

# **DEVELOPMENT IMPACT BONDS**

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WORKSHOP ON RESULTS-BASED AID: THE RESEARCH AGENDA AHEAD  
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DECEMBER 6, 2012



## CHALLENGES FOR PUBLIC SECTOR FUNDING

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- Focusing on outcomes instead of inputs, processes, and price
- Investing in prevention
- Tackling multi-dimensional problems
- Engaging private sector to improve quality
- Investing in innovation in a risk averse political context



MANY OF THE REASONS WHY SOCIAL IMPACT BONDS ARE BEING TRIED IN DEVELOPED COUNTRIES APPLY AS MUCH OR MORE TO DEVELOPING COUNTRIES



## ...AND MORE CHALLENGES FOR THE DEVELOPMENT INDUSTRY

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- Proliferation of donors and projects
- Weakening of local institutions and accountability
- Donor 'planning' mentality
- Lack of data about outcomes
- Public scepticism about government-to-government aid



INCREASING AGREEMENT THAT MORE INNOVATIVE APPROACHES ARE NEEDED

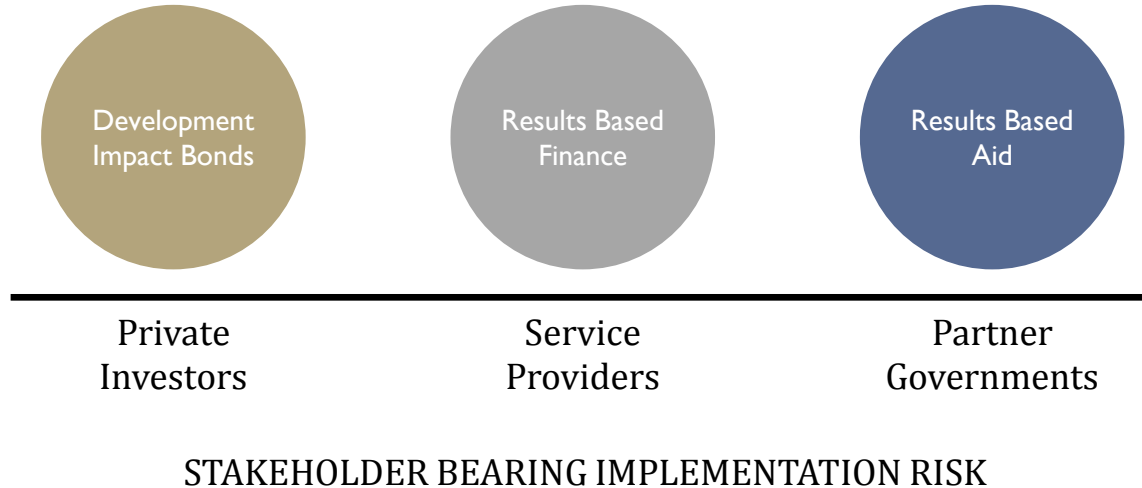


## PAYING FOR RESULTS IN DEVELOPMENT

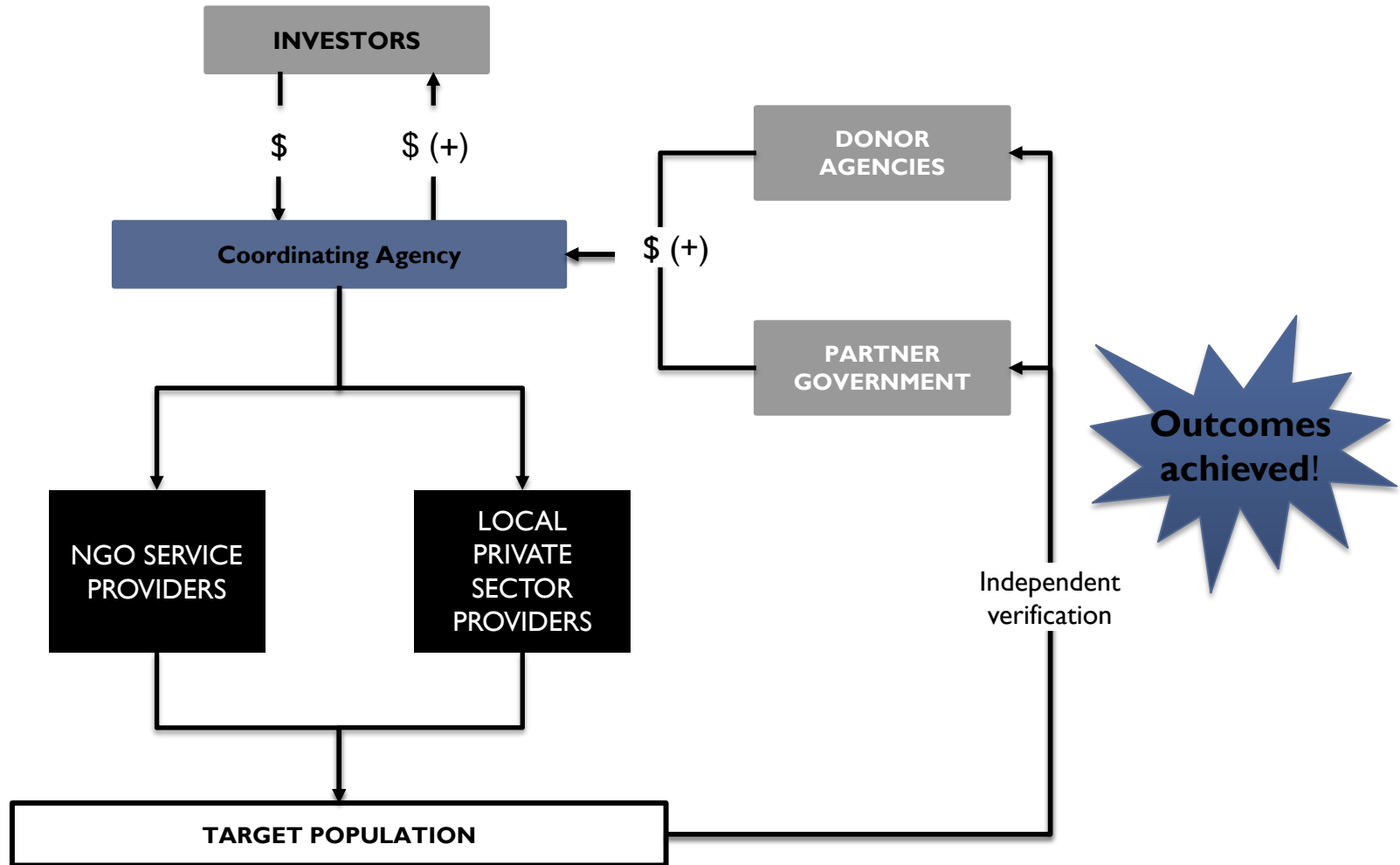


**Results-based approaches can improve the effectiveness and accountability of aid.**

- Results-based contracts transfer risk of failure to a third party.



# POTENTIAL DEVELOPMENT IMPACT BOND STRUCTURE





## DIB ADDED VALUE



**DIBs are likely to increase the efficiency and effectiveness of development programs in 3 main ways:**

### **1. Access to finance**

- Front-loaded funding where required
- Upfront funding for service providers
- Private investment may increase outcome-funder appetite for “risky” programmes

### **2. Stakeholder coordination**

- Provides coordinating mechanism
- Aligns incentives of all stakeholders around outcome

