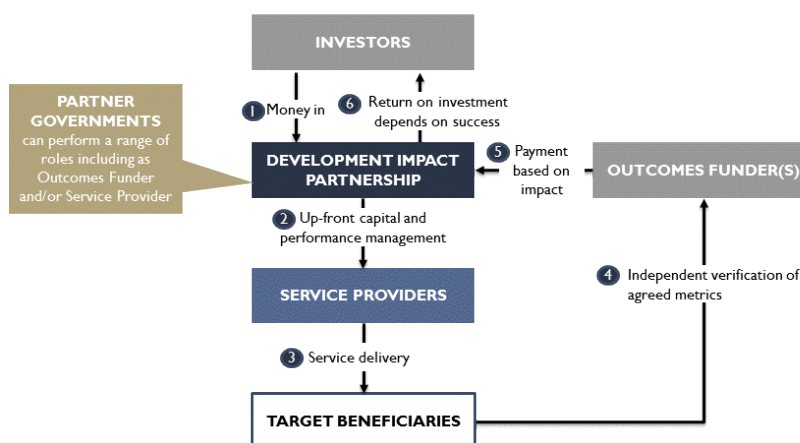


Development Impact Bonds Briefing Note – April 2014

What is a Development Impact Bond?

Development Impact Bonds (DIBs) bring together private investors, non-profit and private sector service delivery organisations, governments and donors to deliver results which society values. They are a family of outcomes-based contracts in which private investors pay in advance for interventions needed to achieve agreed results, and work with delivery organisations to ensure that the results are achieved; donors and/or governments make payments to investors if the interventions succeed, with returns linked to progress achieved. If the interventions fail, investors lose some or all of their investment.

A simplified DIB structure is shown below.



DIBs are an adaptation of Social Impact Bonds (SIBs), an approach pioneered in America, Australia, Britain, Canada and Ireland to provide effective and cost-efficient solutions to social problems such as recidivism, unemployment and homelessness. The focus on results and shift of performance risk to investors creates incentives to use private sector expertise to improve social outcomes – for example, by putting in place the necessary feedback loops or performance management systems to create data-driven, client-centred approaches. The main additional feature of Development Impact Bonds is that in countries whose governments do not yet have enough resources to finance additional public services, donor agencies may make some or all of the repayments to investors when the results have been demonstrated. DIBs are a platform for development partnerships between private, public and non-profit organisations, giving them both the incentives and the flexibility to work together to improve the lives of some of the world’s poorest and most vulnerable people. As such DIBs are more than a new financing model: they provide a new *business model* for the delivery of development programmes.

The potential benefits of applying this approach in development include:

- Aligning interests of investors, service providers, governments & donors toward effective service delivery to achieve mutually agreed outcomes
- Leveraging private sector skills and management to improve quality of service and increase the innovation, flexibility and efficiency of both design and delivery without denying access to the poorest people
- Improving the quality of information available about development outcomes and interventions and strategies to achieve outcomes
- Providing working capital to providers enabling them more easily to participate in results-based contracts
- Increasing public confidence in aid, because taxpayer money is only used to pay when independently verified results are achieved



Development Impact Bond Working Group Recommendations

The Center for Global Development and Social Finance UK convened an expert Working Group which explored issues with applying the Social Impact Bond model in developing countries and produced a report of its conclusions and recommendations, *Investing in Social Outcomes: Development Impact Bonds*, in October 2013. The report explains the rationale for DIBs and potential challenges and benefits of the model; explores six case studies to illustrate the breadth of social issues to which DIBs can be applied; and provides an overview of technical considerations for the design of DIBs.

To ensure that initial pilots get off the ground, and to stimulate the development of a viable market, the Development Impact Bond Working Group makes a series of recommendations, which include:

- Donor agencies should establish a **DIB Outcomes Fund** which could be set up as a challenge fund for the best DIB proposals. This would lower the transactions costs of individual pilots, send a strong signal of interest to investors and help to stimulate a flow of deals, and enable easier sharing of lessons learned.
- Investors should establish **DIB Investment Funds**, which could provide ready pools of capital from development finance institutions, trusts and foundations, high net worth individuals, and others wanting to invest for both financial and social returns, and would enable them to share their risks and improve the efficiency of the transaction structuring processes.
- DIB parties must accept that early pilots will have high transactions costs. In the early stage of this market, foundations should consider subsidising these costs by **providing funding to catalyse the development of a DIB market**. Funds could be used to support the technical work of intermediaries who are likely to be putting the first transactions together; help pool learning from early DIBs through funding evaluations, establishing data standards or establishing a community of practice; or support governments of low or middle income countries who want to pilot SIBs.
- DIB parties should invest in learning about this new approach; pilots should be **evaluated rigorously** and a group of donors and philanthropic organisations should set up a **DIB Community of Practice** to share and accelerate learning as experiences accumulate.
- All parties should ensure that DIBs are **open by design**. Openness will accelerate confidence in DIBs for investors, governments, service providers and taxpayers and help to build a high quality market. Donors and foundations could consider establishing a **research data protocol** which would provide a standard of data and facilitate information-sharing.

For more information, see:

- CGD-Social Finance DIB Working Group report: [*Investing in Social Outcomes: Development Impact Bonds*](#)
- Report [Summary and Recommendations](#)
- [Frequently Asked Questions](#)
- Information about the [Development Impact Bond Working Group](#)
- www.cgdev.org/dib
- www.socialfinance.org.uk/work/developmentimpactbonds