance that the data collection methods being used do not produce systematically biased data (e.g. consistently over- or under-counting)?	Yes	The process of independently verifying MICEI's data will consist of three main components to certify that the information provided by MICEI is a true and fair account of the hospital performance in meeting the Cataract Bond targets.
Are sound research methods being used to collect the data?	Yes	Data collection methods include document review, the Monitoring Cataract Surgical Outcomes (MCSO) software to report on the number and quality outcomes of cataract surgeries, and the Equity Tool to evaluate the wealth status of cataract patients treated at MICEI.
Reliability – Data should reflect stable and consistent data collection processes and analysis methods over time.		
When the same data collection method is used to measure/observe the same thing multiple times, is the same result produced each time?	Yes	The procedure and forms used by the verification agent for measuring visual acuity is strictly the same as the one used by the hospital staff in order to reduce the inter-observer variation.
Are data collection and analysis methods documented in writing and being used to ensure the same procedures are followed each time?	Yes	Procedures to be followed to collect and analyse are documented in M&E protocol.
Timeliness- data should be available at a useful frequency, should be current, and should be timely enough to influence management decision-making.		
Are data available frequently enough to inform program management decisions?	Yes	The hospital will be required to provide financial statements and progress reports on achieving the Cataract Bond performance targets on a quarterly basis. This will enable the

Question	Yes/No	Comments
		Cataract Bond team to identify inefficiencies and course correct in a timely manner.
Are the data reported the most current practically available?	TBD	
Are the data reported as soon as possible after collection?	Yes	Quarterly progress reports including update on achieving cataract performance are delivered within 45 days after the end of each fiscal quarter.
Precision – data have a sufficient level of detail to permit management decision-making; e.g. the margin of error is less than the anticipated change.		
Is the margin of error less than the expected change being measured?	TBD	
Has the margin of error been reported along with the data? (Only applicable to results obtained through statistical samples)	Yes	Discrepancies between reported and verified data are reported in CCBP Pilot Verification Report
Is the data collection method/tool being used to collect the data fine-tuned or exact enough to register the expected change? (e.g. a yardstick may not be a precise enough tool to measure a change of a few mm).	Yes	<ul style="list-style-type: none"> - The MCSO software was developed by the International Center for Eye Health (ICEH) at the London School of Hygiene and Tropical Medicine in London. It is a computerised system for data entry and analysis designed for monitoring and evaluation of visual outcome of cataract surgeries and produces various standard reports, graphs and lists of patients due for follow-up. - The Equity Tool was developed to enable development organisations to assess the wealth of the beneficiaries of their programs. The EquityTool is an easy to use and easy to interpret and is a measure of relative wealth. The tool is country-specific and consist of a list of questions on respondent dwelling characteristics and ownership of durable assets.
Integrity – data collected should have safeguards to minimize the risk of transcription error or data manipulation.		
Are procedures or safeguards in place to minimize data transcription errors?	Yes	Data from each form related to surgeries performed has to be entered into a computer. The data entry facility of the Cataract Surgery Record

Question	Yes/No	Comments
		package has a number of in-built checks to avoid data entry errors
Is there independence in key data collection, management and assessment procedures?	Yes	Data is collected and managed by MICEI, and independently validated by AEDES.
Are mechanisms in place to prevent unauthorized changes to the data?	Yes	AEDES will triangulate the performance data provided by MICEI against a number of sources available at the hospital including, patient files, medical registers, cash book, drugs use records, and other relevant documents or registers. The M&E Auditor will also conduct onsite visits at MICEI and Telephonic and/or community verification on a sample of patients. Any discrepancies found between the data recorded by the hospital and the verification agent will need to be further investigated on a case-by-case basis.

Summary: Based on the assessment relative to the five standards, we can conclude that the overall quality of the data is good. The information used to measure whether the outcomes are met is collected by the MICEI hospital in a systematic and unbiased manner, according to procedures that are clearly specified in the M&E protocol. The tools used to collect and analyse data are easy to use and to interpret, and fine-tuned to register changes in visual acuity and patients' relative wealth. Data collection at the hospital will be paper-based initially but hospital management is planning to move gradually to an electronic data collection system, so as to minimise transcription errors. Finally, data collected by MICEI is being validated by two different entities, based on a variety of methods.

Annex H: Consultees and Sources reviewed

Consultees

DIBS	Organisation	Role
ICRC	ICRC	Head of the HIB
	KOIS	Partner, Principal – Impact investing, Senior Associate
	Munich Re	Executive Director, Capital Relief Transactions
	Government of Switzerland	Programme Officer, Federal Department of Foreign Affairs FDFA, Swiss Agency for Development and Cooperation SDC
	Government of Belgium	Advisor, Development Cooperation
	DFID	Programme manager and Development Impact Bonds Adviser
	World Bank GPOBA	PbR comparator site
QEI	UBSOF	Investor
	UBSOF	Investor
	UBSOF	Investor
	Dalberg	Performance manager
	BAT	Intermediary
	BAT	Intermediary
	MSDF	Outcome funder
	Comic Relief	Outcome funder
	Comic Relief	Outcome funder
	Tata Trust	Knowledge partner
	Tata Trust	Knowledge partner
	GMI	Outcome evaluator
	GyanShala	Service provider
	Kaivalya	Service provider
	SARD	Service provider
	EducateGirls	Technical advisor
	DFID	Funder/technical advisor
	DFID	Funder/technical advisor
DFID GEC	PbR Comparator site	
Cataract Bond	AEF/ The Magrabi Foundation	Implementer
	The Magrabi Foundation	Investor/Implementer
	Conrad N. Hilton Foundation	Outcome funder
	Conrad N. Hilton Foundation	Outcome funder
	Sightsavers	Outcome funder
	The Fred Hollows Foundation	Outcome funder
	OPIC	Investor
	Netri Foundation	Investor
	Volta	DIB performance manager
	Volta	DIB performance manager
	CGD	DIB researchers

DIBS	Organisation	Role
Village Enterprise	Village Enterprise	VE Kenya Country Director
	Village Enterprise	VE Director of Monitoring, Evaluation and Learning
	Village Enterprise	Director of Institutional Giving
	Village Enterprise	VE Chief Operating Officer
	Instiglio	Instiglio – Leading the Process Evaluation
	Instiglio	CEO – and designer of DIB; part of design process
	Instiglio	Instiglio Project Manager; managed design process and kept record of discussions
	Instiglio	Instiglio- developed financial model for DIB
	The Anonymous Donor	Co-designed the DIB model
	DFID	Co-designed the DIB model
	DFID	Co-designed the DIB model
	Anon	Lead Investor
	Bridge Fund	Secondary investor
	Nepal Employment Fund	PbR Comparator site
Cameroon Kangaroo Mother Care DIB	Social Finance UK	Contributed to DIB design and development as technical advisor
Cook and Clean DIB	Cardano Development	Convenor/manager
Educate Girls DIB	Educate Girls	Service provider
India (Rajasthan) Maternal and Newborn Health DIB	USAID	Outcome funder
	Palladium	Technical advisor (DIB design and development) and performance manager
Mozambique Malaria DIB	Volta	Technical advisor (DIB design)
Palestine (West Bank and Gaza) Employment DIB	World Bank	Outcome funder
	Social Finance	Technical advisor (DIB design and development), sub-contractor of the project implementation agency
South Africa ECD Impact Bond Innovation Fund – Social Development	Volta	Technical advisor (transaction management)
South Africa ECD Impact Bond Innovation Fund - Health	Volta	Technical advisor (transaction management)
Syrian Refugees Employment DIB	Convergence	Commissioned a feasibility study to KOIS
Uganda Sleeping Sickness DIB	Social Finance UK	Technical advisor (DIB design)

Sources reviewed

DIBs	Document
ICRC	PRP HIB Efficiency Improvement Measures Project
	Final Execution Version of PHII PBR Agreement Signed by DFID (26/7/2017)
	Benchmark Data (5/8/2017)
	Q&A with DFID
	Verification agreement signed between ICRC and Philanthropy associates
	Final Detailed presentation 20/4/17 20/4/2017
	Final ICRC HIB Program Description
	Final Initial Verification Report by Philanthropy Associates confirming baseline SER as 33.87
	HIB Social Investor Presentation
	ICRC SER Ratio and how it compares to number of beneficiaries
	PHII Summary of the transaction
	Email KOIS/DFID discussion (17/5/17)
	1st ORCM presentation, February 2018
	1st Quarterly Status Update Jul - Sept 2017
	2nd PHII Quarterly Status Update Oct - Dec 2017
	3rd PHII Quarterly Status Update Jan - Mar 18
	Agenda meeting 2018/2/27
	PHII Summary of the transaction – updated 29/11/18
	4 th and 5 th PHII Quarterly Status Update (Apr-Jun and July-Sept 2018)
	Annex to HIB Report Phase 1 Netherlands
Instructions on PRP data collection (Assort MSR 2015 instruction final and Assort MSR 2017 template 20 centres)	
QEI	BAT India Technical Assistance Grant Proposal (December 2017)
	British Asian Trust - DIB Quarterly DFID Report (April-June 2018)
	Education DIB Fund Financial model (June 2018)
	Education DIB Performance Management Annual Report Template (April 2018)
	Education DIB performance Management Overview Document (April 2018)
	Gray Matters. Proposal for Outcome Evaluator Education DIB Fund (February 2018)
	GyanShala Education DIB Proposal Revised (2018)
	KEF Education DIB Proposal (2018)
	SARD Education DIB Proposal (2018)
	Service Providers' Proposals Consolidated Summary Document (March 2018)
Cameroon Cataract	020818 Schedule 5 ME Verification Protocol updated
	CCBP Pilot Verification Report 2018 07 27
	Legal Structure
	ONGOING REPORT_aug2018 – quality

DIBs	Document
	OPIC Q2 2018_Cataract Loan Reporting_Final
	SteerCo Cataract Bond Report - July 2018.Final
	Cataract Bond 2 page Summary_FINAL
	Cataract Bond presentation
	Cataract Bond_FAQs_July 2016
	Cataract Bond Monitoring & Evaluation Protocol
	Cameroon Cataract Performance Bond Application_FINAL
	CCPB HF Grant application addendum
	Value for Money data compiled by Volta
Village Enterprise	Village Enterprise DIB Design Memo, Nov 2017; Instiglio
	GDI Activity Proposal for Village Enterprise
	Village Enterprise DIB Process Review, July 2018; Instiglio
	Paying for Poverty Alleviation; Richard Sedlmayer
	CSAE Working Paper, Cash-Plus Poverty Impacts of Transfer based intervention alleviation (RCT into Village Enterprise traditional model)
Cameroon Kangaroo Mother Care	Gustafsson-Wright et al. (2017). Impact Bonds in developing countries: early learnings from the field.
	Save the Children (2018). Investing in Maternal and Child Health: Development Impact Bonds.
Cook and Clean DIB	Cook and Clean Development Impact Bond Concept Note.
Educate Girls DIB	Educate Girls (2018). Driving Quality at Scale. Implementing the world's first development impact bond in education.
	IDinsight (2018). Final Evaluation Report
India (Rajasthan) Maternal and Newborn Health DIB	Gustafsson-Wright et al. (2017). Impact Bonds in developing countries: early learnings from the field.
	Save the Children (2018). Investing in Maternal and Child Health: Development Impact Bonds.
Mozambique Malaria DIB	Gustafsson-Wright et al. (2017). Impact Bonds in developing countries: early learnings from the field.
Palestine (West Bank and Gaza) Employment DIB	Gustafsson-Wright et al. (2017). Impact Bonds in developing countries: early learnings from the field.
	World Bank Implementation Completion and Results Report (December 2016)
	World Bank Project Appraisal Document (November 2015)
South Africa ECD Impact Bond Innovation Fund – Social Development	Gustafsson-Wright et al. (2017). Impact Bonds in developing countries: early learnings from the field.

DIBs	Document
South Africa ECD Impact Bond Innovation Fund - Health	Gustafsson-Wright et al. (2017). Impact Bonds in developing countries: early learnings from the field.
Syrian Refugee	Convergence/KOIS Feasibility study (September 2017).
Employment DIB	Gustafsson-Wright et al. (2017). Impact Bonds in developing countries: early learnings from the field.
Uganda Sleeping Sickness DIB	Gustafsson-Wright et al. (2017). Impact Bonds in developing countries: early learnings from the field.

