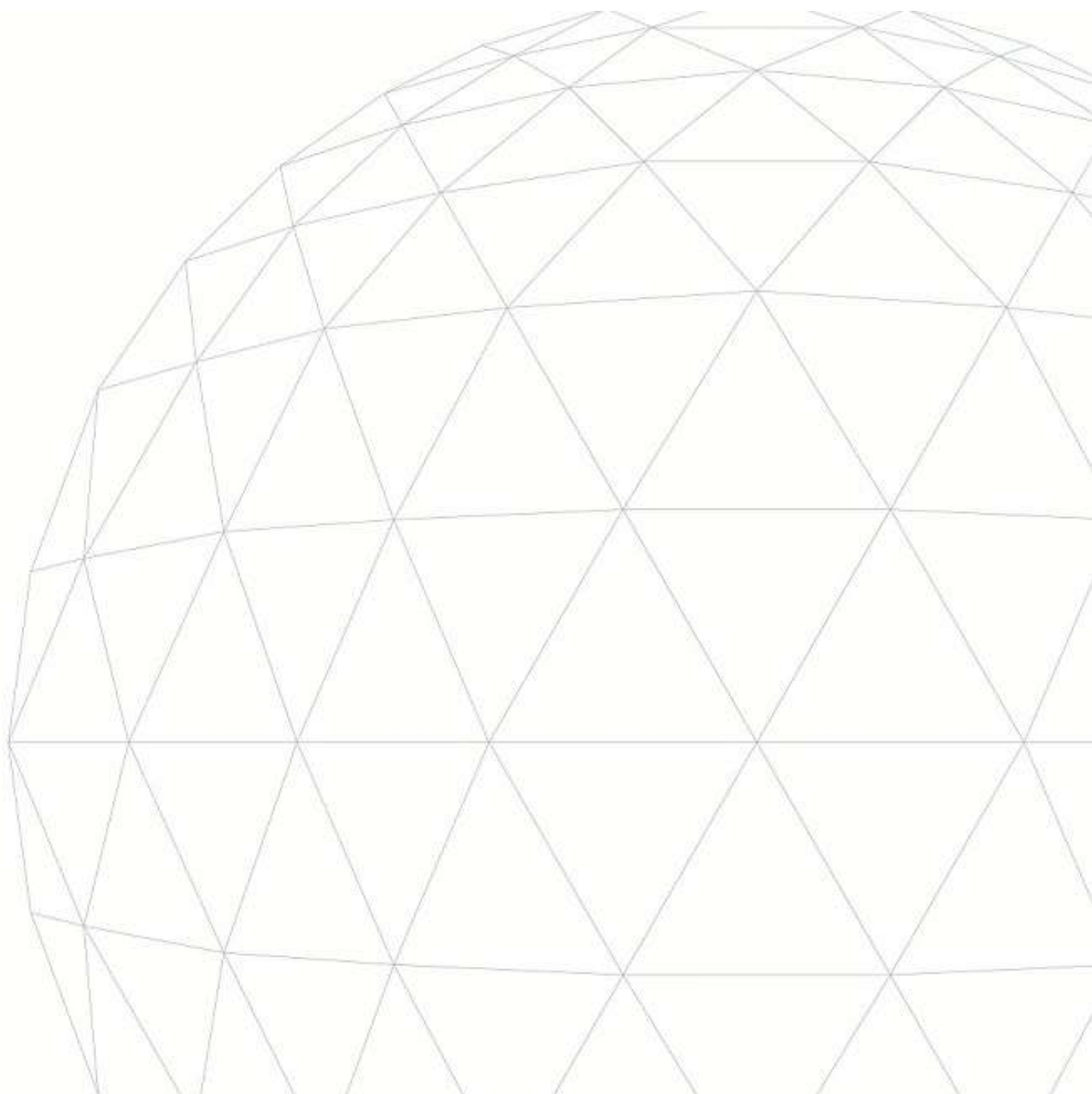




Independent Evaluation of the Development Impact Bonds (DIBs Pilot Programme)

Inception Report

July 2018



Acknowledgements and disclaimer

Acknowledgements

The lead authors of this report are Korina Cox (Team Leader), James Ronicle (Lead Analyst) and Kay Lau (Project Manager). The other team members who have contributed are Zachary Levey (DIBs expert), Hashim Ahmed and Catie Erskine (Researchers). Professor Alex Nicholls has peer reviewed this report.

Thanks to the DFID DIBs and PbR team and staff at ICRC, Village Enterprise, Instiglio and the British Asian Trust who supplied information and views.

Disclaimer

This report has been prepared by Ecorys for DFID, for services specified in the Terms of Reference and contract of engagement.

This contract is provided under the GEFA contract. In line with the terms and conditions of the GEFA contract, all intellectual property rights in all material (including but not limited to reports, data, designs whether or not electronically stored) produced by the Supplier or the Supplier's Personnel pursuant to the performance of the Services ("the Material") shall be the property of the Supplier. Under the terms of the contract, Ecorys, as the Supplier hereby grants to DFID a perpetual, world-wide, non-exclusive, irrevocable, royalty-free licence to use all the Material. DFID will be the final owner of the findings of the evaluation.

Ecorys will store all material related to the evaluation on a secure drive which will only be accessible by members of the Evaluation Team. Data will be managed under the terms and conditions of the GEFA contract.

Executive Summary

Purpose and Scope 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.

A key focus of this evaluation is understanding the benefit of applying a DIB model, looking at whether any strong or weak performance in the project is attributable to the DIB funding mechanism rather than other factors.

The focus of the evaluation is 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 whether, how and in what circumstances the DIB model improves the **performance** and **effectiveness** of development programmes in terms of achieving results efficiently. A final focus of the evaluation is on how the DIB model takes into account cross-cutting issues that mean certain sub-groups of beneficiaries are more vulnerable or harder to reach.

The scope of the evaluation is the three projects under the DFID-supported DIBs Pilot Programme:

- **International Committee of the Red Cross (ICRC)** Humanitarian Impact Bond for Physical Rehabilitation;
- **Village Enterprise** micro-enterprise poverty graduation Impact Bond;
- **Support to British Asian Trust** to design impact bonds for education and other outcomes in South Asia.

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?

Approach

There is emerging evidence of DIBs having a range of effects on interventions. These depend on the contexts and nature of the DIB, and not all effects will apply to the three DIBs covered by this evaluation. As such, the evaluation will focus on the specific, expected effects of the

DIB mechanism in the theories of change for each intervention. These expected DIB effects are expressed in the project theory of change.

In order to isolate the 'DIB effect', or the effect of using a DIB instead of another type of aid funding mechanism, the evaluation proposes using a combination of process tracing (see Box below) and comparative analysis. This will involve the creation of DIB effect indicators, that is, what one would expect to see should hypotheses about the DIB effect hold true. This will be compared across the DIB projects and similar projects financed using different mechanisms (comparison projects). A cost effectiveness analysis will be undertaken on the additional costs and benefits of using a DIB financing mechanism compared to other financing mechanisms in order to monetise the costs and benefits of using a DIB mechanism.

The evaluation takes a multi-level approach. Learning will be identified from the individual DIB projects, synthesised for the pilot programme as a whole and then contextualised within the wider DIB sector learning.

Box: Process Tracing

Process tracing is a qualitative research method for assessing causal inference across a small number of cases. The method seeks to assess the causal chain that link independent variables and outcomes, and seeks to assess the relative contribution of different factors. The approach involves the following steps.

1. **Process induction and creation of 'DIB effect' indicators:** The evaluation team has produced a set of indicators through which to measure the outcomes the DIB mechanism is expected to achieve, mapped to the evaluation questions set out in the evaluation framework in the next section.
2. **Examine presence of indicators in DIB areas:** The evaluation will examine the extent to which the DIB effect indicators are present within the DIBs.
3. **Examine presence of indicators in non-DIB areas:** The evaluation will also identify whether the DIB effect indicators are present within similar interventions delivered through alternative funding mechanisms, through interviews with DIB stakeholders involved in previous similar interventions and secondary research.
4. **Analyse difference between DIB and non-DIB areas:** This analysis will identify the elements that are specific to the DIBs 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. The evaluation will use process verification to assess the extent to which the DIB mechanism contributed to the DIB effect indicators, relative to other factors. This will involve review of the data and further consultations.

The second strand of the evaluation is the **cost effectiveness analysis**, which will be guided by the 4Es framework set out below:

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.
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 beyond 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 which 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. The evaluation will seek to understand the effectiveness of the targeting strategy of the DIB, especially in terms of the hard to reach.

Evaluation Framework

The table below sets out further detail on the approach to addressing the two Evaluation Questions (EQ). It shows how a suite of sub-questions mapped to the DAC criteria, and DIB-effect indicators, which set out what the evaluation team will measure to understand the effects resulting from the use of the DIB model.

Evaluation Questions and sub-questions mapped to DAC criteria	DIB effect indicators
EQ1: Assess how the DIB model affects the design, delivery, performance and effectiveness of development interventions.	
<p>Relevance</p> <ul style="list-style-type: none"> • To what extent were the three DIB projects successful in realising their aims, outputs, outcomes and impacts? Were any levels of success and failure down to the DIB model? 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? • 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? • How important was the DIB model in the effectiveness of the projects - was it a small, medium or large driver of success and was it at all critical to the projects' overall performance? • To what extent did stakeholders involved in the DIB use any of the working practices of the model in their other work? • Does the increased evidence base developed in the DIB enable the projects to access additional funding? • To what extent did good practice within the DIBs spread to other interventions or organisations? • To what extent does the effectiveness vary across the three projects and why? • How does the effectiveness compare to other DIBs and funding mechanisms and why? 	<ul style="list-style-type: none"> • Number and type of providers taking on PbR contract • Number of other PbR contracts that partners are involved in before and after involvement in DFID supported DIBs • Strength of performance management and measurement systems • Use of real time performance information to inform ongoing delivery • Level of flexibility found within the project to alter project delivery • Level of responsiveness and agility of partners to deal with bottlenecks, issues and challenges • Proportion of total cost of project going to front line delivery against proportion going to project development and administration (including research and data verification) • Level of involvement and influence of private investors in the development and delivery of the DIB and extent to which private investors drove (over) performance of providers • Strength of relationship of partners involved and levels of collaboration • Strength of monitoring and evaluation systems developed • Profile of beneficiaries, and evidence of 'cherry picking' and excluding those more vulnerable or harder to reach • Quality and range of support provided, and evidence of parking (ceasing support to beneficiaries where further outcome payments are unlikely)

Evaluation Questions and sub-questions mapped to DAC criteria	DIB effect indicators
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>Efficiency</p> <ul style="list-style-type: none"> • 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? • 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? • Do the extra costs represent value for money - to what extent do they lead to additional results, impacts and benefits? • Do any aspects to a DIB model (e.g. involving an investor, undertaking verification of outcomes) shorten or extend the timeframes of projects? • Who pays for these additional costs and to what extent do they see the benefits? • Are there any inefficiencies in a DIB model that can be reduced or are there any additional costs that are unnecessary? • To what extent does the efficiency vary between the three DIB projects and why? • How does the efficiency compare to other DIBs and funding mechanisms and why? 	<ul style="list-style-type: none"> • Individual and average costs of setting up a DIB broken down by: • Salary costs (based on labour cost per hour) • Outsourcing costs (e.g. cost of intermediaries) • Other costs (e.g. overheads) • Level of transaction costs of setting up a DIB compare with the average costs for other funding mechanisms (e.g. fee-for-service contracts) • Changes in transaction costs over time (as projects start to learn from previous experience) • Number of new DFID programmes interacting with DIBs guidance, evaluation findings and reports. • Proportion of new DFID DIB instruments commissioned that are informed by recommendations of DFID DIBs evaluation reports. • Number of direct beneficiaries with improved outcomes as a result of DFID funded DIB projects • Number of DFID supported DIB projects with improved cost-effectiveness ratio compared with service providers' own past performance • Level of returns and profit made by the investors and extent to which that influences future involvement in both DIBs and development projects

Evaluation Questions and sub-questions mapped to DAC criteria	DIB effect indicators
Relevance <ul style="list-style-type: none"> • In what circumstances are DIBs relevant in tackling issues in the development context? • What problems, target groups, geographies and project scales do DIBs fit best and have the greatest of impact? • 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? • 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? 	

The methods used to collect data to address the evaluation questions set out above include:

DIB level research:

- **Data Analysis:** quantitative data on the performance of the DIBs, including outputs and outcomes and outcome payments and returns.
- **Document Review:** key documents related to each DIB.
- **DIB Consultations & Field visits:** consultations with key stakeholders to understand how the DIB mechanism is affecting the set up, delivery and performance of the project, and lessons learned in implementing the DIB that could be applied to later stages or other DIBs.
- **Research in comparator sites:** process tracing and DIB effect indicators to identify the extent to which these are present within the comparator sites (similar interventions delivered through alternative funding mechanisms).
- **Cost analysis:** information on the additional costs of setting up and using a DIB, in comparison to other funding mechanisms, and the extent to which these lead to additional benefits.

Programme level research:

- **DFID consultations:** discussion of the programme aims, DFID's perspective on the progress and success of the programme, implications for the wider DIB landscape and any changes to DFID strategies.
- **Programme document review:** review of internal reports to ensure the evaluation is situated within DFID developments.
- **Literature Review:** support contextualisation of the findings from the programme within the wider impact bond sector.
- **Learning workshops:** internal and external workshops, to contextualise the programme evaluation findings, share lessons learned and consider the implications for the wider sector.

DIB case studies

A key priority for the evaluation is ensuring that the evaluation approach is appropriately tailored to the three DIBs within DFID's DIB Pilot programme, recognising that the motivation for use of the DIB and the DIB effect will differ between DIBs. A brief summary of each DIB and DFID's involvement in the DIB is set out below.

ICRC

The International Committee of the Red Cross (ICRC) will be funded using an impact bond model to deliver a project that aims to increase the efficiency of its physical rehabilitation services compared to existing efficiency benchmarks. The Impact Bond model will enable the ICRC to secure 5 years-worth of finance upfront, which it will use to innovate, pilot and invest in improving the delivery of rehabilitation services– with the overall goal of using its resources more efficiently to assist more disabled people to regain mobility.

Under the impact bond model the ICRC has flexibility over how it delivers to achieve the agreed result. The ICRC plans to deliver a series of work streams under the project: a) the ICRC will build new 3 new centres in counties with significant unmet need (Mali, Northern Nigeria, Democratic Republic of Congo); b) train local staff to deliver high quality physical rehabilitation services in these centres; c) pilot and rigorously assess pilot efficiency improvement measures across eight¹ 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; d) operationalise the three new centres using improved operational protocols that are based on effective efficiency measures.

Project success will be measured using the Staff Efficiency Ratio which will count the number of patients who have regained mobility following the fitting of a mobility device divided by the number of staff working in the rehabilitation centre. This ratio will be measured in each of the 3 new centres operationalised by the ICRC.

To monitor patient outcomes, ICRC plans to generate, for example, participant exit surveys and videos of participants completing mobility tests. Where appropriate and feasible, ICRC plans to collect beneficiary feedback on services provided through SMS technology.

The project started in July 2017 and will end in July 2022, when the level of staff efficiency in the new centres will be measured. The ICRC will only be paid by outcome funders in July 2022. The size of the outcome payment depends on the level of efficiency achieved, and is scaled to incentivise greater efficiency savings. If the new centres operate less efficiently than past centres (or do not open) the ICRC and its investors will make a loss on their investment. But, if the centres deliver more efficiently, delivering services to more people with the same resources, then the ICRC and its investors will recover their investment and can make a moderate return on their investment.

DFID is providing £2m of outcome funding to the project. The total value of outcomes funding is ~£20m. Outcome payments are tied to the Staff Efficiency Ratio and will be paid to the ICRC in full or part in July 2022 based on the level of efficiency achieved. In addition, a €1m (£0.88m) payment to the ICRC will be made once the new centres are built (year 3 of programme).

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

Village Enterprise

Village Enterprise will deliver a micro-enterprise graduation programme that aims to increase the incomes of individuals living on incomes of less than £1.90/day in Kenya and Uganda. A pay-for-outcomes model was preferred because graduation programme impact has varied based on location and implementation models. While there is an indication that capital-centric graduation programmes that combine enterprise training with seed capital to start a business, as well as other inputs (e.g. consumption smoothing activities or additional cash transfers) can have positive impacts on poverty reduction – there is uncertainty over the volume and type of inputs needed. Further graduation programmes that combine many inputs are often expensive.

Under the Impact Bond model, Village Enterprise will be paid \$1 for every \$1 of current and future increase in household levels of consumption (which is a proxy for income) that Village Enterprise achieves for participating households compared to households who are not receiving the intervention. The results will be measured using a cluster-designed Randomised Controlled Trial implemented by an independent evaluator 6-18 months after Village Enterprise have finished their intervention in order to monitor sustainability of benefits created.²

The outcome that donors will pay for and the payment formula used to calculate the payment is closely tied to Village Enterprise's theory of change, and the goal of the programme which is improved living standards and graduation from poverty. It was designed to incentivise achievement of the desired goals, while being measurable and preventing perverse incentives or gaming. It is also designed to incentivise Village Enterprise to deliver cost-effectively at scale, with the target number of beneficiaries expected to be greater than 12,660. It is also hoped that the model could be replicated for other graduation programme interventions.

Village Enterprise is raising the capital it needs to deliver the activities from private investors, who will share in the risk that if Village Enterprise does not deliver the results they may lose some of all of their investment in the programme. At the same time, investors may make a moderate return on their investment if Village Enterprise delivers to the same level it has in the past, or larger returns if Village Enterprise significantly increases the benefit it is creating for households. Village Enterprise will raise the investment they need overtime. This is different from the ICRC programme, where investors committed their investment upfront.

Under the impact bond model, Village Enterprise plans to implement their existing graduation model, which consists of providing training, seed capital, and ongoing mentoring and support, to groups of three entrepreneurs – enabling each group to start a microenterprise. However, through the DIB model, Village Enterprise has the flexibility (from the outcome funders) to adapt their inputs and activities to deliver greater impact for participating households, subject only to maintaining appropriate do no harm safeguards.

The 5 components of the planned VE programme include targeting, business savings groups,

² The RCT will measure households' assets (durable and productive assets), consumption (food consumption, recurrent expenses and infrequent expenses), and savings (sum of funds set aside in the organised business savings group and independently).

training, seed funding and mentoring.

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. Participants are expected to complete a small business application to be considered for funding. VE reviews the form to ensure the business is viable and will not have negative impacts, and checks if there will be saturation of a certain business type. When creating their business plans, some participants will plan for multiple income generating activities (IGAs). This practice helps beneficiaries ensure income is smoothed year-round and helps hedge against risks of devastation in the case of failure of one IGA. Village Enterprise's experience is that the entrepreneurs may start-off with one activity, but evolve into other and multiple types of activities overtime – generating different income streams.

Given a seed funding transfer to beneficiaries, the payment calculation is based on resultant increase in household level of a) consumption and b) assets above the initial seed transfer.

DFID is an outcome funder in the project, funding \$2m of the project. The total outcomes payments available are \$4.3m. The total cost of the DIB and surrounding activities is \$5.3m (of which \$0.5m is for outcome verification activities, and \$0.07m for DIB learning activities).

British Asian Trust – “Quality Education India DIB”

DFID is providing technical assistance to support the British Asian Trust to design and launch impact bonds in South Asia. The technical assistance includes DFID staff resources and grant financial support to the British Asian Trust to cover design and results measurement activities.

The majority of DFID's assistance will focus on the detailed design and launch of an impact bond to deliver better learning outcomes for up to 200,000 primary school children in India. DFID will support work to finalise the design of the impact bond, the legal structuring and performance management systems for the project as well as the design and implementation of the results measurement activities – that will ensure outcome payers are paying for verifiable quality results. The detailed design of the impact bond is occurring in 2018, with the programme launching in September 2018. BAT aim to produce a DIB financial and programme management framework that is replicable, and would help to reduce costs when designing and structuring future impact bonds. The Quality Education India Impact Bond is expected to include up to 4 education service providers (NGOs) that each have a different delivery model.

With DFID's support, BAT will also commission learning activities around the project. The aim of these learning activities is to (a) provide cross learning between key stakeholders in the social finance space (b) support the creation of shared tools and resources to enable the entry of new players in the impact bond market. The project will also generate data on the cost-effectiveness of different education interventions – through the impact evaluation and cost reporting. There may be scope to also evaluate how each intervention delivered the services – which aspects of the services were most important in contributing/not to the outcomes (but this not certain, and has not been commissioned yet).

With DFID's support, BAT will also commission research activities to assess the suitability and feasibility of using DIBs, SIBs (or similar PbR models) to deliver education or other sustainable development goals in other DFID priority countries in South Asia. This work will take place

between December 2019 and December 2020, producing detailed feasibility studies by December 2020.

Limitations of the Evaluation Approach

There are two main limitations to this approach. Firstly, it is not possible to quantify the DIB effect using experimental or quasi-experimental methods; hence, the evaluation seeks to assess the impact of the programme using a qualitative approach. This brings with it the risk of several biases, which are set out below, along with detail of how the evaluation plans to minimise the effects of these potential biases:

- **Sample bias:** The size of the DIBs means that for some stakeholder groups (for example, beneficiaries and practitioners) only a sample will be interviewed. The recruitment of stakeholders may be biased towards stakeholders which have more positive opinions of the projects.

The evaluation will create a sampling frame to select a representative sample of stakeholders.

- **Response bias:** It is possible beneficiaries will overstate the benefits of support when being interviewed, due to a desire to please the researcher and project. It is also possible that projects and those who gain from the DIB mechanism will wish to downplay the effect of any perverse incentives.

The evaluation will reinforce the anonymous nature of the interviews and the desire for honest accounts to reduce response bias.

- **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.

The evaluation team will use 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.

Secondly, 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. However, the fact that the DIBs are operating across multiple sites makes it easier to generalise the findings, as the evaluation can examine the extent to which the DIB effect holds true across different sites. Additionally, the evaluation's consultations with others in the DIB sector and workshops will help contextualise evaluation findings. Furthermore, the evaluation team will actively disseminate evaluation findings, and support others to build on this approach. As additional DIBs are commissioned and implemented, the use of a coherent evaluation framework and generation of comparable data will facilitate the building up of evidence and learning.

Contents

Acknowledgements and disclaimer	2
Acknowledgements.....	2
Disclaimer	2
 Executive Summary.....	 3
Purpose and Scope of the evaluation	3
Approach	3
Evaluation Framework	6
DIB case studies.....	1
ICRC	1
Village Enterprise	2
British Asian Trust – “Quality Education India DIB”	3
Limitations of the Evaluation Approach.....	4
 1.0 Introduction	 1
1.1 Overview	1
1.2 Inception Process	1
1.3 Changes to the Terms of Reference	2
1.4 Inception Report Structure	2
 2.0 The DIBs Pilot Programme	 4
2.1 History of DIBs pilot.....	4
2.2 Objectives and Overall programme theory of change	4
2.3 DIB Programmes Overview	7
2.3.1 DIB Programmes.....	7
2.3.2 DIBs Expected Effects and Theory of Change	9
2.3.3 Key Stakeholders	15
2.4 Management arrangements.....	17
 3.0 The Context for DIBs implementation.....	 19
3.1 Impact Bonds – definitions and concepts.....	19
3.1.1 Definitions.....	19
3.1.2 Types of impact bonds	20
3.2 History of Social Impact Bonds	21
3.3 DIBs and Social Impact Bonds in developing countries.....	21
3.4 Linkages to other relevant projects.....	22
3.4.1 DFID	22
3.4.2 Other DIBs.....	22

3.4.3	Other learning activities	23
4.0	Review of Information and data sources	26
4.1	Research Literature on Impact Bonds.....	26
4.1.1	Hypothesised effects of DIBs	27
4.1.2	Theoretical Basis, Criteria and Suitable Contexts for Effective use of PbR and DIBs.....	28
4.1.3	Evidence base on the DIB effect and cost effectiveness of impact bonds.....	31
4.1.4	Recommendations around improvements to designing and agreeing DIBs.....	33
4.1.5	Challenges and approaches to evaluating impact bonds	34
4.2	DFID DIBs programme level documents and consultations.	35
4.3	DIBs Available data and planned learning activities	37
5.0	Evaluation Approach.....	40
5.1	Objectives of the Evaluation	40
5.2	Scope and Focus of the Evaluation	40
5.3	Users of the Evaluation.....	41
5.4	Evaluation Framework	41
6.0	Evaluation Methodology	47
6.1	Overview of Evaluation Method	47
6.1.1	Method overview	47
6.2	WP2: DIB-level research	52
6.2.1	Data analysis.....	52
6.2.2	Document review.....	54
6.2.3	DIB consultations and field visits	54
6.2.4	Evaluation plans with individual DIBs	61
6.2.5	Comparator sites	66
6.2.6	Cost Analysis.....	72
6.3	WP3: Programme-level research	81
6.3.1	DFID consultations	81
6.3.2	Programme document review.....	81
6.3.3	Literature review.....	81
6.3.4	Learning workshops	82
6.4	WP4: Analysis, reporting & dissemination	82
6.5	Analysis.....	82
6.5.1	Evaluation outputs.....	84
6.5.2	Annual briefings.....	85
6.5.3	Webinars	85

6.6	Cross-cutting issues and design of the evaluation.....	85
6.7	Method review: Limitations, rejected methods and building on lessons learnt.....	86
6.7.1	Limitations	86
6.7.2	Rejected methods	87
6.7.3	Building on lessons learnt from previous evaluations	87
7.0	Evaluation Governance.....	89
7.1	Evaluation Governance.....	89
7.2	Ethical Standards	89
8.0	Communications and Stakeholder Engagement.....	92
8.1	Stakeholder Analysis	92
8.2	Communications Plan.....	95
8.2.1	Leveraging existing channels	97
9.0	Evaluation Management Arrangements.....	98
9.1	Evaluation Work Plan.....	98
9.2	Evaluation Management and Organisation	98
9.3	Risks and Risk Mitigation	100
	References	104
	Annex A: Terms of Reference	109
	Annex B: Design of the DIBs	141
	B.1 ICRC	141
	B.2 BAT – Quality Education India DIB	142
	B.3 Village Enterprise	144
	Annex C: Literature Review	146
C.1	Hypothesised effects of DIBs.....	146
C.1.1	Inputs.....	148
C.1.2	Process.....	149
C.1.3	Impact.....	149
C.2	Theoretical Basis, Criteria, Suitable Contexts for Effective use of PbR and impact bonds and Critiques	150
C.2.1	Theoretical Basis	151
C.2.2	Criteria	152
C.2.3	Suitable Contexts.....	153

Conceptual Underpinning of Impact Bonds and Critiques	155
C.3 What is the evidence base, and what does it say about the DIB effect and the cost effectiveness of impact bonds?	158
C.3.1 Input.....	158
C.3.2 Process.....	159
C.3.3 Impact.....	162
C.4 What are the key recommendations around improvements to designing and agreeing DIBs to increase the model's benefits and reduce the associated transaction costs?	164
C.4.1 Challenges.....	165
C.4.2 Recommendations.....	165
C.5 What approaches have been used to evaluate impact bonds? What are the main challenges and solutions?.....	167
C.5.1 Strengths and weaknesses of existing evaluation approaches and evidence	167
C.5.2 Assessing VfM.....	168
C.5.3 Approaches to evaluation	168
C.5.4 Framework for synthesising evidence.....	169
Annex D: Key Stakeholders interviewed.....	170
Annex E: Key Documents Reviewed	171
Annex F Potential Comparison Programmes	173
Annex G: Research Tools	178
G.1 Overview	178
G.2 Plan for DIB-Level Research	178
G.2.1 Purpose of DIB-level research.....	178
G.2.2 Purpose of Research Wave 1	178
G.2.3 Research tasks.....	179
G.3 DIBs Evaluation: Wave 1 Research Tools: Topic Guide for All Stakeholders.....	181
G.4 Briefing for Researchers.....	181
G.4.1 DIB level research and DIB consultations	181
G.4.2 Purpose of consultations	181
G.4.3 Using this topic guide	182
G.4.4 Introduction to interviewees	182
G.5 DIBs Evaluation: Wave 1 Research Tools: Framework for Comparator Sites	188
G.5.1 Briefing for Researchers.....	188

G.5.2 DIB effect indicators	189
G.6 Implementing the process tracing	191
G.6.1 Examine presence of indicators in non-DIB areas:.....	191
G.6.2 Examine presence of indicators in DIB areas:.....	192
G.6.3 Analyse difference between DIB and non-DIB areas.....	192
G.6.4 Process verification	192
G.7 Comparator site framework.....	192

Annex H: Potential Comparison and Benchmark Programmes for Cost Analysis	194
---	------------

Annex I: Detailed Evaluation Work Plan.....	196
--	------------

Annex J: Evaluation Budget	200
---	------------

Annex K: Team Composition	201
--	------------

Annex L: Key Performance Indicators	202
--	------------

Annex M: Learning Note.....	204
------------------------------------	------------

Section 1: Headline learnings from the DFID pilot DIBs programme .	205
---	------------

Section 2: Findings against the claimed benefits and limitations of Impact Bonds.....	207
--	------------

Section 3: Performance and effectiveness of development programmes financing using a DIB mechanism compared with other funding mechanisms	217
--	------------

Implications for evaluation planning	218
---	------------

Annex N: Sections of the Report mapped to EQUALs checklist.....	219
--	------------