### **3. Targeted interventions**

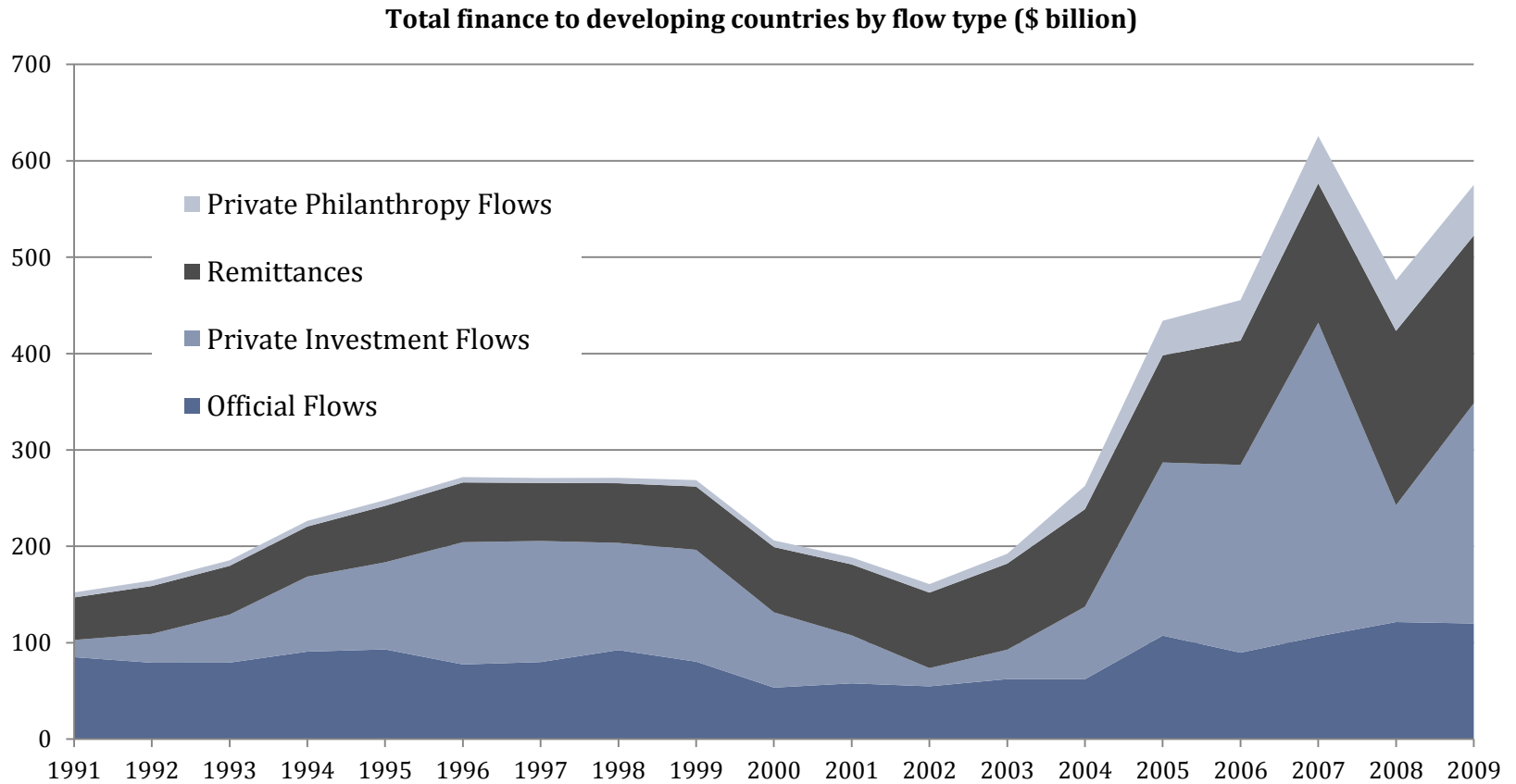
- Financial returns tied to achievement of outcomes – thus, incentives are strong
- Singular focus on outcomes enables flexibility in intervention approach
- Creates incentives to focus on prevention, last mile problems and hard-to-reach populations



# THE NEW DEVELOPMENT FINANCE



**Aid is a smaller share of global development finance.**



Source: <http://blog.aiddata.org>; Hudson Institute Index of Global Philanthropy and Remittances 2011

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## EXAMPLES OF DIBS UNDER CONSIDERATION



**Here are four potential pilots under consideration by the Working Group.**

- **Elimination of sleeping sickness in Uganda (Social Finance)**
  - Rapid scaling of treatment of cattle to reduce level of human infective parasite
- **HIV treatment as prevention in Swaziland (Clinton Health Access Initiative)**
  - Expanding treatment as prevention approach to reduce number of new HIV infections
- **Improving quality of low-cost private schools (Lion's Head Global Partners)**
  - Investing in LCPS model and creating incentives for improved education outcomes to provide affordable, quality education to the poor
- **Access to quality secondary education in Uganda (Social Finance)**
  - Increasing the availability and quality of secondary education to improve completion rates and overall school performance