Annex I: Framework for categorising DIBs

The table below sets out a synthesis of the ways in which DIBs can be categorised. The characteristic is briefly described, and the different possible configurations presented. In some cases, a distinction has been made between those which appear to be more ‘textbook’ impact bond (indicated in red), in contrast to configurations more similar to a PbR or grant (indicated in green). In other cases, no such distinction has been made, and different configurations have been set out in black. The characteristics and possible configurations set out in the table draw on Carter et al (2017), Arena et al (2016) and Gustafsson-Wright et al (2017).

Characteristic	Description	- ‘Textbook’ SIB / more like PbR or grant - Different configurations	Reference
Design phase – identifying interventions			
Lead on designing intervention	Nature of the promoter/designer	Intermediary / service provider / investor / outcome funder	Arena et al (2018)
Funding for design and set up phase	Whether a grant was provided, or this phase was self-funded by the actors involved	Grant received / Loan or self-funded	
Level of innovation	The features of the intervention, and whether it is totally new, an expansion of an existing programme or involves a programme whose underpinning principles have already been tested	Totally new programme / expansion of the existing programme of a service provider / implementation of a programme already proven successful	Arena et al (2016)
Level of outcome orientation and flexibility versus specific intervention defined	Extent to which the contract involves a specific and well-defined intervention and service provider, or specific outcomes which enables service providers to organise work as they prefer.	Contract focuses on achievement of specific outcomes / contract involves a specific and well-defined intervention.	Arena et al (2016)/ Carter et al (2018)
Identifying metrics and structuring payments			
Nature of payment outcomes	Were payments made squarely for outcomes or was some payment made for inputs or activities?	100% payment on outcome / part payment for activities or milestones	Carter et al (2018)
Nature of capital used to fund services	Risk borne by private investors or distributed among different actors through capital protection	Full risk on investors / presence of capital protection measures / presence of risk sharing arrangements	Arena et al (2016)/ Carter et al (2018)

Characteristic	Description	- 'Textbook' SIB / more like PbR or grant - Different configurations	Reference
	measures and risk sharing arrangements		
Identifying and selecting stakeholders			
Social intent of service providers	Are the service providers / investors a charity or company without explicit social values?	Strong / Weak	Carter et al (2016)
Social intent of investors		Commercial / Social	
Structuring the vehicle and developing the operating model			
Type of contract	Typologies of structure depending on which actor has the contract with the outcome funder.	Direct (OF and service provider) / Intermediated (OF and investors); Managed (OF and intermediary)	Gustafsson-Wright et al (2017)
Strength of performance management system	How hands on are the other stakeholders? Is there a dedicated performance management function?	Strong / Weak	Carter et al 2018
Lead on managing performance	Who takes the lead in performance management?	Intermediary / service provider	Gustafsson-Wright et al (2017)
Governance arrangements and level of involvement of stakeholders:			
Outcome funder	Role of the outcome funder / investor toward service providers and its level of control over the organisations involved in the SIB	High / Low	Arena et al (2016)
Investor		High / Low	
Measuring impact			
Validation of outcome metrics	Methodology used to estimate the outcome of the programme	Validated administrative data / experimental or quasi-experimental methods	Gustafsson-Wright et al (2017)

Annex J: DIBs reviewed as part of programme level consultations

As part of our programme level data collection, the evaluation team interviewed a range of stakeholders, involved in other DIBs in various stages of development, and reviewed a range of deal and proposal documentation. Our interviews were undertaken in the second half of 2018, and the table summarises the information we have for these 9 DIBs, in terms of the **objective** of the DIB, **the stage of development**, the **stakeholders involved**, the **structure** of the DIB and the **value** of the DIB. It must be noted that the majority of these DIBs are under negotiation, and the table below reflects the information provided to the evaluation team during the consultation, and may be already out of date by the time of this report's publication.

No	DIB	Objective	Development Stage	Stakeholders involved	Structure	Value
1	Cameroon Kangaroo Mother Care DIB	The DIB aims to roll out KMC practices in up to 9 hospitals across four or five regions in Cameroon – in view of further expansions to hospitals nationwide - to improve low birth weight (LBW) infant health. The impact bond structure is used because it provides strong incentives to test and optimize an innovative train-the-trainer KMC scaling model.	Late-stage design	<p>Outcome Funder: Ministry of Public Health, Cameroon (via the Global Financing Facility) and Nutrition International (NI).</p> <p>Investors: Grand Challenges Canada (GCC).</p> <p>Service providers: Kangaroo Foundation Cameroon and Laquintinie Hospital.</p> <p>Intermediary: The MaRS Centre for Impact Investing and Social Finance UK.</p> <p>Technical assistance providers: Kangaroo Foundation Colombia (leading KMC trainer); UNICEF Cameroon; IDinsight (conducted initial baseline data study); Morrison Foerster and Miller Thomson (international co-legal</p>	<p>Payment terms: TBC</p> <p>Outcome metric: To be finalized. Likely to include: a) number of hospitals attaining quality KMC prerequisites; b) number of infants receiving quality KMC services; c) number or % of infants achieving target nutritional status/weight at 40 weeks gestational age and/or at follow-up.</p> <p>Range of returns: TBC</p>	The planned operating budget USD 2.1 million, to be spent over three-to four years. Total outcome commitment of USD 2.8 million. Upfront capital commitment: USD 3.0 million (pre-capital recycling). Additional grants (covering feasibility study, baseline data study, DIB design and structuring, data systems design, legal advice) USD 1 million.

No	DIB	Objective	Development Stage	Stakeholders involved	Structure	Value
				counsel); Cameroon-based legal counsel; in-country public health consultant; data systems provider. Outcome evaluator: TBC		
2	Cook and Clean DIB	The DIB aims to increase the number of clean cook stoves in use by at least 50,000 over the lifetime of the bond. By doing so, it aims to pursue health, gender and environmental objectives and contribute to the Sustainable Development Goals.		Outcome Funder: TBC Investors: Likely to be BIX capital. Shell Foundation and DFID funded the DIB set-up; IFC funds the data gathering for the certification process with support from the Ministry of Finance in Japan. Service providers: Mimi-Moto (cookstove producer); Emerging Cooking Solutions (ECS, seller of Mimi-Moto cookstoves). Apart from ECS, Cardano will select one more social enterprise. Intermediary: Cardano Development. Technical assistance providers: Baker McKenzie (pro-bono legal adviser). Outcome evaluator: TBC	Payment terms: The investor will provide a loan to the enterprise after conducting its due diligence and gaining the approval of its independent investment committee. Each enterprise will be provided a separate loan, and each loan will be based on the agreements between the enterprises and the eventual buyers of the certificates. Outcome metric: Health, gender equality and environmental outcomes to be measured and certified according to the Gold Standard for the Global Goals on an annual basis. Range of returns: TBC	Loan amounts will range from USD 0.5 million to USD 2 million per enterprise.
3	Educate Girls DIB	The India Educate Girls DIB aims to enrol out-of-school girls and improve both girls' and boys' literacy in English,	Complete.	Outcome Funder: Children Investment Fund Foundation. Investors: UBS Optimus Foundation. Service providers: Educate Girls.	Payment terms: UBSOF disburses 50% of investment principal to Educate Girls in 2015 and 50% in 2016; CIFF will disburse one	

No	DIB	Objective	Development Stage	Stakeholders involved	Structure	Value
		Hindi, and Math by funding Educate Girls' intervention in Rajasthan, India. The impact bond structure is used because of the focus of results and related flexibility of the intervention, and because of the possibility to unlock new funding streams.		Intermediary: Instiglio. Performance Manager: N/A Technical assistance providers: None Outcome evaluator: IDinsight.	outcome payment of USD 0–USD 412,000 to UBSOF in 2018 Outcome metric: 1) Enrolment outcomes (20% of outcome payment): number of girls on school rosters in grades 2-8 in the treatment group over 3 years; 2) Learning outcomes (80% of outcome payment): Annual Status of Education Report (ASER) measures basic literacy in Hindi, basic literacy in English, and basic numeracy. Range of returns: Target IRR = 10%, max IRR = 15%; UBSOF pays incentive to Educate Girls equal to 32% of its payment above principal	
4	India (Rajasthan) Maternal and Newborn Health DIB	The bond is intended to improve and standardize the quality of maternal care in Rajasthan's private healthcare facilities. The DIB implementing partners will guide the targeted private healthcare facilities	Implementation.	Outcome Funder: USAID and Merck for Mothers. MOU with the Rajasthan State Ministry of Health to invest in, and scale-up, the partnership if the pilot program is deemed successful by the independent evaluator. Investors: UBS Optimus	Payment terms: Six-monthly payment to investors, with USD 4,500 for each facility at progressive stage and remainder USD 13,500 for facilities that reach Joint Quality Standard (JQS)	Projected total investment of USD 9 million, USD 1 million of which is set aside for results verification. UBS Optimus Foundation will provide 80% of the USD 4 million upfront working capital

No	DIB	Objective	Development Stage	Stakeholders involved	Structure	Value
		through quality improvements and the application process to be accredited through the government-approved healthcare facility certification process.		<p>Foundation.</p> <p>Service providers: Washington-based Population Services International (PSI) and the Rajasthan NGO Hindustan Latex Family Planning Promotion Trust (HLFPPT).</p> <p>Intermediary: Palladium.</p> <p>Performance manager: Palladium.</p> <p>Technical assistance providers: Reed Smith (Pro bono legal counsel);</p> <p>Outcome evaluator: Mathematica Policy Research (MPR).</p>	<p>during that period. No guarantee – payments are per facility ready for accreditation hence full loss is not possible.</p> <p>Outcome metric: Full payment is readiness for JQS - $\geq 50\%$ of the total points available in each NABH section (10 in total) AND 100% of at least 70% (11) of the applicable FOGSI standards (16 in total). Progressive metric (25% of full outcome payment ie USD 4,500) is $\geq 30\%$ of the total points available in each NABH section (10 in total) AND 100% of at least 40% (6) of any of the applicable FOGSI standards (16 in total).</p> <p>Range of returns: 8% annualized for UBSOF and 15% return possible for the implementation partnership of Palladium, PSI and HLFPPT.</p>	<p>needed for the project. The remaining 20% of investment capital will be provided by Palladium, PSI, and the HLFPPT. USAID and Merck for Mothers will collectively provide up to USD 8 million in outcome funds.</p>

No	DIB	Objective	Development Stage	Stakeholders involved	Structure	Value
5	Mozambique Malaria DIB	Mozambique has the 6th highest malaria burden globally, but faces a 62% malaria funding deficit. The DIB would support an Indoor Residual Spraying prevention programme that should reduce by 60% the number of cases reported.	Late-stage design - Failed to launch.	<p>Outcome Funder: Goodbye Malaria, underwritten by Nandos and other corporates.</p> <p>Investors: not defined.</p> <p>Service providers: Lubombo Spatial Development Initiative (LDSI) II.</p> <p>Intermediary: D. Capital Partners.</p> <p>Technical assistance providers: the University of Pretoria, the Medical Research Council, and the National Malaria Control Programme within the Ministry of Health (Mozambique).</p> <p>Outcome evaluator: TBC</p>	<p>Payment terms: The payment would have been made as a bullet payment at the end of the third year of bond implementation, based on the achievement of expected outcomes.</p> <p>Outcome metric: 60% reduction in the prevalence and incidence of malaria cases, compared to baseline rates at year 1. Incidence of malaria cases based on prevalence testing done at sentinel sites in each district.</p> <p>Range of returns: The maximum potential loss of investment for investors would have been 30%, and the maximum return 0.05%.</p>	Upfront capital commitment was USD 4 million, first close at USD 2 million.
6	Palestine (West Bank and Gaza) Employment DIB	The DIB aims to tackle youth unemployment by fostering closer collaboration between the private sector and training and education providers, so as to enhance the skills of the Palestinian workforce in a more market-driven way.	Late-stage design.	<p>Outcome Funder: World Bank Group.</p> <p>Investors: Five investors from Chile, Palestine, Holland, Britain and Switzerland, which have not signed yet.</p> <p>Service providers: 2-4 Palestinian, not-for profit service providers to be selected per cycle,</p>	<p>Payment terms: The investors will form a SPV for the flow of funds, with a DIB manager (contracted by the PIA) who will manage the SPV funds on behalf of the investors.</p> <p>Outcome metric: Likely to be a mixture of training</p>	The outcome funds are USD 5 million. The DIB is part of a wider World Bank project called Finance for Jobs, a larger initiative to create employment in West Bank and Gaza.