Annex O: Draft DIB-level Evaluation Plan	222
---	------------

List of figures

Figure 1: DIB Pilot Programme Theory of Change	6
Figure 2: ICRC DIB effect Theory of Change	12
Figure 3: Village Enterprise DIB effect Theory of Change	13

Figure 4: DFID Programme Team Structure.....	17
Figure 5: Method Summary	48
Figure 6: Multi-layered approach.....	50
Figure 7: Approach to identifying the DIB effect	68
Figure 8: The 4Es used to assess VfM (DFID 2011)	73
Figure 9: Overview of Evaluation Team Structure	99
Figure 10: ICRC HIB Structure	142
Figure 11: BAT India Education DIB's financing structure	143
Figure 12: BAT India Education DIB's performance management structure	144
Figure 13: Village Enterprise structure	145
Figure 14: Framework for synthesising evaluation evidence	146
Figure 15: Approach to identifying DIB effect	189

List of tables

Table 1: Programme Components	7
Table 2: DIB effects and areas for further investigation.....	10
Table 3: Key stakeholders	15
Table 4: Type of Contract.....	20
Table 5: Requirements and advantages of different DIB leads ..	21
Table 6: Summary of contracted DIBs.....	22
Table 7: Learning activities and proposed linkages	23
Table 8: Summary of hypothesised DIB effects.....	27
Table 9: Evidence base against the hypothesised DIB effects ...	32
Table 10: Summary of data and information being collected by each DIB.....	37
Table 11: Evaluation Framework.....	42
Table 12: Quantitative data to be collected on the DFID DIB pilots	52
Table 13: Stakeholders to be consulted as part of DIB consultations	55
Table 14: Sampling Frame for Stakeholder Consultations	61
Table 15: Structure for Evaluation Plans with Each DIB.....	62
Table 16: DIB effect indicators	69
Table 17: VfM Framework	75
Table 18: VfM Indicators.....	75
Table 19: Costing Structure.....	78
Table 20: Focus and Indicators to be assessed for each Research Wave	80
Table 21: Possible Learning Themes	84
Table 22: Stakeholder Analysis	92

Table 23: Communication Plan	96
Table 24: Summary Evaluation Work Plan	98
Table 25: Research Activities for Research Wave 1	100
Table 26: Risk Matrix.....	100
Table 27: BAT payment mechanisms.....	142
Table 28: Sources consulted	147
Table 29: Impact bond principles.....	151
Table 30: Categorisation of SIBs by level of innovation	154
Table 31: Challenges of designing impact bonds	165
Table 32: Strengths and weaknesses of existing evidence and evaluation approaches and methods related to SIBs and DIBs (Drew and Clist 2015:27).....	168
Table 33: Key Stakeholders Interviewed	170
Table 34: Key Documents Reviewed	171
Table 35: Comparison of ICRC and potential comparator programmes	173
Table 36: Comparison of VE and potential comparator programmes	175
Table 37: Comparison of BAT and potential comparator programmes	176
Table 38: DIB effect indicators	190
Table 39: Benchmark DIBs and SIBs	194
Table 40: Comparator PbR programmes	195
Table 41: Detailed Evaluation Workplan	196
Table 42: ICRC Evaluation planning	198
Table 43: Village Enterprise Evaluation Planning.....	198
Table 44: BAT evaluation planning.....	199
Table 45: Evaluation Budget	Error! Bookmark not defined.
Table 46: Summary of Team Members, Roles and Responsibilities	
Table 47: KPIs.....	202
Table 48: DFID and Stakeholder Group Survey and Ratings ...	203
Table 49: Proposed consultations	222
Table 50: Value for Money data	223
Table 51: Other data	224

List of boxes

Box 1: Stakeholders' objectives in using impact bonds	150
---	-----

List of Acronyms

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
GEFA	Global Evaluation Framework Agreement
GSRU	Government Social Research Unit
HIB	Humanitarian Impact Bond
HRITF	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
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 Humanitarian Impact Investment, alternative name for the HIB
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
SER	Staff Efficiency Ratio
SIB	Social Impact Bond
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

1.0 Introduction

1.1 Overview

This document is the Inception Report for the Independent Evaluation of the DIBs (DIBs Pilot Programme). As specified in the Terms of Reference (appended at Annex A), “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.” The DIBs pilot programme comprises funding to three DIB projects: the ICRC Humanitarian Impact Bond for Physical Rehabilitation, the Village Enterprise micro-enterprise poverty graduation impact bond and support to the British Asian Trust to design impact bonds for education (Quality Education India Impact Bond) and other outcomes in South Asia. £6.3m is allocated over the period from June 2017 to March 2023. Further details on the individual DIBs are set out in Annex B.

This Inception Report sets out the detailed objectives of the Evaluation, defines the evaluation questions, and sets out the methodology and research activities by which evidence will be gathered to answer the evaluation questions. The Evaluation will take place between 2017 and 2023. A Research Wave 1 report will be produced by November 2018, a Research Wave 2 report by November 2020 and a Final Evaluation Report by March 2023. In addition, shorter updates summarising the ‘Keeping in Touch’ findings will be produced in 2019 and 2021. The Inception Report also presents the updated workplan and timetable, including details of the team composition and management, the governance arrangements and approach to communications and stakeholder engagement.

1.2 Inception Process

The Inception Phase began following the inception meeting dated 23 May, 2018. The main priorities for the inception phase were to set up project management structures, plan and consult with the DIBs and refine the team’s understanding of the objectives of the evaluation, the DFID DIBs pilot programme and DFID’s strategy for impact bonds and PbR more generally. The main activities undertaken during the inception phase have been:

- 1. Literature Review:** A literature review was undertaken, focusing on the two evaluation questions and approaches used to date to evaluate DIBs. The review draws predominantly on the literature on DIBs, but also the literature on SIBs and PbR. The full literature review is set out in Annex C.
- 2. Planning and consultation with DFID and the DIBs:** The evaluation team interviewed the DFID DIBs team and PbR advisor in order 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 DFID’s strategy for using PbR and DIBs. Additionally, DIB teams were consulted to enable the evaluation team to better understand the DIBs, their plans for evidence collection and lessons to date. It was also important that the evaluation team develop an understanding of existing M&E and

planned learning activities, so that the evaluation plan could take these into account in order to ensure that this evaluation does not duplicate existing work. Consultees are listed in Annex D.

3. **Review of information sources:** The evaluation team reviewed key DFID documents on the DIBs pilot programme, DFID DIBs strategy and learning and background documents and update reports for the DIB projects. The information gathered from these documents was used to refine the evaluation approach. Information reviewed is listed in Annex E.
4. **Finalisation of evaluation approach:** The evaluation team assessed potential comparison programmes (Annex F), drafted research tools for Research Wave 1 (Annex G), finalised the VfM approach, identified potential comparison programmes for the cost analysis (Annex H), identified learning priorities and updated the dissemination plan, theory of change and evaluation framework.
5. **Project mobilisation:** The project management framework, financial management arrangements, risk register, conflict of interest policy and team structure were finalised. The finalised work plan, budget and team are set out in Annexes I, J and K. The methods of assessing the KPIs were elaborated, as set out in Annex L.
6. **Sharing of emerging findings:** The evaluation team produced a note with early learning emerging from the inception phase, and the key relevant learning from the SIBs evaluation work. The note is set out in Annex M.

Additionally, bi-weekly calls were held with the DFID DIBs team to discuss emerging issues and obtain guidance on various matters relating to the evaluation approach.

1.3 Changes to the Terms of Reference

The evaluation approach is consistent with the ToR in being theory-based and seeking to cover all components of the programme. The main changes and developments to the ToR are the following:

1. A revision and development of the proposed evaluation questions (section 5.4);
2. A revision of the Theory of Change (section 2.2).
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.

1.4 Inception Report Structure

The remainder of this Inception Report is structured as follows:

Section 2 summarises the context, objectives, components of and management arrangements for the DIBs pilot programme.

Section 3 provides a summary of the context of impact bonds, including social impact bonds and other DIBs.

Section 4 sets out a summary based on the findings from the review of the DIB research literature, DFID's programme documents relating to the DIB and PbR strategies, and documents relating to the three DIBs funded by the programme.

Section 5 presents the evaluation approach and methodology.

Section 6 outlines the evaluation governance arrangements and approach to compliance with ethical standards.

Section 7 sets out the stakeholder analysis and proposed communications strategy

Section 8 presents the evaluation work plan, evaluation management arrangements and updates on the risk assessment.

Additional information is included in the annexes:

Annex A contains the ToR for the Evaluation.

Annex B sets out further detail on the design of the DIBs

Annex C sets out the full literature review

Annex D summarises the stakeholders interviewed

Annex E summarises the documents reviewed as part of the evaluation

Annex F presents an analysis of potential comparison projects

Annex G sets out the research tools for Research Wave 1

Annex H sets out potential comparison programmes to be used for the cost analysis

Annexes I and J set out the updated evaluation work plan and evaluation budget respectively

Annex K details the composition and experience of the team

Annex L sets out the KPIs and the proposed survey to be used to obtain information against a number of these indicators

Annex M sets out the Learning Note shared with DFID, summarising emerging learnings

Annex N maps the sections of the report against the EQUALS criteria

Annex O sets out a draft evaluation plan to be agreed with each DIB

2.0 The DIBs Pilot Programme

2.1 History of DIBs pilot

DFID's 2014 PbR Strategy 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 from the development budget is achieved. Paying only when results are achieved is expected to contribute to driving DFID's priority results. The rationale for PbR is set out as being its ability to re-balance accountability, increase innovation and flexibility in delivery, increase transparency and accountability for results and create a strong focus on performance in service providers.

DFID recognises three types of PbR: results-based aid (RBA), results-based financing (RBF) and DIBs. These instruments differ primarily in terms of who receives payment from the outcome or ultimate funder, for example, DFID. In results-based aid, the payment is made to a country's government. In results-based financing, the payment is made to a service provider. In a DIB, the funder, e.g. DFID, makes the payment to an investor who pre-finances the provision of services through the activities of a service provider, supported, in most cases, by an intermediary. 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 DFID to "assess[ing] the scope" of DIBs as a financing tool. It is in this context that the DIBs pilot programme was launched.

2.2 Objectives and Overall programme theory of change

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, 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. 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.

The DIB 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.

In the ToR, DFID supplied a Theory of Change (ToC). As a 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 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. Some amendments have been made to the ToC (Figure 1) set overleaf (highlighted in black text).

Figure 1: DIB Pilot Programme Theory of Change



2.3 DIB Programmes Overview

This section sets out the programmes/interventions funded by the DIBs pilot programme, initial DIB theory of change models and the key stakeholders based on the 6 actor model of impact bonds. Key elements of the DIBs funding mechanism for the three DIBs are set out in Annex B.

2.3.1 DIB Programmes

The following sub-section set out the three 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 1: Programme Components

Component	ICRC	Village Enterprise	Quality Education DIB (BAT)
Activities	<ul style="list-style-type: none"> a) Build 3 new centres in counties with significant unmet need (innovative reference centres) b) Train local staff to deliver high quality physical rehabilitation services in these centres; c) 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; and d) Operationalise the three new centres using improved operational protocols that are based on effective efficiency measures. 	<ul style="list-style-type: none"> a) Identification of individuals who live on less than \$1.90 per day b) Creation of Business Savings Groups (BSG), which are self-governing councils of businesses. c) Local mentors deliver a four-month training program to equip participants with the necessary knowledge to run a business. d) Seed capital is granted to each group of 3 participants, to enable them to start their business. e) 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 	<p>Four 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>

Component	ICRC	Village Enterprise	Quality Education DIB (BAT)
		saving in Business Savings Groups.	
Anticipated impact, outcomes and outputs	<ol style="list-style-type: none"> 1. People with physical disabilities receive comprehensive rehabilitation services (mobile devices and associated physiotherapy treatments) 2. Through the delivery of mobility devices, children can now attend school and adults can find jobs. Thereby gaining mobility, autonomy, dignity and becoming an active member of society. 3. 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. 4. A more socially cohesive and stable society thanks to a larger workforce actively contributing to the country's prosperity through wealth creation and increased household consumption. 5. The new centres operate more efficiently, and this is sustained. 	<ol style="list-style-type: none"> 1. People living in extreme poverty are equipped with the resources to create a sustainable business 2. People living in extreme poverty are able to create businesses and sustainably increase their household incomes 3. People living in extreme poverty are able to increase their household incomes and therefore increase their household savings. 4. Secondary outcomes resulting from improved incomes, such as wellbeing, diets, access to education and healthcare are achieved. 	<p>Direct:</p> <ol style="list-style-type: none"> 1. Improved school processes, systems and infrastructure 2. Higher teacher motivation 3. Better content delivery and engagement with students 4. Increased peer to peer learning in teachers 5. Improved student retention and attendance 6. Improved school infrastructure <p>Macro: To demonstrate the potential of DIBs to unlock new capital, shift focus from inputs to outcomes and demonstrate how NGO programmes can make impact at scale while reducing risk for funders</p> <p>Long-term: To positively influence systemic change for low-income communities by building up a track-record of effective interventions.</p> <p>Global: make a significant contribution to new learning and understanding about how innovative finance tools can change development.</p>
Target groups	People with physical disabilities	People living in extreme poverty (on less than \$1.90 per day)	200,000 marginalised children

Component	ICRC	Village Enterprise	Quality Education DIB (BAT)
Timescale	July 2017 – June 2022	November 2017- November 2020	January 2019- March 2022
Geographical Coverage	New centres in Mali, Northern Nigeria, Democratic Republic of Congo); Testing of efficiency measures in Cambodia, Pakistan, Myanmar, Zinder and Niamey in Niger, Mali, Togo, Madagascar	Regions in Uganda and Kenya	Rajasthan, Gujarat and Delhi
Total value	~18.6 million Swiss Francs ¹	\$4.2 million ²	Up to \$10 million ³
Addressing of cross-cutting issues (equity, poverty and exclusion)	The programme targets people with physical disabilities who are often excluded from society, to provide them with comprehensive rehabilitation services. The aim is to support them to gain mobility, autonomy, dignity so that they are able to become active members of society. Furthermore, family members who were taking care of them can now work more, and the intention is that the household as a whole can increase its income.	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 household income, increase their savings and ultimately lift themselves out of poverty.	The aim of the DIB is to enable 200,000 marginalised children to attain or move towards attainment of their age appropriate learning levels, and to address disparity between girls and boys in literacy and numeracy.

2.3.2 DIBs Expected Effects and Theory of Change

To inform our refinement of the analytical framework for assessing the mechanism effect of the DIBs, we explored the expected effects with the DIB service providers (ICRC and Village Enterprises only at this stage) in Table 2 below. These discussions were used to develop initial individual DIB-level theory of change models are also presented below for ICRC (Figure 2) and Village Enterprises (Figure 3), along with a summary of our findings of discussions regarding the expected effect of the Quality Education India DIB. As part of the evaluation, the evaluation will work with the DIBs to update and test these expected effects and theories of change.

¹ PHII Summary of the Transaction

² The DIB Design Memo states the overall outcome payment from outcome payers to Village Enterprise is capped at \$4.2 million. The total budget committed by outcome payers at \$5.2 million (including other costs such as design, verification, project management, process learning).

³ BAT India Technical Assistance Grant Proposal

Table 2: DIB effects and areas for further investigation

DIB effect	ICRC HIB	Village Enterprise
Provision of finance and access to new capital	Effects The impact bond provides longer term earmarked funding which can be used to scientifically test and roll out efficiency measures.	Effects Increased funding from existing and new investors and outcome funders to achieve scale.
	For investigation Additionality of funding	For investigation Additionality of funding
Project design	Effects Longer-lead in time Influence on selection of HIBs	Effects Long and complex lead in time.
	For investigation Selection effect i.e. the extent to which certain types of centres were selected.	For investigation Influence of the design on effectiveness.
Process of delivery	Effects No changes to standard protocol are expected Investors and outcome funders will be involved through Operating Review Committee Meetings (ORCM) and quarterly reports but are not expected to influence delivery.	Effects Innovation has emerged through a shift in focus onto outcomes. It has resulted in adaptive management techniques. The DIB has also provided Village Enterprise with the flexibility to experiment with different size cash transfer values (i.e. \$50 per household versus \$150 per household).
	For investigation Test hypothesis that the DIB will not influence the approach to delivery.	For investigation How the signs of innovation influence activities.
Outcomes and sustainability of outcomes	Effects The centres are expected to be more efficient (as measured through the Outcome measure), and in doing so, deliver increased outputs.	Effects Increased focus on outcomes and measurement and verification of outcomes. Maintaining and increasing impact and quality of impacts as programme is scaled in terms of improved incomes, assets, savings and consumption for households.
	For investigation Contribution of HIB mechanism to any improved efficiency	For investigation Influence of the DIB mechanism on efficiency and influence of improved measurement on outcomes.
Across the organisation	Effects The piloting of the impact bond is expected to generate learning on impact bonds, working with new donors and use of innovative financing.	Effects Large number of investors Learning about impact bonds and innovative financing.

DIB effect	ICRC HIB	Village Enterprise
	For investigation Influence on wider organisation.	For investigation Extent of collaboration and engagement Take up of learning

Figure 2 below sets out the ICRC HIB effect theory of change developed by the evaluation team, which summarises the HIB effects summarised in the table above. The theory of change is split into three sections: the impact bond instrument, the programme itself and then the outcomes. The impact bond section includes the main features of the impact bond. The arrows between the impact bond and programme sets out how the impact bond is expected to affect the programme. The programme section highlights the main components of the programme. The outcome section differentiates between different types of outcomes – intended (and measured) and unintended, the quality and sustainability of outcomes and engagement with beneficiaries, and finally the broader organisation-wide outcomes. Additionally, the section running along the bottom of the theory of change sets out how the evaluation intends to assess the cost effectiveness of the HIB element, distinguishing between costs unique to the impact bond and programme costs, which will then be used to assess the cost effectiveness of the outcomes produced.

Figure 2: ICRC DIB effect Theory of Change

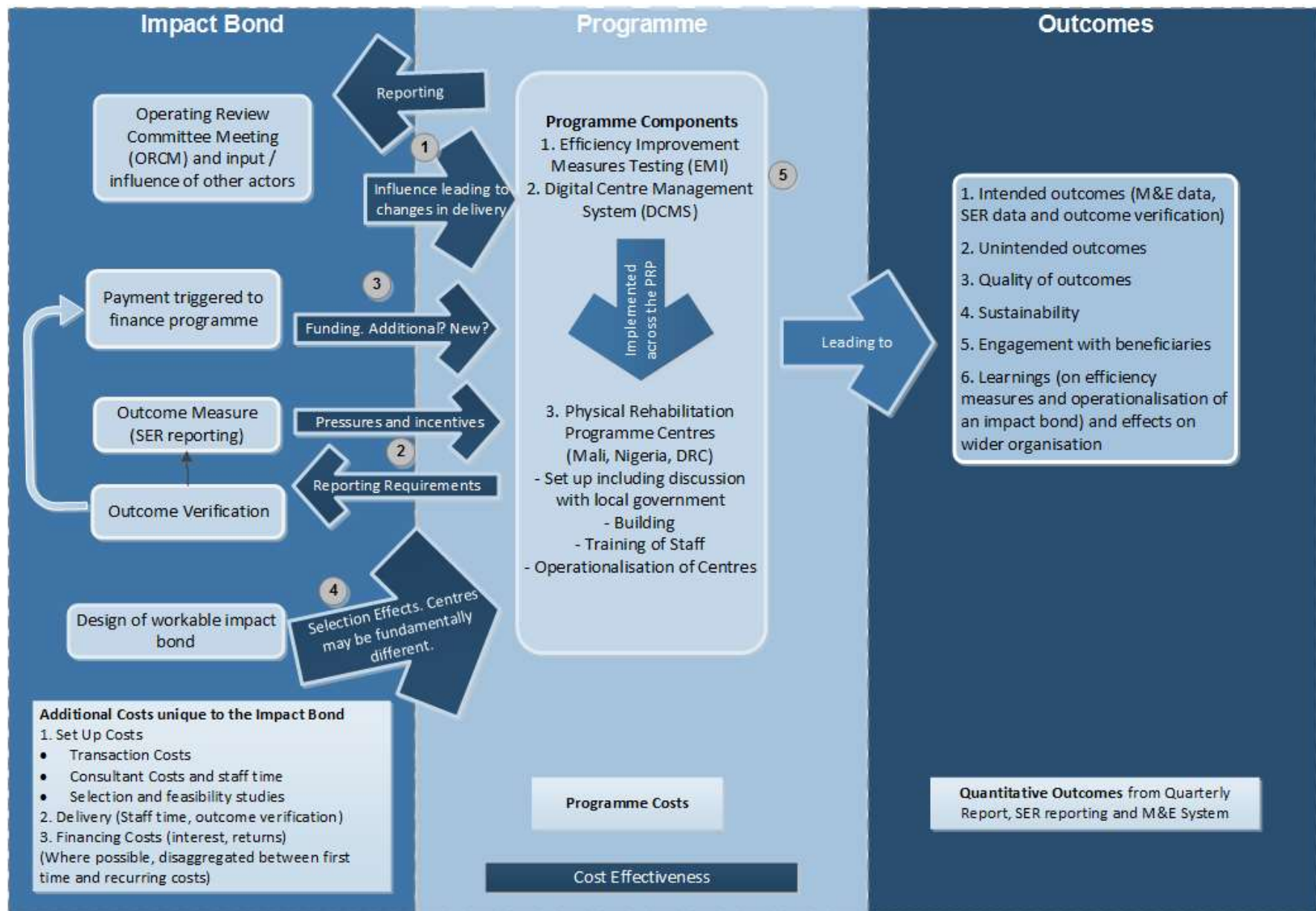
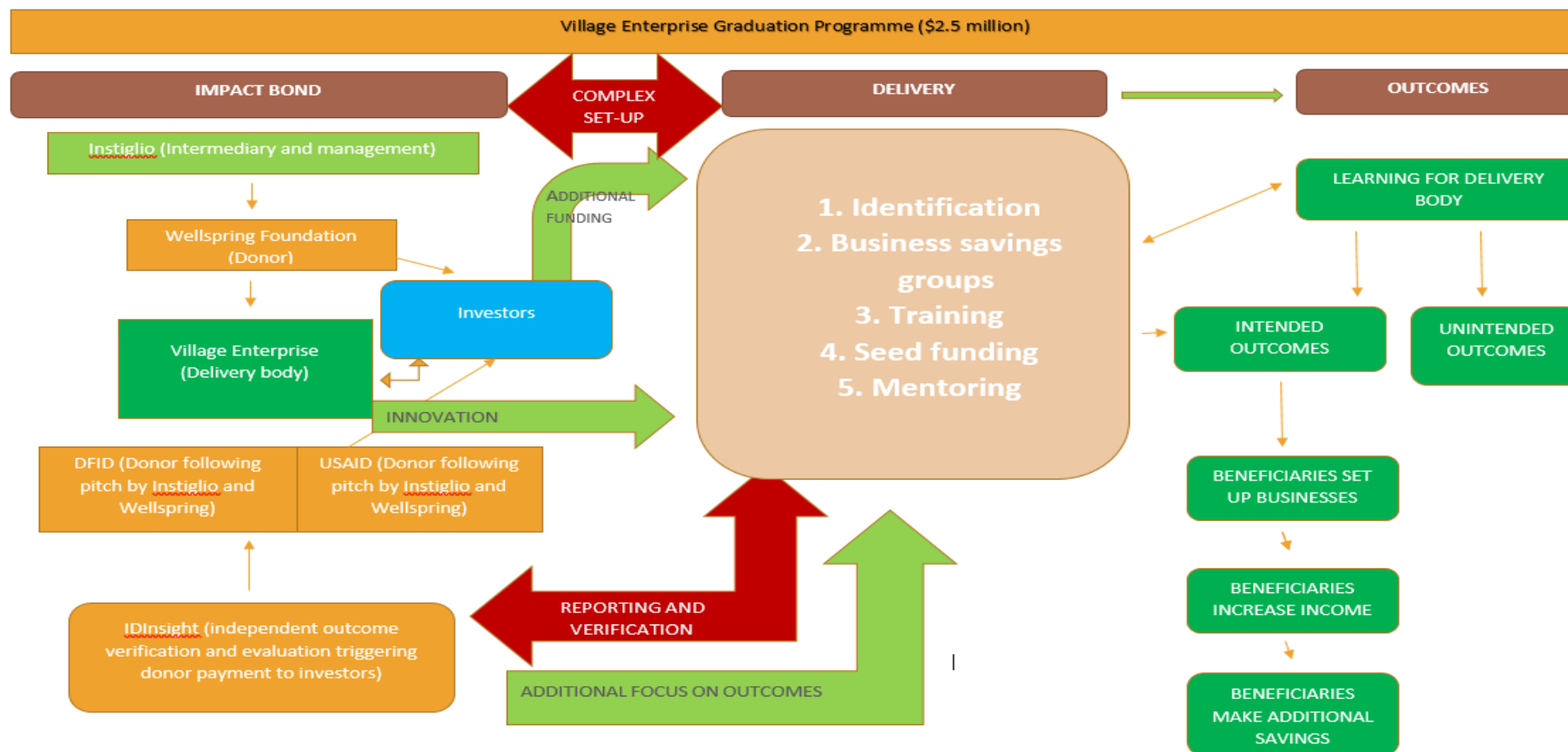


Figure 3 below sets out the Village Enterprise DIB effect theory of change developed by the evaluation team, which summarises the DIB effects summarised in the table above. The theory of change presents the main stakeholders within the impact bond, and the main ways in which the impact bond is expected to affect delivery. The outcomes are sub-divided into three categories: a) learning for the service provider; b) intended outcomes, drawing upon the programme theory of change and c) unintended outcomes.

Figure 3: Village Enterprise DIB effect Theory of Change



BAT – The Quality Education India Development Impact Bond

NGOs in India have developed and tested a number of effective ways to improve primary school education; however, their capacity to offer a solution at scale is limited because they face barriers of limited availability in capital, inadequate performance management systems and poor coordination between stakeholders. The flexible outcomes-focused financing mechanism in the DIB model offers a solution to both improve the quality of primary school education for marginalised children in India and support NGOs to deliver their proven interventions at scale and by attracting new investment into tackling education challenges in India.

The DIB project is also an opportunity to provide evidence to state and national government on the value of private sector participation in service delivery and to demonstrate ways to procure outcome-based contracts.

The following are anticipated benefits from using the DIB model:

- **Sustainable, flexible financing** for high-quality NGO service providers
- **Increasing financial flows** to high-quality high-impact NGOs
- **Demonstrating the benefits** of innovative financing mechanisms and operating models
- **Investing in high-quality performance management framework**
- **Gathering and sharing learning** from this and other key DIB tools and resources, and
- **Bringing together key stakeholders and other actors** in a programme of knowledge dissemination and information exchange.

2.3.3 Key Stakeholders

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

Table 3: Key stakeholders

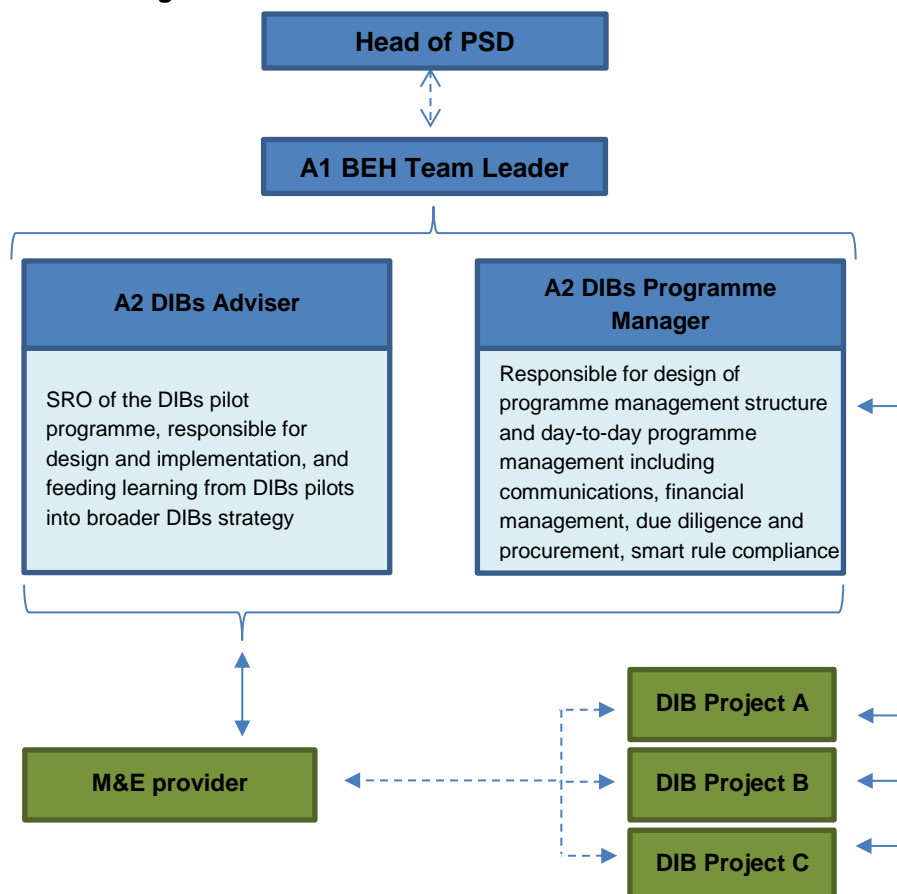
Stakeholder	ICRC	VE	Quality Education India DIB
Designer	ICRC and Kois	Instiglio, Wellspring	British Asian Trust, Michael & Susan Dell Foundation, UBS Optimus Foundation, Dalberg.
Service Provider	ICRC	Village Enterprise.	Gyan Shala, Educate Girls, Kaivalya, SARD (Society for All Round Development) – based in India. UBS Optimus oversees, and manages reporting and data. Other service providers, TBC.
Service Users	Users of new ICRC centres, and the 8 pilot centres.	12,660 – 13,000 households in Kenya and Uganda	200,000 primary school children in Delhi, Gujarat and Rajasthan.
Local Governments	Local Governments in Mali, DRC, and Nigeria	Local government representatives in Kenya and Uganda	National and district governments
Donors	Governments of Switzerland, Belgium, UK and Italy, and La Caixa Foundation.	DFID, USAID, Wellspring Philanthropic Fund.	Michael and Susan Dell Foundation, Tata Trust, BT, Comic Relief, Mittal Foundation.
Investors	Munich Re, Lombard Odier pension fund, charitable foundations and others	Delta Funds and others.	UBS Optimus will lead an investment pool of multiple private investors.
Outcome Verifier	Philanthropy Associates	IDinsight RCT	Gray Matters India
Project/Performance manager		Project Manager: Instiglio	Performance manager: Dalberg
Evaluator/Learning Partner	No evaluation designed into this HIB	Process learning: Instiglio will be recording process learning through interviews with DIB stakeholders.	Learning Partner: Gray Matters who will be delivering an outcomes evaluation. The Brookings Institution will be doing research on education / service pricing. A local provider may also be contracted.

