An introduction to development impact bonds (DIBs)

What are development impact bonds?

This chapter sets out what development impact bonds are, the key stakeholders involved and how they have developed over time.

Summary

A development impact bond (DIB) is an outcomes-based funding structure for the delivery of public services in low- and middle-income countries. DIBs leverage government aid agency or philanthropic funding, non-profit service provision, and private capital. DIBs are an adaptation of the social impact bond, pay for success, and social benefit bond models used in high income countries such as the UK, US, and Australia.

Development impact bonds have funded projects supporting agriculture in Peru, improving girls education in India and providing physical rehabilitation services across central Africa. Development impact bonds are a new instrument and there is interest in how components of the model can support effective overseas development assistance and philanthropy.

The DIB Structure

This section outlines DIBs’ workings, history, applications, and organisations involved.

Who is involved?

A development impact bond is a project-specific financing structure. Each DIB involves three key partners: private investor(s), service provider(s), and outcome funder(s). Additional actors support project implementation.

Investor

• Provide flexible financial support for the duration of project implementation.

Service Provider

• Provide an intervention, or set of interventions, for a target population.

Outcome funder

• Provide repayment to investors, based on achievement of specified social outcomes due to intervention by service provider.

Additional support

• Intermediaries – Provide hands-on technical assistance during contracting processes. This can include undertaking feasibility studies and identifying DIB implementation opportunities.
• Independent Evaluators – Provide auditing and analysis to ratify project outcomes and trigger outcome payments.
• Technical Support – Provide specific advice on legal and implementation issues, including
additional strategy support.


How are they involved?

In principle, the DIB contracting process is initiated by outcome funders. These organisations can identify projects which fit their funding criteria and select the development impact bond model to fund them. This is not always the case. The International Committee of the Red Cross’ Humanitarian Impact Bond was a service provider led initiative. The contracting process for DIBs can also take up to two years. Key actors can change during this period, which was the case in the Cameroon Cataract Bond.

Government agencies, non-governmental organisations and philanthropic institutions are involved in funding development impact bonds. In 2017, researchers at the Brookings Institute mapped actors involved in DIBs and social impact bonds (SIBs) in low- and middle-income countries. The research identified 115 entities that were key actors, or providing additional support, in the planning and implementation of impact bonds in low- and middle-income countries.

How have DIBs developed?

Development impact bonds adapt the SIB model. The first SIB launched in the UK in 2010. A Government Outcomes Lab introduction to SIBs is available here. The Center for Global Development (CGD), in partnership with Social Finance, formed a working group in 2012 to explore the feasibility of Development Impact Bonds (DIBs). Their work shifted the potential pool of investors and outcome funders from domestic institutions to international organisations.

In 2013, the CGD/Social Finance working group reported on challenges and benefits of the DIB model. The final report included six case studies to describe potential application scenarios. One of these case studies was the template for the “Educate Girls DIB” launched in India in September 2015. In Peru, a few months earlier, the Asháninka Impact Bond launched in February 2015 as the first development impact bond. These are the only DIBs to reach completion to date.

Timeline
Note: Sources vary on defining an exact date of project launch, between contract signing, start of service provision, and public announcement. The above timeline reflects consensus where possible.

What is the available evidence on DIBs?

This chapter sets out evidence available to date from completed projects funded by DIBs.

There is a small and increasing evidence based on DIBs. Several reports have mapped and analysed this innovative financing structure. Qualitative analyses focus on interviews to examine the structuring processes (examples here and here). However, no central database exists for tracking DIB implementation globally. As result, figures and mapping are often up for debate. Currently available studies suffer from a common problem – a lack of (quantifiable) evidence about implementation.

As of November 2018, no report has synthesised evidence on completed projects funded by DIBs. This is due, in part, to a small sample size of two completed projects. The Asháninka Impact Bond project ended in late 2015 and Educate Girls released results on their DIB funded efforts in July 2018. No further evidence will be available until 2020, with the (planned) completion of the Utkrisht Impact Bond and Village Enterprise DIB.

The structure and results from the Asháninka Impact Bond and Educate Girls DIB are summarised below.
**Asháninka Impact Bond**

The Asháninka Impact Bond supported agricultural improvements for Asháninka people of Peru. The Asháninka people are an indigenous community living in the Peruvian Amazon. The project involved supporting their cooperative the Kemito Ena Association (KEA). The KEA aimed to establish environmentally sound production and marketing systems for coffee and cocoa. The DIB funded additional support during the final year of a three year capacity development project.

This inaugural DIB involved the Common Fund for Commodities, Schmidt Family Foundation, Rainforest Foundation UK, and the Royal Tropical Institute. In some ways it diverged from the ideal DIB model. For instance, upfront capital investment and maximum outcome payments were capped $110,000. This removed financial incentive for the investor to gain interest payments on their investment.

Not all outcome indicators were met (Table 1), but the bond was deemed a success by stakeholders. The investor, a California based private foundation, received $75,625 return of their investment (68.75%).

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cocoa bought and sold by KEA members.</td>
<td>Yes</td>
</tr>
<tr>
<td>Cocoa yield by KEA members.</td>
<td>No</td>
</tr>
<tr>
<td>Coffee plots with leaf rust-resistant varieties.</td>
<td>Yes</td>
</tr>
<tr>
<td>KEA sales to the KEA co-op.</td>
<td>No</td>
</tr>
</tbody>
</table>


**Educate Girls Development Impact Bond**

The Educate Girls Development Impact Bond funded improved enrolment and quality scores for education in Rajasthan, India. Girls in rural Rajasthan are twice twice as likely as boys to out of school versus and only 50% of women can read or write. Educate Girls aimed to use the funding to implement and innovate existing approaches. The DIB built on existing services provided by Educate Girls, but itself funded a standalone project. A Government Outcomes Lab case study on the Educate Girls DIB is available here.

The project consortium included Educate Girls, Children’s Investment Fund Foundation (CIFF), ID-Insight, Instiggio, and UBS Optimus Foundation. The Educate Girls project showed key DIB principles in action. This included investor capital accelerating the planned implementation of a project management system. This enabled Educate Girls to do more advanced collection and analysis of project data. The project was successful on both outcome metrics (Table 2).

UBS Optimus Foundation invested US$270,000 in the project. In 2018 the Children’s Investment Fund Foundation paid out US$144,085, giving investors an internal rate of return of 15% on their upfront investment. However, this money will not be returned to UBS clients and will be reinvested in future UBS Optimus Foundation grants, including to Educate Girls.
### Outcome

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Re-enrolment of out-of-school girls (aged 7-14)</td>
<td>Yes</td>
</tr>
<tr>
<td>Improvement in education quality for girls and boys (grades 3 to 5)</td>
<td>Yes</td>
</tr>
</tbody>
</table>


### Further Reading