No	DIB	Objective	Development Stage	Stakeholders involved	Structure	Value
				<p>depending on the size of the consortium.</p> <p>Intermediary: Private implementation agency (PIA) responsible for daily management and for subcontracting technical advisors).</p> <p>Technical assistance providers: Social Finance (set up and design phase); Emily Gustafsson-Wright of Brookings Institution (evaluation framework).</p>	<p>outputs and employment outcomes</p> <p>Range of returns: N/A</p>	
7	South Africa ECD Impact Bond Innovation Fund – Social Development	The DIB aims to improve developmental outcomes in 3-5 year old children in low-income communities by funding non-centre based early learning interventions in Western Cape in South Africa. The impact bond structure is used because of the rigorous performance management and the possibility to align public and private sector outcomes funding.	Late-stage design	<p>Outcome Funder: Department of Social Development and ApexHi Charitable Trust.</p> <p>Investors: Could be the Syndicate of the Foundation for Community Work, an Institutional investor or a philanthropist.</p> <p>Service providers: Foundation for Community Work.</p> <p>Intermediary: D. Capital Partners</p> <p>Performance manager: mothers2mothers</p> <p>Technical assistance providers: Social Finance UK</p> <p>Outcome evaluator: TBC</p>	<p>Payment terms: Payment attached to recruitment and retention targets: every 6 months.</p> <p>Payment attached to attendance and development assessment: once a year.</p> <p>Outcome metric: Recruitment and retention, attendance, development assessment score</p> <p>Range of returns: The maximum return on investment is capped at 16%</p>	The outcome funds are USD 2.2 million, split between the two outcome funders. The upfront capital commitment is of USD 1.1 million across two impact bonds (social development and health, see below). The total potential outcome payment could reach USD 3.6 million. Additional grants accrue to USD 111,000.
8	South Africa ECD Impact	The DIB aims to improve health, nutrition and developmental outcomes of	Late-stage design	Outcome Funder: Provincial Department of Health and Discovery Fund.	Payment terms: Payment is realised every six months with relation to recruitment	Outcome funds USD 1.38 million, split between the two outcome funders.

No	DIB	Objective	Development Stage	Stakeholders involved	Structure	Value
	Bond Innovation Fund – Health	pregnant women and children from 0-2 years by funding home and community based interventions in the Western Cape in South Africa. The impact bond structure is used because of the rigorous performance management and mechanism with which to align public and private sector outcomes funding.		<p>Investors: Could be the Syndicate of the Foundation for Community Work, an Institutional investor or a philanthropist.</p> <p>Service providers: TBC</p> <p>Intermediary: D. Capital Partners</p> <p>Performance manager: mothers2mothers</p> <p>Technical assistance providers: Social Finance UK</p> <p>Outcome evaluator: TBC</p>	<p>outcomes, and once a year with relation to all the other outcomes.</p> <p>Outcome metric: Recruitment; mother child unit: antenatal care (ANC) access, reduction in maternal alcohol consumption (RMAC), prevention of mother to child transmission of HIV, birth-weight (BW); 0-1 years: exclusive breast feeding (EBF), weight for age, prevention of HIV transmission, prevention and treatment of TB; 1-2 years: height for age, immunization, prevention and treatment of TB, primary caregiver assessment.</p> <p>Range of returns: Investment rate of return is capped at 16%.</p>	Upfront capital commitment USD 1.1 million across 2 impact bonds (social development and health), the total potential outcome payment of which could reach USD 3.6 million. Additional grants: USD 110,000.

No	DIB	Objective	Development Stage	Stakeholders involved	Structure	Value
9	Syrian Refugee Employment DIB	The multi-country DIB intends to improve the welfare of Syrian refugees and vulnerable host populations by funding job market integration and access to livelihoods interventions in the Middle East. This includes employment and entrepreneurship interventions.	Early-stage design	Outcome Funder: TBC Investors: TBC Service providers: Two service providers have been shortlisted, delivering employment and entrepreneurship interventions. Four potential service providers have been identified and are following detailed due diligence. Intermediary: KOIS Invest (feasibility study) Technical assistance providers: TBC	Payment terms: TBC Outcome metric: TBC Range of returns: TBC	Outcome funds USD 10-30 million (anticipated).
10	Uganda Sleeping Sickness DIB	The aim of the DIB is to prevent two deadly strains of Sleeping Sickness from overlapping in Northern Uganda. A successful pilot was implemented in 2014/15, in which 20,000 cattle were treated for Sleeping Sickness. The intervention model also includes a behaviour change component to ensure that farmers spray their cattle effectively to prevent the spread of Sleeping Sickness and improve cattle health.	Late-stage design – failed to launch, pending availability of outcome funding	Outcome Funder: N/A Investors: N/A Service providers: N/A Intermediary: Social Finance UK Technical assistance providers: N/A	Payment terms: N/A Outcome metric: Audited delivery of the mass treatment intervention and statistically significant reductions in the T. brucei s.l. parasite among the cattle population in target areas. Range of returns: N/A	N/A

Annex K: Learning workshop note

The learning workshop offered the evaluation team the opportunity to test emerging findings with the key evaluation stakeholders. A complete list of the participants is set out in the table below.

DIB	Stakeholder Group	Organisation
QEI DIB	Outcome convenor	BAT
	Risk investor	UBSOF
	Performance manager	Dalberg
	Service provider	KEF
	Service provider	Gyanshala
ICRC HIB	Service provider	ICRC
	Advisor	KOIS
	Risk investor	Munich Re
VE DIB	Intermediary	Instiglio
Cameroon Cataract DIB	Outcome Funder	Hilton foundation
	Outcome Funder	Sightsavers
	Advisor	Volta
	Service Provider	The Magrabi Foundation

The main aims of the workshops were to present Ecorys's emerging findings on the DIB effect and the main lessons learnt in the delivery of the DIBs, so as to compare differences and similarities across DIBs, and test these findings.

Emerging findings in terms of how the DIB affected the interventions funded by the DIBs were discussed. The DIB effects table set out in the inception report was used to frame findings. The key lessons learned were also presented.

Participants' comments were useful in informing and refining the evaluation team's analysis. A brief summary of the discussion, and how they have been incorporated into the report, is set out below.

In terms of the DIB effect table:

- In terms of the *transfer of risk effects*, one investor commented that it was important that service providers share some of the risk, and have 'skin in the game'. However, another intermediary commented that this may not always be possible, and that reputational risk and potential upside can also serve the same purpose. This has been incorporated into our analysis, and the consideration of risk sharing broadened to include both financial risk, reputational risk and potential upside (See section 4).
- In terms of the *financing and funding effects*, it was noted that new types of investors were attracted by the outcomes focus of the DIB, as well as the possibility to recycle investments. On the other hand, another stakeholder commented that it seemed to be rather the *novelty* of the tool that was attracting stakeholders. The importance of

distinguishing between the DIB effect and the 'novelty' effect, and how the fact that the DIBs are in a pilot phase may affect findings, has been taken onboard, and reflected in the analysis in section 4.

- In terms of the *design effects*, the discussion raised the importance of distinguishing between solution and process innovation, as well as innovation in the design of the DIB itself. It was noted that DIBs, by design, may not be the most appropriate funding mechanism for solution innovation. One DIB stakeholder highlighted that a substantial innovation is the involvement of the private sector in the humanitarian sector, thanks to the DIB mechanism. The importance of distinguishing between different types of innovation is reflected in the updated DIB effect table set out in Annex E.1.
- An effect highlighted but not included in the presentation was the signalling effect that can be produced by successful DIBs. This can signal to the government the feasibility of using impact bonds to solve this social problem, and creates the potential for the DIB transitioning to a SIB. This is not an effect that can be expected to emerge during the set up phase, and will be reviewed in the following research waves.

In terms of the **lessons learned**:

- Discussion focused on the importance of clearly defining *roles and responsibilities* at the outset, and take advantage of the process of co-design that characterises the DIB, in terms of shared experience and shared learning.
- In terms of the *additional costs* of the DIB mechanism, it is still unclear whether they are specific to the DIB, or rather to the fact that it is a new financing mechanism. The VfM section of the report (see section 5) seeks to contribute to developing this understanding.
- The role of the private sector was discussed, in terms of bringing expertise in analysing risks. Several stakeholders commented that a key role for the investor can be to bring in more rigorous scrutiny of the design of the intervention, the theory of change and the evidence base, which can be used to improve the intervention design. It was also noted that expertise within the commercial sector in terms of assessing and pricing risk could be used to support a better process in terms of designing and pricing outcome metrics.

Annex L: VfM Analysis – Supporting Evidence

This sub-section provides additional detail on the value for money (VfM) analysis undertaken on the four DIBs, in terms of detail on the cost drivers across the four DIBs and the extent to which costs can be considered ‘first DIB’ costs.

L.1 ICRC

Stakeholders from the ICRC HIB said some but by far not all of the additional costs were due to being a first time deal.

The main **cost drivers** for this HIB were:

- establishing the legal framework for the DIB to be possible (including the PbR contracts and the investment agreement), while aligning the interests and constraints of the various parties.
- identifying outcome funders which took longer than expected. The number of outcome funders lengthened the time it took to negotiate outcome metrics and pricing.

L.2 Quality Education India DIB

The UBS Financial modelling design document (2016) estimates that a quarter of additional costs absorbed by outcome funders/investors were one-off costs as opposed to ongoing. However, it should be noted that not all one-off costs have been estimated.

The main **cost drivers** for this DIB were:

- **Number of organisations to involve and coordinate (increasing costs):** The involvement of multiple outcome funders and service providers, as well organisations with specific roles in performance management and outcome verification, has required substantial coordination to engage people in the process and work out their roles and responsibilities .
- **Fundraising/engaging multiple outcome funders (increasing costs):** BAT had to raise the remaining amount after MSDF committed to USD 4 million. BAT spent a significant amount of time doing this, which caused delays in the set-up after the design phase had finished.
- **Press and marketing (increasing costs):** Service providers commented on the number of meetings they have had to engage with, as a result of being involved in a DIB.
- **Key stakeholders (i.e. UBS and Dalberg) were involved in Educate Girls, a previous DIB in education (reducing costs):** UBSOF stakeholders confirmed that the legal process was shorter in the current DIB, completed in six months, compared to two years in the Educate Girls, which they felt was evidence of increasing efficiency from reusing tools and applying learning from this previous experience.
- **Costs to the stakeholders varied depending on when the stakeholder engaged (reducing cost):** Comic Relief engaged quite late in the process so they thought the

demands of the project were reduced. For example, once they had 'got up to speed' on the documents, most of the agreements had already taken place so the set-up for them was less than in other projects.

L.3 VE DIB

Stakeholders from both Village Enterprise and Instiglio commented on the increased cost at the design and set-up stage of the DIB. This was largely in the form of staff time as well as consultancy and expertise costs which appeared to be significantly more than their usual programming costs under grant funded mechanisms.

The main **cost drivers** for this DIB were:

- The responsibility for raising the investment finance was that of the service provider (VE). The process took a considerable amount of staff time and capacity.
- This was the first DIB that the service provider was involved with. In order to understand the process fully they needed both legal and accounting consultancy support to help structure the finance and set up the SPV. Stakeholders from VE said this was a lot of work and time (over 100 hours of legal and accountancy support).

Stakeholders from VE and Instiglio were confident that these costs were largely 'one-off' and future DIBs will not incur the same level of staff time and consultancy work required.

Instiglio (as the intermediary) also conducted a process review into the launch of the DIB which looked into costs. The **key cost drivers** identified were:

- **Service provider selection:** Additional costs (particularly in staff time) were incurred at this stage.
- **Outcome funder engagement:** Time was spent engaging with foundations that did not result in any commitments to provide outcomes funding. Furthermore, engaging multiple outcome funders at different times created inefficiency.
- **Design:** It was stated that negotiations lacked clear protocols for ensuring the right levels of inclusivity, which increased the amount of time it took, and therefore staff time required, to finalise the design of the DIB in all stakeholders.
- **Trustee selection:** This process also took longer as conversations with trustee candidates began without a clear agreement on the function of the trustee.
- **Contracting:** There was a poor understanding of outcome funders' procurement burden which delayed the start of the contracting process
- **Financier engagement:** Given VE's limited experience and infrastructure to do this, it took considerably longer.