Stakeholder	ICRC	VE	Quality Education India DIB
Others		Trustee (holds outcome funders money and acts as counter party for DIB): Global Development Incubator	Wider stakeholders: private and public sector organisations, service providers interested in impact models in South Asia

2.4 Management arrangements

The figure below sets out the structure of management arrangements for the DFID DIBs pilot programme.

Figure 4: DFID Programme Team Structure



The DFID DIBs team is responsible for the overall management and day-to-day oversight of the DIBs pilot programme, as well as implementing a central monitoring and evaluation (M&E) framework.

The DIB team has the following responsibilities in the management of the DIB pilot programme:

- Establish pilots
- Participate in governance structure of each DIB
- Manage the programme cycle
- Monitor and evaluate the programme
- Design and implement M&E plan for DIBs pilot and translating learning from DIB programme (gathered through M&E and work with other donors) into longer-term DIBs strategy and broader DFID learning.

The DFID Programme Manager will be responsible for managing each DIB grant. Management structures set up with the understanding that in a DIB, the day-to-day delivery management of the project sits with the provider and investors as they hold the financial risk associated with non-delivery. However, as the key focus of the pilot involves generating learning for DFID and the wider DIBs sector, this also requires openness and sharing of data between the DIB projects and the DIFD team.

The Programme Manager's focus is not on reviewing inputs and activities but instead on the results being achieved, whether the verification process is sufficiently robust, and monitoring for unintended impacts including through beneficiary feedback. During project delivery, the Programme Manager will review annual statements of expenditure, updates on how the project is performing and whether the theory of change is performing as expected. This will be used to review and understand the impacts of outcome pricing. The statements of expenditure will be used to develop an understanding of the actual costs to delivering outcomes.

3.0 The Context for DIBs implementation

3.1 Impact Bonds – definitions and concepts

3.1.1 Definitions

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:

1. An **outcome payer** who funds the outcomes.
2. The **service provider** delivering the intervention.
3. The **target population**, benefiting from the services.
4. A **validating agency** that validates the results on which the payments are based.

DIBs involve two additional agents.

5. The **investor(s)**, which provides the working capital to deliver the intervention. The investor often takes on some of the financial risk associated with failing to deliver the agreed outcomes. If outcomes are not delivered, the outcome funder does not pay, or pays a reduced amount, and the investor can lose part of its investment. On the flipside, the investor may also be able to make a return on their investment, calibrated to the level of outcome achieved.
6. The **intermediary**, which can assist with the development and commercialisation of the DIB, and with the monitoring and support of the delivery of the intervention. This is not always necessary.

The stages of an impact bond are:

1. **Feasibility Study** to assess whether it is feasible to use the impact bond in the identified context.
2. **Structuring of the deal**, involving contractual details, raising of capital, finalisation of specific interventions and defining the outcome metrics.
3. **Implementation**, including provision of services and monitoring of service provider.
4. **Evaluation and repayment**, involving the verification of agreed-upon outcomes and then the repayment based on the achievement of these outcomes (Gustafsson-Wright et al., 2017).

The ways in which impact bonds are framed and presented vary. DFID understand DIBs as one type of payments by results, with a potential for leveraging in additional sources of funding. Gustafsson-Wright et al. (2017) see impact bonds as a blend of impact investing, results-based financing and public-private partnerships. USAID (undated) presents DIBs along its spectrum of capital, ranging between the 'extremes' of traditional development assistance and commercial investing. The strength of a DIB is seen as its ability to leverage additional sources of funding across a diverse spectrum of capital and enable existing funding to be used more efficiently,

something echoed in a statement for Australia Department for Foreign Affairs and Trade (Cardno and Metis Analytics, 2014). However, the extent to which this is the case is disputed in practice.

3.1.2 Types of impact bonds

There are different types of impact bonds, depending on the funder and context of implementation. Social Impact Bonds (SIBs) were the first types, and these have 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.

Gustafsson-Wright et al. (2017) found that while SIBs in developed countries tended to address social welfare issues, with the aim of achieving cashable savings and/or prevention, this has been less of a focus for DIBs. This is perhaps because the savings do not directly accrue to the outcome funder as they do to governments in the case of SIBs. DIBs and SIBs in developing countries have been used to fund projects in a variety of sectors such as health, education, construction and developing of business skills. The size of DIBs has also been larger in terms of value and number of target beneficiaries, in comparison to SIBs. DIBs have also seen a diverse range of entities as outcome funders, ranging from bilateral organisations, foundations, companies and private individuals.

Additionally, there are some challenges that may affect DIBs differently to SIBs:

- Some actors want to ensure that funding for impact bonds is additional, and that existing funds will not be diverted
- Some donors are unwilling to commit to paying for outcomes in the future, as budgets are done on an annual basis
- Power imbalances between national governments and international investors can affect the setup of contracts
- Low data quality can affect the identification of impact metrics and price setting
- Due to the different international actors involved and greater political uncertainty and instability, there may be a greater need for risk management in DIBs, though it is noted that SIBs have also necessitated significant risk management.

Different typologies of impact bonds are next explored. There is flexibility in how these bonds are configured, which can be tailored to the needs and strengths of the different actors.

As set out in Table 4, three types of models have been primarily used, depending on the contractual arrangements (Gustafsson-Wright et al., 2017):

Table 4: Type of Contract

Type	Contract between	Performance management
Direct	Outcome funder and service provider	Conducted by service provider

Type	Contract between	Performance management
Intermediated	Outcome funder and investors	Intermediary may still define outcome metrics and procure service providers
Managed	Outcome funder and intermediary	Overseen by intermediary (and also responsible for raising capital)

Gustafsson-Wright et al. (2017) have also identified that there are three different ways of managing performance, categorised on the basis of who takes the lead in performance management. This depends on the capacity and interest of the different actors, and each model has unique requirements and advantages, see Table 5 below.

Table 5: Requirements and advantages of different DIB leads

Lead	Requirements and Advantages
Investor-led	Investors who have expertise and resources in performance management.
Service provider-led	Service providers who have sufficient capability. This can contribute to sustainability.
Third party-led	Additional capital to fund an intermediary. This can be useful in particularly risky environments, by providing external consultation and support.

3.2 History of Social Impact Bonds

The first SIB, launched in Peterborough in the UK, aimed to reduce recidivism rates, and concluded in 2016. The SIB reduced reoffending by 9%, exceeding the target of 7.5% and triggering a payment to investors representing initial capital and additionally a return of just over 3% per annum for the investment period.⁶ As of June 2018, it was estimated that 108 impact bonds have been contracted across the world, with \$392 million capital raised, and 738,671 individuals reached.⁷

3.3 DIBs and Social Impact Bonds in developing countries

Gustafsson-Wright et al. (2017) noted that, as of August 2017, four impact bonds in low and middle-income countries have been contracted: Educate Girls in India, which aims to boost school enrolment and learning; a DIB for improving cocoa and coffee production in Peru (Finance Alliance for Sustainable Trade, 2015); the Colombia Workforce Development SIB, aimed at ensuring long-term employment outcomes for vulnerable populations; and the International Committee of the Red Cross Programme for Humanitarian Impact Investment (PHII). Since then, the Village Enterprise DIB, Rajasthan Maternal Health DIB and Cameroon Cataract Bond have also been launched. Twenty-four impact bonds are currently in the design stage in developing countries.

The table below provides a brief summary of the impact bonds contracted or in the design phase:

⁶ <https://www.socialfinance.org.uk/sites/default/files/news/final-press-release-pb-july-2017.pdf>

⁷ Social Finance Impact Bonds Database

Table 6: Summary of contracted DIBs

Area	DIBs experience
Sectors	11 are in the health sector, 6 in the employment sector, 5 in the agriculture sector, 4 in the education sector, and 2 in social welfare. This is in contrast to impact bonds in high-income countries that are primarily focused in the employment and social welfare sectors. Employment seems to be particularly suited to the impact bond model, because of the potential public and private benefits.
Investors	Foundations (including UBS Optimus Foundation) and philanthropists are the most common investors. Other investors include multilateral, bilateral and intergovernmental financial institutions (IFI).
Outcome Funders	These include government entities, non-profits, multilateral and bilateral organisations, and IFIs.
Beneficiaries	Most impact bonds target marginalised or vulnerable groups, and some have specific criteria to target a certain number within these groups.
Length of contract	Lengths range from 10 months to 5 years, with an average length of 42 months.
Capital commitment	Capital commitments range from an estimated \$110,000 to \$7.5 million, with an average of \$2 million.
Range of return	These are presented in different ways, with some setting the maximum return in terms of internal rate of return, percentage return or at a dollar figure. Returns range from \$110,000, to 0.05-10% of investment, to 15%-16% IRR.
Outcome verification	The most common method is validated administrative data. Two impact bonds plan to use a historical comparison, 2 an experimental design, and 2 a hybrid of RCT and validated administrative data.

3.4 Linkages to other relevant projects

3.4.1 DFID

Firstly, DFID is part of an Impact Bond Working Group aimed at enhancing cross-competencies learning and innovation. This network meets on a regular basis, and is an avenue for sharing knowledge and good practice between donors. The evaluation team plans to link in with this group, including presenting findings at a future meeting. Secondly, DFID aims to draw together its learning from PbR under its PbR Evaluation Framework, which has been used to inform the evaluation design to facilitate the consolidation of evidence in a meaningful way.

3.4.2 Other DIBs

A number of other impact bonds are being designed or are due to launch soon. These include the Cameroon Kangaroo Mother Care DIB and the Syrian refugee employment DIB (Gustafsson-Wright et al 2017). The evaluation team will reach out to these DIBs to discuss whether they have any planned learning activities or evaluations on the role of the funding mechanism, and how best to draw on their learning. The evaluation team will also invite them to join in future webinars.

Additionally, there are a number of DIBs which have failed to launch, such as the Mozambique Malaria DIB and the poverty graduation impact bond in Mexico. Consulting with these stakeholders will provide useful information as to why these DIBs failed to launch, and a

comparison with successful DIBs may support the generation of useful lessons as to the key factors and criteria needed for DIBs to launch.

3.4.3 Other learning activities

In addition to the individual DIBs above, the evaluation team will also regularly connect with the key actors in the DIBs sector and review their websites to keep abreast of planned learning activities. This will serve two purposes: firstly, to enable the evaluation team to better coordinate with these actors, to share cross-learning and enable the evaluation to contextualise the findings within those of the wider sector, and secondly, to enable the evaluation team to identify opportunities for further dissemination and communication of the findings (see section 8.2 for the communications plan).

The table below provides a brief summary of an initial identification of these key stakeholders, their learning activities and proposed linkages. This will be updated on a regularly basis:

Table 7: Learning activities and proposed linkages

Organisation	Description and Learning Activities	Proposed linkage
Impact Bonds Working Group	The Impact Bonds Working Group is composed of donors, investors, intermediaries, government agencies from developing countries and other stakeholders interested in sharing learning from impact bonds pilots and thinking about the future design of contracts and outcomes based commissioning.	DFID DIBs advisor chairs this working group. Findings emerging from discussions at the working group and results from surveys and research undertaken will be important to contextualising the findings. Should the Working Group's mandate be continued, it can be used as one of the forums for the external learning workshops. ⁸
Brookings	Brookings hosts a 'series' on impact bonds, which sets out upcoming events, blogs and opinions pieces and research papers. Brookings also regularly presents on its publications. A presentation is planned 13 July to discuss what can be learned from the results of the world's first DIB on education.	Monitor site for research papers, blogs and upcoming events.
Social Finance	Social Finance launched the first SIB in Peterborough. Its website hosts a range of resources. It is also supporting four DIBs, focusing on employment in Palestine, WASH in Rwanda and Senegal, Schools programme in Liberia and Mother Care in Cameroon.	Discuss learning generated and comparative analysis between SIBs and DIBs. Review database for new DIBs, and any learning

⁸ Currently the working group has a mandate through October 2018. The mandate is potentially to be formalised and extended as an on-going community of practice to share learnings, provide research as well as ensure implementation of WG recommendations.

Organisation	Description and Learning Activities	Proposed linkage
	It also hosts a database for all SIBs and DIBs, currently filterable by country, issue area, investor, payor and service provider in the form of 'press releases'.	generated from past and current projects.
Center for Global Development (CGD)	The Center for Global Development is London and Washington, DC based think tank that partial analysis informed by evidence and experts from around the world, to shape intellectual debate and design practical policy solutions. CGD has been an important part of the payment-by-results debate in international development, including impact bonds, periodically holds expert roundtables, produces case studies, blog posts, and research pieces.	Monitor site for research papers, blogs and upcoming events.
Big Lottery Fund	Focus on SIBs, and has commissioned a range of evaluations, including evaluation of the overall Commissioning Better Outcomes Fund, thematic reports, for example on the perspectives of commissioners and the LOUD SIB model, in-depth reviews on specific SIBs, investment readiness, social investment market and investment readiness of the voluntary sector. The evaluation is being undertaken by Ecorys,	While this focuses mainly on SIBs, the learning will nonetheless be useful to review, to identify any are relevant for the DIBs experience.
Centre for Social Impact Bonds	The Centre hosts a knowledge box which is an online portal providing information on all aspects of developing and commissioning social impact bonds (SIBs), from identifying service areas suitable for SIBs to measuring outcomes and calculating savings. It also includes comparable case studies of SIBs launched to date and provides links to other sources of information and guidance in the UK and internationally. Knowledge Box is the first time that all the information about SIBs has been collated in one place. It is a dynamic and collaborative resource which people can comment on and contribute to.	To monitor and contribute to as relevant.
The Pay for Success Learning Hub	This hub is hosted by the Non-profit Finance Fund. The database mainly holds information on US SIBs, though there is some information on a number of DIBs.	To monitor for any planned learning activities.
GoLab	The Lab publishes policy briefs, practical guides, and evaluation reports on its website. Events are also regularly held, including an annual SIB conference. The 2018 Conference's (6-7 September 2018) theme is "Comparative perspectives on Social Impact Bonds and outcomes-based approaches to public service commissioning: learning across geographical, thematic and disciplinary boundaries". The Conference will focus on the sharing of empirical findings and theoretical developments to assess the 'SIB effect'.	To review papers generated from the Conference.

Organisation	Description and Learning Activities	Proposed linkage
Dalberg	Dalberg is a key actor in the DIBs and SIBs sectors, and has supported the development of the Cameroon Cataract DIB and South Africa ECD Impact Bond Innovation Fund. It has also undertaken a feasibility study of the Population Services International portfolio of health interventions to review the value proposition of using a DIB, assessment criteria and the 5 best interventions suitable for using a DIB.	Monitor for learning pieces on design and development of DIBs and SIBs. Contact to understand any other learning activities planned.
Bertha Centre	Hosted at the Graduate School of Business, University of Cape Town. Academic centre dedicated to advancing social innovation and entrepreneurship.	To monitor for relevant papers.
Harvard Kennedy School Government Performance Lab (HKS GPL)	The Lab has provided technical assistance to a number of government partners and also produces publications distilling key learnings.	To monitor for relevant papers.
Convergence	The website holds a knowledge library, including a range of papers on blended finance and has organized workshops and trainings on blended finance.	To monitor for relevant papers.
World Bank Group	The World Bank Group works in every major area of development, helping countries share and apply innovative knowledge and solutions to the challenges they face. The World Bank Group is currently developing three impact bonds, and through its Global Partnership for Output Based Aid (GPOBA) and Program-for-Results is an important source of knowledge and information of results-based approaches and important convener and centre of knowledge-sharing	Monitor for relevant papers, BBLs, and events.
Other conferences	There have been a number of conferences held to explore the use of impact bonds.	To monitor any such conferences planned, and seek to attend/speak at these conferences were relevant.
Publications and reports	There have been a range of synthesis papers published by Brookings, Center for Global Development, Young Foundation, Social impact etc.	To monitor the publication of any such papers.

4.0 Review of Information and data sources

Section 4 presents a summary of the review of information sources and how these have been used to refine the evaluation approach. It is aligned with the multi-layered evaluation approach, where we intend to generate findings at three levels: 1. the individual DIBs; 2. the DFID DIB programmes as a whole; and 3. the wider impact bond and PbR sector.

Section 4.1 sets out an overview of the research literature on impact bonds, which will be used to frame and contextualise learning within the evidence base of the wider impact bond and PbR sector. Section 4.2 sets out key findings from the consultations with DFID and review of DFID documentation, and will be used to inform the priorities and focus areas of the evaluation, to ensure the evaluation meets DFID's needs. Section 4.3 summarises the M&E data, learning activities and cost data expected to be available over the course of the evaluation, and sets out how the evaluation team intends to draw upon this information to ensure efforts are not duplicated.

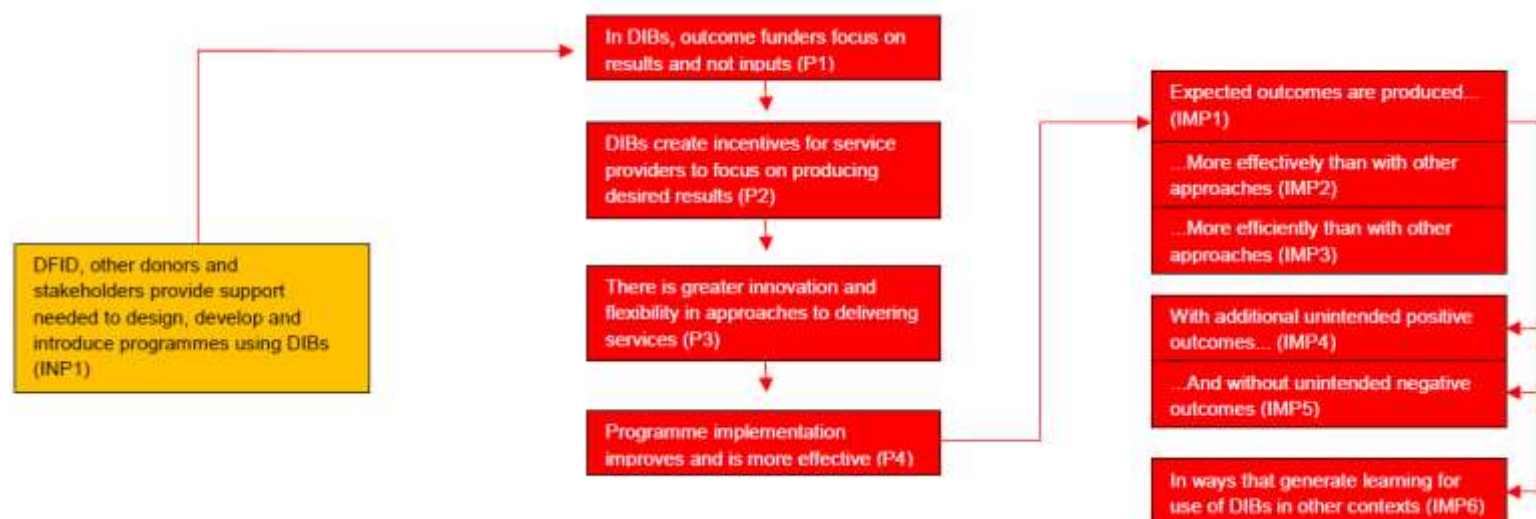
4.1 Research Literature on Impact Bonds

A review of the literature was undertaken to identify the theory and evidence base for DIBs. As DIBs are relatively new and the evidence base limited, we have also drawn in findings on SIBs and PbR. The main focus of the review is to assess the available evidence against the two evaluation questions and approaches used to evaluate DIBs. This will form a useful reference for the contextualisation of findings emerging from the evaluation.

In order to frame the review, Clist and Drew's (2015) framework is used to synthesise evaluation evidence on DIBs, set out in Figure 5 below. This is used to organise the many **hypotheses on the DIB effect**, and the **existing evidence base**.

- The **theoretical basis** for DIBs and PbR and the **criteria** and **contexts** that are hypothesised as being suitable for use of DIBs are summarised, and the main **critiques** of DIBs.
- The key **recommendations** around the designing and agreeing of DIBs are set out;
- **Next steps for the DIB sector** are set out
- **Challenges to evaluating** impact bonds are assessed and **approaches** that have been used summarised

Figure 5: Framework for synthesising evaluation evidence



A high level summary is provided in the body of the report. Further detail and full references are set out in Annex C.

4.1.1 Hypothesised effects of DIBs

A range of positive effects has been cited as resulting from DIBs. In order to synthesise the literature, the framework set out in Figure 5 is used. We also add an input around the provision of financing.

Table 8: Summary of hypothesised DIB effects

Level	Detail	Effects
Input	Donors, investors and other stakeholders provide the support needed to design, develop and introduce programmes using DIBs	<ul style="list-style-type: none"> 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. DIB model offers a clear management and governance structure bringing actors together leading to better coordination. The DIB model allows the design of tailored incentive structures and ensure that incentives are aligned.
	Donors, investors and other stakeholders provide the capital needed to deliver programmes which provide social value	<ul style="list-style-type: none"> 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. 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.
Process	Outcome funders focus on results and not inputs	<ul style="list-style-type: none"> This can simplify administrative processes for outcome funders. The move from focus on input-based funding approaches to outcomes allows more autonomy on the part of the service providers.
	DIBs create incentives for service providers to	<ul style="list-style-type: none"> Service providers have the incentive to be result-focused, which can incentivise the establishment or

Level	Detail	Effects
	focus on producing desired results	improvement of performance management systems. This can generate a culture of results , together with rigorous measurement and evidence-based monitoring and evaluation. <ul style="list-style-type: none"> 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...	<ul style="list-style-type: none"> A market for impact bonds, for example through outcome funds, 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. 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	<ul style="list-style-type: none"> Incentives for outcome funders to fund programmes over a longer period of time as outcomes take time to materialise 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 hypothesised effects of DIBs have been used to inform the design of the DIB effect indicators. The list of effects also provides the evaluation with a framework to understand and categorise the objectives and motivations of the different stakeholders in engaging with the DIB. A key priority for the evaluation will be to understand the expected effects and the extent to which these materialise for the three DIBs under this evaluation.

4.1.2 Theoretical Basis, Criteria and Suitable Contexts for Effective use of PbR and DIBs

Theoretical Basis

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 potentially paid out (Clist and Verschoor, 2014).

Clist and Dercon (2014) set out a number of principles and requirements for PbR to be more effective than regular contracts, which can be summarised into 3 categories:

1. Use of PbR needs to lead to changes which would not have occurred under regular contracts
 - Alignment of outcome funders and service providers needs to be incomplete. Otherwise, if the service provider is already incentivised, using PbR will not have any effect.
 - Efforts cannot be easily measured or observed, otherwise the contract can be based on this instead.
2. Use of PbR needs to be structured so it provides VfM
 - Additional costs need to provide additional benefits
 - The amount of risk transferred needs to be commensurate with the risk premium paid, though there are no standard mechanisms in place yet to enable this to be calculated
3. The outcome measure needs to be designed to incentivise the provider to deliver the target outcome, i.e. service providers only get compensated if measured results are achieved
 - The performance measure needs to be correlated with the target outcome before and after incentivisation and not lead to decreases in quality or delivery of other outcomes
 - Service providers need to be able to have control over the outcomes
 - Service providers do not or cannot game the system, though it is noted that this may not always be possible

Additionally, for a DIB to be more effective than a PbR contract, Clist and Drew (2015) argue that the outcome funder needs to be able to outsource the selection of investible opportunities to the investor. They argue that the main advantage of using a DIB, in contrast to a PbR contract, is the ability to play a 'hands off' role and allow the investor/intermediary to decide the role and identify the six agents, in a way that is attractive for all agents. If the outcome funder needs to be involved in specifying the different actors of the impact bond, then the benefits of using a DIB in contrast to a PbR contract (innovation, flexibility, longer time horizons, increasing results focus) will be foregone, and it would be more beneficial for the donor to use a PbR contract or more traditional form of aid. However, it is noted that the design of a number of DIBs, including the ICRC HIB and Village Enterprise DIB, were led by the service providers who chose the investors, so this hypothesis will need to be further examined.

The evaluation will involve an assessment of the DIB effect and the extent to which the DIBs provide VfM. Additionally, the principles and requirements set out in the literature above will be used to understand potential explanations for the success or limitations and weaknesses in the DIB models which may affect and explain the benefits (or lack thereof) from using the DIB model.

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

The evaluation will assess how well the DIBs fulfil these criteria, and the extent to which this affects the successful delivery and materialisation of the DIB effect. The three DIBs are different across a range of parameters (intervention type, contractual set up of the DIB, lead designer), and this will generate rich data that can be used in order to understand the factors contributing to successful launching of the impact bond. The identified factors can be tested against the criteria set out in the literature, and the evaluation team will assess whether there are additional criteria which should be added to the above list.

Suitable Contexts

There is less consensus on the contexts to which impact bonds are best suited. Broadly, there is agreement that DIBs are suited to where there is social market failure, that is, a lack of provision arising from limitations in available funding or capacity to deliver interventions or services that lead to societal value. For example, this may happen because a service provider cannot access capital to be able to undertake a PbR contract or because stakeholders are not coordinating and instead are working in silos.

There is less evidence on the sectors that may be best suited for impact bonds. There is also conflicting advice on the level of evidence needed and how innovative a DIB project should be. This seems to be because there needs to be a balance between projects which are sufficiently 'risky' for the risk premium to be worthwhile, and the level of risk an investor is comfortable to accept. Innovation is also relative, and depends on the point of comparison. Projects can be innovative when being delivered in a different setting, by a different provider or in combination with other interventions. Finally, there may be different categories of projects with different objectives, either to test an innovative project or to scale up an evidence-based intervention.

Reviews of DIBs have tended to analyse different DIBs in terms of the justifications for using the impact bond, and where the impact bond adds value. It may be that different design features and focus areas work best in different combinations and contexts. Clist (2017) hypothesises that there may be two 'sweet spots' of PbR – either big or small, in terms of scale, costs of implementation, complexity and level of risk transfer and return.

The evaluation will enable the testing of the use of DIBs in three different contexts and interventions. The DIBs also vary in terms of the strength of the evidence base for the intervention, and the level of risk being transferred to the investor. This will enable testing of the theory above as to the contexts most suited for use of DIBs, as well as whether there are certain combinations of factors and design features needed for successful DIBs, including the strength of the existing evidence base.

Critiques

The conceptual underpinning of impact bonds is based 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, and the main critiques, which are briefly summarised below:

- Impact bonds are seen as the latest phase of new public management. Critiques warn of the dangers of financialisation of social provision, as it transforms outcomes to a means for producing a financial return, and service users to a commodity. The use of impact bonds may also promote narrow conceptions of programme design which can generate returns, and the outsourcing of selecting a provider and service delivery to investors is problematic for the outcome funder/government's accountability to service users / beneficiaries.
- Impact bonds can lead to perverse incentives. The interests of the service provider and investor overlap, and both stakeholders may be incentivised to design easier to achieve outcome targets. The service provider may focus on those easier to reach or on short-term activities to trigger payments. The outcome funder has a crucial role to play in protecting the interests of beneficiaries. However, if outcome funders have strategic interests in using an impact bond, and commission these even if they do not represent the best option, this may be to the disadvantage of taxpayers.
- Impact bonds are difficult and costly to design and implement. The appeal of impact bonds lie in their claims to deliver on the paradoxical claims of evidence-based flexibility and cost-effective risk transfer. The ability of impact bonds to deliver on these two issues have implications for the value for money and cost effectiveness of the use of impact bonds.

4.1.3 Evidence base on the DIB effect and cost effectiveness of impact bonds

The evidence base has been organised using the evaluation framework set out in Figure 5, and Table 8. The assessment includes findings from SIBs and the PbR evidence base as well, although it must be noted that SIB context will be different from the DIB context, and certain findings related to PbR may not be relevant. Indeed, DIBs are hypothesised to address some of the weaknesses of PbR.

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 (Drew and Clist, 2015); and 2) evaluations seeking to identify the impact of the intervention and/or the effect of the payment instrument. Generally, the consultative reviews provide stronger evidence for the inputs and process, while the (limited) evaluations provide evidence for the impact element. There appears to be more evidence around the process rather than impact parts of the framework.