**Further feasibility work is needed before these can be implemented.**



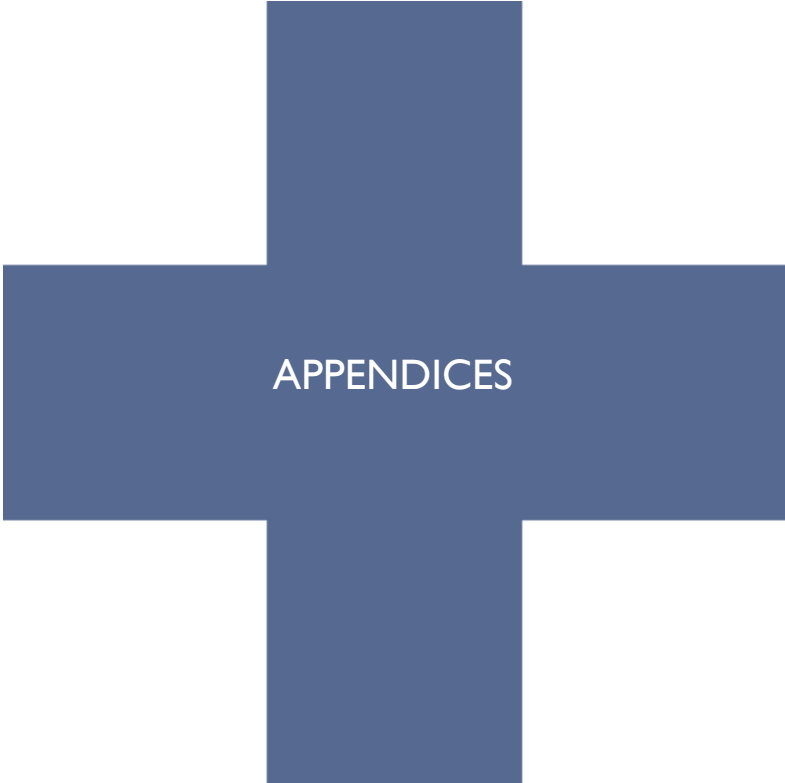


## DEVELOPMENT IMPACT BONDS: LOOKING FORWARD

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- The CGD and Social Finance DIB Working Group is developing guidelines for the design of DIBs, and moving initial pilots towards implementation
- DIBs are meant to be just one tool
- But DIBs could become a significant source of development financing

***Please contact Rita Perakis at [rperakis@cgdev.org](mailto:rperakis@cgdev.org) for more information or to receive email updates***