Stakeholders did not attribute these costs to the DIB model specially. Rather these were seen to be largely 'first time' costs with the learning from this process to be used to ensure fewer costs are incurred in future DIBs.

L.4 Cameroon Cataract Bond

The outcome funders considered that some of the costs, especially staff time, were a one off as a result of it being their first DIB. They also considered that all technical advice would be incurred

in future DIBs, but were not entirely sure to what extent due to this being their first DIB. Investors considered all costs would be incurred in future DIBS as well.

The main **cost drivers** identified were:

- **Time it took to set up the DIB, find investors** and several iterations of term negotiations.
- Investor with **demanding due diligence** increased the costs for the outcome funder in terms of legal advice.

Annex M: Literature Review

The objective of the literature review is to contextualise the findings emerging from the DIBs pilot programme with those from the wider impact bond sector. The review focuses predominantly on DIBs, but also draws on findings of SIBs operating in low and medium income countries, and SIBs and PbR more broadly. The main areas of focus of the literature review are the two evaluation questions, as well as approaches used to evaluate DIBs. The literature review is structured as follows:

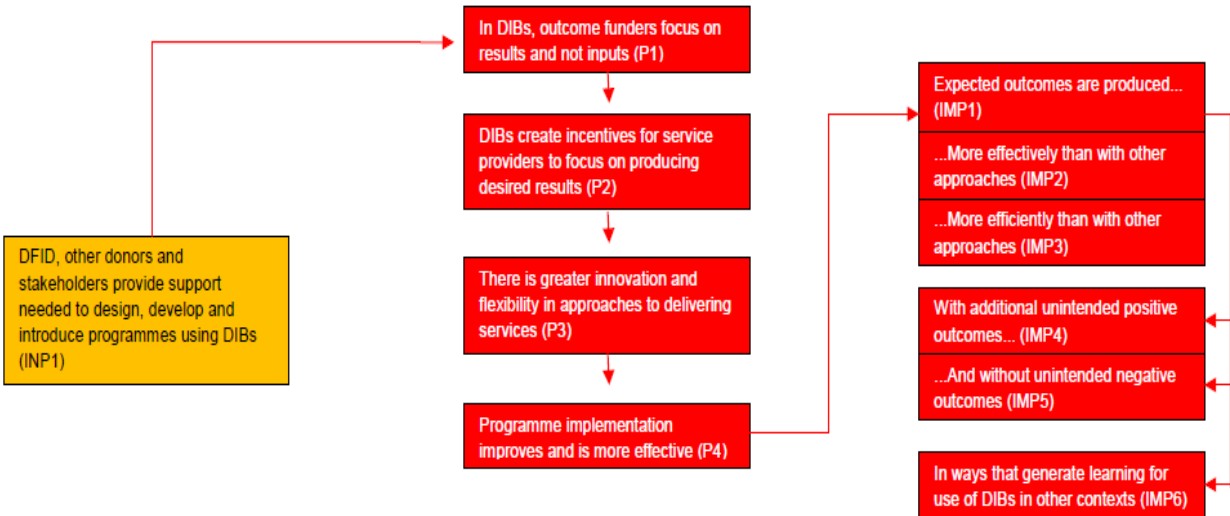
- Section 1 explores the ways in which the DIB model is hypothesised to affect interventions.
- Section 2 explores the theoretical basis for DIBs and PbR, which then leads to a discussion on potential limitations of the DIB model, criteria necessary for DIBs to be successful and contexts where DIBs seem to be well suited, concluding with a summary of the conceptual underpinning of impact bonds and critiques.
- Section 3 reviews the evidence base mapped to the hypothesised effects of DIBs set out against the framework used above.
- Section 4 summarises the key recommendations around how to design and agree DIBs to increase the model's benefits and reduce the associated transaction costs, and recommendations for scaling DIBs.
- Section 5 concludes with a summary of the challenges to evaluating impact bonds, and approaches that have been used.

a. Hypothesised effects of DIBs

The literature posits a range of effects DIBs could potentially have on programmes. In order to organise the different factors, the framework presented in the DFID PbR Evaluation Framework (see below) is used.⁴²

The framework is split into three parts. Inputs (INP1), Processes (P1-P4) and Impacts (IMP1-5). It is important to note that the DIB effect can be considered both in terms of the individual

Figure M.1: Framework for synthesising evaluation evidence



⁴² The framework draws upon papers by Clist and Drew (2015) and Clist and Verschoor (2014).

programmes being run, but also broader sector-wide effects, for example, ways of working and programme design and selection. We consider the DIB effects on both these levels. Also, the framework is supplemented with the team’s addition of INP2, which captures the stakeholders providing *finance* to programmes delivering social value. The rest of this sub-section sets out the hypotheses by which DIBs affect programmes based around the input, process and impact elements.

The sources consulted are set out in the table below:

Table M.1: Sources consulted

Title	Detail
CGD and Social Finance 2013	Three key ways in which the impact bond is expected to lead change
Gustafsson-Wright et al 2015. The potential and limitations of impact bonds: lessons from the first five years of experience worldwide.	10 claimed benefits of impact bonds
Gustafsson-Wright et al 2015. Impact bonds in developing countries: Early learning from the field.	The ‘Deal Book’ categorising all impact bonds in middle and low income countries. Each DIB is assessed against a list of justifications for using the DIB / reason(s) existing financing was/is inadequate
Center for Global Development and Social Finance. 2013. Investing in Social Outcomes: DIBs	6 case studies presented, including where DIB can add value.
Supplier Access to Prefinance in PbR (Chinfatt and Carson 2017)	7 benefits and 6 limitations based on consultations.
Oroxom et al Brookings. 2018. Nine Lessons from Cameroon and Beyond.	Three-part coordination problem linked to three key justifications for using DIB.
SIBS 2018 presentation	6 ways in which an impact bond adds value.
Cardno and Metis Analytics. 2014.	7 perceived advantages of DIBs/SIBs
Sedlmayr, R. (2018). Paying for Poverty Alleviation Discussion Paper.	3 difficulties and limitations of PbR
USAID Investing for Impact (n.d.)	Investing for Impact paper setting out spectrum of global health financing and new opportunities and advantages of different models
Centre for Global Development and Social Finance (2013). Report of the Development Impact Bond Working Group	3 advantages of DIBs
Instiglio ⁴³	Introduction to impact bonds – 5 benefits.
DFID PbR Evaluation Framework. 2014.	4 theories of change for PbR based on presentations and discussions at the PbR: Theory to Evidence Workshop, 21 November 2014, London.

⁴³ <http://www.instiglio.org/en/impact-bonds/>

Below, the main ways DIBs are hypothesised to affect programmes are set out against the input and process elements of the framework set out in Figure M.1 above.

Inputs

Donors, investors and other stakeholders provide the support needed to design, develop and introduce programmes using DIBs

This includes stakeholders cooperating in ways to maximise their comparative advantage.

- Investors are better than donors at **picking investments** with the highest potential to deliver outcomes. This also forces **market discipline** to the design of impact bonds, as investors are unlikely to back strategies which cannot demonstrate success. A stronger and more rigorous evidence base is needed to support business cases, which incentivises better and increased evidence collection and impact evaluation.
- DIB model offers a clear **management and governance structure** bringing actors together, to address large-scale and complex interventions that require successful stakeholder coordination. This can spill over into better stakeholder coordination beyond the specific DIB.
- The DIB model allows the design of tailored incentive structures, which can vary the risk sharing profile and reward structure between actors to fit the context and targeted outcomes, and ensure that **incentives are aligned**.
- Investors have strong incentive to monitor performance; they bring private sector approaches, and are better able to control and manage risks when compared to traditional donors. This leads to investors (directly or through an intermediary) **driving efficient and effective service delivery**.

Donors, investors and other stakeholders provide the capital needed to deliver programmes which provide social value

This includes donors, investors and other stakeholders being able to finance these programmes, especially where the use of the DIB mechanism enables stakeholders to do so, or on a larger scale.

- DIBs can **mobilise private funding** that can be combined with public funding. These sources of funding can be used to cover a **capital gap/market failure** – for example: i) **preventive services**; ii) interventions that can add value to society but where the outcome funders **might not be willing or able to fund directly** (due to the lack of certainty around outcomes/levels of risk); iii) Where a service provider can deliver on a PbR contract but does not have **the upfront finance** to do so, or needs capacity development. The mobilising of additional funding can be used to **achieve scale** for proven interventions for which outcomes are clearly measurable.
- DIBs can also reduce the **risk for outcome funders**, as funders only pay when outcomes are achieved. Political accountability can make it difficult for donors to provide public funds in advance for risky programmes, and this can make it possible for donors to fund these programmes. This means donors can fund risky projects that can satisfy the public expectation of accountability. Limited budgets can be spent on what works.

Process

Outcome funders focus on results and not inputs

- Outcome funders can be more hands-off as they do not need to hold providers to account for inputs/outputs (provided they can accept certain non-transferable risks such as

reputational risk, political risk etc.) This can minimise administrative processes and workload for outcome funders.

DIBs create incentives for service providers to focus on producing desired results

- Service providers have the incentive to be **result-focused**, which can incentivise the establishment or improvement of performance management systems. This can generate a **culture of results**, together with rigorous measurement and evidence-based monitoring and evaluation. This can spill over to other programmes not funded by the DIB and build a culture of M&E and course correction. (it is noted that a related theory suggests that it is increased *attention*, rather than the pecuniary interest, which may motivate change)
- Service providers may be more incentivised to **target populations** that face the greatest needs, as this is often where the greatest gains (social and financial) are to be had.

There is greater innovation and flexibility in approaches to delivering services

- DIBs may improve quality by providing the service provider with **autonomy** and **flexibility** in implementation, to adapt the intervention to changing needs, and increasing the chances of achieving the desired outcomes. This may facilitate shorter feedback loops and better course correction and **innovation**.

Programme implementation improves and is more effective

- Investors have strong incentive to monitor performance; they bring private sector approaches, and are better able to control and manage risks when compared to traditional donors. This leads to investors (directly or through an intermediary) **driving efficient and effective service delivery**.

Impact

Expected outcomes are produced...more effectively than with other approaches...more efficiently than with other approaches...

- With the focus on results and not inputs, this also enables a market for impact bonds, for example through outcome funds, which can be used to **increase competition** in the delivery of target outcomes and **drive down costs**.
- As DIBs incentivise outcome delivery for a fixed price, it also produces incentives **towards cost control** and intervention effectiveness. This can lead to greater **efficiency** (increasing output or decreasing costs) and maintaining of quality if the appropriate incentives are set up.
- If outcome funders are less focused on inputs, this may mean that service providers have **lighter reporting requirements**, which can reduce costs.

With additional unintended positive outcomes...and without unintended consequences...in ways that generate learning for use of DIBs in other countries

- As social outcomes take time to materialise, and service providers require time to test different approaches and adapt, this could create incentives for outcome funders to fund programmes over a longer period of time. This can lead to a better **sustainability of outcomes**.
- Outcome verification can lead to **greater transparency** around the impact of the funding and the service providers' work, and correspondingly, improved **accountability**.

The summary above seeks to set out a comprehensive list of the many ways in which impact bonds are hypothesised to have a positive effect on programmes. However, in reality, the aims of using impact bonds vary for different stakeholders, as will the relative importance of these benefits. Box 1 below sets out a summary of a recent consultation with stakeholders, concerning their main objectives in using impact bonds.

Box 4: Stakeholders' objectives in using impact bonds

The recently established Impact Bonds Working Group brings together a range of organisations interested in growing the impact bond sector. Members were surveyed to understand the objectives sought with the use of impact bonds.

Over 50% of members expressed that the primary objective is to increase the effectiveness of their organisation's funding, to access private sector finance, and to allow for more innovation in service delivery.

Over a third of members see impact bonds as a way to make local government spending more effective, and nearly half of members see impact bonds as a way to engage private sector know-how and expertise. Several members commented that impact bonds have helped transform the way they used data to course correct and improve results on the ground.