Table 9: Evidence base against the hypothesised DIB effects

Level	Variable	Evidence base
Input	Donors, investors and other stakeholders provide the support needed to design, develop and introduce programmes using DIBs	Findings seem to suggest that this is varied, and depends on how the deals are structured and fidelity to the model in terms of who plays the performance management role and their level of engagement. There is some evidence of impact bonds leading to better collaboration between stakeholders. For example, in the Netherlands, the SIB facilitated improvement in the referral system data.
	Donors, investors and other stakeholders provide the capital needed to deliver programmes which provide social value	SIBs have led to an increase in social financing by mainstream investors. However, no SIB has been continued at the end of the contract, though several have been recommissioned, for example through DWP. Some SIBs have become 'too important to fail' with the payment terms adjusted to pay more than was initially agreed in cases of underperformance – hence actual risk transfer in some cases may have been minimal.
Process	Outcome funders focus on results and not inputs	Evidence is mixed. While this is a motivation cited by outcome funders, the evidence seems to suggest that PbR projects are subject to both the expectation of being innovative and the requirement for compliance with standard procedures used for traditional aid modalities.
	DIBs create incentives for service providers to focus on producing desired results	This is an area well supported by the evidence. However, some studies have noted that service providers were already incentivised before the introduction of the measure, and that it may be the attention on the outcome instead of the pecuniary interest that is the motivator. Where there are exceptions, this seems to be because i. measures are too complex; ii. incentives are too low; iii. Agreements too short; or iii. Outcomes are outside of the recipients' control.
	There is greater innovation and flexibility in approaches to delivering services	There is a range of opinions about the extent to which SIBs have been innovative. Some have been innovative in the sense that they trialled interventions in new locations or contexts. There is mixed evidence in terms of the extent to which PbR and SIBs have driven better course correction or innovation in delivery.
	Programme implementation improves and is more effective	There is some evidence of instilling of 'market discipline' and improvement in performance management culture. There is some evidence of cost savings, in the Essex SIB and Greater London Authority Rough Sleeping SIB, though to date, verification and contract management have required additional time and costs.
Impact	Outcomes produced more effectively/efficiently	The evidence in this area has been the weakest, due to the limited number of evaluations seeking to identify the instrument effect. Some reviews have found that the SIB model is no more effective than other forms of PbR. In terms of PbR, some reviews have found that it

Level	Variable	Evidence base
		can improve the quality of services, while others have found that PbR have no significant effect.
	With additional unintended positive outcomes and fewer negative outcomes	Evidence in this area is mixed. Some reviews have found no evidence of perverse incentives. However, other evaluations have found evidence of perverse incentives, decrease in staff morale and weakness in the outcome measure once incentivised.

The evaluation findings will build on the existing evidence base, using the framework set out above. The evaluation will seek to understand where the findings converge and diverge from the existing evidence base, and any learning that can be generated on how the SIBs, PbR and DIBs models differ, and factors that may determine whether a PbR or DIB model is more suitable. Section 3.1.2 sets out some potential areas of difference between SIBs and DIBs. In particular, the evaluation's focus on the DIB effect and use of comparative analysis will add to the current limited evidence on the effects of the DIB instrument. Additionally, benefits and costs arising from use of the PbR or SIB mechanism can be used to probe the DIBs stakeholders in order to better understand benefits or additional costs linked to the use of the DIB model, and the extent to which these are the same or different to that of the PbR and SIB mechanisms.

4.1.4 Recommendations around improvements to designing and agreeing DIBs

The key recommendations raised to improve the designing and agreeing of DIBs are set out below:

Design

1. Surveying the investor market before announcing the bond
2. Identifying appropriate service providers with implementation capacity
3. Engaging investors at the beginning
4. Not underestimating the resources needed to launch an impact bond
5. Improving data quality and availability of data needed to develop new DIB proposals

Contracting

6. Structuring contracts in a way that allows them to respond to unforeseen changes
7. Clarifying everyone's priorities and roles

Scaling

8. Requiring funders and providers to embrace a new way of doing business
9. Convincing organisations to pivot toward financing DIBs
10. Setting up a market or pool of outcome funders can increase the options in terms of level of risk transfer to suit different stakeholders

Additionally, the literature sets out additional recommendations around development of **metrics** and **pricing**.

Important factors to consider when designing **outcome metrics** are measurability, meaningfulness, timeframes, pricing of outcome payments, logframe level (that is, whether output or outcomes), payment thresholds and level of ambition in target setting and risk transfer. There are trade-offs to be considered when making decisions on these factors.

Pricing and target setting are crucial to manage risk transfer. The value needs to be high enough so that investors are compensated and motivated, but not so high that they capture all the societal value. To determine the appropriate risk-return profile of the DIB proposition, stakeholders need to consider the type and amount of risk to be transferred, investor preferences relating to terms, liquidity and investment size and the appropriate balance between outputs based and outcomes based payments.

A key objective of the evaluation is to generate learning and recommendations for the DIB sector. The evaluation will review these recommendations and set out any additional recommendations arising from the evaluation. Additionally, in order to assess the VfM of the use of the DIB mechanism, the suitability of the outcome metrics and the commensurability between the risk transfer and return offered to the investor and/or service provider will be assessed. The above considerations from the literature will provide a framework for this assessment.

4.1.5 Challenges and approaches to evaluating impact bonds

The literature on the approaches to PbR and DIB evaluations highlight two priorities for evaluation: 1) testing the ‘instrument’ effect; and 2) synthesising evidence in a way that facilitates the consolidation of evidence across the sector.

The majority of PbR and SIB evaluations do not set out to evaluate the effects of the ‘instrument’. VfM analysis specifically on the instrument is also rare, which means there is limited evidence on the added value of the instrument. The PIRU Evaluation of the Social Impact Bond Trailblazers in Health and Social Care sought to undertake a quantitative comparison of outcomes between SIB-funded and other similar services provided without a SIB, but unfortunately the three criteria required – existence of a counterfactual, sufficient sample size and availability of relevant data – was not met in any of the projects under the scope of the evaluation.

In terms of approaches, experimental approaches and quasi-experimental methods will only be suitable for a limited number of programmes. When using non-experimental approaches, a strong theory-based method of evaluation will support the gathering of how the instrument is expected to produce change, and add to the evidence base for the different ‘theories’ of how a DIB is expected to work.

It will also be important to gather evidence from DIBs that have failed to launch, in order to identify learning around the factors of success and failure, including drivers of investor interest, the effectiveness of investors in weeding out weaker DIB opportunities and the coordination needed between actors.

As part of the inception phase, the evaluation team has further refined how the evaluation intends to test the DIB effect and the cost-effectiveness of using the DIB model. The evaluation framework proposed by Clist and Drew (2015) and set out with DFID’s PbR Evaluation framework has been used to inform the evaluation design, and the reporting of the findings will be aligned against this framework. Additionally, in order to assess the VfM of the use of the DIB mechanism, the

suitability of the outcome metrics and the commensurability between the risk transfer and return offered to the investor and/or service provider will be assessed. The above considerations from the literature will provide a framework for this assessment.

4.2 DFID DIBs programme level documents and consultations

As part of the inception phase, the evaluation team undertook initial consultations with the DFID PbR and DIBs team and reviewed key documents (see Annex D and E for further detail).

The purpose of the consultations with DFID and review of documents 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, priorities for the evaluation report and the relevant DFID strategies, such as the DIB or PbR Strategies. This information was used to refine the proposed evaluation methodology, to help ensure the reports and recommendations are relevant and situated within wider developments at DFID.

The DFID PbR and DIBs teams confirmed the strategic context and DFID's reasons for pursuing the DIBs pilot remains as documented in the DFID Business Case. Within the context of an overall Department plan that seeks to improve the effectiveness and efficiency of overseas aid, the Department has been active in examining the role that PbR models can play in ensuring that approaches to commissioning programmes optimise value for money. It was noted that the approach to PbR within the Department is evolving with a more nuanced understanding of the contexts and types of interventions that PbR is best suited to (e.g. education, WASH). During the evaluation of the DIBs pilot, it will be important to keep in touch with the evolving PbR agenda and explore related evidence requirements regarding DIBs.

With regard to DIBs specifically, the Department has taken a strong interest in understanding their potential as a commissioning tool since 2016. DIBs are seen potentially to be able to address some of the limitations of PbR, for example, capital restrictions and risk appetite of the service provider, by bringing in external investors, though the relative risk adverseness of investors and outcome funders/commissioners is debated. The reason for DFID's investment in piloting the DIBs was based on their assessment that whilst there was growing evidence regarding the potential of SIBs (in improving the efficiency and effectiveness of interventions including the type of interventions and success factors) there was little available evidence of the experience of impact bonds for international development. At the time DFID was scoping the programme, just two DIBs were being delivered globally. It was felt that by funding a pilot the Department could contribute proactively to building the evidence base relating to DIBs and feed this learning into its programming and the wider development sector.

In terms of the design of the DIB pilot, DFID were interested in joining DIBs already under design in order to mobilise quickly, and were interested in funding good projects that aligned with the Department's geographic footprint and strategic priorities, in order to generate lessons in terms of interventions that can be potentially scaled up in priority sectors.

Implications for evaluation design

Key themes identified during the initial consultation with DFID that have been taken into account in the refinement of the evaluation design are:

- Growing the evidence base, including identifying the demand for evidence from different stakeholders including the DFID PbR team and externally as well as structuring the learning to meet these identified needs, for example, by ensuring the findings are coherent with DFID's PbR Evaluation framework
- Understanding the DIBs and wider social investment market, including who the main stakeholders are and their interest and activity in relation to DIBs
- Assessing the effectiveness of DIBs in addressing the limitations of PbR, for example capital restrictions and risk appetite of the service provider
- Identifying challenges involved in operating DIBs at the scale needed to make a significant impact on development impact and generating evidence that demonstrates whether DIBs are a credible commissioning tool; and
- Generating lessons for the long-term sustainability of interventions supported using the DIB mechanism

Importantly for the evaluation design and approach to implementation, the DIBs pilot is being delivered by a dedicated team within DFID that has a remit to engage strategically with other organisations working in the social investment market to develop knowledge and experience of DIBs. This team will harness learning from the DIBs pilot and more broadly from strategic engagement activity across the sector. The evaluation of the DIBs pilot project will be integrated with this wider learning programme. Regular communication and joint planning between the DFID DIBs team and the evaluation team will be necessary to ensure close alignment.

4.3 DIBs Available data and planned learning activities

During the inception phase, the team consulted with the service providers for the 3 DIBs as well as VE's learning provider, Instiglio. The team also reviewed key documentation including set up documents, contracts, business cases and update reports, where available, for the 3 DIBs (See annexes D and E for further detail).

DIBs sit in an emerging sector, and many of the stakeholders are involved in DIBs for the first time. As such, there are various evaluation and learning activities planned for each project. In line with the Paris Declaration, the evaluation will aim 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 should be balanced with the need to ensure that the evaluation team builds on data already generated.

This section includes a brief summary of the available M&E and cost data and planned learning activities. It has been used to update the structure for the Evaluation Plans with each DIB set out in Table 15. During the Inception Phase we have also investigated potential comparison programmes for DIBs. This review has informed plans for this component of the research as outlined in section 6.2.4.

Table 10: Summary of data and information being collected by each DIB

Data type	ICRC	Village Enterprise	BAT - Quality Education India DIB	How this data will be used
M&E data	<ol style="list-style-type: none"> 1. M&E data focused on outputs (number of service users, number of prostheses / orthoses / wheelchairs provided) and staff statistics. 2. Testing of the effectiveness of efficiency measures in selected centres. 3. The IT system being developed may collect additional data. 	<p>M&E activities designed against logframe, to cover the five aspects of programme implementation: targeting, business training, savings groups, business formation and mentoring.</p> <p>Level of disaggregation: Male/Female and types of businesses</p>	<p>The M&E framework is designed to provide information against the ToC, and comprise qualitative and quantitative metrics: including metrics on student performance, as well as risks/assumptions affecting the TOC, such as absenteeism, migration, teacher capability etc. BAT also expects to develop a real time data management system for service providers.</p> <p>Level of disaggregation: TBD</p>	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).

Data type	ICRC	Village Enterprise	BAT - Quality Education India DIB	How this data will be used
	Level of disaggregation: Male/Female and 15 and above / Below 15			
	Frequency: Quarterly	Frequency: Every 6 months	Frequency: Every 6 months	
Outcome Verification	Involves testing of certificates of receipt and visits to 5% of beneficiaries to assess their mobility.	Relies on RCT which will measure households' assets, savings and consumption	Learning impacts measured through tests in literacy and numeracy, using an experimental design, at baseline and every year.	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 suggest perverse incentives).
	Frequency: At the end of the programme	Frequency: To capture data 6-18 months after programme delivery ends, this is planned June-Aug 2020 for cohorts 1-4, and June-Aug 2021 for cohorts 5-7.	Frequency: Annual	
Learning Activities	No formal learning activities are planned. However, learning from the set up and delivery of the impact bond are being informally captured.	Process learning to assess effectiveness of the VE DIB, including the extent to which the use of the DIB delivered results more efficiently and effectively, and how outcomes based contracts can be improved and delivered at scale. Three reports planned: baseline, intermediate and final.	Five thematic reports: 1. India Education DIB Summary, 2. Using performance management in education, 3. Costing and pricing education outcomes, analysis around education space, 4. Efficient costing for designing an impact bond in education, 5. Result of India Education DIB. Annual progress updates including a summary of results	Learning will be compared across DIBs and contextualised within the learning from other impact bonds.
Cost Data	<ul style="list-style-type: none"> Cost data will be collected for the delivery of the HIB, and this will be reported on a quarterly basis. Some costs, such as set up costs and support costs, 	VE has a separate cost centre for the costs associated with the VE DIB – to enable costs to be collected independently.	The Performance Manager (Dalberg) will have data on project level costs.	The team will seek to gather additional costs to gain an understanding of the full costs of the DIBs. The costs will be used to compare with the additional benefits of the

Data type	ICRC	Village Enterprise	BAT - Quality Education India DIB	How this data will be used
	<p>may not be captured within this</p> <ul style="list-style-type: none"> • Cost analysis will be undertaken in terms of the impact of efficiency measures on the running costs of centres 			DIBs, in order to understand the costs and benefits of using the DIB mechanism.

5.0 Evaluation Approach

5.1 Objectives of the Evaluation

The overall aim of this evaluation is to understand how the application of the impact bond mechanism could work across future DFID activities, drawing on the experiences of three current DIBs. As stated in the ToR, “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.... 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.”

The evaluation also recognises that DIBs are a relatively new tool for delivering development projects. Hence, the focus 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.

5.2 Scope and Focus of the Evaluation

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 will focus on whether the DIB leads to better and more relevant, efficient and effective activities compared to alternative funding models. The evaluation will explore 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; whether it improves the outcomes of activities and the extent to which a DIB enables more providers to become involved in PbR projects.

The scope of the evaluation is the three DIB pilot projects that DFID is supporting. The evaluation will focus on the impact bond mechanism and its effect on how the intervention was delivered, and the results produced by the intervention. The evaluation will not specifically cover the delivery of the programme, though noting that there will undoubtedly be overlap as we are exploring the effects of the use of the impact bond. In terms of cost analysis, the focus is on the cost per outcome, costs related to set up and delivery of the DIBs, and any changes to the initial budget made possible by the use of the DIB, as opposed to analysis of the input mix. It is also important

that the evaluation collaborates with project level learning in order to leverage data and learning outputs, to synthesise evidence across the three DFID DIB pilots as well as non-DFID impact bonds. 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.

As set out in the ToR, the evaluation will include a review of the process of selecting interventions and structuring the DIBs, analysis of costs of the different stages, consideration of the appropriateness of outcome targets and payment mechanisms and analysis of the roles of the different stakeholders throughout the lifecycle of the DIB.

5.3 Users of the Evaluation

Primary users of the evaluation will be the DFID DIBs team. The findings will be used to inform DFID's use of the impact bond mechanism. It is expected that the evaluation will generate findings on the structuring and design of Pilot DIBs, in terms of how best to tailor the mechanism to ensure value for money. Later findings on how DIBs are managed and the effects on the performance will support DFID's engagement with the other stakeholders throughout the DIB lifecycle. The findings will add to the evidence base of how and when DIBs should be used, in order to deliver increasing value for money.

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. See section 8.2 for the communications strategy.

5.4 Evaluation Framework

Table 11 sets out the evaluation framework. The evaluation framework was reviewed in the light of findings of the inception phase and it is felt that it still provided a good structure for the evaluation. Three questions in italics have been added to ensure that the evaluation addresses perceived gaps in available evidence.

Table 11: Evaluation Framework

Key evaluation questions	Relevance, efficiency, effectiveness (and additionality cross cutting)	DIB effect indicators (what will we measure to understand whether the DIB model has had an impact)	Methods								
			Data analysis	Document review	DIB consultations & field visits	Research in comparator sites	Cost analysis	DFID consultations	Programme document review	Literature review	Learning workshops
EQ1: Assess how the DIB model affects the design, delivery, performance and effectiveness of development interventions.	<p>Effectiveness⁹</p> <p>To what extent were the three DIB projects successful in realising their aims, outputs, outcomes and impacts? Were any levels of success and failure down to the DIB model?</p> <p><u>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?</u>¹⁰</p> <p>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?</p>	<p>Number and type of providers taking on PbR contract</p> <p>Number of other PbR contracts that partners are involved in before and after involvement in DFID supported DIBs</p> <p>Strength of performance management and measurement systems</p> <p>Use of real time performance information to inform ongoing delivery</p> <p>Level of flexibility found within the project to alter project delivery</p> <p>Level of responsiveness and agility of partners to deal with bottlenecks, issues and challenges</p> <p>Proportion of total cost of project going to front line delivery against</p>	X	X	X	X				X	X

⁹ “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.

¹⁰ Additional text added to ensure evaluation framework meets EQUALS criteria

Key evaluation questions	Relevance, efficiency, effectiveness (and additional cross cutting)	DIB effect indicators (what will we measure to understand whether the DIB model has had an impact)	Methods							
			Data analysis	Document review	DIB consultations & field visive	Research in comparator sites	Cost analysis	DFID consultations	Programme document review	Literature review
	<p>How important was the DIB model in the effectiveness of the projects - was it a small, medium or large driver of success and was it at all critical to the projects' overall performance?</p> <p>To what extent did stakeholders involved in the DIB use any of the working practices of the model in their other work?</p> <p><u>Does the increased evidence base developed in the DIB enable the projects to access additional funding?</u></p> <p><u>To what extent did good practice within the DIBs spread to other interventions or organisations?</u></p> <p>To what extent does the effectiveness vary across the three projects and why?</p> <p>How does the effectiveness compare to other DIBs and funding mechanisms and why?</p>	<p>proportion going to project development and administration (including research and data verification)</p> <p>Level of involvement and influence of private investors in the development and delivery of the DIB and extent to which private investors drove (over) performance of providers</p> <p>Strength of relationship of partners involved and levels of collaboration</p> <p>Strength of monitoring and evaluation systems developed</p> <p>Profile of beneficiaries, and evidence of 'cherry picking' and excluding those more vulnerable or harder to reach</p> <p>Quality and range of support provided, and evidence of parking (ceasing support to beneficiaries where further outcome payments are unlikely)</p>								

Key evaluation questions	Relevance, efficiency, effectiveness (and additionality cross cutting)	DIB effect indicators (what will we measure to understand whether the DIB model has had an impact)	Methods								
			Data analysis	Document review	DIB consultations & field visits	Research in comparator sites	Cost analysis	DFID consultations	Programme document review	Literature review	Learning workshops
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>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? 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? Do the extra costs represent value for money - to what extent do they lead to additional results, impacts and benefits? Do any aspects to a DIB model (e.g. involving an investor, undertaking verification of outcomes) shorten or extend the timeframes of projects? Who pays for these additional costs and to what extent do they see the benefits?</p>	<p>Individual and average costs of setting up a DIB broken down by: Salary costs (based on labour cost per hour) Outsourcing costs (e.g. cost of intermediaries) Other costs (e.g. overheads) Level of transaction costs of setting up a DIB compare with the average costs for other funding mechanisms (e.g. fee-for-service contracts) Changes in transaction costs over time (as projects start to learn from previous experience) Number of new DFID programmes interacting with DIBs guidance, evaluation findings and reports. Proportion of new DFID DIB instruments commissioned that are informed by recommendations of DFID DIBs evaluation reports. Number of direct beneficiaries with improved outcomes as a result of DFID funded DIB projects</p>	X	X	X	X	X	X		X	X

Key evaluation questions	Relevance, efficiency, effectiveness (and additionality cross cutting)	DIB effect indicators (what will we measure to understand whether the DIB model has had an impact)	Methods								
			Data analysis	Document review	DIB consultations & field visive	Research in comparator sites	Cost analysis	DFID consultations	Programme document review	Literature review	Learning workshops
	<p>Are there any inefficiencies in a DIB model that can be reduced or are there any additional costs that are unnecessary?</p> <p>To what extent does the efficiency vary between the three DIB projects and why?</p> <p>How does the efficiency compare to other DIBs and funding mechanisms and why?</p>	<p>Number of DFID supported DIB projects with improved cost-effectiveness ratio compared with service providers' own past performance</p> <p>Level of returns and profit made by the investors and extent to which that influences future involvement in both DIBs and development projects</p>									

Key evaluation questions	Relevance, efficiency, effectiveness (and additionality cross cutting)	DIB effect indicators (what will we measure to understand whether the DIB model has had an impact)	Methods								
			Data analysis	Document review	DIB consultations & field visive	Research in comparator sites	Cost analysis	DFID consultations	Programme document review	Literature review	Learning workshops
	<p>Relevance</p> <p>In what circumstances are DIBs relevant in tackling issues in the development context?</p> <p>What problems, target groups, geographies and project scales do DIBs fit best and have the greatest of impact?</p> <p>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?</p> <p>To what extent are DIBs applicable to DFID's work - are they relevant across most, some or a few of DFIDs priority result areas?</p>						X		X	X	

6.0 Evaluation Methodology

6.1 Overview of Evaluation Method

This section summarises the overall method and some of the key aspects considered when designing the methodology.

6.1.1 Method overview

In Figure 6 we summarise the method. The evaluation is divided over three waves, with the majority of the research activity repeated during each wave:

Wave 1: Set up (April - November 2018¹¹): Focusing on the process of designing and launching the DFID DIB pilot projects.

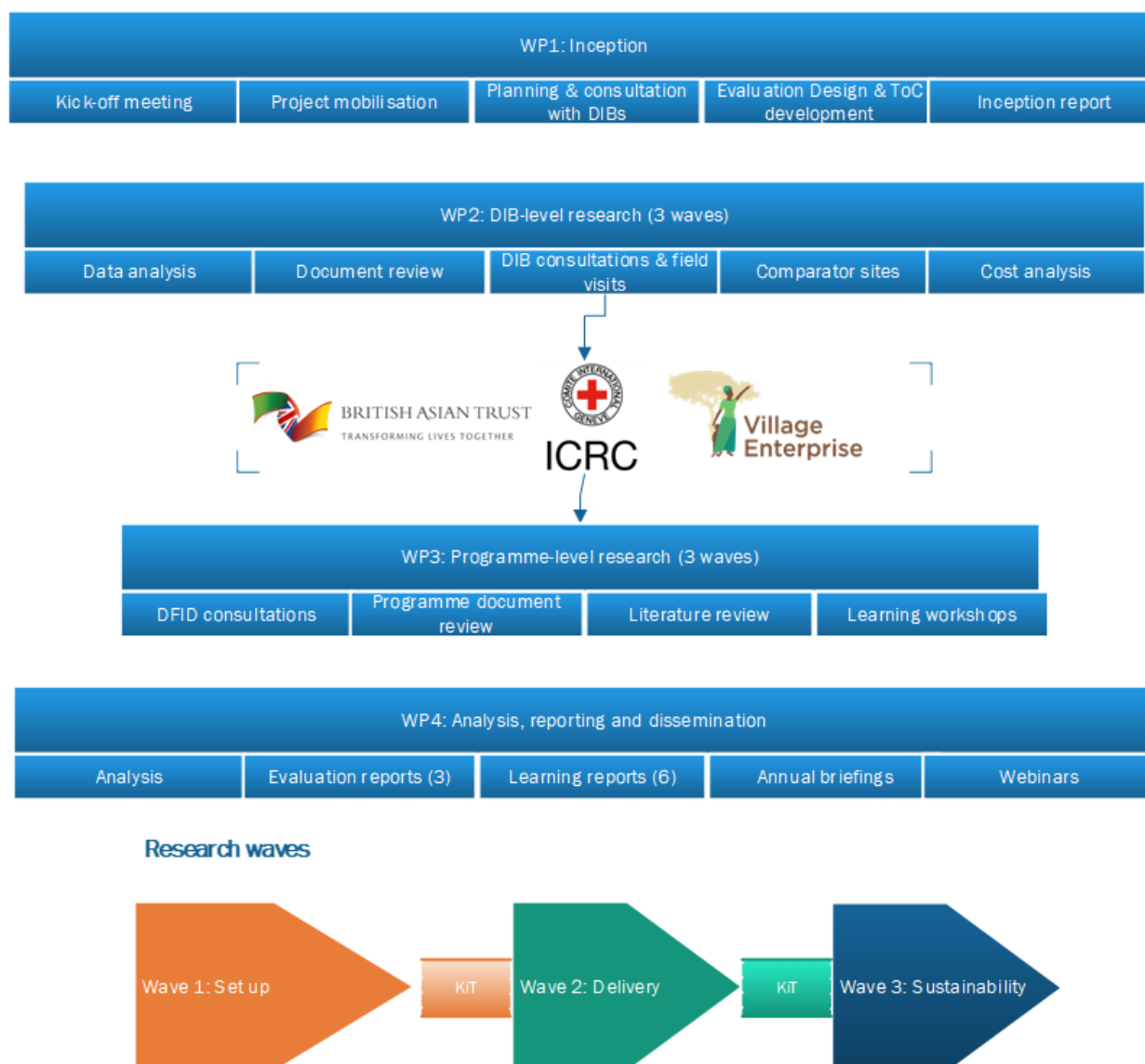
Wave 2: Delivery (April – November 2020): Focusing on emerging lessons from the DFID DIBs pilot projects, as well as from evidence generated by other DIBs. Most of the evaluation questions will be answered during this wave.

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 DIB pilot programme, including costs and benefits.

Whilst these are the overarching foci for each wave, we will also focus on other areas to a lesser degree; for example, the primary focus of the set-up wave will be on lessons learnt in designing and launching DIBs, but we will also explore early progress in delivery. In the years between each research Wave (i.e. 2019 and 2021) we will undertake light-touch ‘Keeping in Touch’ (KiT) activities with each of the three DIBs; this will enable us to provide DFID with an annual update on the progress of the DIBs.

¹¹ We are currently in discussions with BAT regarding these timescales and how they fit with the timing of their impact bond.

Figure 5: Method Summary



Methodological considerations

Guiding principles: the evaluation will be guided by the OECD-DAC evaluation criteria¹². The approach is also guided by the principles of the Paris Declaration¹³. Low- and medium-income countries must lead and manage their own development if aid is to contribute to sustainable development. 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. We will also consider the sustainability of data collection and impact measurement. We have also considered, and addressed, the evaluation principles of accuracy and credibility. We have factored in time to review the M&E data submitted by the projects to ensure its accuracy. We have also considered how the evaluation can remain independent (see below) to ensure its credibility.

¹² See: <http://www.oecd.org/dac/evaluation/daccriteriaforevaluatingdevelopmentassistance.htm>

¹³ <http://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm>

Maintaining independence: It is important that the central evaluation remains independent and credible. In reviewing available data, we will investigate how the data is collected and verified to assess quality. This may involve providing advice, guidance and a QA role to ensure the evidence is more reliable, and we have factored in time to support with this.

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 will be to act in an advisory capacity, but the report and its findings will be written by the evaluation team.

A multi-level approach: As summarised in Figure 7 overleaf, the evaluation will focus on three levels:

- **Individual DIBs:** Firstly, we will examine each DIB in isolation, exploring how the DIB model is affecting the design, delivery, performance and effectiveness of each separate development intervention. We will also focus on how improvements can be made to the process of designing and agreeing each individual DIB. Focusing at the individual DIB level will also enable us to disaggregate data to show differences between groups.
- **DFID DIB pilot programme:** We will then bring together the findings from the individual DIBs, comparing the similarities and differences between the 'DIB effect' in each DIB. This will help us understand firstly how the DIB effect differs (or remains) across different contexts. As the DIB models vary across the DIBs, we will also focus on the costs and benefits of different DIB models. Finally, we will also examine DFID's role across the programme.
- **Wider impact bond and PbR sector:** In the third level we will contextualise the findings from the DFID DIB pilot programme within the wider impact bond and PbR sector. We will consider the extent to which the findings from the programme support, or contradict, findings from other impact bond and PbR research, and why there may be similarities or differences. We will also consider how the findings from the programme can be applied to the wider impact bond and PbR sector, including how improvements can be made to the process of designing and agreeing impact bonds in general.

We have designed the phasing of the research, and the work packages, to mirror this multi-level approach: WP2: DIB-level research focuses on generating findings for each individual DIB, whilst WP3: Programme-level research focuses on both the DFID DIB pilot programme level, and on the wider DIB sector.