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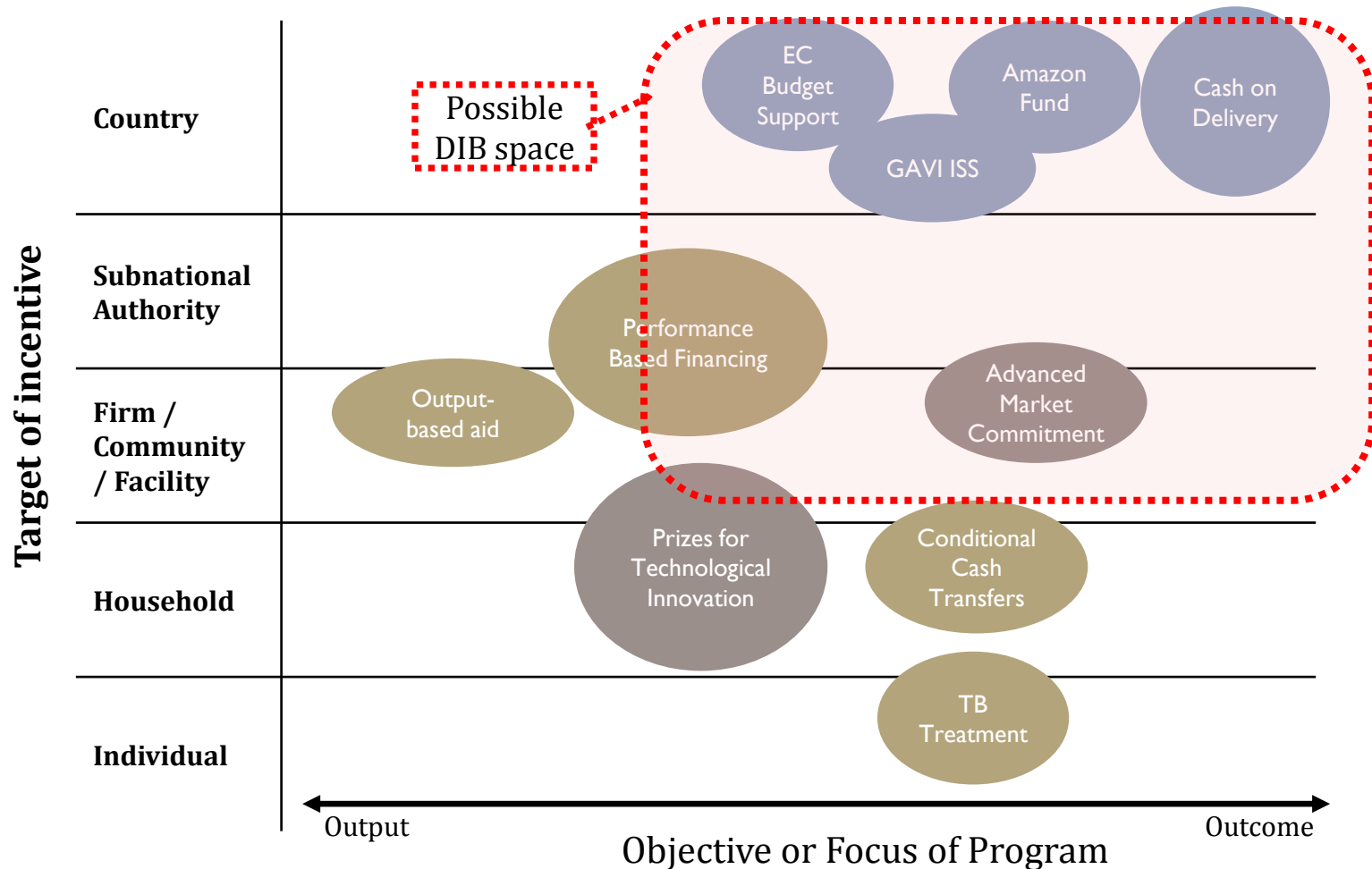
APPENDICES



# PAYMENT BY RESULTS IN DEVELOPMENT



A variety of possible mechanisms to pay for results might help to address some of these challenges. Development Impact Bonds could complement other approaches.



Source: Adapted from Savedoff, W. "Incentive Proliferation? Making Sense of a New Wave of Development Programs." Center for Global Development Essay. August 2011.



# DIB WORKING GROUP CONSIDERATIONS



<b>Role of partner government</b>	<ul style="list-style-type: none"><li>• Potential roles of partner governments include:<ul style="list-style-type: none"><li>– Co-commissioner / contract manager</li><li>– Funder / co-funder of outcome payments</li></ul></li><li>• Potential for partner government involvement in service provision dependent on investor confidence in delivery capacity</li><li>• Perception of partner government credit rating / operating context by investors<ul style="list-style-type: none"><li>– consideration if outcome funder</li></ul></li></ul>
<b>Payment metrics</b>	<ul style="list-style-type: none"><li>• Availability of data to create baseline and track progress</li><li>• Sensitivity of metric to DIB-funded interventions</li><li>• Avoidance of perverse incentives</li><li>• Potential for independent verification</li></ul>
<b>Value for money</b>	<ul style="list-style-type: none"><li>• Issues where sufficient evidence of what works to attract investors, but sufficient variation in implementation quality to justify risk transfer</li><li>• Service provider working capital requirement to deliver to PBR contracts</li><li>• Value for money likely to result from optimum rather than maximum risk transfer due to cost-of-capital considerations</li><li>• Appropriate balance between outcome and output payments likely to be determined by nature of required interventions</li><li>• Careful thought required to value outcomes when not linked to cashable savings</li></ul>
<b>Investor interest</b>	<ul style="list-style-type: none"><li>• Likely to be determined by a combination of social issue, geography, level of risk transfer and implementation approach</li><li>• Some element of capital guarantee likely to be required to raise substantial sums</li><li>• Risk appetite may increase over time with experience and opportunities for diversification</li></ul>

# SOCIAL IMPACT BOND: PETERBOROUGH PRISON



The first Social Impact Bond raised £5m to address reoffending among short-sentence prisoners in the UK.