Other objectives sought by members with the design of impact bonds included: i) to create better models for diaspora philanthropy; ii) to create a platform that allows a bridge for low-income/transition countries to go from aid-dependent economies to investment-partnership opportunities; and iii) to advance the robustness and fidelity of impacts of poverty alleviation programming at scale.

M.1.1 Theoretical Basis, Criteria, Suitable Contexts for Effective use of PbR and impact bonds and Critiques

In this section we highlight some considerations and theories from the literature that need to be borne in mind when developing and launching impact bonds.

M.1.2 Theoretical Basis

Exploring the theoretical basis for PbR and DIBs is important to understand the potential limitations of using impact bonds, as well as the factors necessary for its successful implementation.

The theory behind PbR relies on the assumption that PbR creates stronger incentives for implementers to undertake desired actions and also imposes greater risk. The trade-off for the donor is between the positive gains resulting from the use of this mechanism, versus the risk premium paid out (Clist and Verschoor, 2014). As such, the extent that expected benefits are realised depends on a number of principles (Clist and Dercon 2014). The principles most relevant to impact bonds are set out in Table 29 below:

Table M.2: Impact bond principles

Principle	Requirement for PbR to be more effective than regular contracts
Quality of the performance measure	Performance measure needs to be correlated with the underlying outcome of interest before and after incentivisation.
Alignment	There can be incomplete alignment between outcome funders and service providers in terms of incentives and goals. If the service provider is always incentivised to deliver the target outcomes, the payments by results would not change incentives, and as such there would be no expected gains in efficiency or effectiveness. For improved performance, the incentive needs to lead to better alignment of incentives and aims, and the service provider needs to be able to effect changes. The service provider also needs i) a level of autonomy, and ii) the capacity and skills to improve delivery.
Observability of effort	Effort should not be easily observed, otherwise the contract could be based on this instead.
Control	Service providers have significant control over the outcomes. This may be weaker in contexts of policy uncertainty and high risk. Otherwise, the service provider or investor may not be willing to take on this risk if there is too much out of their control.
Risk aversion and risk transfer	The amount of risk transferred needs to be commensurate with the risk premium paid. Different actors will have different levels of risk aversion, and this may affect the risk premium and the pool of interested actors. Determining the appropriate risk and reward structure (pricing and outcomes) to get the incentives right can be difficult.
Distortion and gaming	Service providers do not or cannot game the system, and incentives are not distorted so that actions important for the underlying goal but not measured by the outcome measure are ignored (i.e. tunnel vision). There may be tension between this principle and the alignment principle.
Additional transaction, contractual and verification costs	<p>Additional costs need to be offset by other benefits, such as increased outcomes or efficiency gains (including reduced staff time or transaction costs).</p> <p>Challenges to secure financing, access the capital market, or donor requirements are not much reduced from regular contracts, can further increase costs and, correspondingly, the risk of foregoing the expected efficiency or effectiveness gains.</p>

These principles highlight the requirements for PbR to be more effective than other contracts, and also the potential limitations and weaknesses should these requirements not be met. Additionally, Clist and Drew (2015) argue that there are two additional requirements for DIBs to be more effective than other contract arrangements:

- For DIBs to be cost effective, the risk premium paid out by outcome funders needs to be less than the gains in effectiveness. Clist and Drew (2015) also argue that risk transfer should not necessarily be a rationale for DIBs, as donors such as DFID are involved in a number of diversified projects. As it already has a diversified risk profile, transferral of delivery risk will not be efficient, unless it leads to higher programme efficiency. The idea is that it would be more efficient for DFID to accept the risk of failure or non-delivery across all its programmes, rather than pay out a risk premium on all of these projects. However, this is from a pure cost-efficiency perspective, and does not take into account reputational risks for donors;
- The additional benefits of DIBs (when compared to PbR contracts), relies on the fact that the outcome funder can outsource the selection of investible opportunities to the investor. Clist and Drew (2015) argue that if the outcome funder thinks it has an obligation to specify who the investor, service provider, intermediary and verification provider in the impact bond should be and how they should function, then the benefits of DIBs will be foregone, and a PbR contract should be used instead.

M.1.3 Criteria

This sub-section explores the main **criteria** set out within the literature as necessary for the effective use of an impact bond. Echoing some of the principles above, they can broadly be consolidated into five criteria:

Analysis of the SIB evidence seems to suggest four necessary criteria for an impact bond to launch.

1. Collective Leadership:
 - Strategic (between members of the leadership team);
 - Organisational (between these leaders and their internal stakeholders)
 - Environmental (between the team and organisation's external environment and outside stakeholders) (Gustafsson-Wright and Gardiner, 2016).
2. Clear outcomes – measurable outcomes and linked to overall objective of the intervention (Gustafsson-Wright et al., 2015; Gustafsson-Wright and Gardiner, 2016).
3. Shared understanding of the policy 'problem' and sufficient evidence for the intervention so that it is credible or knowledge-based.
4. Data to build up a business case, including data on the eligible cohort and outcomes likely to be achieved.

Additionally, a fifth criteria is suggested as particularly relevant for DIBs:

5. Appropriate political and legal context, to enable the legal structure and contracting, and to reduce risks of corruption in procurement, outcome payment design or evaluation at a reasonable level.⁴⁴

⁴⁴ <http://www.instiglio.org/en/impact-bonds/>

M.1.4 Suitable Contexts

This sub-section summarises the literature on the **contexts** to which impact bonds are best suited. There is more debate in this area. This is because of slightly different, and often conflicting, theories and experiences of how impact bonds work. Further evidence generation is needed to test these different theories.

The advice is consistent in that DIBs are best suited for where there is a **market failure**, that is, a lack of funding or capacity to deliver interventions or services that lead to societal value (Gustafsson-Wright and Gardiner, 2015; USAID, nd). This may include situations where stakeholders are not working together, as impact bonds can facilitate their coordination (Social Finance, 2018).

There is less evidence on the sectors that may be suited for impact bonds, Gustafsson-Wright and Gardiner (2015) suggest that future impact bonds will include a wider range of interventions in early child development, health, housing, and water and sanitation. Health is a particularly promising area, given the potential for high future returns, both social and economic. The paper also suggests that services that cater to particularly undeserved or marginalised populations and those that improve existing services may be a further growth area.

There is conflicting advice on the **level of evidence needed**, and linked to this, on the **level of potential innovation**. On the one hand, some suggest that impact bonds work best when there is a lack of knowledge about the most effective intervention model, when there is insufficient impact evidence, or when suppliers are willing to test new approaches (Gustafsson-Wright and Gardiner, 2015) and can benefit from innovation and accountability (Bloomgarden et al., 2014; Gustafsson-Wright et al., 2015). On the other hand, CGDev (2013), Bloomgarden et al. (2014), and Gustafsson-Wright et al. (2015) suggest that key factors are that there are 'proven, cost-effective, evidence-based interventions that can be implemented' and evidence of success in achieving outcomes.

This raises three important points:

- There needs to be a balance between risk that needs to be transferred for the risk premium to be worthwhile, and risk that the investor is happy to take on. There needs to be sufficient evidence of intervention impact to attract the investor risk appetite.
- Secondly, as Gustafsson-Wright et al. (2015: 43) note, how innovative something is depends on what it is being compared to. A broader definition of innovation means that 'an intervention can be considered innovative if it has never been implemented at all, with a given population, in a particular service delivery setting, by a particular service provider, in a geographical area, or in combination with other interventions.' The right level of 'innovation' or level of unknown in terms of balance between being new but proven can be selected to correspond with the risk appetite of the investor.
- Lastly, there may be different categories of impact bonds, with different levels of innovation. Dear et al (2016) categorises a range of SIBs along the innovation/scale spectrum as set out in Table M.3: Categorisation of SIBs by level of innovation below:

Table M.3: Categorisation of SIBs by level of innovation

Projects focused on	Measurement	Example SIB
Innovation	Non-experimental	Youth Engagement Fund
Building Evidence	Quasi-experimental or experimental	Peterborough
Replication, drawing on an established evidence base	Against a counterfactual to further build evidence	Child-parent Center Model
Scaling, using established, highly evidence-based interventions	Simpler methodology	Essex Social Impact Bond

Not all hypothesised effects or principles may be relevant for all impact bonds. Both Gustafsson-Wright et al. (2017) and CGDev (2013) include case studies that are analysed in terms of the justifications for using the impact bond and where the impact bond is thought to add value. Different case studies had slightly different combinations of these factors. Similarly, the DFID PbR evaluation framework (2014) highlights the importance of tailoring theories of change to individual DIBs.

The evidence base for impact bonds is still emerging. It may be that different design features and focus areas work best in different combinations and contexts, leading to different possible outcomes of impact bonds. This is something suggested by Clist (2017). He mentions two ‘sweet spots’ of PbR, each with a specific combination of factors which make the PbR instrument effective.

The two categories are ‘Big’ PbR and ‘Small’ PbR. ‘Big’ and ‘small’ refer to the scale and costs of implementation, as well as to the level of risk transfer and return. Clist (2017) proposes that the requirements for these two categories of PbR differ, as a result of the different theories underpinning their operation.

- ‘Big’ PbR requires excellent measures (that is, highly correlated with the underlying objective of the programme, which may require difficult or expensive data collection and verification). It also requires high incentives and a longer term timeframe to allow for course-correction and innovation in service delivery. The theory of change relies on the incentivisation of outcomes and pecuniary interest, which drives the service provider to innovate, or what Clist (2017) terms ‘recipient discretion’. To allow for the autonomy of the service provider, requirements such as reporting of financial inputs to pre-agreed parameters or burdensome requirements to seek funder approval for course correction is dangerous and can stifle innovation.
- In contrast, ‘Small’ PbR requires lower incentives and reasonable quality measures. Standard donor procedures and oversight is less harmful. The main theory of how change is effected, is the service providers’ increased attention and focus on outcomes.

Clist and Drew (2015) contrasts the piloting of the Ugandan sleeping sickness DIB with the Rajasthan DIB. The Rajasthan DIB was designed to be smaller in terms of scale, risk and innovation, though with relative autonomy as it was about scaling up a proven intervention within a relatively short timeframe and low cost, in contrast to the Ugandan sleeping sickness DIB which was completely new and untested. This is an area that could be further explored in future

evaluations. Learning on how DIBs should be structured in different contexts, and the likely outcomes in different scenarios will be important for improving the designing and agreeing on future DIBs.

M.1.5 Conceptual Underpinning of Impact Bonds and Critiques

Based on a systematic literature review, Fraser et al (2016) identify that the conceptual underpinning of impact bonds relies on two narratives: a public sector reform narrative emerging from theories of public management, and a private financial sector reform narrative emerging from theories of social entrepreneurship. The two narratives underpin the two main benefits argued by proponents – that impact bonds bring rigour to social services and attract private finance to address social problems (Warner 2013). Similarly, the critiques of impact bonds are framed around broader critiques of new public management and financialisation of public services, the associated perverse incentives resulting from these arrangements and doubts about the extent to which impact bonds can deliver on its promises and provide value for money (Carter et al, 2018). The next few sub-sections discuss each in turn.

'Managerialism' and 'financialisation' of public services

This critique of impact bonds see them not as neutral instruments, but as the latest phase of new public management and quasi-market theory (Joy and Shields 2013; Le Grand 1995), with implications for the control and accountability of services and involving limited consideration of citizens' rights and entitlements (McHugh et al 2013; Sinclair et al 2014). The values of the 'market' and of social provision are seen as fundamentally different (McHugh et al 2017). Four sub-points are considered below:

- Firstly, the financialisation of social provision is a political issue affecting social rights. 'The monetisation of policy goals... transforms substantive social outcomes from the status of ends in themselves to a means for reducing government spending and producing a financial return for investors' (Lake 2016:57), and the status of service users is changed from a citizen with rights to a commodity which can be processed for profit (Sinclair et al 2014). Furthermore, the use of an impact bond may lead to the prioritisation of policies which generate a cost saving, instead of policies and provision prioritised by citizens or linked to statutory rights.
- Secondly, use of impact bonds and the requirement of a measurable outcome metric may promote narrow conceptions of programme design, constraining possible, fundable solutions to those that generate high returns, which can be captured in a performance management framework. The move to a narrow conception of outcomes means that that impact bonds undermine systemic issues. For example, Cooper et al (2016) note that a SIB working on homelessness failed to address systemic issues, and instead relied on an understanding of a homeless person as a failed individual. This more narrow view also has implications for the sustainability of results. Also, benefits achieved in one area may be transferred as costs to another area, outside the scope of what is covered by the SIB outcome metrics (Warner 2013).
- Thirdly, McHugh et al (2013) and Sinclair et al (2014) note that many SIB guides (Centre for Social Impact Bonds, Audit Commission and the Cabinet office) recommend outsourcing funding, service delivery and the responsibility for selecting a provider. The rationale is that it is reasonable for investors or intermediaries to influence how the project

is delivered and to terminate the project in the event of sustained under-performance, given that they are taking on the risk. The implicit assumption is that the provision of the service should be accountable to those who pay for it rather than those who use it, which is problematic for accountability to service users / beneficiaries.