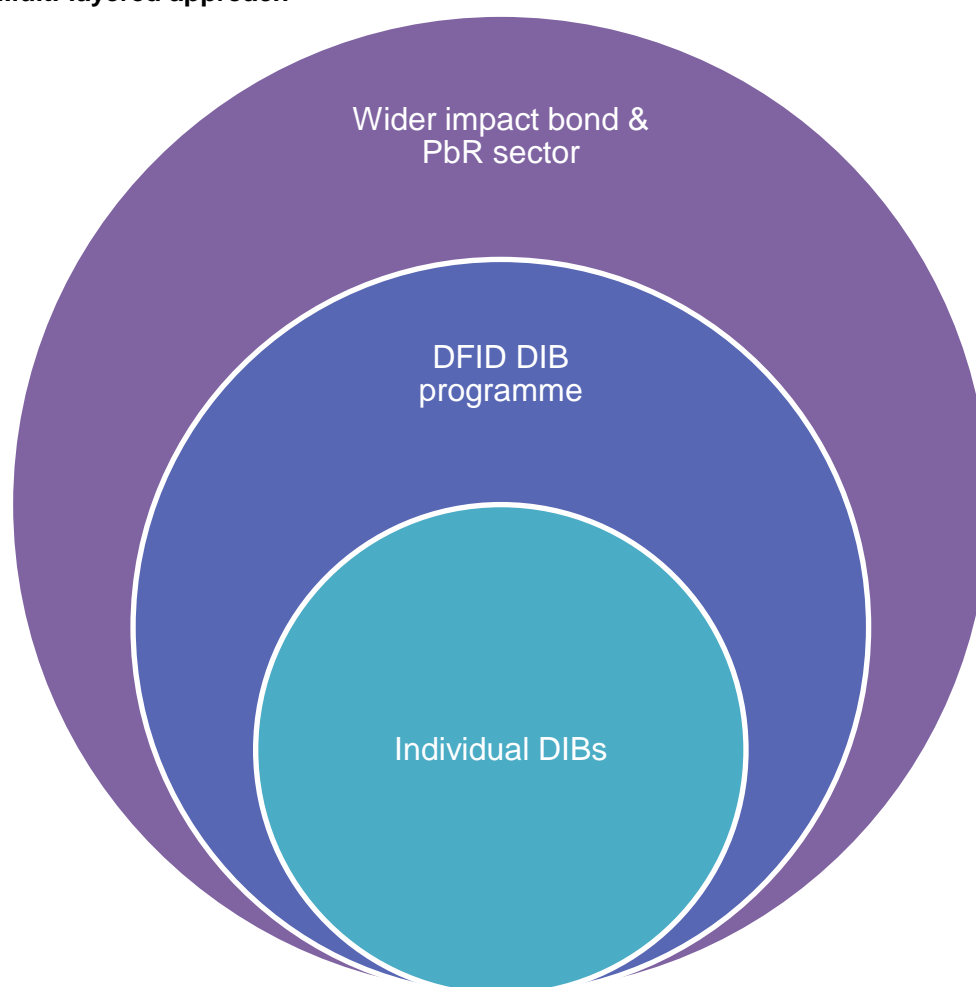
Learning approach: The ToR states that the primary purpose of the evaluation is to generate learning and recommendations that could inform decisions on the future use of DIBs as an instrument of policy. We have therefore built into the method a strong learning component. In keeping with the multi-layered approach described above, we will focus on generating learning at three levels:

- **Individual DIBs:** Identifying specific lessons and areas for development for each DIB, and feeding these back to the DIB stakeholders in real time. This will ensure the DIB projects can adapt and improve based on the evaluation findings.
- **DFID:** Identifying learning that can inform DFID's approach to DIBs, and how they could use the funding mechanisms in future or existing programmes.

- **Wider impact bond and PbR sector:** Identifying broader lessons relevant for the design and delivery of impact bonds more generally, focusing in particular on which DIB models are suitable for different contexts, and how they could be implemented more efficiently and at greater scale. The learning with the wider sector will be two way; sharing learning from the DFID DIBs with the wider sector, but also incorporating learning from the wider sector to produce practical recommendations around how the delivery of the three DIB pilots could be improved.

This learning will be generated through consultations with stakeholders across the DIBs and with DFID and wider organisations involved in the sector. We also propose to hold a series of learning workshops, again reflecting the multi-level approach; we will hold workshops that draw together the main stakeholders from all the three DIBs and DFID to identify programme-wide lessons; and workshops with stakeholders involved in other DIBs to share and contextualise the lessons with the wider DIB sector.

Figure 6: Multi-layered approach



Our reports will also focus strongly on sharing learning from the DIBs. They will include clear sections on lessons learnt, including practical recommendations targeted at different audiences.

We also propose adopting 'learning themes' for each wave of the research. These will focus on themes that are of particular interest to DFID and the wider DIB sector. We will dedicate time in

each relevant consultation and during the workshops on these themes. We would then produce short stand-alone 'lessons learnt'/'how to's'/'top tips' for these themes that will be useful for DFID and the wider sector.

These activities will of course be adapted to fit in with the learning activities taking place within the DIB projects, as we discuss in the proceeding section.

Working with and engaging local stakeholders: It is important that the central evaluation and DIB projects collaborate to gather evidence. Furthermore, there is a range of local learning activity taking place, and it is important the evaluation builds on, rather than duplicates, this work.

To ensure we can collaborate closely with local stakeholders we planned a detailed Inception phase. During this phase we have been in discussions with the three DIBs to identify ways of working together, and we provide more information in [Evaluation plans with individual DIBs](#).

However, it will also be important to adopt a flexible approach. It is possible the evidence we expect is either not forthcoming or is not as credible or independent as anticipated. At the start of each research wave we will review the evidence provided prior to any consultations or field visits. This will enable us to plan in questions to clarify the evidence, or to increase the focus of the primary research if the evidence is not sufficient.

The consequence of this approach is that the evaluation will involve a blend of primary and secondary research, focusing the primary research on areas that are not covered through local data collection and learning activities. It is likely that the precise mix of primary and secondary research between each DIB will vary, in response to the varying levels of local evidence collection.

Adaptive approach: Whilst we set out in the proposal a detailed work plan, we recognise the need to remain adaptive and flexible. The evaluation is operating over a long time-frame; it is likely there will be changes in the economic and political climates in both the UK and the countries the DIBs are operating in that will require us to change either the focus of the evaluation or the precise method. Additionally, DIBs purport to bring additional flexibility over and above other funding mechanisms, and therefore it is possible the focus or implementation of the DIBs also varies. The three DIBs are very different in scale, location and focus, and it will be important to tailor the methods to the specific DIB context. Finally, it is important for the evaluation itself to adapt based on what is, and is not, working in implementing the method.

We propose to use the 'KiT' points in between the three research waves for both DFID and the evaluation team to reflect on the effectiveness of the evaluation approach. We can use these points to adapt the focus or delivery method, providing 12 months to prepare for these changes before the next research wave commences.

In the remainder of this section we describe the different work packages (WPs) in further detail. We have not included WP1: Inception, as this was described in the previous section.

6.2 WP2: DIB-level research

The purpose of this WP 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, we will undertake the following tasks, which are detailed below:

- Data analysis
- Document review
- DIB consultation and field visits
- Research in comparator sites
- Cost analysis

6.2.1 Data analysis

As part of the evaluation we will aim 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. We intend to gather both the planned and actual figures for each of these areas, in order to assess the performance of the DIBs against expectations.

We anticipate that the majority of this data will be collected by the projects, and in Table 12 we outline the indicators we intend to collect and the data sources we expect these to be available. We are currently discussing with the projects which of these data are being collected and can be shared with Ecorys. The findings of our assessment are presented in Table 15.

However, it will also be important to adopt a flexible approach. It is possible the evidence we expect is either not forthcoming or is not as credible or independent as anticipated. At the start of each research wave we 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 us to plan in 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. We will use these findings to support the DIB projects to improve their measure systems if necessary, or to re-focus our primary research on areas not sufficiently covered through local data collection and learning activities.

The majority of the analysis will be descriptive.

Table 12: Quantitative data to be collected on the DFID DIB pilots

Indicator	Data to collect	Data source
Investment returns	Amount of investment raised, broken down by party and date (year)	Quarterly / six-monthly progress reports
	Amount of investment drawn down, broken down by party and date (year)	
	Anticipated surplus paid to other parties (returns, dividends, performance payments, loans	Financial cases / Memos explaining decisions to fund each pilot DIB

Indicator	Data to collect	Data source
	interest), broken down by date (year) and parties	
	Actual surplus paid to other parties, broken down by date (year) and parties	Quarterly / six-monthly progress reports
Beneficiary numbers	Anticipated number of beneficiaries supporting, broken down by date (year), location and beneficiary characteristics	Programme design documents / business cases / memos explaining decisions to fund each pilot DIB
	Actual number of beneficiaries supporting, broken down by date (year), location and beneficiary characteristics	Quarterly / six-monthly progress reports / project logframe updates / evaluation activities
Outcomes	Anticipated primary outcomes, broken down by date (year), location and beneficiary characteristics	Programme design documents / business cases / Memos explaining decisions to fund each pilot DIB
	Actual primary outcomes, broken down by date (year), location and beneficiary characteristics	Quarterly / six-monthly progress reports / evaluation activities
	Anticipated secondary outcomes, broken down by date (year), location and beneficiary characteristics	Programme design documents / business cases / memos explaining decisions to fund each pilot DIB
	Actual secondary outcomes, broken down by date (year), location and beneficiary characteristics	Quarterly / six-monthly progress reports / evaluation activities
	Extent to which primary and secondary outcomes sustained 6 months after DIB ended, broken down by location and beneficiary characteristics	Quarterly / six-monthly progress reports / evaluation activities
Outcome payments	Anticipated amount of outcome payments, broken down by outcome, location, date and donor party	Financial cases / memos explaining decisions to fund each pilot DIB
	Actual amount of outcome payments, broken down by outcome, location, date and donor party	Quarterly / six-monthly progress reports
Costs	Direct and indirect costs relating to: Designing and setting up project Running project, broken down by operational costs; management; administration; monitoring and payments to investors	Project budgets

6.2.2 Document review

We will review key documents related to each DIB to understand further the DIBs' progress and what aspects are impacting on their performance, including the DIB mechanism. Again we are in discussions with the DIBs in relation to what documents are being collected, and which can be shared with Ecorys. We have summarised proposed agreements in Table 15.

These will be reviewed in depth at the beginning of each research wave.

6.2.3 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.

Table 13 provides an illustration of the list of stakeholders we may consult with during each research wave, the broad areas we could discuss and possible interview methods. Again, we are discussing the precise list with each DIB, and have summarised the suggested list in Table 15.

The areas to be discussed will also be tailored depending on the point of progress of each DIB.

We will interview key stakeholders in three research waves. During Waves 2 and 3 we propose undertaking a field visit to each DIB to consult with local stakeholders face-to-face. We will select two locations per DIB (visiting a different location at each wave); the selection will be based on the presence of local learning activity (prioritising areas where minimal activity is taking place). We will gather the main contact details from DFID and then adopt a snowball sampling approach to identify all relevant stakeholders. Where there are more than two stakeholders in the same stakeholder group, we will select a representative sample across the three DIBs. Here we will adopt a purposive sampling approach to ensure we interview a representative set of stakeholders, considering equity and gender; in Table 14 we provide the sampling frame we will use to select stakeholders to consult.

These visits will be undertaken by members of the central evaluation team and local researchers, who will assist in understanding the local context.

In the years between the research waves we will undertake tele-/video-consultations with the project managers in each DIB in order to keep abreast of developments and maintain relationships.

Table 13: Stakeholders to be consulted as part of DIB consultations

Stakeholder type	Areas to be discussed: Wave 1 (Set up)	Areas to be discussed: Wave 2 (Delivery)	Areas to be discussed: Wave 3 (Sustainability)
Project managers / performance managers / intermediaries	<p>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</p> <p>View on DFID's role in the DIB</p>	<p>Changes to project structure since previous Wave and reasons why</p> <p>Progress and lessons learnt in delivering the project; what factors have led to the progress (including the DIB); and how things could be improved for this DIB and future DIBs</p> <p>How they think the DIB model affected their performance management of the project</p> <p>View on DFID's role in the DIB</p>	<p>Changes to project structure since previous Wave and reasons why</p> <p>Progress and lessons learnt in delivering the project; what factors have led to the progress (including the DIB); and how things could be improved for future DIBs</p> <p>How they think the DIB model affected their performance management of the project</p> <p>Whether this DIB could be delivered at scale and, if so, what would need to change</p> <p>View on DFID's role in the DIB</p> <p>Impact of project on their perceptions of DIBs and likelihood of getting involved again</p> <p>If DIB were to be replicated, what should be retained/changed</p>
Service provider: Project managers	<p>Reasons for getting involved in project, including what they hope to achieve and concerns</p> <p>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</p> <p>View on DFID's role in the DIB</p>	<p>Changes to project structure since previous Wave and reasons why</p> <p>Progress and lessons learnt in delivering the project; what factors have led to the progress (including the DIB); and how things could be improved for this DIB and future DIBs</p> <p>Impact of project on organisation and beneficiaries; what factors have caused this (including the DIB)</p> <p>How they think the DIB model affected their management of the project</p> <p>View on DFID's role in the DIB</p>	<p>Future funding arrangements for project</p> <p>Changes to project structure since previous Wave and reasons why</p> <p>Progress and lessons learnt in delivering the project; what factors have led to the progress (including the DIB); and how things could be improved for future DIBs</p> <p>Sustained impact of project on organisation and beneficiaries; what factors have caused this (including the DIB);</p> <p>How they think the DIB model affected their management of the project</p> <p>View on DFID's role in the DIB</p>

Stakeholder type	Areas to be discussed: Wave 1 (Set up)	Areas to be discussed: Wave 2 (Delivery)	Areas to be discussed: Wave 3 (Sustainability)
			Impact of project on their perceptions of DIBs and likelihood of getting involved again If DIB were to be replicated, what should be retained/changed
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	Changes to project structure since previous Wave and reasons why Progress and lessons learnt in delivering the project; what factors have led to the progress (including the DIB); and how things could be improved for this DIB and future DIBs How they think the DIB model affected their management of the service Impact of project on organisation and beneficiaries; what factors have caused this (including the DIB)	Future funding arrangements for project Changes to project structure since previous Wave and reasons why Progress and lessons learnt in delivering the project; what factors have led to the progress (including the DIB); and how things could be improved for future DIBs How they think the DIB model affected their management of the service Sustained impact of project on organisation and beneficiaries; what factors have caused this (including the DIB); View on DFID's role in the DIB Impact of project on their perceptions of DIBs and likelihood of getting involved again If DIB were to be replicated, what should be retained/changed
Service provider: Practitioners	N/A	Knowledge and awareness of DIB mechanism Progress and lessons learnt in delivering the project; what factors have led to the progress (including the DIB); and how things could be improved for this DIB and future DIBs How they think the DIB model affected their role	Knowledge and awareness of DIB mechanism Progress and lessons learnt in delivering the project; what factors have led to the progress (including the DIB); and how things could be improved for this DIB and future DIBs How they think the DIB model affected their role

Stakeholder type	Areas to be discussed: Wave 1 (Set up)	Areas to be discussed: Wave 2 (Delivery)	Areas to be discussed: Wave 3 (Sustainability)
		Impact of project on organisation and beneficiaries; what factors have caused this (including the DIB)	Impact of project on organisation and beneficiaries; what factors have caused this (including the DIB) If DIB were to be replicated, what should be retained/changed
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	Changes to their role in the project since previous Wave and why. Extent to which project is meeting their expectations and objectives Lessons learnt in project involvement, particularly lessons that would be helpful for DFID How they think the DIB model affected their role Impact of involvement on organisation; what factors have caused this (including the DIB) How things could be improved for this DIB and future DIBs Views on DFID's role in the DIB	Changes to their role in the project since previous Wave and why. Extent to which project met expectations and objectives Lessons learnt in project involvement, particularly lessons that would be helpful for DFID How they think the DIB model affected their role Sustained impact of involvement on organisation; what factors have caused this (including the DIB) How things could be improved for future DIBs Views on DFID's role in the DIB Impact of project on their perceptions of DIBs and likelihood of getting involved again If DIB were to be replicated, what should be retained/changed
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	Changes to project structure since previous Wave and reasons why Extent to which project is meeting their expectations and objectives, including levels of financial return Lessons learnt in project involvement	Changes to project structure since previous Wave and reasons why Extent to which project met their expectations and objectives, including levels of financial return Intentions of how to use financial return [to assess whether funds are being recycled] Lessons learnt in project involvement

Stakeholder type	Areas to be discussed: Wave 1 (Set up)	Areas to be discussed: Wave 2 (Delivery)	Areas to be discussed: Wave 3 (Sustainability)
	View on DFID's role in the DIB	Impact of involvement on organisation; what factors have caused this (including the DIB) How things could be improved for this DIB and future DIBs Views on DFID's role in the DIB	Sustained impact of involvement on organisation; what factors have caused this (including the DIB) How things could be improved for future DIBs Views on DFID's role in the DIB Impact of project on their perceptions of DIBs and likelihood of getting involved again If DIB were to be replicated, what should be retained/changed
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	Process used to verify outcomes; their confidence in the credibility of the evidence Lessons learnt in project involvement Impact of involvement on organisation; what factors have caused this (including the DIB) How they think the DIB model affected their verification of the outcomes How things could be improved for this DIB and future DIBs	Process used to verify outcomes; their confidence in the credibility of the evidence Lessons learnt in project involvement How they think the DIB model affected their verification of the outcomes Sustained impact of involvement on organisation; what factors have caused this (including the DIB) How things could be improved for future DIBs Impact of project on their perceptions of DIBs and likelihood of getting involved again If DIB were to be replicated, what should be retained/changed
Project level process evaluators / learning partners	Findings from activity completed to date	Findings from activity completed to date	Findings from activity completed to date
National and district/local governments	If on steering committee	How project fits in with local context Changes in local context during period of delivery and whether this has impacted on project Views on effectiveness of project	How project fits in with local context Changes in local context during period of delivery and whether this has impacted on project Views on effectiveness of project

Stakeholder type	Areas to be discussed: Wave 1 (Set up)	Areas to be discussed: Wave 2 (Delivery)	Areas to be discussed: Wave 3 (Sustainability)
		Impact of project on government; what factors have caused this (including the DIB) View on DFID's role in the DIB Impact of project on their perceptions of impact bonds and whether this has led them to consider being involved in others/launching SIBs	Impact of project on government; what factors have caused this (including the DIB) View on DFID's role in the DIB Impact of project on their perceptions of impact bonds and whether this has led them to consider being involved in others/launching SIBs
Local organisations that work with the project	N/A	Experience of working with project; what factors have affected this experience (including the DIB) Impact of involvement on organisation; what factors have caused this (including the DIB) How things could be improved for this DIB and future DIBs Impact of project on their perceptions of impact bonds and likelihood of working with a project funded through an impact bond again	Experience of working with project; what factors have affected this experience (including the DIB) Impact of involvement on organisation; what factors have caused this (including the DIB) How things could be improved for this DIB and future DIBs Impact of project on their perceptions of impact bonds and likelihood of working with a project funded through an impact bond again If DIB were to be replicated, what should be retained/changed
Advisors (designers)	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	Progress and lessons learnt in delivering the project; what factors have led to the progress (including the DIB); and how things could be improved for this DIB and future DIBs	Progress and lessons learnt in delivering the project; what factors have led to the progress (including the DIB); and how things could be improved for future DIBs Impact of project on perceptions of DIBs If DIB were to be replicated, what should be retained/changed
Service users / beneficiaries	N/A	Situation prior to engaging with project [to determine whether DIB is supporting hardest to reach]	Situation prior to engaging with project [to determine whether DIB is supporting hardest to reach]

Stakeholder type	Areas to be discussed: Wave 1 (Set up)	Areas to be discussed: Wave 2 (Delivery)	Areas to be discussed: Wave 3 (Sustainability)
		Experience of working with project; what factors have affected this experience [to assess DIB effect]	Experience of working with project; what factors have affected this experience [to assess DIB effect] If project were to be replicated, what should be retained/changed

Table 14: Sampling Frame for Stakeholder Consultations

Stakeholder	Selection criteria (We will ensure that across the DIBs we speak to stakeholders that cover as many of the criteria as possible)
Service providers	Size of organisation (small, medium, large) Extent of activity they are undertaking in DIB (small extent, large extent) Prior experience in PbR/DIBs (some, none)
Donors	Type of organisation (government, NGO, philanthropic fund) Proportion of outcome payments (>50%, <50%) Previous experience in PbR/DIBs (some, none)
Investors	Type of organisation (mainstream investor, impact/social investor, high net worth individual, foundation) Proportion of investment (>50%, 25-49%, <25%) Previous experience in PbR/DIBs (some, none)

6.2.4 Evaluation plans with individual DIBs

We are currently in discussions with each of the three DIBs to agree how we will work together to undertake the activities described in the previous sections. We intend to devise an evaluation plan with each DIB that will clearly outline roles, responsibilities and plans for data sharing. In Table 15 we provide a suggested evaluation plan for the DIBs, which we are in the process of agreeing with each DIB. Due to the fact that we have not commenced consultations with BAT, no detail has been included for BAT.

Stakeholders from VE and ICRC appeared to be engaged with the evaluation. They seemed satisfied with the broad evaluation plan. There were some concerns expressed over the ability to compare the DIB with other similar projects, due to the variation within the local context. However, they seemed content that the evaluation is aiming for ‘soft’ counterfactuals using a qualitative approach.

Contact has been made with BAT but we so far we have been unable to discuss the evaluation plan in detail due to capacity constraints with BAT and the ongoing work to finalise the DIB transaction.

Table 15: Structure for Evaluation Plans with Each DIB

Evaluation activities	Ideal plan		Plan proposed for each DIB			
			VE		ICRC	
Data being collected	Investment returns	Amount of investment leveraged, broken down by party and date (year)	✓	Jul-18	✓	Annual
		Anticipated surplus paid to other parties (returns, dividends, performance payments, loans interest), broken down by date (year) and parties	TBC	TBC	✓	Jul-18
		Actual surplus paid to other parties, broken down by date (year) and parties	✓	TBC	✓	July 2020 and Sept 2022
	Beneficiary numbers	Anticipated number of beneficiaries supporting, broken down by date (year), location and beneficiary characteristics	✓	Jul-18	✓	Jul-18
		Actual number of beneficiaries supporting, broken down by date (year), location and beneficiary characteristics	✓	Quarterly	✓	Quarterly from 2020
	Outcomes	Anticipated primary outcomes, broken down by date (year), location and beneficiary characteristics	✓	Jul-18	✓	Jul-18
		Actual primary outcomes, broken down by date (year), location and beneficiary characteristics	✓	Quarterly	✓	Quarterly from 2020
		Anticipated secondary outcomes, broken down by date (year), location and beneficiary characteristics	✓	Jul-18	TBC	TBC
		Actual secondary outcomes, broken down by date (year), location and beneficiary characteristics	✓	Quarterly	TBC	TBC
		Extent to which primary and secondary outcomes sustained 6 months after DIB ended, broken down by location and beneficiary characteristics	TBC	TBC	TBC	TBC
	Outcome payments	Anticipated amount of outcome payments, broken down by outcome, location, date and donor party	✓	Jul-18	✓	Jul-18

Evaluation activities	Ideal plan		Plan proposed for each DIB			
			VE		ICRC	
		Actual amount of outcome payments, broken down by outcome, location, date and donor party	✓	TBC	✓	Sep-22
Monitoring, learning and evaluation activities planned			Randomised Controlled Trial to measure impact of the Village Enterprise cash+ micro-entrepreneurship programme on households' assets, savings and consumption 6-18 months after programme delivery ends. Ongoing process evaluation by Instiglio. VE routinely monitors all five aspects of programme implementation		M&E according to normal systems and protocol. Testing of efficiency measures will involve collection of enhanced data.	
Outputs from monitoring, learning and evaluation activities	Internal progress reports		✓		✓	
	Internal and external learning reports		✓		✓ (relating to the efficiency measures)	
	Business and financial cases		TBC		TBC	
	Memos explaining decisions to fund each pilot DIB (from both DFID and external funders)		TBC		TBC	
	Records of the project appraisal process, negotiations, and decisions taken during the negotiation of each DIB		TBC		TBC	
	Project monitoring reports received from each DIB partner		TBC		Yes, but same as internal progress reports	
Cost information being collected			TBC		Costs of implementing the HIB (basis for payment). TBC other costs not charged to the HIB.	
Planned activity from Ecorys	3 waves of research:					
	- Wave 1: (April – November 2018)		Process	Remote	Set up	Remote

Evaluation activities	Ideal plan	Plan proposed for each DIB			
		VE		ICRC	
	- Wave 2: (April – November 2020)	Implementation	Field	Implementation – efficiency measures	Field
	- Wave 3: (April – March 2023)	Sustainability	Field	Implementation – centres, and sustainability	Field
Stakeholders to consult during research waves	Service providers (Project managers, service managers, practitioners)	Village Enterprise		ICRC	
		Director of Monitoring, Evaluation and Learning		Physical Rehabilitation Programme Lead	
		Kenya Country Director		Director of Financial Resources and Logistics	
		Uganda Country Director		HIB Head of Project	
		CEO		Staff at the 3 HIB centres, and identified comparison centres	
		COO			
	Outcomes funds / donors (including DFID and other funders)	DFID, USAID, Wellspring Philanthropic Fund		Governments of Switzerland, Belgium, UK and Italy, and La Caixa Foundation	
	Investors	Group of private family foundations and SV2, via ImpactAssets		Munich Re, Lombard Odier pension fund, charitable foundations and others	
	Outcome verification agents	IDInsight		Philanthropy Associates	
	Project managers / performance managers / intermediaries (All waves)	Instiglio		n/a	
		Project Manager			
		Process Learning Lead			
		CEO and designer of DIB			
		Financial Model Developer			
	Advisors	n/a		KOIS	
National and district/local governments (Waves 2 & 3 during field visits)	TBC		Local Governments in Mali, DRC, and Nigeria		
Local organisations that work with the project (Waves 2 & 3 during field visits)	TBC		Ministry of Health in countries of operation		

Evaluation activities	Ideal plan	Plan proposed for each DIB	
		VE	ICRC
	Service users / beneficiaries (Waves 2 & 3 during field visits)	Sample of participating households in Kenya and Uganda	Sample of users in new ICRC centres, and the 8 pilot centres.

6.2.5 Comparator sites

Use of process tracing

One of the most challenging aspects of the evaluation will be 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. 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 be 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 a sophisticated 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 will be used in this evaluation, is summarised in Figure 8 and detailed below.

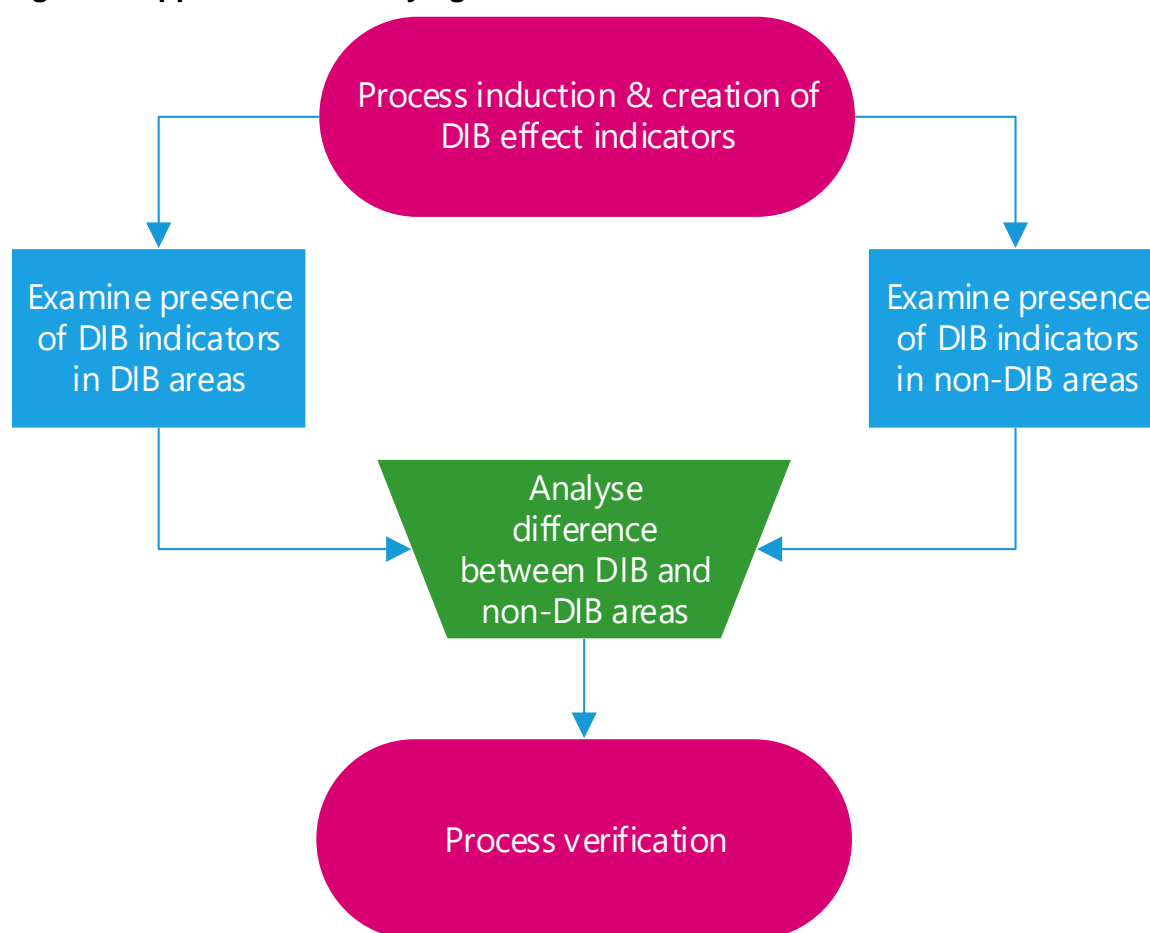
This approach aligns with DFID’s Evaluation Framework for PbR. The Framework notes the importance of identifying and measuring the effects of PbR and proposes this is done by identifying and testing “to what extent expected outcomes are caused by the payment approach and how” and “comparing PBR with other available aid instruments to establish appropriateness and value for money in different development interventions”.