M.1.6 Perverse incentives

This critique of impact bonds focuses on the perverse incentives generated by the use of an impact bond. While impact bond proponents often speak of the alignment of interests, Maier and Myer (2017) explore the potential perils of impact bonds aligning interests among key actors. The authors caution against the ‘illusion that all these interests can be easily aligned without displacing or neglecting some of them’, and the misguided notion that it is possible to merge these interests into a complete contract.

- Firstly, the interests of the service provider and investor overlap. Both are incentivised to reach the outcome targets, because they bear the reputational and financial risk, respectively. Hence, service providers may focus on those easier to reach, or on short-term activities to trigger payments. Both actors may be incentivised to design easier to achieve outcome targets. The outcome funder is a key counterbalance to these interests, and ensure that pressure for success thresholds are ambitious and repayment conditions are at least at the risk-return rate of funding alternative (i.e. at market level). The outcome funder plays a crucial role in protecting the interests of beneficiaries. This may be problematic in cases where outcome funders cede control over all aspects, including grantee selection and evaluation of outcomes to private investors, for example, in the case of the Peterborough SIB (Warner 2013).
- Secondly, all actors may collude in decisions on funding conditions to the disadvantage of taxpayers. In order to assess the cost efficiency of impact bonds, it is important that outcome funders are neutral and choose a funding instrument only on the basis of value for money and contribution to desired outcomes. If outcome funders have strategic and political interests in investing in impact bonds, this distorts the balance of interests, and may mean that the impact bond is used even in cases where it does not provide greater value when compared to other funding mechanisms, or where impact bonds are subsidised without providing greater value for the taxpayer. This may be the case because impact bonds have bipartisan appeal, and can be supported by both those supportive of increased welfare spending and those which are interested increasing the marketisation of service provision.

To date, the SIB market has been heavily subsidised⁴⁵. In fact, no SIBs have been launched without subsidy. Also, the UK SIBs funded by the UK central government are primarily focused on activities that the government is not funding use other models, so in these cases, SIBs are in competition with nothing. However, it is unclear what mechanism and criteria have been used to

⁴⁵ Subsidies can be channelled through development of the model or of individual SIBs, de-risking of investments (for example by ‘guaranteeing’ certain values) and subsidies for outcomes.

judge whether SIBs work better than other funding models. This may negatively impact on the value for money provided by the impact bond and the associated subsidies.⁴⁶⁴⁷

M.1.7 Impact bonds are difficult and costly to design and implement

Critics of impact bonds point out that impact bonds are difficult and costly to design and implement, and do not generate benefits that justify the additional costs. For example, Tse and Warner (2018) note that SIBs that only pay for their current costs and do not involve consideration for sustainability are not worth the transaction cost or interest rate. Tan et al (2015) find that many of the savings in SIB schemes are hypothetical rather than real cost reductions. Calculations of savings are challenging and hard to attribute, in the absence of experimental impact evaluations.

Secondly, the popularity of impact bonds have been attributed to their 'chameleonic' state, which can be many things to many people. Some of the claims are paradoxical, and may affect the value for money of impact bonds (Maier et al 2017).

- The first claim is that impact bonds allow for evidence-based flexibility. Maier et al (2017) note that there are three main arguments used to address this paradox. Firstly, a more flexible understanding of 'evidence-based' is used; secondly, flexibility is used to regard the financial model but not the intervention itself; thirdly, the flexibility rests with the intermediary, but the service provider has limited flexibility and implements a clearly defined evidence-based intervention. The extent to which these three models of operation affect the hypothesised effects of an impact bond will affect the value for money of this funding mechanism.
- The second claim and paradox is cost-effective risk transfer. Impact bonds have high transaction costs and risk premiums. Risk transfer comes at a cost, and total costs for the outcome funder will only be reduced if they are able to strike preferential deals, as investors require compensation for their taking on of this risk. A conceptual paper by Giacomantonio (2017) builds a rational choice framework and argues that SIBs are unlikely to be both rational choices on the part of governments and attractive to investors interested in financial returns. There are five arguments used to argue this:
 - Presenting governments and service providers as more risk-averse than investors;
 - Introducing philanthropic funding;
 - Pointing out additional positive effects of impact bonds;
 - Arguing that the relatively high transaction costs of impact bonds are transitory
 - Arguing that impact bonds increase the overall amount of funding going to good causes. However, impact bonds do not represent new funding, and in reality displaces funding, unless prevention/remedial cost savings pay for the impact bond (Department of Budget and Finance 2013).

⁴⁶ Social Impact Bonds: An overview of the global market for commissioners and policymakers

⁴⁷ To assess the VfM of these subsidies and funds, one would need to assess the extent to which these subsidies and funds are i. encouraging stakeholders to develop new approaches to delivery; ii. leading outcome funders, providers or intermediaries to choose the impact bond funding mechanism rather than an alternative; iii. Causing investors to invest in impact bonds when they otherwise would not have done.

M.1.8 What is the evidence base, and what does it say about the DIB effect and the cost effectiveness of impact bonds?

This sub-section sets out the evidence base on DIBs. As very few DIBs have been launched, the literature review also draws upon the evidence base related to SIBs and PbR, though the evidence base on the impact elements of PbR is still very thin (Clist 2017). It must be noted that the SIB context will be different from the DIB context, and the emerging evidence will have to be tested for its applicability to the DIB setting. Furthermore, while a number of the hypothesised effects of DIBs contracts overlap with those of PbR contracts, there remain some differences. For example, DIBs are hypothesised to address some of the limitations of PbR such as access to capital as well as risk aversion (as investors are potentially less risk averse than service providers).

We set out the evidence against the framework introduced in Figure 14. Evidence on DIBs, SIBs and PbR seem to fall naturally into two categories:

1. Reviews to synthesise learning across multiple SIBs, generally consultative exercises, where relevant stakeholders have been invited to feed in their opinions; and
2. Evaluations seeking to identify the impact of the intervention and/or the effect of the payment instrument (Drew and Clist, 2015).

Generally, the consultative reviews provide stronger evidence for the inputs and process, while the (limited) evaluations assessing the DIB effect provide evidence for the impact element.

There appears to be more evidence around the process rather than impact parts of the framework. This may be due to the fact that there have been more evaluations and reviews based on interviews and online surveys of existing impact bonds and PbR contracts (for example Gustafsson-Wright et al (2015) and CBO evaluations⁴⁸. Where there are evaluations on specific impact bonds or PbR programmes, only a minority focus specifically on the effect of the funding instrument.

b. Input

M.2.1 Donors, investors and other stakeholders provide support needed to design, develop and introduce programmes using DIBs

Investors better at picking investments: Limited evidence. As the impact bond market is still nascent, impact bonds have tended to be designed with heavy involvement from all stakeholders. There is not yet a strong market for impact bonds.

Market discipline to the design of impact bonds: In terms of mobilisation of private funding, SIBs have generally generated reasonable returns (Social Finance 2018). However, it is unclear whether reasonable returns are the result of strong design of programmes, or targets linked to results set too low. As a market grows around impact bonds, there should be better information on the assessment of the commensurability of risks and returns.

Collaboration: There is some indication that stakeholders are interested in collaboration. In a consultation with investors in Canada (Deloitte, undated), the vast majority of respondents were

⁴⁸ For further information see: <https://www.biglotteryfund.org.uk/research/social-investment/publications>

interested in the idea of an impact bond, and wanted to co-invest as part of a consortium in order to share capital commitments, due diligence, governance, and learning as well as to allow for risk reduction.

Furthermore, Gustafsson-Wright et al's (2015) review found that there were some good examples of collaboration in SIBs. For example, there are good examples in the UK where SIBs have brought very different partners together as funders all interested in achieving similar outcomes (such as the local authority, schools and philanthropists as outcome funders in the West London Zone SIB, or different government departments in the Youth Engagement Fund).

M.2.1 Donors, investors and other stakeholders provide the capital needed to deliver programmes which provide social value

Mobilising private funding: Gustafsson-Wright et al (2015: 37) found that additional capital from traditional private actors has been limited, as this would require 'a different analytic mindset and acceptance of credit approval'. However, it has led to an increase in social financing by philanthropic actors.

Scale: Gustafsson-et al (2015) found from a review of SIBs that scale was achieved in certain target populations, but not as a whole.

Risk transfer: A key learning has been that while the funder's risk has been reduced to some degree as payments are only made if it works, the funder is subject to new risks through increased exposure, risk of demonstrated failure or paying too much. (Social Finance, 2018; Gustafsson-Wright et al, 2015). Also, it is not clear how risky the SIBs are, and as such, the level of risks transferred. Four types of new risks arising from use of the SIBs are cited: execution risk, or the delivery of interventions in a new context; measurement risk related to how good the outcome measure is relative to the ultimate goal; basis risk, or that is, additional costs of using the SIB not offset by savings; and unintended consequences (Mulgan 2010; Gustafsson-Wright et al, 2015).

It is important to note that the extent to which funds are additional depends on perspective. While there is no net change in available funding, it can be seen as an additional source of funding, to the extent that it enables commissioning which would not have happened, or the extent to which it facilitates additional innovation. Whether funds represent 'additionality' depends on the perspective of stakeholders.

M.2.2 Process

Outcome funders focus on results and not inputs

Hands-off nature of outcome funders: The evidence is mixed in this area. Some outcome funders cited the motivation for using impact bonds as the possibility of circumventing rigid government budget silos and procurement processes and the ability to overcome politics (Gustafsson-Wright et al 2015). Other stakeholders felt that thinking about procurement and provision of social services had changed, with service providers now being selected on the ability to deliver outcomes. The London Rough Sleepers SIB is a good example where service providers felt outcome funders had stepped back and focused on results over inputs.

However, Boggild-Jones and Gustafsson-Wright (2017) found that taking 'a step back' can be challenging for outcome funders, especially if they have expertise in an area. A shift in culture

may be needed inside these organisations. Similarly, in DFID PbR systems, there was an ongoing tension between the desired flexibility/adaptability and compliance with procurement policy. Holden and Patch (2017) found that in the Girls Education Challenge Fund, there was very little adaptation in programmes, and service providers cited the time-consuming nature of making amendments to milestones, outputs and budgets. A tension may be due to the fact that PbR projects are expected to comply with standard procedures for grant funding while at the same time be more innovative than traditional grant funded projects (Clist 2017).

DIBs create incentives for service providers to focus on producing desired results

Result Focus:

This seems to be an area well supported by the evidence so far.

- A KPMG evaluation of the New South Wales Social Benefit Bonds in 2014 found that increased attention on and understanding of programmes outcomes and how to measure them produced positive outcomes for NGOs and government.
- The CBO SIB outcome fund evaluation found that most stakeholders are of the view that this has been the case.
- SIBs have been cited as changing delivery culture (Social Finance 2018)
- In the DFID funded Zambian HRITF RBF, one health worker noted that the ‘attitude has really changed, people used to come late for work, now everyone is on time. We were doing shortcuts, but now we are doing full procedures.’ (Evans, 2016)
- Holden and Patch (2017) found that in the Girls Education Challenge PbR programmes, overall focus on learning outcomes and rigorous measurement was very positive.

As set out in the alignment principle of PbR, PbR may be only beneficial when incentives were not initially aligned:

- Holden and Patch (2017) found that GEC staff were already very motivated to achieve outcomes before the introduction of the payment incentive. Similarly, Rwanda was already focused on increasing enrolment before the introduction of the RBA (Upper Quartile, 2015).