1. ***Process induction and creation of ‘DIB effect’ indicators:*** We will produce a set of indicators through which to measure the outcomes the DIB mechanism is expected to achieve. This indicator set will draw on the ToC and be developed in consultation with DFID and stakeholders from the DIB projects during WP1: Inception. Whilst developing the DIB effect indicators, we will consult with DFID and the DIB stakeholders to identify alternative factors (over and above the DIB mechanism) that might also explain the achievement of the indicators; known as process induction.
2. ***Examine presence of indicators in DIB areas:*** During WP2: DIB-level research, we will examine the extent to which the DIB effect indicators are present within the DIBs. We will use 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 will also ask 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 will also examine 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 will also identify whether the DIB effect indicators are present within similar interventions delivered through alternative funding mechanisms. This will be achieved through both primary research (for example, interviews with DIB stakeholders who have been involved in previous similar interventions) and secondary research (for example, evaluations and research of similar interventions).
4. **Analyse difference between DIB and non-DIB areas:** This analysis will identify the elements that are specific to the DIBs 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; it will be necessary to undertake further research to establish causal inference. During WP2: DIB-level research, we will use process verification to assess the extent to which the DIB mechanism contributed to the DIB effect indicators, relative to the other possible explanations identified during the process induction exercise. This will involve 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 through interviews and workshops.

Figure 7: Approach to identifying the DIB effect



Identifying the DIB effect indicators

We propose undertaking a series of activities to identify the presence of DIB effect indicators:

- **Consultations with stakeholders involved in DIBs:** It is likely that a number of the stakeholders involved in the DIB pilots will have been involved in similar interventions funded through alternative mechanisms. We will ask stakeholders to compare the delivery and performance of the intervention in the DIB to alternative funding mechanisms.
- **Analysing quantitative data from comparator sites:** In Data analysis we set out the quantitative data we will analyse in relation to the DIB pilots. We will seek to gather the same data for 'comparator sites'; sites where a similar intervention was delivered under an alternative funding mechanism.
- **Analysing qualitative data from comparator sites:** A number of the DIB effect indicators are qualitative in nature, and cannot be identified and analysed through the quantitative data (such as, for example, the level of flexibility found within the project). During the literature review we will therefore identify the extent to which the qualitative DIB effect indicators were present in the comparator sites.

We will review the evidence from comparator sites during each research wave. We will undertake this analysis prior to the DIB consultations and field visits; this will enable us 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.

DIB effect indicators to use in process tracing

In Table 16 below we provide a breakdown of the potential 'DIB effect', and the indicators we will use 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

Table 16: DIB effect indicators

Claimed DIB effect	Indicator to measure presence of 'DIB effect' in DIBs and comparator sites
Claimed advantages	
<p>Crowd-in private, additional, upfront, long-term, stable and secured funding, which:</p> <ul style="list-style-type: none"> • Brings in more finances to the development sector • Allows projects to take place at greater scale • Enables risk transfer from outcomes payer and service provider to investor 	<p>Scale and source of funding (including whether private financing), and where this funding would have been directed if it had not funded this project</p> <p>Duration and 'security' of funding</p> <p>Mobilization ratio: for every \$1 of ODA mobilized \$x in private financing</p> <p>Extent that supplier pre-financing was required for PbR contract</p> <p>Opportunity cost of using own funds – i.e. has DIB financing allowed the organization to invest in other things</p>
Shift focus to outcomes	Set up
<p>More innovative services (or larger-scale innovative services) because:</p> <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 	<p>Perceptions on rigour of design stage</p> <p>Level of 'innovation' / risk in project delivery, in terms of:</p> <ul style="list-style-type: none"> • new type of intervention altogether; • an established intervention that has been adapted; or • an established intervention that has been applied to a new context, e.g. location, policy area, target population <p>Scale of project, in terms of delivery cost and number of beneficiaries</p> <p>Extent and quality of external expertise</p>
Drives performance management	
Greater accountability , as impact bond builds leads to culture of monitoring and evaluation	Delivery
More careful and rigorous design of programme interventions	Extent to which delivery decisions are made to maximise outcomes

Claimed DIB effect	Indicator to measure presence of 'DIB effect' in DIBs and comparator sites
	<p>Extent to which a service provider feels more incentivised to offer user-specific supports (the human touch element)</p> <p>Level of flexibility found within the project to alter project delivery</p> <p>Extent to which service provider feels it can take risks and innovate</p> <p>Extent to which service provider feels it has autonomy over delivery</p> <p>Level of responsiveness and agility of partners to deal with bottlenecks, issues and challenges</p> <p>Extent and quality of external expertise</p> <p><i>Monitoring</i></p> <p>Strength of monitoring and evaluation systems developed, including verification of outcomes and duration of outcomes tracking</p> <p>Transparency of outcomes – i.e. levels of reporting internally and externally</p> <p>Strength of performance management and measurement systems</p> <p>Use of real time performance information to inform ongoing delivery</p> <p><i>Sustained impact</i></p> <p>Extent to which systems and practices implemented as part of project are embedded across the wider organisation and/or sustained once the DIB ends</p>
All of the above factors leading to more beneficiaries supported, and more outcomes achieved, ultimately leading to more effective and efficient services	<p>Number of beneficiaries supported per GBP / FTE</p> <p>Number of outcomes achieved per GBP / FTE</p>
More service providers entering the PbR market due to transfer of risk	<p>Number and type of providers participating in PbR contracts, and their historic experience with PbR contracts</p> <p>Level of unrestricted funding as % of overall value of PbR contract</p>
Greater collaboration and/or coordination between stakeholders as there is an alignment of interests	Strength of relationship of partners involved and levels of collaboration and/or coordination
Claimed disadvantages	
Complex to design	<p>Extent to which stakeholders believe the design to be complex</p> <p>Demands of project design in terms of time and need for external expertise</p> <p>Length of time it took to design and launch the project</p>
Expensive to set up and implement	<p>Set up costs</p> <p>Cost per outcome / beneficiary</p>

Claimed DIB effect	Indicator to measure presence of 'DIB effect' in DIBs and comparator sites
	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	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	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	Range and level of secondary outcomes achieved

Recommend comparator sites

In order to identify the DIB effect, one would ideally want to compare the HIB with a similar project not funded by an impact bond (Drew and Clist 2015). The team has discussed with the service providers' potential programmes that could serve this purpose.

The main criteria used to determine whether programmes provide useful comparisons are:

- Project purpose and objectives;
- Service provider and processes used;
- Availability of data and stakeholders; and
- Payment Structure.

Additionally, the evaluation team has also compared programmes along the parameters of countries of operation, context, time period, size of project and level of donor oversight/influence. This is set out in more detail in **Annex F**.

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. 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. 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.

BAT: Educate Girls, one of the NGOs to be funded under this DIB, was financed through a previous DIB. The other three NGO organisations are all expansions of programmes with existing evidence of their effectiveness (improvements in outcomes compared to a counterfactual). Therefore, there may be scope to work with the service provider to conduct natural experiments, compare data on performance, or qualitatively explore the differences in how the project was set-up and the performance between the 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.

Annex F summarises the DIBs and the potential comparator sites, highlighting the main areas of similarities and differences along key parameters important when considering the feasibility of using these programmes as comparisons for the purposes of the evaluation.

6.2.6 Cost Analysis

Objectives

The objectives of the cost analysis are to:

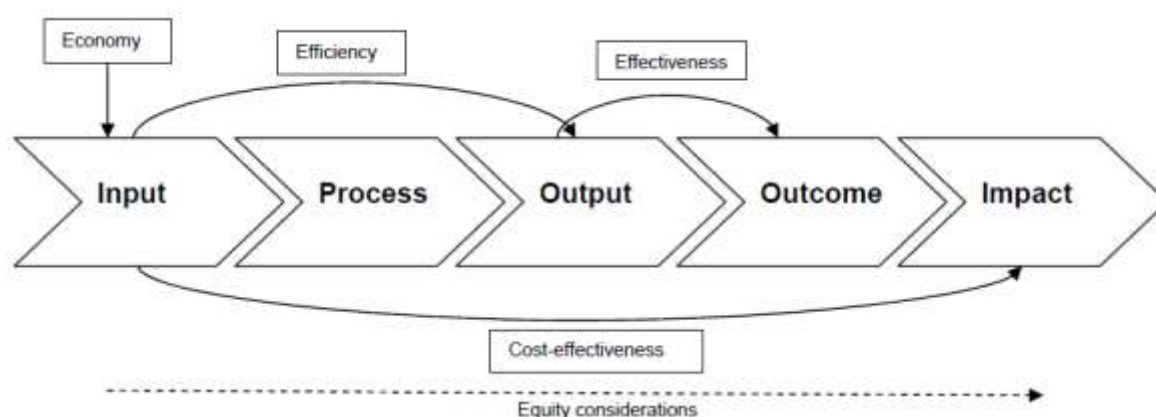
- Collect and analyse the costs of different stages;
- Understand the extra costs of designing and delivering a project using a DIB model, and how this compares to other funding mechanisms;
- Assess the extent to which these extra costs lead to additional results, impacts and benefits, and how efficiency 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 mechanism (risk and return of the impact bond)

Principles for developing the approach

The approach to cost analysis is guided by DFID's definition of VfM (2011) as the extent to which the impact bond mechanism has supported the maximisation of the impact of each pound spent to improve people's lives.

The 4Es used to guide assessment of VfM are set out below.

Figure 8: The 4Es used to assess VfM (DFID 2011)



Some of the key challenges of evaluating the VfM of DIBs are:

- **Limited attention to additionality of PbR and impact bonds:** 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. As there was no consideration of the additionality of the PbR element, the correlation/causality link is unclear. It is unclear whether PbR is rewarding successful programmes or creating them. Perrin's (2013) review of evaluations of PbR also noted that there has been limited attention to the cost effectiveness of PbR approaches, in comparison with other approaches.
- **Limited evidence base on DIBs:** The 4Es set out above are linked to the logframe. Barr and Christie (2014) note that VfM assessment relies on the 'collection of cost data disaggregated at a level that facilitates programmes calculating costs per output and outcome'. While we have developed theories of change for the individual DIB projects and the overall DFID pilot programme, the logframe is not linear, and furthermore, given the early stage of impact bonds, the evidence is not yet clear as to which elements and costs of the impact bond relate to which outcomes. Furthermore, the very nature of impact bonds and the claimed benefits of how they improve outcomes cannot be as easily split as different components of a programme can.
- **Availability of Benchmarks:** King and OPM (2018) and the NAO point to the importance of assessing whether resources have been optimally used and using standards to assess this. However, given the early stages of the impact bond, there are limited benchmarks available.
- **Multiple actors involved in a DIB:** The interlinking between costs and benefits raises challenges for assessing VfM. Depending on the set up of the impact bond, the costs to one actor (for example the outcome funder) will be linked to the benefits of another actor (for example, the investor or service provider). The approach will have to be clear as to whose costs and benefits are being counted.
- **Securing of Capital:** Furthermore, even if the DIB does not produce additional benefits or cost savings for the programme, it may represent VfM if the impact bond secured additional funding for the project or addressed a market failure. We will explore as part of the evaluation the extent to which the funding represents new funding, that

will not have been secured without an impact bond. This may represent investors or outcome funders who would only be willing to fund impact bonds, or service providers who are unable to provide advance funding for PbR contracts (with the primary role of the impact bond as an enabler of using a PbR mechanism).

Given these challenges and the requirements of the VfM as set out in the ToR and proposal, it is proposed that the VfM focuses on the costs and benefits related to the impact bond element only, with a focus on incremental cost and outcomes. This includes a comparative element to other funding mechanisms. The design of the impact bond is premised on the fact that outcome funders focus on outcomes and not inputs; hence, we propose that we do not assess the blend of inputs, but rather the costs of the impact bond as well as efficiencies arising from the use of the impact bond.

The **economy** and **efficiency** elements will be explored by understanding the costs of the impact bond, and the extent to which this led to any cost savings in the delivery of the programme.

Effectiveness will be assessed in terms of:

- Firstly, the extent to which the additional costs of the impact bond as designed (relating to the return and interest to investors, on top of the programme costs) are commensurate to the risk levels of the outcome measure. We note that the motivations of those investing in impact bonds may vary from those investing in more traditional investment opportunities. However, while the return is always likely to be blended, and there will be a range of investors with different risk appetites, and different emphasis placed on social and financial returns, any large DIBs will need to be viable as a business proposition, and the emphasis will become less on the social return and more on the financial return.¹⁴
- The sizes of the DIB, the risks involved and the expected return will be considered to understand the motivations of the investors to be involved in the DIB (and any approached investors who turned down the opportunity). The risk and return profile will be assessed. If the expected returns are higher than the risk level, this will present limitations to the value for money delivered. Certain investment approaches such as capital asset pricing model and consultations with investors, intermediaries and financial advisors can be used to assess this.
- Secondly, the extent to which the additional costs incurred related to the impact bond lead to improved and/or additional outcomes, not narrowly defined by the outcome measure, but instead guided by the theory of changes developed for the DIBs and pilot programme, and the assessment of these additional outcomes through the process tracing approach in the wider evaluation. The wider evaluation also seeks to estimate outcomes as a result of the impact bond mechanism *only*, which will be estimated with reference to comparison programme(s) not using impact bonds for delivery. Incremental Cost Effectiveness Analysis can then be used to compare the additional costs and consequences of an intervention to its alternative (King 2017: 103; Fleming

¹⁴ Rockefeller have commented that they are willing to 'pump prime' (Hughes and Scherer, 2014), that is, to support the establishment of the market by taking on more risk. However, experimental and behavioural economic research have found that people assess market and non-monetary transactions according to different criteria (Gneezy and Rustihini, 2000). The implication of this is that while DIBs will not need to compete solely on its commercial proposition, given its blended returns, they will need to be more or less in line with commercial investments.

2013) can then be used to compare the alternatives, and which presents the more cost-effective solution.

Equity will be assessed by reviewing whether the impact bond had any effect on the beneficiary sub-groups that were targeted and/or reached by the intervention.

Framework for VfM

The table below sets out a framework for VfM, summarising the approach to each of the 4Es.

Table 17: 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?
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 beyond 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 which 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.

Indicators

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.

Table 18: VfM Indicators

	4Es	Indicator typology	Indicator	Measurement typology ¹⁵
1	Economy	Monetary	Additional costs of the impact bond, disaggregated where possible by:	Benchmark: Against other DIBs (Total costs, and as % of programme cost),

¹⁵ We set out a list of potential programmes for comparison/benchmarking in Annex H

	4Es	Indicator typology	Indicator	Measurement typology ¹⁵
			<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) (Clist 2017). <p>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.¹⁶ Cost drivers to be analysed to understand which elements of the DIB are the most time-intensive/expensive.</p>	<p>including the three DIBs under the programme. Compared to similar PbR programmes. Changes over time in new DIB projects.</p> <p>Comparison: Between the 3 centres running under the ICRC HIB and the 4 service providers running under the India Education 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 to quantification of risk, such as capital asset pricing model.¹⁷</p>

¹⁶ The costing structure is set out in more detail below

¹⁷ Something to be considered for the evaluation is that investors may be different from commercial investors As noted by CGDEV and Social Finance (2013) "The risk-return profile will also vary according to whether investors are primarily socially motivated and have a higher risk appetite, so that they have an interest in testing certain interventions under a DIB model and are willing to take financial losses if interventions do not prove successful, or if they are relatively less focused on social returns and have less risk appetite, in which case they will need to be reassured of the interventions' track record in delivering outcomes."

	4Es	Indicator typology	Indicator	Measurement typology ¹⁵
4	Effectiveness	Quantitative	Level of returns and profit made by the investors.	Benchmark: Against other DIBs, including the 3 DIBs under the programme. Against average returns made by investors. Against returns expected by the investor.
5	Effectiveness	Quantitative	Outcome measure. Other intended outcomes as set out in the M&E framework.	Benchmark: Against identified comparison programmes. Comparison: Between the 3 centres running under the ICRC HIB and the 4 service providers running under the India Education DIB. Changes between years during the delivery phase.
6	Effectiveness	Qualitative	Change in: <ul style="list-style-type: none"> • Quality of outcomes • Sustainability of outcomes • Organisation approach to performance management (spillovers) • Positive and negative unintended effects 	As above
7	Equity	Quantitative	% of participants in the different sub-groups (with reference to targeting strategy). (For example, ICRC M&E data will include disaggregated data on gender and age) Targeting costs if relevant (with the assumption that targeting costs increase when trying to access the hard to reach)	As above
8	Equity	Qualitative	Change in targeting approach based on the identified effects of the impact bond. Different	Benchmark: Against identified comparison programmes.

	4Es	Indicator typology	Indicator	Measurement typology ¹⁵
			effects of the intervention on the different sub-groups.	

Cost effectiveness analysis will be undertaken as part of Research Wave 3, after the end of the programme. Indicators 1, 2, 5 and 6 will be used to undertake cost effectiveness analysis (Fleming 2013), using the following steps:

1. Selected outcomes available for both the DIBs and the identified comparison programmes will be identified (set out in indicator 5).
2. Incremental costs and savings will be identified using indicator 1 and 2.
3. Comparison of the outcome data for the DIBs and comparison programmes, along with process tracing in the evaluation will examine causality and set out the proportion of the outcome data which can be attributed to the impact bond.
4. Costs and effects to be discounted. Different costs incurred by different actors may be discounted at different rates.
5. Divide change in costs by change in effects
6. If sufficiently disaggregated data is available, we can analyse the distribution of effects, by calculating estimates of effectiveness for each sub-group.

The cost effectiveness analysis will be conducted with costs and benefits that are incurred by multiple stakeholders, so it can be considered as an analysis from the perspective of the entire system. The analysis will consider overall costs and outcomes attributable to the impact bond (incremental/marginal costs) as well as show costs to specific stakeholders. The team will also consider the risk transfer and risk premium paid out, by exploring the perspectives of the outcome funder, investors and service providers in terms of costs, risk transfer and risk taken on, and returns (see indicators 3 and 4).

The **cost per outcome** will also be estimated (based on the outcome measure), though it must be noted that this will include effects of the programme and the impact bond. Where comparable programme costs and outcome data are available, these will be used to compare against the DIBs outcome costs.

Comparison with other DIBs and PbR will provide a useful reference point. Where DIBs (either within the programme or benchmarked DIBs) are performing well along any of the 4Es, this can be explored further to draw out any lessons and recommendations to improve the benefits and reduce the costs of future DIBs.

Costing Structure

A costing structure is set out below, aligned to the 6 actors within an impact bond:

Table 19: 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)

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 risk premium/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.
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"> This will be charged to the service provider/outcome funder, so no additional costs to include. 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 will be primarily guided by discussions with stakeholders. The team will probe using findings from the literature, and reviews of budgets (and comparison to other non-DIB budgets where available). Where there are multiple staff within the same category, e.g. prosthetists within the ICRC programme, the team will interview a sample and then use the findings to estimate the additional or reduced time spent on the programme for all staff members within that category, e.g. all prosthetists.

For all costs, the team will work with stakeholders to estimate the proportion of costs which 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.

Staff costs will be 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.

It is proposed that for investors, verifiers and intermediaries, staff cost time be charged at the market rate, or the rate normally used to invoice. Where different rates are used for different customers, the team will discuss with stakeholders the most relevant rates to use.

Focus and indicators to be assessed for each research wave

The table below sets out the focus and indicators to be assessed for each research wave:

Table 20: Focus and Indicators to be assessed for each Research Wave

Research Wave	Focus	Indicators							
		1	2	3	4	5	6	7	8
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 	x	x	x					
Research Wave 2	<ul style="list-style-type: none"> Full costs of the programme, and cost savings Outcome measure Disaggregated data on outcomes Qualitative data on outcomes and effects on equity arising from the impact bond funding mechanism 	x	x			x	x	x	x
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 	x	x		x	x	x	x	x

Learning activities on cost effectiveness

Both Village Enterprise and BAT have planned learning activities around the cost-effectiveness of the DIBs. Village Enterprise plans to undertake an internal process review focused on cost-effectiveness and ways to make the DIB more efficient in the future. BAT plans to commission Brookings to undertake learning activities on the efficiency and VfM of developing/implementing DIBs. In Year 3, a paper on the costing and pricing of education outcomes is planned – this will involve different methods of price setting in impact bonds, costing complexities and challenges to costing education outcomes, along with recommendations on price setting for education outcomes. This could provide a useful source of benchmarking data and analysis on the relative VfM of the Quality Education India DIB programmes. In Year 4, a publication on the key cost components of designing impact bonds for evaluation, testing of whether contracts have become more efficient over time and exploration of methods to reduce transaction costs, including case studies on the outcome funds for education and the rate card approach. We can draw upon this and test the extent to which findings correspond to findings from the research.

The team explore further during Research Wave 1 the planned activities, and how best to collaborate so that activities are not duplicated. Furthermore, before commencing each research wave, the team will liaise with the DIBs to ensure the evaluation draws upon any planned and existing data and information.

Potential Limitations

A few potential limitations to consider are set out below. These may affect the cost effective analysis, and the interpretation of the results:

- Availability of cost data, including ‘costs’ such as additional staff time (the quantitative data proposed to be collected by the evaluation team is set out in Table 12);
- Availability of comparable benchmark data;
- Cost Effectiveness Analysis (CEA) will be calculated using only quantifiable outcome measures. External validity may be limited depending on how transferable the findings are to other types of projects and outcomes; and

- Assessing alignment between risk and return requires a level of judgement. Given the limited number of DIBs to date, the wider bond/investment market will have to be used to support this assessment. It is noted that these markets will not be strictly comparable.

As part of the cost effective analysis and reporting, the team will consider the extent to which these limitations need to be taken into consideration when interpreting the results.

6.3 WP3: Programme-level research

The purpose of this WP 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 will also contextualise these findings within the wider DIB sector, and consider 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 will undertake the following tasks:

- DFID consultations
- Programme document review
- Literature review
- Learning workshops

6.3.1 DFID consultations

The purpose of the consultations with DFID will be 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 will help ensure the reports and recommendations are relevant and situated within wider developments within DFID.

The relevant DFID consultees were agreed during the inception phase and have been consulted with. This is members of the DIBs and PbR teams. We will consult these groups again during Research Waves 2 and 3.

6.3.2 Programme document review

We will review key programme-level documents, such as any internal reports written by DFID. As with the DFID consultations, this will ensure the evaluation is situated within wider developments in DFID.

We have already reviewed key documents as part of the inception phase, and will review further key documents during Research Waves 2 and 3.

6.3.3 Literature review

The purpose of the literature review is to contextualise the findings from the programme within the wider impact bond sector. The review will focus predominantly on DIBs, but will also include SIBs operating in low- and medium-income countries.

We undertook the initial literature review as part of the inception phase (see Annex 3). The review will be updated during each of the research waves. We will include a summary of the review in each relevant evaluation report.

6.3.4 Learning workshops

We propose running two types of workshops: internal and external workshops. We provide further detail on these below.

Internal workshops

The internal workshops would bring together key stakeholders from across the three DFID DIB pilots. The purpose of these workshops would be to focus on the similarities and differences across the three DIBs and what might explain these differences, including the DIB effect. It will also be to share lessons learnt in delivery, how challenges could be overcome and how the DIB mechanism could be improved for future DIBs.

As part of the inception phase we explored with DFID the most appropriate method for delivering these. We concluded that webinars are the best approach, as DFID and the DIBs have already been using this approach successfully.

External workshops

The external workshops would bring together stakeholders from across the DIB sector. The purpose would be twofold: firstly, to bring learning into the programme - 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.

We have budgeted to run one external workshop per Research Wave. For Research Wave 1 we suggest attending the Impact Bond Working Group meeting in September.

6.4 WP4: Analysis, reporting & dissemination

The purpose of this WP is to analyse the findings from across the evaluation and share these with external stakeholders through a variety of outputs. To achieve this, we will undertake the following tasks, which are further detailed below:

- Analysis
- Evaluation outputs
- Annual briefings
- Webinars

6.5 Analysis

The evaluation will generate a variety of qualitative and quantitative evidence, which will provide for multiple lines of enquiry and enable the triangulation of different data sources. 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 will be organised into two distinct phases - data management and data interpretation¹⁸. The evaluation team will draw 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 will be reviewed as the fieldwork progresses, in close consultation with the Evaluation Steering Group. 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 will involve 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 will be triangulated with the findings from the quantitative analysis, which is described previously. The two sets of data will be examined to assess the extent to which the findings are complementary. Where findings between the data sets contradict, each data set will be further interrogated to examine possible explanations. We have budgeted for debriefings in each wave with all team members, including the external experts, to support in this analysis stage. As mentioned in Methodological considerations, we will adopt the use of 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 will then be examined alongside the cost data to gain an overall assessment of the cost effectiveness of the DIBs. Analysis will take 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 will also undertake sub-analysis to disaggregate the data to show differences between groups. We will examine the extent to which key findings differ between the three DIBs, and whether different stakeholder groups have different experiences of the DIB mechanism.

Robustness of Findings

To ensure that independent researchers arrive to similar conclusions and analysis is undertaken consistently, the Analytical Lead and Team Leader will Quality Assure interview notes and findings. Furthermore, detailed research guides and briefings will be provided to all researchers, and regular catch ups are planned to ensure emerging issues are discussed in a timely fashion. Finally, the same researcher will lead the research in the DIB and non-DIB programme, which will ensure the consultations around the DIB effect indicators are delivered consistently.

To assess the robustness of findings, the following assessments undertaken as part of the process tracing will be key:

- Assessing the reliability of data sources, including its potential limitations and biases;

¹⁸ Ritchie, J., and Lewis, J. (2013) *Qualitative Research Practice*, SAGE, Chapters 8-9.

- Assessing the inferential weight of evidence;
- Assessing the strength of evidence for each causal mechanism. Local expert input on contextual factors affecting causal mechanism will also be key for this step.

The Lead Analyst and Team Leader will provide technical support on this.

6.5.1 Evaluation outputs

Evaluation reports

As requested in the ToR, we will produce four reports:

- **Inception Report** (July 2018)
- **Evaluation report on process of designing and launching DIBs** (Sept 2018): This will detail the findings from Research Wave 1, including 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
- **Mid-term evaluation report** (Sept 2020): This will detail the findings from Research Wave 2, and will answer most of the evaluation questions. It will provide an assessment of the 'DIB effect' within the pilot DIBs (including perverse incentives), but also how this compares to the wider DIB sector
- **Final report** (Jan 2023): This will detail the findings from Research Wave 3, updating the answers to the research questions covered in the previous report, with a particular focus on the sustainability of the DIBs and outcomes.

Each report will conform to the key content standards set out in the TOR. Each report will build upon the previous report, highlighting continuities, new areas of development and additional outcomes achieved or areas of concern. Qualitative and quantitative data will not sit separately but will be reported on together to provide a coherent view on key issues. They will focus on providing actionable learning and practical recommendations. The primary audience for the reports will be DFID, but they will also be targeted at wider stakeholders within the DIB sector.

Each of these reports will also be complemented by specific case study reports focusing on each of the three DIBs.

Learning outputs

Furthermore, as mentioned in Methodological considerations, 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. Table 21 sets out the list of potential learning themes we included in the proposal. We discussed possible themes with DIFD 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. As this is being covered during the main evaluation anyway, we suggest that for Research Wave 1 we select the second learning theme in the table: 'Top tips in designing DIB structures'. The research tools have been structured to capture information to feed into the learning output.

Table 21: Possible Learning Themes

Possible learning themes
Wave 1: Set up

Possible learning themes
Lessons learnt in designing DIB contracts that suit all parties Top tips in designing DIB structures: Outcome metrics, verification, pricing, contracting, origination, involving stakeholders and governance How to know when and if a DIB is a good fit
Wave 2: Delivery Best practice and learning in contract management for outcome funders Top tips for service providers working within a DIB mechanism DIB transaction costs: What are they, are they justified and how could they be reduced?
Wave 3: Sustainability Scaling pilots: How could DIBs operate at a larger scale? What are the lessons learnt from the DFID DIB pilots in how DIBs can be implemented more efficiently?

We suggest selecting learning themes for the future research waves following Research Wave 1.

6.5.2 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.

6.5.3 Webinars

The purpose of the webinars will be to share the evaluation findings with a wider audience. We propose running these at the end of each research wave. We have all of the required software and technical support for hosting up to 100 online participants. The software enables 100 users to connect together; and it enables instant feedback and interaction between participants through Q&A facilities, voting buttons and live text.

6.6 Cross-cutting issues and design of the evaluation

In designing the method, we have ensured the approach is appropriate for assessing the cross-cutting issues of gender, poverty, human rights, HIV/AIDS, environment, anti-corruption, capacity building, and power relations. Specific question in the evaluation framework focus on examines how the DIBs are adding value in relation to these areas. In particular, it is possible the DIBs will add value in specific cross-cutting themes, and we will explore these in detail. These include:

Gender: We will examine the extent to which performance has differed in relation to gender, and the extent to which the DIB mechanism has contributed to this. We understand that the providers will be reporting to DFID on progress against gender equality, and this will be factored into the analysis.

Poverty: The VE DIB in particular seeks to alleviate poverty by cost effectively supporting extremely poor households to start micro-enterprises that increase incomes and living standards. The evaluation will examine the extent to which the DIB increased the scale and impact of this project, thereby alleviating poverty to a greater degree.

Capacity building: The DIBs may build the capacity of the service providers delivering the contracts, and local or national government's use of different funding mechanisms. We will explore the extent to which this has occurred.

We have included DIB effect indicators to cover these issues, which fall into the following categories:

- Disaggregated data on profile of beneficiaries, to seek to understand any evidence of 'cherry picking';
- Assessment of improvements/increase in target outcomes. For example, the VE outcomes relate to poverty alleviation; and
- Capacity building of service providers, through indicators relating to the strength of M&E systems developed, quality of support provided and strength of relationship of partners involved and levels of collaboration.

6.7 Method review: Limitations, rejected methods and building on lessons learnt

6.7.1 Limitations

We believe the method we have presented will provide as robust an evaluation as possible within the resources and constraints available. However, it is important to recognise some of the limitations of the approach. Firstly, 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. Secondly, it is not possible to quantify the DIB effect using experimental or quasi-experimental methods (see Rejected methods). Consequently, we can only estimate, but not accurately measure, the counterfactual through a qualitative approach. This brings with it a number of limitations:

Sample 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.

Response bias: It is possible beneficiaries will overstate the benefits of support when being interviewed, due to a desire to please the researcher and project¹⁹. It is also possible that projects and those who gain from the DIB mechanism will wish to downplay the effect of any perverse incentives.

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.

Where possible the evaluation team will mitigate against these limitations. For example, the fact that the DIBs are operating across multiple sites makes it easier to generalise the findings,

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

as the evaluation can examine the extent to which the DIB effect holds true across different sites. We will create a sampling frame to select a representative sample of stakeholders. We will reinforce the anonymous nature of the interviews and the desire for honest accounts to reduce response bias. Additionally, we will use 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.

6.7.2 Rejected methods

In designing the methodology there were a number of approaches we considered but rejected, as follows:

Quasi-experimental approach: A quasi-experimental approach to measure the DIB effect would require two identical interventions to be delivered, supporting two identical cohorts of beneficiaries, using identical outcome measurements, in two locations with identical social, economic and political circumstances, with one commissioned through a DIB and one commissioned through an alternative funding mechanism. There is likely to be too much variation between the DIBs and any comparator sites to be able to quantifiably isolate the DIB effect with any confidence.

Surveys: We have proposed a qualitative approach to isolating the DIB effect. This is a subtle and iterative process that requires careful and probing questioning from skilled researchers. This can only be achieved through qualitative research, and therefore a survey approach would be insufficient.

Field visits as part of each wave: There are benefits to undertaking field visits and face-to-face consultations. However, these have to be weighed up against the additional travel costs, burden on the projects and risks. We felt the benefits of a field visit for Wave 1 did not outweigh these negatives because: a) the activity needs to be done relatively quickly in order to feed into the first evaluation report; and b) the focus of Wave 1 is on design and set-up, and so will mostly involve consultations with people not directly on the ground.

6.7.3 Building on lessons learnt from previous evaluations

Ecorys has substantial relevant experience for this evaluation and the method builds on the lessons we have learnt from this. For example:

- **Disaggregating findings:** We have learnt that the different stakeholders involved in impact bonds (outcome payers, service providers, investors) have very different interests in the mechanism: outcome payers see it as mechanism to improve delivery effectiveness; service providers see it as an opportunity to fund new interventions that they would have struggled to do otherwise; and investors see it as a way to put their social investments to better use. It is very important to be cognisant of these different perspectives – the research tools, recommendations and outputs all need to be tailored to the different audiences.
- **Making contact with local government officials:** From the Strengthening Education Systems in East Africa (SESEA) Evaluation for the Aga Khan Foundation (AGF) we learnt the importance of making contact with local government officials. Obtaining their support

in the research can be crucial to gain access to the local area and stakeholders, and they can also provide useful advice about working on the ground in the area. In this evaluation we have built in plans to consult with local government officials.

7.0 Evaluation Governance

7.1 Evaluation Governance

The evaluation is being managed by the Evaluation Management Team (EMT), formed of the DFID DIBs Advisor, DIBs Programme Manager and DFID Evaluation Advisor. The EMT also coordinates the stakeholder group. The evaluation team reports directly to the EMT, and indirectly to the Stakeholder Group through the EMT.

In order to ensure diverse perspectives, the stakeholder group will include two main types of stakeholders, external experts to the DIB and stakeholders in the DIB pilot programme. The blend of stakeholders is intended to ensure we meet both evaluation governance objectives of i. ensuring the independence of the evaluation process and ii. ensuring the evaluation is responsive to stakeholder needs. There may be a tension between the two objectives, as stakeholders will have interests in the outcome of the evaluation. However, the blend of perspectives in the stakeholder group and the structuring of the stakeholder group should ensure that perspectives are free of control from organisational influence and political pressure.

As set out in the terms of reference, the stakeholder's group role is to highlight relevant linkages to wider evidence that is relevant to the evaluation; review final evaluation reports before published and raise any major concerns over how the evaluation was conducted; review the findings and consider the relevance and feasibility of the recommendations; and how recommendations relevant to them will be acted on in the future; take on board and disseminate the evidence. The group should provide constructive feedback that supports delivery of a high quality product.

7.2 Ethical Standards

Ensuring high ethical standards in the research and evaluation work is a core value of Ecorys. the evaluation is based on a person-centred approach, so this approach will allow us to achieve the DFID's Ethical principles (set out in the DFID Supply Partner Code of Conduct) and emphasises other aspects including respect, accountability, fairness and transparency. We are aware of the ethical dimension of the research and evaluations we undertake, not only in terms of underlying moral codes around what we do but also the potential consequences of things going wrong in light of legislative changes in human rights and data protection.

Our consortium members all follow the Social Research Association Ethical Guidelines (SRA) and other relevant codes of practice, namely those set out by the Government Social Research Unit (GSRU), Market Research Society (MRS), Health and Safety Executive (HSE) on lone working and other relevant codes of practice including the British Psychological Society (BPS) Code of Human Research Ethics and the Economic and Social Research Council (ESRC) Framework for Research Ethics. For this evaluation, the Team Leader oversees day-to-day operations and is responsible for ensuring the highest ethical standards and associated safeguarding implications, including quality assuring this report.

The evaluation has been designed to be compliant with and will be conducted in accordance with DFID's Ethics Principles for Research and Evaluation:

1. **Researchers and evaluators are responsible for identifying the need for and securing any necessary ethics approval for the study they are undertaking.**

There are no standard ethical review processes in place for this study, hence Ecorys's ethical review process will be used.

2. **Research and evaluation must be relevant and high quality with clear developmental and practical value.**

This principle forms a key KPI for the evaluation. Quality will be assured through Ecorys's review process and EQUALS review of evaluation reports. The stakeholder group and the communications and dissemination plan will also help ensure the relevance of the Evaluation for stakeholders.

3. **Researchers and evaluators should avoid harm to participants in studies, including those conducting them.**

This will be considered before the planned primary data collection in the programme sites in Research Wave 2 and 3. If potential risks of harm to participants is identified, a clear statement of how the Evaluation will do no harm will be prepared, which will be reviewed through Ecorys's ethical review process. Additionally, all field researchers are regularly DBS checked and researchers who regularly conduct research with children and vulnerable adults attend regular compulsory safeguarding training. It will also be made clear to stakeholders that participation in the evaluation will be voluntary.

4. **Participation in research and evaluation should be voluntary and free from external pressure**

Where deemed necessary, statements of informed consent will be obtained.

5. **Researchers and evaluators should ensure confidentiality of information, privacy and anonymity of study participants**

Confidentiality and anonymity guarantees will be made to individuals providing information for the Evaluation. The evaluation team will inform participants that information shared will be identifiable to the DIB, unless we are informed that certain information is confidential.

6. **Researchers and evaluators should operate in accordance with international human rights conventions and covenants to which the UK is a signatory, regardless of local country standards**

The evaluation team commits to doing this, and note that it is also in the evaluation contract

7. DFID funded research and evaluation should respect cultural sensitivities

The team consists of national researchers and international researchers with a strong awareness of experience of delivering culturally sensitive research and evaluation. As part of the review of potential harm to participants preceding research waves 2 and 3, the evaluation team will also consider any issues the team should be aware of with regards to cultural sensitivities.

8. DFID is committed to publication and communication of all evaluations and research studies

The Communications strategy includes detail of how the evaluation team will communicate learning and evaluations to key stakeholders.

9. Research and evaluation should usually be independent of those implementing an intervention or programme under study

Ecorys is not involved in the implementation of the DIBs pilot programme. The nature of the DIB sector means that some team members will be involved with some of the DIBs in other capacities, such as the DIBs working group. Ecorys will monitor potential conflicts of interest, and this will be disclosed to DFID and appropriate mitigation measures taken as needed.

10. All DFID funded research/evaluation should have particular emphasis on ensuring participation from women and socially excluded groups.

The means by which gender and equity issues will be addressed in the Evaluation are set out in section 6.6.

8.0 Communications and Stakeholder Engagement

8.1 Stakeholder Analysis

An initial stakeholder analysis is set out below. The main objectives are to:

- Identify key stakeholders within the DIBs and SIBs sphere which have a key interest in learning from the DIB pilot and/or serve an important knowledge hub role within the sector which can support dissemination. We have explored stakeholders conducting relevant learning exercises in section 3.4.3. Naturally, there is considerable overlap between these roles;
- Ensure issues of equity and gender have been considered in the selection of stakeholders;
- Identify ways in which the stakeholders can use the evaluation and findings generated;
- Identify key stakeholders we should interview to ensure we are able to contextualise the findings within the broader sector, and
- Provide a framework for the development of a communications strategy that will effectively reach key stakeholders.

Framed around the two evaluation questions, the main deliverables of the evaluation are:

- Assessment of how the DIB model affects development interventions, in comparison to other funding mechanisms, which we term the '**DIB effect**'; and
- Identification of **recommendations** to increasing the model's benefits and reducing the associated transaction costs, and identification of key criteria/contexts where the model works best.

The analysis below identifies the interest of the stakeholders in relation to these two outputs, and has been used to inform the development of the Communications Strategy set out in Section 8.2.

Table 22: Stakeholder Analysis

Primary Users			
Group Name	Stakeholders	Level and Areas of interest	Opportunity for dissemination to and engagement with the wider sector
DFID DIBs and PbR	DIBs advisor, DIBs programme manager, PbR advisor. Other DFID teams considering use of impact bonds. Education, humanitarian and livelihoods teams.	High. DIB effect and recommendations. How DIBs can be used within DFID and potential for scale up. Ensuring priority learning questions are	Through participation in the DIBs working group. Through dissemination of learning outputs, and participation in DFID internal events / briefings.

		covered by the evaluation.	
Secondary Users			
Those involved in the pilot DIBs			
Group Name	Stakeholders	Level and Areas of interest	Opportunity for dissemination to and engagement with the wider sector
Outcome Funders	Governments of Switzerland, Belgium, UK and Italy and La Caixa Foundation; USAID, Wellspring Philanthropic Fund; British Asian Trust, Comic Relief and others.	Variable – some outcome funders more engaged than others. DIB effect and recommendations, especially on how outcome funders can better use DIBs. Ensuring priority learning questions are covered by the evaluation.	Through participation in the DIBs working group and initial conversations around the setup of outcome funds.
Investors	Munich Re; Delta Fund; UBS Optimus, DELL, TATA and others	Variable – some investors more engaged than others. Recommendations on set up of DIBs, effects of investor involvement and analysis of risks and returns. Ensuring priority learning questions are covered by the evaluation.	Through participation or coordination with key impact investment fora, such as the Global Social Impact Investment Steering Group, the Global Impact Investing Network (GIIN), and the Impact Bonds Working Group (IBWG)
Intermediaries	KOIS, Instiglio, Dalberg	Moderate to High. Recommendations on set up of DIBs, effects of investor involvement and effects of pricing of impact bonds. Ensuring priority learning questions are covered by the evaluation.	TBD.
Learning Partners	Wellspring; Brookings	High. Contextualisation of findings from individual DIBs across the wider pilot and DIB sector. Ensuring priority learning questions are covered by the evaluation while minimising duplication with activities.	A number of the learning partners are working with other DIBs and/or undertaking other research on expanding the use of DIBs.

Outcome verifiers	Philanthropy Associates, IDinsight RCT, Grey Matters India	Low.	TBD
Target population	Disabled population in Mali, DRC, and Nigeria, Households in Kenya and Uganda, Primary school children in Delhi, Gujarat and Rajasthan, and local and national government	Low. Interest will be mainly on the outcomes arising from the programme, and less interest on the specific DIB element.	n/a
Service Providers	ICRC; Village Enterprise; Gyan Shala, Educate Girls, Kaivalya, SARD	High. DIB effect and recommendations, to identify whether DIBs is a potential mechanism service providers want to continue using, and if so, recommendations for how to improve the effectiveness of its use. Ensuring priority learning questions are covered by the evaluation while minimising duplication with activities.	Through participation in DIBs working group, and potentially other NGO forums.
Domestic Governments	National and sub-national government officials in India, DRC, Nigeria, Kenya, Uganda, India where DIBs are currently being implemented	Medium to low. DIB effect as well as outcomes from program and intervention models with goal of adopting PbR public programs or scaling up intervention models financed by the DIB.	(Through organization of dissemination convenings with local stakeholders at a country level)
Those involved in other DIBs or SIBs or considering implementation of DIBs			
Group Name	Stakeholders	Level and Areas of interest	Method of identification²⁰
Outcome Funders	Other bilaterals, multilaterals, foundations, developing country governments, and philanthropic individuals.	High. DIB effect and recommendations for designing and implementing DIB. Benefits and limitations of using DIBs.	Through DFID and other outcome funders involved in the pilot programme.
Investors	Foundations, DFIs, Multilaterals, HNWI, Family Offices, Impact Investors, some institutional investors.	High. Risk and returns. Range of blends of social and commercial returns, and risk levels.	Through DIB pilot intermediaries and investors.

²⁰ For those involved in other DIBs or SIBs, we will identify a shortlist of key DIBs to consult with, through identification of the most relevant DIBs for the evaluation. We will review the other stakeholders involved in these DIBs, and will add them to the stakeholder matrix. We will also ask if any learning activities focused on the DIB effect are planned, to ensure we can draw upon these learning as well.

Intermediaries	Other intermediaries participating in the impact bond market	High. Recommendations for design and set up of DIBs.	Through DFID, investors, other learning partners and participation in large dissemination fora, such as the impact bond working group.
Learning Partners / Research institutions	Other research organisations studying DIBs (or SIBs) or working in the design and implementation of DIBs (or SIBs), such as, Center for Global Development (CGD), Bertha Centre, Harvard Government Performance Lab, GoLab, World Bank etc.	High. DIB effect and recommendations. Key learning arising from evaluation, and extent to which this learning diverges or converges with their learning and existing learning.	Key learning partners and research institutions identified in section 3.4.3.
Target population	National Governments considering implementing SIBs or working with donors to design DIBs.	Medium. DIB effect and recommendations, including the contexts and requirements for a DIB to be a feasible and beneficial option.	Through discussion with the other stakeholders and Development Banks.
Service Providers	NGOs, social enterprises and other implementing partners of DFID	High. DIB effect and recommendations. Extent to which this enables more service delivery organisations to get involved in PbR contracts. Additional costs and organisation capacity required.	Through discussion with the other stakeholders. Through dissemination through channels such as BOND and Devex, see below.

8.2 Communications Plan

As set out in the ToR, “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 DFIDs engagement with these stakeholders, and representatives of these stakeholders will be included in the steering group²¹ for this evaluation.”

To that effect, stakeholder engagement, communication and dissemination is also key to the evaluation. This section includes a brief communications plan and sets out how the evaluation team plans to consult with different stakeholders. This plan sets out a transparent process by which the evaluation team intends to meet the needs of the primary and secondary users as identified in the ToR, as well as the broader sector, and to ensure that stakeholders of the

²¹ Now reframed as the stakeholder group

programme have access to evaluation information. The methods for communication have been tailored to meet the needs of the stakeholders.

There are two main objectives that have guided the development of the communication plan:

- The first relates to the **design of the evaluation**. Initial discussions with the DFID DIBs team and PbR advisor, as well as the DIBs service providers and one learning provider have been undertaken, in order to ensure that priority questions and issues have been identified in the plan for evaluation. Additionally, the inception report will be discussed with the stakeholder group, which will allow for further tailoring of the evaluation to meet their priority questions and issues. The evaluation team will also ensure this is covered during initial conversations with stakeholders under Research Wave 1. This will continue to be important during the delivery of the evaluation. The stakeholder meetings will be used to inform and feedback on the evaluation. It will be important in promoting good engagement between evaluators and the users of the evaluation, to support useful findings and uptake of the evaluation findings. This will enable a clear and real-time feedback loop for the evaluation team to adjust during each research wave, as well as the keeping in touch research activities.
- The second relates to the **dissemination of findings**, focusing on the areas of interest to stakeholders, and in ways tailored to their needs and priority areas. The evaluation team intends to identify priority areas for the evaluation through the stakeholder group, internal and external workshops, case studies, reports, annual briefings, learning outputs (stand-alone 'lessons learnt'/'how tos'/'top tips') and webinars. These are discussed in sections 6.5.1, 6.5.2 and 6.5.3.

The needs of stakeholders as set out in the regularly updated stakeholder analysis (see Table 22) will be used to tailor our learning outputs, for example by including sub-sections aimed at different stakeholders. The stakeholder analysis will also be used to guide the selection of the key stakeholders to invite to the evaluation webinars.

The table below summarises the planned communication and dissemination activities:

Table 23: Communication Plan

Phase	Period	Focus	Communication Activities
Inception Phase	June-July 2018	Making contact with the DIB programmes and other key stakeholders, and developing an understanding of the programmes	<ul style="list-style-type: none"> • Inception report
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) • Webinar
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

			<ul style="list-style-type: none"> • Annual briefing • Learning outputs (2-3) • Webinar
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) • Webinar
Keeping in touch	2019 and 2021	Annual update on the progress of the DIBs.	<ul style="list-style-type: none"> • Annual briefings

8.2.1 Leveraging existing channels

In addition to the stakeholders identified in the stakeholder analysis above, the learning outputs and invitations to webinars will also be disseminated more widely.

The following existing channels have been identified:

- Websites such as DevEx.com which issue regular newsletters reporting on various development initiatives. For instance, the development of the first humanitarian impact bond by ICRC was featured here. Other key distribution channels which can be considered include the British Expertise Newsletter and BOND;
- Conferences, such as the annual Social Impact Bonds conference, hosted by GoLab;
- The Impact Bond working group;
- Websites and blogs of the other main DIBs actors identified in section 3.4.3, such as the Brookings Institute, Social Finance, Instiglio etc.; and
- Management of social media channels. Ecorys has a twitter profile and website, which it will use to publish learning outputs, and invites to the webinar, which other stakeholders can then link to or reshare.

9.0 Evaluation Management Arrangements

9.1 Evaluation Work Plan

The full Evaluation Work Plan is set out in Annex I. The main features are set out in the table below.

Table 24: Summary Evaluation Work Plan

Phase	Period	Focus	Deliverables
Inception Phase	June-July 2018	Making contact with the DIB programmes and other key stakeholders, and developing an understanding of the programmes	Inception report and webinar
Wave 1	July – November 2018	Process of designing and launching the DFID DIB pilot projects	Evaluation report and webinar
Wave 2	April-November 2020	Emerging lessons from the DFID DIBs pilot projects, and evidence generated by other DIBs.	Evaluation report and webinar
Wave 3	April 2022-March 2023	Legacy of the DIBs and the programme, including the extent to which outcomes and DIBs were sustained.	Evaluation report and webinar
Keeping in touch	2019 and 2021	Annual update on the progress of the DIBs.	Annual Report

9.2 Evaluation Management and Organisation

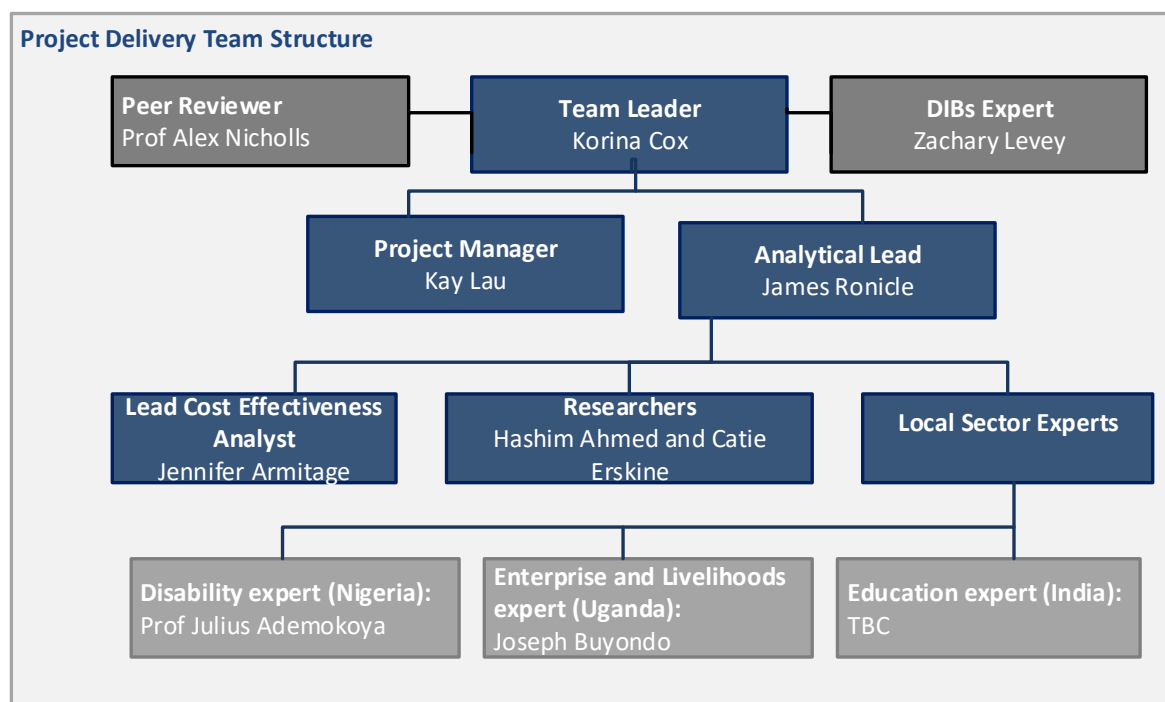
The Core Team provides a platform for stakeholder and subcontractor management, decision-making, and strategic planning; roles and responsibilities are illustrated below, and set out further in Annex K.

- The Team Leader, Korina Cox, will have overall accountability for the delivery of the contract requirements including responsibility for the quality of the evaluation activity and outputs. She will be responsible for ensuring the availability of team members
- The Analytical Lead, James Ronicle, will support the team leader in ensuring the design of the evaluation is methodologically rigorous and addresses the evaluation questions. He will ensure the data collected through the evaluation will enable the evaluation to answer the evaluation questions. He will support the team leader with the design of the research tools, briefing the team on the research requirements, and contribute to analysing the findings and writing the reports
- The Project manager, Kay Lau, will oversee the day-to-day delivery and be the first point of call for the evaluation. She will be the first point of contact with DFID throughout the evaluation, via regular telephone and written communication. Key responsibilities will include: co-ordinating all activities, particularly ensuring there is cross-over between the various evaluation strands and good communication and collaboration

with the local projects; ensuring the safety of all staff; and managing the timing of the research waves to ensure both comprehensive and compatible data collection

The diagram below provides an overview of the team structure:

Figure 9: Overview of Evaluation Team Structure



The project manager will be the primary point of contact on all contractual and administrative issues, including commercial and budgetary arrangements, performance feedback, security and logistics, and risk and issue management. The Team Leader and Analytical Lead will be the main focal points on all technical issues, including evaluation strategy, methodology development and execution, and quality assurance. Additional technical backstopping and administrative support are provided by staff at Ecorys UK. An international team of short term experts will provide support as and when required.

The project aims to maintain a flexible, non-siloed working structure that makes use of the multi-disciplinary skills of the team: this approach will allow team members to collaborate on research questions. Furthermore, the project will conduct regular reviews of staffing structures and requirements to ensure that the correct balance of team members exists to deliver the scope of each evaluation when it is required, and to the right quality. This may involve adjusting the efforts of individual experts up or down as needed to reflect emerging requirements, and will be done in a cost neutral manner in consultation with DFID. This approach will enable the project to maintain a responsive approach to new questions and expectations from DFID and other stakeholders, de-risk delivery, and ensure that adequate technical support is available that facilitates high quality evaluations.

A Project Management Framework has been drafted which offers clear guidelines and instructions for the way in which the project should operate across the key domains of general

office and working procedures, financial management and human resources. It is designed to ensure compliance with contractual and other requirements as well as those of Ecorys and, where applicable, other consortium members.

The table below sets out a summary of the responsibilities of the research activities for the first research wave.

Table 25: Research Activities for Research Wave 1

Research Activity	Activity Lead
Drawing together findings across the 3 DIBs and learning for the wider sector	Korina Cox, James Ronicle and Zachary Levy
Consultations with ICRC HIB stakeholders	Kay Lau and Julius Ademokoya
Consultations with BAT stakeholders	Catie Erskine and TBC
Consultations with VE DIB stakeholders	Hashim Ahmed and Joseph Buyondo
Cost effectiveness analysis	Jennifer Armitage

Finally, during the inception phase, the evaluation team has worked closely with DFID to set up good lines of communication, including bi-weekly catch up calls and drafting learning notes to share emerging findings. The evaluation team will continue being responsive to the needs of the contract throughout. Additionally, the evaluation team will:

- communicate and meet with the Evaluation Steering Group as necessary; and
- during each research wave, produce written progress reports for DFID performance against agreed key milestones and/or deliverables in the period; performance against KPIs; formal updating of work plan and risk register; and feedback on findings.

9.3 Risks and Risk Mitigation

All project team members in regular monitoring and updating of risk strategies and mitigation plans. A formal review will be undertaken, at a minimum, on a quarterly basis. Below we outline the key risks for the evaluation, the planned mitigations, and an initial update against the risks.

Table 26: Risk Matrix

Risk	Estimated		Mitigations	Update July 2018
	Impact	Likelihood		
Inappropriate evaluation design	H	L	Ecorys has a strong track record in the successful evaluation of impact bonds, and the team includes experts in impact bonds, including DIBs. During WP1 the consultation work will ensure that we have encompassed emerging issues in the DIB landscape, and in the specific environments in which the three projects	The team has worked closely with the DIBs in order to refine the approach set out in the inception report, and the analytical lead and DIB expert have worked together to ensure the design is fit for purpose. the inception report and evaluation design will be subject to

Risk	Estimated		Mitigations	Update July 2018
	Impact	Likelihood		
			are operating. The team will work closely with all stakeholders and technical experts to ensure the evaluation provides the right blend of innovation, pragmatism and rigour, to achieve maximum added value and usability of findings.	review by the peer viewer.
Inability to maintain an effective relationship with DIB projects	H	M	The team will prioritise developing and sustaining a strong working relationship with VE, ICRC and BAT. To achieve this the evaluation has factored in time for multiple meetings with the projects both during WP1 and throughout the lifetime of the evaluation.	The team has undertaken initial consultations with the service providers at VE, ICRC and BAT, as well as Instiglio. This will be a continued priority going forward.
Duplication of DIB project activity	M	M	The evaluation will focus on adding value on top of the DIB projects' MEL strategies through extensive consultation with stakeholders to map out the learning needs, existing MEL activities planned, and gaps and support that we can provide. The planned learning activities also provide the chance for real-time feedback from stakeholders as to the usability and added value of the work, and any opportunity to improve the work going forward.	This has been a key point for discussion in the consultations. Section 4.3 sets out how we propose to build on existing DIB learning activity. The team will continue to discuss and solicit feedback from stakeholders on this.
Data provided by projects is of insufficient quality or independence	H	M	Substantial time has been factored in during WP1 to review the quality and independence of the data, and can offer support to the projects should either of these aspects be insufficient. We will also review the data during each research wave prior to the consultations and	The team has started initial discussions with the DIBs about the M&E data collected, and what will be feasible to provide, and have updated the evaluation planning based to information available to date.

Risk	Estimated		Mitigations	Update July 2018
	Impact	Likelihood		
			field visits; we can use the consultations to gather any additional information should the data be insufficient.	
MEL framework and evaluation fails to address cross-cutting issues	H	M	Based on the experience of delivering other evaluation contracts, the team will ensure that we build in analysis of relevant cross-cutting issues from the start, and support the DIB projects to collect disaggregated data where feasible.	See section 6.6 for the plan on addressing cross-cutting issues.
Sub-contractors fail to deliver timely, quality outputs	H	L	The evaluation will supplement the careful selection of sub-contractors with ongoing performance management and quality assurance procedures. This will mitigate the risk of late or poor delivery, and we will clearly set out expectations in individual TORs, supported by necessary contractual clauses for poor performance.	Contracts with the sub-contractors include payments tied to deliverables and contractual clauses for poor performance. Additionally, a project management manual has also been prepared that will guide implementation.
MEL data not appropriate for demonstrating the DIB effect	H	M	The team will work closely with MEL and programme staff members to review the data collected, the TOC and the quality of the data. The team will also flag any concerns to DFID, including suggestions for implementing additional data collection exercises as needed.	The team has started discussions with the service providers on the MEL data which will be available. The team will review MEL data as part of Research Wave 1 to gain further information on the quality of the data, and whether any additional data collection may be required.
Project locations are too dangerous for field visits	M	M	Local researchers already located within the areas could undertake additional research. The team could also ask stakeholders to travel to a	No update. This will be revisited nearer the time of the first field visits (planned for Research Wave 3).