Also, it may be not the pecuniary interest, but the very attention on the outcome measured which leads to increased outcome focus.

- Evans (2016) argues that it was not pecuniary interest in Zambia, but being recognised in a context where workers feel undervalued which led to a positive effect. Similarly, reward for performance was cited as a positive motivator in Ethiopia and Afghanistan (DFID 2016).

There are some exceptions to the positive incentivisation of service providers, and the reasons for this have been explored in evaluations.

One hypothesis is that measures can fail to incentivise recipients if they are too complex relative to the incentive size. This seems to be the case for certain Health Results Innovation Trust Fund (HRITF) PbR agreements (Kandpal 2016), NGOs (Holden and Patch, 2017) and governments (Cambridge Education, 2015 and Upper Quartile, 2015). Measures can also fail to incentivise if the incentives are too low, agreements too short or outside of the recipient’s control (such that the recipient has no incentive to try). Clist (2017) notes that a common theme for projects with

poor performance is incentives which are insufficient, in comparison to the programme's complexity and duration, and perverse incentives to prioritise the short term over the long term.

This seems to be supported by the success stories as well. Where PbR worked best and provided the strongest evidence of success was where incentives were also largest, including HRITF's programme in the Misiones province (where incentives were largest); Employment Fund in Nepal where organisations responded to the incentive to increase employment, not just training; the Uganda RBF health project, where incentivised quality of care increased.

More incentivised to focus on target populations: Evidence from the Employment Fund in Nepal (Chakravarty et al, 2016) suggested that specific targets for the hard to reach, such as greater payments for disadvantaged groups discouraged cherry picking and more focus on the hard to reach populations.

There is greater innovation and flexibility in approaches to delivering services

M.2.3 Innovation and flexibility

There are two levels of innovation we should consider - innovation in design of the programme, and innovation in delivery (e.g. performance management / course correction / adaptation).

In terms of innovation in design, Edmiston and Nicholls (2017) found that a substantial number of those interviews with experience of SIBs felt that the use of SIBs did support the development of experimental and innovative service interventions, which was made possible by the fact that social investors were taking on the social risk, in exchange for potential financial returns. On the other hand, Gustafsson–Wright et al (2015) found that in the landscape of SIBs, none of the 38 were innovative in the traditional sense, but a number were innovative in the sense that they trialed interventions in new locations or contexts. This is likely due to the risk appetite of investors. For example, an evaluation undertaken by KPMG 2014 found that the use of SIBs was considered to have been an exercise in innovation in a number of areas including financing, contracting and measurement, but seemed to be a contradiction between service innovation and developing a bond with a sound evidence base.

The evidence on the extent to which PbR and impact bonds have driven adaptation is mixed. In the UK there are multiple examples where the programme has adapted in order to ensure outcomes are maximised. This was the case in the Peterborough SIB, Ways to Wellness SIB and Youth Engagement Fund. However, Gustafsson-Wright et al (2015) found that few deals had actually reported using data to make course adjustments along the way. Similarly, Holden and Patch (2017:7) undertook a review of the Girls Education Challenge which was partially PbR funded and found that 'a consistent view emerging from the study is that PbR did not incentivise innovation and adaptation during delivery, and more likely had the opposite effect, leading organisations to be more risk-averse'.

Capacity for the service provider to adapt and innovate during delivery is likely to be impacted by the amount of autonomy granted to them. For example, Honig (2014) found that autonomy was not linked to PbR contracts in World Bank projects. Course correction may also require longer timeframes for feedback loops to materialise. Upper quartile (2015) found that in the Big Results Now! Education project in Tanzania, the service provider felt there was a mismatch between the timeframe agreed and the necessary timeframe to really deliver change.

Programme implementation improves and is more effective

The Health Trailblazers review (Tan et al, 2015) noted the benefits of SIBs instilling ‘market discipline’ in the VCSE⁴⁹ sector, covering elements of both better business planning and improved contact management. Gustafsson-Wright et al (2015) also found that some stakeholders noted that the broader M&E culture had improved, leading to spillover to other projects. One caveat is that this seems to depend very much on the actors, and the extent to which they are already wanting to improve.

In terms of the hypothesised benefits of private sector input in improving delivery, Gustafsson-Wright et al (2015) found that it depends on how deals are structured (whether merged, intermediated or direct). It also depends on the fidelity to the model in terms of who plays the performance management role (whether it was investor, intermediary, outcome funder, or none of the above), and the role of the intermediary in supporting course corrections.

M.2.4 Impact

Expected outcomes are produced more effectively / efficiently than with other approaches

More effective outcomes: The evidence in this area has been the weakest, due to the limited number of evaluations seeking to identify the instrument effect and the challenge of establishing comparative baselines.

An independent review of four SIBs by Daniel Edmiston and Alex Nicholls (2018) argued that, on current evidence, a SIB model was no more effective than other forms of outcome based commissioning and PbR. While interviewees noted that private sector investor involvement in SIBs did lead to greater degrees of oversight and accountability, it is unclear that this facilitated service innovation that would not otherwise have been present through other funding models (Edmiston and Nicholls 2017). In terms of PbR, the evidence is mixed.

Some reviews have found that RBF can improve the quality of services (Gorter 2013) and that contracting out health services can increase access and use (Perrin 2013). Evaluation of the Uganda RBF project in health (Valadez et al, 2015) compared a RBF project to an input-based alternative. While quality of care was a concern across the board, RBFs region achieved 50% of available performance points compared with traditionally financed control regions which only achieved 20%. However, more evidence is needed to understand the causal mechanisms, and *how* RBF led to the better performance observed.

However, Perrin’s (2013: 5) review of the PbR evidence base concluded that ‘there is limited evidence that PbR approaches offer value-added vis-à-vis other modalities’. A number of evaluations⁵⁰ find PbR has no significant effect. Some hypotheses for why this may be the case are that the incentives may have been too low-powered, or because the recipient had limited ability to affect the outcome (Afghanistan HRITF project discussed in Kandpal, 2016). Seven evaluations of the HRITF which attempt to evaluate the PbR mechanism and not just the PbR projects find that while outcome indicators have shown steady improvements, impact evaluations have shown mixed results (DFID, 2016h).

⁴⁹ Voluntary, community and social enterprise (VCSE) organisations and social investors

⁵⁰ Reproductive health in Pakistan (Witter et al, 2016), RBA in Ethiopia (Cambridge Education, 2015) and Rwanda (Upper Quartile, 2015), Sierra Leone’s Budget support program.

Efficiency: It was thought that costs would decline as transactions increased in size, but in reality size has been limited by the counterparty. It is argued that single transactions cannot be efficient, but what is needed is a market approach (Social Finance, 2018). Evidence that calls into question the efficiency argument of impact bonds include:

- While there is optimism that verification should be cheaper than alternative systems and lead to benefits of better information, generally verification is felt to be a substantial cost with few redeeming benefits (Clist 2017).
- Early evidence highlights that RBF mechanisms are not always easy to implement and have been associated with implementation failures that result in less effective programs. It is not clear whether this is a result of use of PbR, or because PbR is still in an early stage (Clist 2017).
- While PbR was hypothesised to be administratively easy to manage and to allow for reduction in the pressure associated with contract management, in reality, management projects have been more complex and required more time than expected (Clist 2017).

Cashable savings: A review delivered by Azemati et al (2013) found that, based on the SIB experience in the US, there was little evidence that interventions truly pay for themselves. This could be related to the fact that PbR projects seem to generally be subject to expectations of both being innovative and following? standard procedures for traditional aid modalities. (Clist 2017)

Impact Bonds Market which increases competition and drives down costs: There is limited evidence on this point, as the impact bonds market is still nascent.

Unintended consequences: In the SIB sphere, the service provider survey undertaken for the CBO evaluation 2017 update report suggests that the outcomes-focused culture can also have adverse effects. Service providers reported that the second main negative impact of SIBs was that the increased pressure to achieve outcomes affects staff morale and leads to higher levels of staff turnover. Furthermore, in the Zimbabwe, HRITF staff reported more likely to suffer burnout (Kandpal 2016).

In addition, Ecorys's evaluations have seen some evidence of the 'perverse incentives'. These are often associated with outcomes based commissioning, primarily 'cherry picking' (where services target beneficiaries easiest to reach/turn around as opposed to the hardest to reach) and 'parking' (where beneficiaries are left on programmes but not supported, either because it is clear they will not achieve any outcomes or because the provider gets paid for having beneficiaries on the programme).

In the PbR sphere, literature reviews have found that RBF health programmes tend to focus on easier to measure outcomes (such as number of vaccinations). Outcomes such as health systems strengthening tend to be harder to measure (Grittner 2013; NKCHS 2008). Holden and Patch (2017, p. 36) noted that some programme staff in the field felt there were perverse incentives from PbR, to prioritise short term over long term, and sometimes felt pressure from headquarter staff. In a WASH Results project, some suppliers neglected the most important but incentivised longer-term elements (DFID, 2016b).

Furthermore, there is evidence that the quality of the measure reduces once it is incentivised. Sandefur and Glassman (2015) found that in the GAVI programme, once reliable self-reported

administrative data became unreliable once incentivised. This was assessed through triangulation with the demographic health scores. Furthermore, the review found that GAVI had little effect on non-performing countries, and had no positive effect on immunisation results, and hence was essentially disbursing too much money to already well-performing countries.

On the other hand, Clist's (2017) review of DFID PbR evaluations to assess cherry picking or gaming, find that in a vast majority of cases, there was no evidence of any problems. HRITF's Zimbabwe (Kandpal 2016) identified that none of the non-incentivised services showed a decline in the number of cases treated, as would be expected if the incentives had affected these services.

Sustainability of services: It was theorised that demonstrated impact of SIBs would lead to scaling of models, but no UK SIB has been continued at the end of its contract (Social Finance 2018). The strongest argument for sustainability seems to be the use of multi-year contracting, which could provide more continuous and reliable service. However, there is little evidence in this area at the moment (Gustafsson et al 2015).

Transparency and accountability: There is limited evidence to date that beneficiaries and other stakeholders have used the verified outcome data in order to demand better services and drive accountability. However, the extent to which verified outcome data has been shared and validated with beneficiaries will be important to explore.

M.2.5 What are the key recommendations around improvements to designing and agreeing DIBs to increase the model's benefits and reduce the associated transaction costs?

This sub-section first explores the challenges of designing impact bonds, before setting out the key recommendations raised to improve the designing and agreeing of DIBs, recommendations on developing outcome metrics and a pricing structure and finally recommendations targeted to specific stakeholders.

M.2.6 Challenges

The experience to date has raised many challenges with launching and delivering DIBs. A recent survey conducted by the Impact Bonds Working Group of its members noted the following main challenges faced by teams designing impact bonds⁵¹:

⁵¹ https://www.dropbox.com/s/ccfixil4cgtgq79/Mid-term%20Progress%20Report_June8%272018.pdf?dl=0

Table M.4: Challenges of designing impact bonds

Challenge	Examples
Institutional barriers	Legal or procurement Budgeting Unease with investor earning a return Availability of human resources
Nature of deals	Deals are too time-consuming Deals are too expensive Deals are too small No good deals have been presented
Informational and technological barriers	Difficulties accessing data on target population Inability to measure desired outcomes
Impact bond instrument	Lack of evidence of effectiveness of instrument Lack of awareness/understanding of instrument
Lack of co-funders / outcome funders / co-investors	

c. Recommendations

In this section we include some of the key recommendations raised to improve the designing and agreeing of DIBs. We firstly provide a broad set of recommendations, before including specific recommendations for different actors, and finally provide recommendations on scaling DIBs.

M.3.1 Recommendations for implementing DIBs

1. Identifying appropriate service providers with implementation capacity is critical. The service provider must have the capacity to carry out the impact bond activities and be open to change (Gustafsson-Wright et al., 2017; Oroxom et al., 2018)
2. Engaging investors since the beginning, to ensure they are comfortable with the metrics and risk-return profile of the investment. However, there are pros and cons to the order in which investors and outcome funders are approached (Gustafsson-Wright et al., 2017; Oroxom et al., 2018)
3. Not underestimating the resources needed to launch an impact bond (Oroxom et al., 2018). It is complex, challenging and expensive to structure; it can require intensive preparation time and transaction costs, as well as good collaboration between stakeholders; and contracting an impact bond can be constrained by legal issues. While donors and outcome funders are building the architecture to support the operations, work-around solutions in the interim can complicate things (Palladium and USAID, 2016).
4. Clarifying everyone’s priorities and roles (Oroxom et al., 2018).

5. Surveying the investor market before announcing the bond and strategically timing the announcement of the bond (Oroxom et al., 2018).
6. Convincing organisations to pivot toward financing DIBs. More work needs to be done in this sense, as champions are critical within the impact bond space (Oroxom et al., 2018).
7. Some of the data needed to develop new DIB proposals are either not available or of poor quality. For example, figures on guarantees or interest rates may be difficult to find, and sometimes only accessible to intermediary organisations, which have a special financial license. (Oroxom et al., 2018). Furthermore, due to lack of historical data and precedent transactions in pricing, negotiation is required (CGDev, 2013).
8. Requiring funders and providers to embrace a new way of doing business (Palladium and US Aid, 2016).
9. Structuring contracts in a way that allows them to respond to unforeseen changes (Gustafsson-Wright et al., 2017)
10. The impact bond market is not yet well developed. Impact bonds are currently illiquid. Different investors with different levels of social/commercial investing motivations and different risk appetites will seek different risk profiles or returns. Setting up a market or pool of outcome funders can increase the options in terms of level of risk transfer to suit different stakeholders (CGDev, 2013; Gustafsson-Wright et al., 2015).

M.3.2 Recommendations for scaling DIBs

As has been referenced in this review, there is a view that DIBs need to operate on a larger scale in order for them to be reduce relative transaction costs and be efficient. For DIBs to reach scale, CGDev (2013) has opined that a mature market is needed, which includes 1) a robust supply of investors; 2) confident demand from outcome funders, and 3) market infrastructure, which facilitates investors and outcome funders working together.

Potential approaches which could bring together funding from multiple actors and create scale include outcomes funds. Outcomes funds would finance multiple outcomes-based contracts on the same areas. Outcomes rate cards would allow the outcome funder to set prices for certain outcomes, and then contract with service providers to achieve this. (Gustafsson-Wright et al., 2017) One potential limitation for an outcome fund, is the difficulty of setting incentives so that a broad spectrum of actors is incentivised (Clist 2017).

CGDev (2013) recommended that to stimulate a market for DIBs:

1. Donors should establish a DIB outcomes Fund and investors should establish DIB Investment Funds.
2. DIB parties will have to accept the high transaction costs of early DIBs, and foundations should consider subsidising these costs.
3. DIB parties should invest in learning about this new approach, and a DIB community of practice set up to share and accelerate learning.
4. DIBs should be open by design, and donors and foundations to lead on establishing a research data protocol.

Gustafsson-Wright et al.'s (2017) recommendations largely echo these ones, with four additional recommendations to grow and develop the impact bond sector:

1. Expand the evidence base, so that organisations with the capacity to deliver results can be selected.
2. Build capacity of service providers.
3. Educate potential outcome funders and investors.
4. Support legislation.

The impact working group recently undertook a survey of its members as to the main barriers to scale, and potential of some of these proposed solutions. Those rated with the most potential to address a number of barriers included:

- In terms of paying for outcomes at scale: single and multi-payer outcome fund, commissioning platforms and co-funding facility
- In terms of stimulating outcomes based investment: Single Impact Bond investment(s)
- In terms of building impact bond market capacity: building government and intermediary capacity
- In terms of data: codified knowledge, standardised contracts and processes and impact bond centre of excellence.

d. What approaches have been used to evaluate impact bonds? What are the main challenges and solutions?

In some of the DIB literature, 'evaluation' has been used when discussing verification of outcomes. However, here we focus primarily on process or impact evaluation, which goes beyond the assessment of the outcome measures.

This section first analyses the strengths and weaknesses of existing evaluation approaches and evidence. The section then moves to approaches used to assessing VfM and approaches to evaluation before concluding with how the evaluation will use a framework to synthesise evidence.

Strengths and weaknesses of existing evaluation approaches and evidence

The table below, excerpted from Clist and Drew (2015:27), sets out the strengths and weaknesses of existing evidence and evaluation approaches and methods related to impact bonds.

Figure M.2: Strengths and weaknesses of existing evidence and evaluation approaches and methods related to SIBs and DIBs (Drew and Clist 2015:27)

	Strengths	Weaknesses
Overall approaches to evaluation	<p>There is a strong commitment to evaluation of SIBs/DIBs from many stakeholders.</p> <p>Some forms of SIB require robust measures of outcome for payment to occur – as a result, SIBs/DIBs may contribute to a greater focus on robust data collection, including through evaluation.</p> <p>Clear expectations of evaluations of SIBs and DIBs are beginning to emerge.</p>	<p>Several manuals on SIBs do not cover issues of evaluation in much detail if at all.</p> <p>Expectations of what evaluations of SIBs and DIBs might produce are widely divergent. It is extremely unlikely that evaluations could meet all these expectations without extremely high levels of resourcing.</p> <p>The need for impact evaluations is not recognised by all SIB/DIB stakeholders and advocates. There is a documented tendency to scale back on evaluations where resources are tight.</p> <p>The value added of a full impact evaluation (over and above the results themselves) is downplayed by some, even in designs where payment is not automatically the same as truly desirable performance.</p>
Evidence base	<p>Some evidence is emerging from experience of SIBs. This is likely to be very relevant to DIBs.</p> <p>Some lessons are beginning to emerge regarding DIBs design.</p> <p>Some efforts have been made to synthesise learning from across experience of SIBs. There are plans to do similar work on DIBs.</p>	<p>Much of the evidence about SIBs to date is about process and based on collated opinion.</p> <p>Most of the evidence is through a positive lens, i.e. from advocates of impact bonds. Negative evidence is more limited although there is some. Much of the criticism of impact bonds is unevicenced opinion.</p> <p>There is little information on development of markets for SIBs although there is some.</p> <p>There is as yet no evidence base specific to DIBs as there has, as yet, been no implementation experience.</p>
Methods for individual evaluations	<p>There has been some work on categorizing available methods for evaluation of SIBs and DIBs.</p> <p>At least one randomised controlled trial of a SIB is underway (in New York).</p> <p>Several SIBs (e.g. Peterborough, Rikers Island) use matched comparison groups as a basis for making payments.</p>	<p>Categorisation of available evaluation methods is incomplete. Other methods could include individual randomised controlled trials, a range of quasi-experimental approaches and the use of theory-based approaches.</p> <p>There has been relatively little use of experimental or quasi-experimental approaches and more reliance on interviews as the main means of primary data collection.</p> <p>Many of the reports of evaluations and reviews lack clear descriptions of methods which would mean that they would be likely to be downgraded in terms of any assessment of the quality/strength of evidence presented. They might be excluded from some forms of data synthesis, e.g. systematic reviews.</p>
Methods for synthesising learning	<p>Efforts to synthesise learning from experience of SBs has begun.</p> <p>The value of having capacity available to conduct real-time synthesis of evidence from evaluations has been recognised for both SIBs (e.g. the evaluation of the Commissioning Better Outcomes portfolio in the UK) and for DIBs (e.g. the call to establish a Community of Practice).</p> <p>There are a number of reports of SIB experience and evaluations which could be interpreted as a willingness to share information openly and transparently.</p>	<p>SIBs and DIBs are being developed and implemented in very different ways and in different contexts. The applicability of evidence and lessons learned from a SIB/DIB in one context to SIBs/DIBs in other contexts is unclear. Simplistic methods intended to aggregate learning across SIBS/DIBs are unlikely to work.</p> <p>There is reluctance among some stakeholders to talk openly about their experiences, and plans. Reasons are complex but include concerns about biasing procurement processes and giving away valuable intellectual property. This reluctance or 'secrecy' is a major potential barrier to synthesising evaluation evidence into a body of evidence.</p>

M.4.1 Assessing VfM

In terms of VfM, Clist’s (2017) review of PbR projects and VfM assessments found that many evaluations dealt with entire projects, and hence did not undertake PbR specific VfM calculations. Perrin’s (2013) review of evaluations of PbR also noted that PbR evaluations could benefit from an increased focus on impact and value for money; there has been limited attention to the cost effectiveness of PbR approaches, in comparison with other approaches. As there was no consideration of the added value of the PbR element, the correlation/causality link is unclear. In some examples, it was unclear whether PbR is rewarding successful programmes or creating them. It is important that VfM assessment of PbR/impact bond funded projects aims to understand the added value of the funding mechanism, and not to solely rely on outcome measures (Clist, 2017).

M.4.2 Approaches to evaluation

While experimental approaches will be valuable for generating comparisons between interventions funded by DIBs versus other funding mechanisms, there would need to be a reasonable number of groups or clusters to generate power. In reality, this is unlikely to be feasible. Quasi-experimental methods can be used, either by matching clusters or by allocating clusters based on numerical criteria. Finally, when using non-experimental approaches, there can be problems with using a historical baseline. However, this can be combined with using theory-

based methods of evaluation, by gaining a deep understanding of how an intervention is expected to produce change, and then collecting data to support or refute that theory (Clist and Drew, 2015). DFID's PbR Evaluation Framework (2014:6) also notes the importance of identifying the 'logical steps by which a PbR mechanism will lead to, or improve, outcomes, in the particular context of the programme', and reflecting on the 'theory of change of PbR, as a subset of the broader theory of change of the intervention' will support effective evaluation.

M.4.3 Framework for synthesising evidence

Finally, Clist and Drew (2015) suggest designing evaluations around a common evaluation framework, conducting real-time synthesis and undertaking periodic synthesis exercises. This framework has been used to frame the understanding of the hypothesised effects of impact bonds and the evidence generated to date. The evaluation's approach of contextualising the evaluation findings in the wider DIB sector will aim to facilitate real-time synthesis of learning.

Annex N: List of Acronyms

Acronym	Definition
AFD	Agence Française de Développement / French Development Agency
BAT	British Asian Trust
BEH	Business Engagement Hub
BPS	British Psychological Society
BSG	Business Saving Groups
CBO	Community Based Organisation
CEA	Cost Effective Analysis
CIFF	Children's Investment Fund Foundation
DAC	Development Assistance Committee of the OECD
DCMS	Department for Culture Media and Sports (UK)
DFAT	Department for Foreign Affairs and Trade (Australia)
DFID	Department for International Development (UK Aid)
DIB	Development Impact Bond
EMT	Evaluation Management Team
EQUALS	Evaluation Quality Assurance and Learning Services
ESRC	Economic and Social Research Council
GAVI	Global Vaccine Alliance
GDI	Global Support Development Initiative
GEC	Girls Education Challenge
GEFA	Global Evaluation Framework Agreement
GSRU	Government Social Research Unit
HIB	Humanitarian Impact Bond
HRTIF	Health Results Innovation Trust Fund
HSE	Health and Safety Executive
ICRC	International Committee of the Red Cross
IDB	Inter-American Development Bank
IFI	Intergovernmental Financial Institutions
KiT	Keeping in Touch
KPI	Key Performance Indicator
LLC	Limited Liability Company
LOUD	LOUD SIB Model
M&E	Monitoring and Evaluation
MEL	Monitoring, Evaluation and Learning
MRS	Market Research Society
NGO	Non-Governmental Organisation
NORAD	Norwegian Agency for Development Cooperation
OECD	Organisation for Economic Cooperation and Development
ORCM	Operating Review Committee Meeting
PbR	Payment-by-Results
PHII	International Committee of the Red Cross Programme for
PRP	Physical Rehabilitation Programme
PSD	Private Sector Department
RBA	Result Based Aid
RBF	Results Based Financing
RCT	Randomised Control Trial
SARD	Society for All Round Development
SDC	Swiss Agency for Development and Cooperation
SECO	State Secretariat for Economic Affairs

Acronym	Definition
SER	Staff Efficiency Ratio
SIB	Social Impact Bond
SPV	Special Purpose Vehicle
SRA	Social Research Association
ToC	Theory of Change
ToR	Terms of Reference
USAID	United States Agency for International Development
VE	Village Enterprise
VfM	Value for Money
WASH	Water, Sanitation and Hygiene
WP	Work Packages