Risk	Estimated		Mitigations	Update July 2018
	Impact	Likelihood		
			safer part of the country. If both of these options are insufficient we would undertake interviews by tele-/video-conference.	

References

- Arena, M. Irene Bengo, Mario Calderini & Veronica Chiodo. 2016. Social Impact Bonds: Blockbuster or Flash in a Pan?, *International Journal of Public Administration*, 39:12, 927-939.
- Azemati, H., Belinsky, M., Gillette, R., Liebman, J., Sellman, A., and Wyse, A. 2013. Social impact Bonds: Lessons Learned so Far. *Community Development Investment Review*.
- Barr, J. and Christie, A. 2015. Improving the Practice of Value for Money Assessment. Centre for Development Impact Practice Paper: Number 12 March 2015.
- Barr, J. and Christie, A. Better value for Money: An organising framework for management and measurement of VFM indicators. ITAD.
- Barder, O. (nd). Development Impact Bond Working Group. Center for Global Development. <https://www.cgdev.org/working-group/development-impact-bond-working-group>
- Bloomgarden, D., Eddy, M., Levey, Z. (2014). Social Impact Bonds and Education in Latin America. GEMS Education Solutions.
- Boggild, I and Gustafsson-Wright, E. 2017. Two Years in: How's the world's first developing bond doing? Brookings: Education Plus Development. Available here: <https://www.brookings.edu/blog/education-plus-development/2017/07/13/two-years-in-hows-the-worlds-first-development-impact-bond-for-education-doing/>
- Bridges Impact+ (2014). Choosing Social Impact Bonds: A Practitioner's Guide. <https://www.bigsocietycapital.com/sites/default/files/attachments/Choosing%20social%20impact%20bonds%20Bridges%20report.pdf>
- British Asian Trust (nd). Social Impact Investing: the future of philanthropy?
- Cambridge Education. 2015. Evaluation of the Pilot Project of Results-Based Aid in the Education Sector in Ethiopia, available at: http://iati.dfid.gov.uk/iati_documents/5608531.pdf
- Cardno Emerging Markets and METIS Analytics (2014). The Case for DIBs: Inquiry into the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region.
- Carter, E., FitzGerald, C., Dixon, R., Economy, C., Hameed, T., and Airoldi, M. (2018) Building the tools for public services to secure better outcomes: Collaboration, Prevention, Innovation, Government Outcomes Lab, University of Oxford, Blavatnik School of Government.
- Carter, C., Costanza, P., Goldsmith, B., Husain, S., and Menzies, D. (2016). Panel event on DIBs: paying for success. Overseas Development Institute (ODI). <https://www.odi.org/events/4380-development-impact-bonds-paying-success>
- CDC (2011). DFID and CDC announce new business plan for CDC. <http://www.cdcgroup.com/Media/News/DFID-and-CDC-announce-new-business-plan-for-CDC/>
- CDC (2017). Investment Policy for the period from 12 October 2017 to 31 December 2021.
- Center for Global Development and Social Finance (2013). Investing in Social Outcomes: DIBs The Report of the Development Impact Bond Working Group. Center for Global Development and Social Finance. <https://www.cgdev.org/sites/default/files/investing-in-social-outcomes-development-impact-bonds.pdf>
- Center for Global Development and Social Finance (2014). DIBs Briefing Note.
- Chakravarty, S., Lundberg, M., Nikolov, P. and Zenker, J. 2016. The Role of Training Programs for Youth Employment in Nepal: Impact Evaluation Report on the Employment Fund, World Bank Policy Research Working Paper 7656.
- Children's Investment Fund Foundation, (nd). Education Development Impact Bond. <https://ciff.org/grant-portfolio/education-development-impact-bond/>
- Children's Investment Fund Foundation, (nd). The Educate Girls Development Impact Bond: A New Finance Model for International Development.

- Chinfatt, S. and Carson, M. 2017. Supplier Access to Pre-finance in PbR Contracts. Research Study Report. Dalberg Intelligence.
- Clist, P., Dercon, S. 2014. 12 Principles for PbR (PbR) in International Development, (Working paper)
- Clist, P. 2017. Review of PbR in DFID: Establishing the Evidence Base.
- Clist, P. and Drew, R. (2015). Evaluating DIBs. Department for International Development. http://r4d.dfid.gov.uk/pdf/outputs/misc_EcoDev/DIB_Study_Final_Report.pdf
- Clist, P. and Verschoor, A. 2014. The Conceptual Basis of PbR, DFID.
- Eldridge, M., and TeKolste, R. (2016). Results-Based Financing Approaches: Observations for Pay for Success from International Experiences. Urban Institute. <http://pfs.urban.org/library/content/results-based-financing->
- Dear, A., Helbitz, A., Khabe, R., Lotan, R., Newman, J., Sims, G.C., Zaroulis, A. (2016). Social Impact Bonds: The Early Years. Social Finance.
- Deloitte. Undated. Social Impact Bonds in Canada: Investor Insights.
- DFID (nd). What works for PbR Mechanisms in DFID Programmes.
- DFID. 2011. DFID's Approach to Value for Money. 2011.
- DFID (2014). DFID's Evaluation Framework for PbR.
- DFID. 2016. Project Completion Report of Pilot Project of Results Based Aid in the Education Sector in Ethiopia, available at: http://iati.dfid.gov.uk/iati_documents/5419380.odt
- DFID. 2016b. Annual Review of WASH Results Programme 2016 Annual Review, available at: http://iati.dfid.gov.uk/iati_documents/5498698.odt
- DFID (2017). Economic Development Strategy: prosperity, poverty and meeting global challenges.
- Edmiston, D. and Nicholls, A. 2018. Social Impact Bonds: The Role of Private Capital in Outcome-Based Commissioning. Journal of Social Policy 47 (1): 57-76.
- Edmiston, *Daniel* and Nicholls, *Alex* (2017) Social Impact Bonds: The Role of Private Capital in Outcome-Based Commissioning. Journal of Social Policy.
- Ernst, L. (2017). Using Human-Centred Design at DFID. Development Impact and You (DIY). <http://diytoolkit.org/using-human-centred-design-at-dfid/>
- Evans, A. 2016. Results based financing in Zambia – an informal, unpublished annex, mimeo, available at: <https://www.researchgate.net/publication/308985858>
- Fleming, F. 2013. Evaluation Methods for Assessing Value for Money. Better Evaluation.
- Fraser, A., Tan, S., Largarde, M. and Mays, N. (2018) Narratives of Promise, narratives of Caution: A Review of the Literature on Social Impact Bonds. Social Policy & Administration. Vol. 52(1): 4-28.
- Gorter AC et al. 2013. Evidence Review: Results-Based Financing of Maternal and Newborn Health Care in Low- and Lower- middle-income countries. Study commissioned by the German Federal Ministry for Economic Cooperation and Development.
- Grittner, A. 2013. Results-based Financing. Evidence from performance-based financing in the health sector. Bonn: Deutsches Institut fuer Entwicklungspolitik.
- Gustafsson-Wright, E. and Boggild-Jones, I. (2017). Two years in: How's the world's first development impact bond for education doing? Brookings. <https://www.brookings.edu/blog/education-plus-development/2017/07/13/two-years-in-hows-the-worlds-first-development-impact-bond-for-education-doing/> (webinar: <https://www.brookings.edu/events/year-two-results-of-the-worlds-first-development-impact-bond-for-education-dib/>)
- Gustafsson-Wright, E. and Boggild-Jones, I. (2018). Paying for social outcomes: A review of the global impact bond market in 2017. Brookings. <https://www.brookings.edu/blog/education-plus-development/2018/01/17/paying-for-social-outcomes-a-review-of-the-global-impact-bond-market-in-2017/>

Gustafsson-Wright, E. Gardiner, S. and Putcha, V. (2015). The potential and limitations of impact bonds: Lessons from the first five years of experience worldwide. Brookings. <https://www.brookings.edu/research/the-potential-and-limitations-of-impact-bonds-lessons-from-the-first-five-years-of-experience-worldwide/>

Gustafsson-Wright, E., Boggild-Jones, I., Segell, D. and Durland, J. (2017). Impact bonds in developing countries: Early learning from the field. Brookings. <https://www.brookings.edu/research/impact-bonds-in-developing-countries-early-learning-from-the-field/>

Holden, J and Patch, J. 2017. The experience of PbR (PbR) on the Girls' Education Challenge (GEC) programmes: Does skin in the game improve the level of play?, Mimeo, available at: <http://foresight.associates/wp-content/uploads/2017/01/2017.01.19-Skin-in-the-game-PbR-on-the-GEC.-Final.pdf>

Honig, D. 2014. Navigation by Judgment: Organizational Autonomy and Country Context in the Delivery of Foreign Aid.

IMC Worldwide, Ideas to Impact, DFID, USAID and Rockefeller Foundation (2017). Innovating in development: Sharing learning, improving impact (Workshop report).

Ibidem; Pereira, J; Villota, C. 2013. Hitting the target? Evaluating the effectiveness of results-based approaches to aid. Brussels: EURODAD.

Instiglio and Thompson Reuters Foundation (2014). A Legal Road Map for Social Impact Bonds in Developing Countries. <http://www.instiglio.org/wp-content/uploads/2015/02/Legal-Road-Map-for-SIBs-in-Developing-Countries.pdf>

Joy, M. and Shields, J. (2013), Social Impact Bonds: The next phase of third sector marketization? Canadian Journal of Nonprofit and Social Economy Research, 4, 2: 39–55.

KPMG. 2014. Evaluation of the Joint Development of the NSW Social Benefit Bonds Trial.

Kandpal, E. 2016. Completed Impact Evaluations and Emerging Lessons from the Health Results Innovation Trust Fund Learning Portfolio, available at: https://www.rbfhealth.org/sites/rbf/files/IE%20and%20emerging%20lessons_Eeshani%20Kandpal.pdf

Khatib-Othman, H. 2016. Country Programmes: Strategic Issues, Report to the [GAVI] Board 7-8 December 2016, Appendix B, available at <http://www.gavi.org/about/governance/gavi-board/minutes/2016/7-dec/minutes/07a---country-programmes---strategic-issues/>

King, J. 2017. Using Economic Methods Evaluatively. American Journal of Evaluation, Vol 38, issue 1, March 2017

King and OPM. 2018. The OPM Approach to Assessing value for Money: A Guide. Oxford Policy Management Ltd.

Lake, R. W. (2016). The subordination of urban policy in the time of financialization. In C. Johnson & J. DeFilippis (Eds.), Urban policy in the time of Obama (pp. 45–64). Minneapolis: University of Minnesota Press.

LAMP Development. The Future of VFM: A consideration of the challenges and potential solutions for improving its measurement and application – a thought piece.

Le Grand, J. 1995. Knights, Knaves or Pawns? Human Behaviour and Social Policy. *Jnl Soc. Pol.*, 26, 2, 149–169.

Liebman, J. and Alina Sellman, A. (2013). Social Impact Bond Guide for State and Local Governments. Social Impact Bond Technical Assistance Lab, Harvard Kennedy School. <https://govlab.hks.harvard.edu/news/social-impact-bond-guide-state-and-local-governments>

Maier, M. and Myer, M. (2017) Social Impact Bonds and the Perils of Aligned Interests. Institute for Nonprofit Management, WU Vienna University of Economics and Business, Vienna.

Maier, Florentine and Barbetta, Gian Paolo and Godina, Franka (2017) Paradoxes of Social Impact Bonds. *Social Policy & Administration*.

Maximising Finance for Development – G20. DIBs debate about whether DIBs are about aid effectiveness or mobilising private finance, and how DIBs fit into the MFD debate.

- McEwan, P. 2012. Cost-effectiveness analysis of education and health interventions in developing countries. *Journal of Development Effectiveness*: Vol. 4, No. 2, June 2012, 189-213.
- McHugh, N., Sinclair, S., Roy, M., Huckfield, L., Donaldson, C. 2013. Social Impact Bonds: A Wolf in Sheep's Clothing. *Journal of Poverty and Social Justice*. 21(3): 247-57.
- Mulgan, G., Reeder, N., Aylott, M., Bo'sher, L. 2011. Social Impact Investment: the Challenge and Opportunity of Social Impact Bonds. The Young Foundation.
- NAO. 2017. Briefing on Social Impact Bonds April 2017
- Norwegian Knowledge Centre for Health Services (NKCHS). 2008. An overview of research on the effects of results-based financing. Oslo: NKCHS.
- Oroxom, R., Glassman, A., and McDonald, L. (2018). Structuring and Funding Development for Health: Nine Lessons from Cameroon and Beyond. Policy Paper 117, Center for Global Development. <https://www.cgdev.org/sites/default/files/structuring-funding-development-impact-bonds-for-health-nine-lessons.pdf>
- Palladium and US Aid (2016). Pay for Results in Development: A Primer for Practitioners.
- Pearson, M. 2011. Results based aid and results based financing: What are they? Have they delivered results? London: HLSP.
- Perakis, R. (2014). Two DIB Pilots Will Test New Development Partnerships. Center for Global Development. <https://www.cgdev.org/blog/two-dib-pilots-will-test-new-development-partnerships>
- Perakis, R., and Savedoff, W. (2014). An Introduction to Cash on Delivery Aid for Funders. CGD Note. Center for Global Development. <http://www.cgdev.org/publication/introduction-cash-delivery-aid-funders>.
- Perakis, R., and Savedoff, W. (2015). Does Results-Based Aid Change Anything? Pecuniary Interests, Attention, Accountability and Discretion in Four Case Studies. Policy Paper 052. Center for Global Development. <http://www.cgdev.org/publication/does-results-based-aid-change-anything-pecuniary-interests-attention-accountability-and>.
- Perason, M. et al. 2010. Review of major Results Based Aid (RBA) and Results Based Financing (RBF) Schemes. London: Department for International Development.
- Perrin, B. 2013. Evaluation of PbR (PbR): Current Approaches, Future Needs: Report of a Study Commissioned by the Department for International Development.
- Sandefur, J and Glassman, A. 2015. [The Political Economy of Bad Data: Evidence from African Survey and Administrative Statistics](#), *Journal of Development Studies*, **51**, (2), 116-132
- Saldinger, A. (2017). DIBs gain momentum. DevEx.com. <https://www.devex.com/news/development-impact-bonds-gain-momentum-90591>
- Sedlmayr, R. (2018). Paying for Poverty Alleviation.
- Sinclair, S. McHugh, N., Huckfield, L., Roy, M. and Donaldson, C. 2014. Social Impact Bonds: Shifting the Boundaries of Citizenship. *Social Policy Review* 26.
- Social Finance (nd). Impact Bond Global Database. Accessed November 8, 2016. <https://sibdatabase.socialfinance.org.uk/>
- Tan, S., Fraser, A., Giacomantonio, C., Kruihof, K., Sim, M., Lagarde, M., Disley, E., Rubin, J. and Mays, N. 2015. An Evaluation of Social Impact Bonds in Health and Social Care, London: PIRU, London School of Hygiene and Tropical Medicine and RAND Europe. See: <http://www.piru.ac.uk/assets/files/Trailblazer%20SIBs%20interim%20report%20March%202015,%20for%20publication%20on%20PIRU%20siteapril%20amendedpdf11may.pdf>
- Tse, A. & Warner, M. (2018): The razor's edge: Social impact bonds and the financialization of early childhood services, *Journal of Urban Affairs*,
- UK Parliament (2014). The Future of UK Development Cooperation: Phase 1: Development Finance - International Development Committee. <https://publications.parliament.uk/pa/cm201314/cmselect/cmintdev/1255/125504.htm>
- US Aid (nd). Investing for Impact, Capitalizing on the emerging landscape for global health financing.

Upper Quartile. 2015. Evaluation of Results Based Aid in Rwandan Education, available at http://iati.dfid.gov.uk/iati_documents/5549076.pdf

Valadez, J., Jeffrey, C, Brant, T. Vargas, W and Pagano, M. 2015. Final Impact Assessment of the Results-Based Financing Programme for Northern Uganda, available at [https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/607579/Evaluation-of-Results-Based -Financing-Programme-for-Norther-Uganda.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/607579/Evaluation-of-Results-Based-Financing-Programme-for-Norther-Uganda.pdf)

Witter, S., Zaman, R., Scott, M. and Mistry, R. 2016. Evaluation of Delivering Reproductive Health Results (DRHR) through non state providers, MSI/PSI Impact Evaluation Report, Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/533669/Delivering-Reproductive-Health_Results-Non-State-Providers_Pakistan1.pdf

Annex A: 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.

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 outcomes 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](#)

What do we mean by other aid mechanisms?

Alternative aid mechanisms used by donors (e.g. outcome payers 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:

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 payer 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 outcomes may not be able to take on these types of contracts.²²²³</p>

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.

²² 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>

²³ 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>

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.
- **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.

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](#).

	ICRC Humanitarian Impact Bond for Physical Rehabilitation	Village Enterprise micro-enterprise poverty graduation Impact Bond	Support to British Asian Trust to design impact bonds for education and other outcomes in South Asia
Project Purpose	To help disabled people living in conflict-affected locations to regain mobility.	To cost-effectively support extremely poor households to start micro- enterprises that increase their incomes and living standards, ultimately graduating from poverty	To explore how social finance models like impact bonds can be structured to achieve development outcomes in South Asia region.
Outcome of Interest	Increased efficiency of rehabilitation services that enable disabled people regain mobility	Improved assets, consumption and savings for 12,600+ extremely poor households in Kenya and Uganda	Education outcomes for 200,000 marginalised children in India, and other SDG outcomes
DFID role	Outcome Funder	Outcome Funder and contribution to outcome verification costs	Grant funding to support the design and implementation of the legal structure, results measurement and performance management for the education DIB; and support learning activities to enable potential replication of tool in South Asia
Total Project Value	~£20m	\$5.2m	\$11.5m
Design Phase	2015 - Jun 2017	2015 – Nov 2017	Sep 2015 – Jun 2018
Intervention	Jul 2017 – Jul 2022	Nov 2017 – Nov 2020	Sep 2018 – July 2022
Interim results payments	Jul 2020 (£0.88m)	Monthly as VE disburses grants to participants	Anticipate annual Outcome Payments based on annual assessments of children's learning improvements (this is expected to enable capital recycling).
Final Outcome Payments	Sep 2022 (~up to £20m total, of which max £2m from DFID)	July 2020 based on endline for first 4 cohorts. And July 2021 for final true-up based on endline for all 7 cohorts.	
DIB Learning activities	None on the DIB mechanism	Internal process review on DIB focused on cost-effectiveness, and ways to make DIB more efficient in future	Will be an external learning partner – focused on “How can this form of DIB be a replicable and scalable solution to achieve better development outcomes?” DIB structure effectiveness, efficiency and VfM of developing/ implementing DIB, how to improve in future.

At the programme design stage DFID recognised that it would be difficult to directly compare effects of the DIBs mechanism with other aid mechanisms²⁴. 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.

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

²⁴ For example, input based grants and pay for service contracts or standard payment by results.

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.

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.**
- **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>	EQ1: Assess how the DIB model affects the design, delivery, performance and effectiveness of development interventions.	<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 effectiveness²⁵ of development programmes financed using a DIB mechanism compare with providers' experience of other funding mechanisms in terms of efficiency and results?</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 providers, delivering similar interventions in similar contexts.</p>

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</p> <p>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>
--	--	---	--	--

²⁵ “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 Rajasthan, 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)²⁶. 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

²⁶ https://www.brookings.edu/wp-content/uploads/2017/09/impact-bonds-in-developing-countries_web.pdf

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](#)).

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.

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.

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.

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.

<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

<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 to reduce costs in the design, structuring, and implementation of DIBs.

	<ul style="list-style-type: none"> The supplier should plan to deliver an initial findings presentation by 30 August 2018
--	--

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.
------------------	---

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

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.

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.

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.

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.

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.

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:

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.

	<p>Supplier demonstrates how evaluation approach and activities chosen represent value for money across life of contract.</p> <p>Including proactive identification of efficiencies and savings – e.g. where opportunities arise that enable evaluator to leverage learning synergies and remove duplicative activities.</p>	<p>Qualitative reporting by Evaluator</p> <p>Value of savings generated.</p>
Risk Management	<p>Evaluator manages risks proactively, letting DFID know if risks are emerging that could push the evaluation off track.</p> <p>If some questions are difficult to answer, informing DFID well in advance.</p> <p>Maintains a transparent and open relationship with DFID.</p>	<p>100% of outputs answer all evaluation questions, or have sought agreement from DFID to amend or remove a question well in advance.</p>
Financial Management	<p>Robust cost control in line with contract.</p> <p>Accurate and timely submission of forecasting and invoices.</p>	<p>Costs remain within budget</p> <p>Forecasts are submitted on time, with ≤5% variance with actual expenditure.</p>
Performance and availability of personnel	<p>High quality team of personnel with relevant skills is maintained across life of evaluation.</p> <p>Knowledge is maintained across staff changes.</p>	<p>Performance of team.</p> <p>Personnel with appropriate level of expertise are available across life of requirement.</p>
Stakeholder Engagement	<p>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</p>	<p>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.</p>
Consideration of the wider Outcomes tied / Impact Bond Field	<p>Consideration given to the evidence being generated in the wider impact bond field, and proactive effort to facilitate the wider field to generate evidence</p>	<p>Evaluation outputs show how learning from the wider field has been considered.</p>

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 £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)

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
Mean (ignoring nature of project)	4	3
Mode (ignoring nature of project)	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

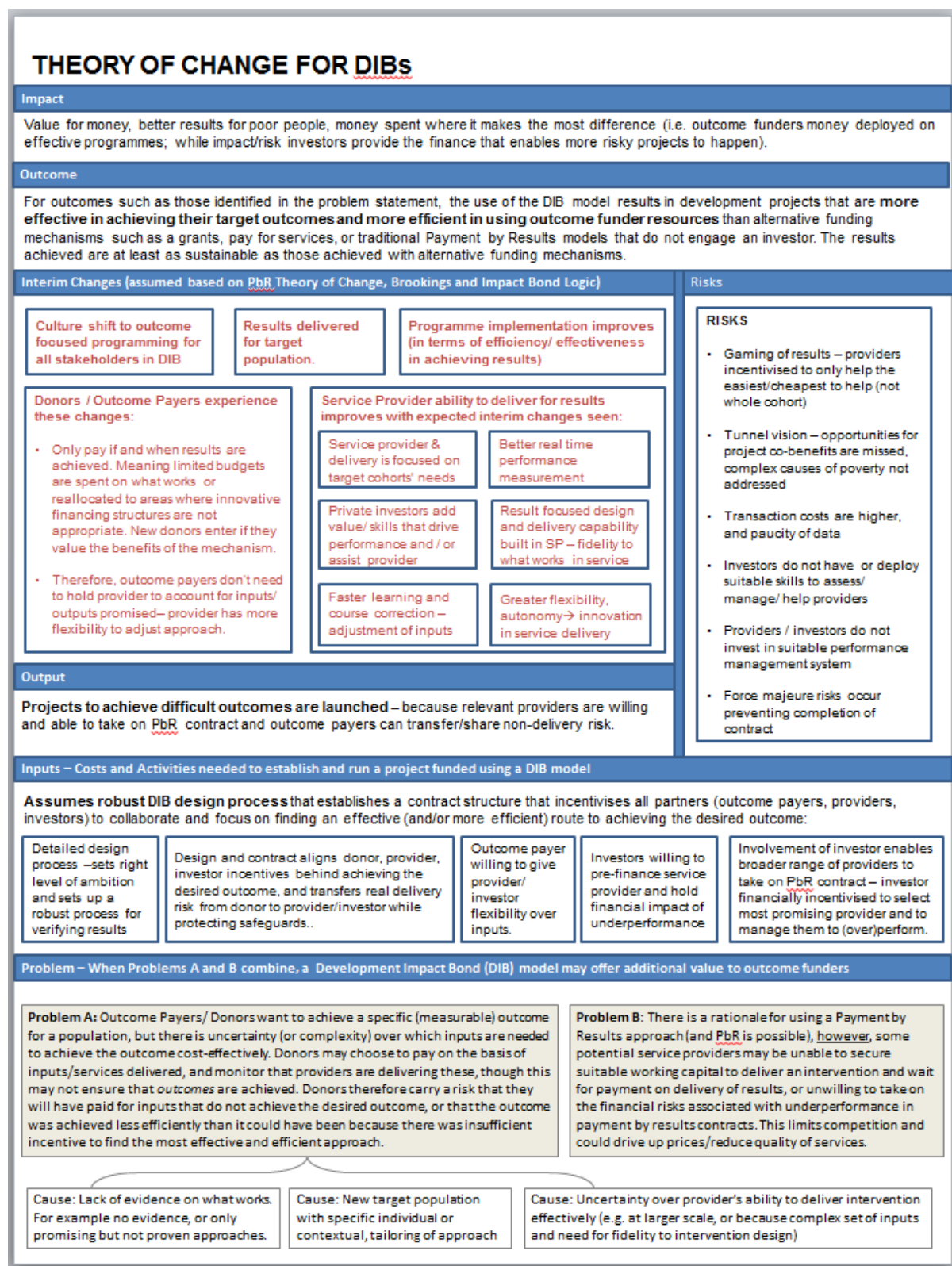
***FCO advise against all travel to Borno State. There is also a High Risk (4) threat of kidnapping across Nigeria and Maiduguri in particular

**** 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 the irreplaceable attributes (e.g. sector, problems/opportunities addressed, innovative/financially sustainable interventions, preventive, measurable baseline 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 the irreplaceable characteristics (e.g. are they resource/capital constrained, are they used to PR contracts, do they have ready to go/available appropriate monitoring system etc.)?</p> <p>Investors: What are the irreplaceable characteristics (e.g. commercial/for foundations, established for new development, how many)?</p> <p>Intermediaries: Which intermediaries are involved? What roles do they play? What 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 Were there any ideal-breakers/critical success factors identified early? What were they?</p> <p>2. Structuring the deal What were the challenges? Were they overcome? If so, how? What factors were important for projects to start/did not proceed?</p> <p>3. Implementation What factors, if any, drove improvement? 1) Change in incentives (mgmt. and/or front-line) 2) Increased flexibility/autonomy 3) Support from active investor Did these drive the factors to increase focus on outcomes and delivery? Were investors/funders/payers active/passive in this stage? If active, did they add value?</p> <p>4. Evaluation and payments What measures/methods were used to estimate impact? Were these appropriate (e.g. were the measures good predictors of positive effects)? What were the timing of the payments (and investments)? Were but come payments recycled as operating costs? What were the challenges in validating the outcome measures (e.g. data quality, collection capacity, etc.)? How were external factors that influence outcomes addressed? Were payment terms renegotiated? If so, why?</p>	<p>Estimate of impact: Was the intervention successful? Does it seem that the funding instrument played a role in whether it was implemented? (i.e. via the mechanisms of implementation)?</p> <p>Comparability to impact from using other funding instruments: Were the results different to past/similar projects funded using the instruments?</p> <p>Unintended outcomes: Were there any unintended outcomes, positive or negative?</p> <p>Engagement with beneficiaries: Did the DIB create a more lessening engagement between beneficiaries and service providers?</p> <p>Sustainability: Are there reasons to believe any outcomes/impacts achieved will be more less sustainable than those achieved using the instruments?</p> <p>Repeatability: Would the various stakeholders participate in similar instrument in the future? Under what conditions?</p>
<p>Cost-effectiveness</p> <p>Costs and cost drivers: What were the duration and costs of the different participants? What factors drove the costs? How were costs divided across the different participants? What factors drove the costs of the different stakeholders? Which costs had the potential to increase in future deals? What steps can be taken to reduce future costs?</p> <p>Comparison with other funding instruments: How do costs compare (higher/lower) with alternative funding mechanisms for both providers and funders/payers? For which stages did the costs differ?</p> <p>Cost-effectiveness: How does the effectiveness of the DIB under development compare with similar projects funded by different mechanisms?</p> <p>Additionality of funding: Was the funding for the DIB the only source of funding to more effective uses? How was this judged?</p>		

Annex B – More background information on each DIB Project

1 - ICRC Humanitarian Impact Bond for Physical Rehabilitation (HIB)

The International Committee of the Red Cross (ICRC) will be funded using an impact bond model to deliver a project that aims to increase the efficiency of its physical rehabilitation services compared to existing efficiency benchmarks. The Impact Bond model will enable the ICRC to secure 5 years-worth of finance upfront, which it will use to innovate, pilot and invest in improving the delivery of rehabilitation services– with the overall goal of using its resources more efficiently to assist more disabled people to regain mobility.

Under the impact bond model the ICRC has flexibility over how it delivers to achieve the agreed result. The ICRC plans to deliver a series of work streams under the project: a) the ICRC will build new 3 new centres in counties with significant unmet need (Mali, Northern Nigeria, Democratic Republic of Congo); b) train local staff to deliver high quality physical rehabilitation services in these centres; c) pilot and rigorously assess pilot efficiency improvement measures across eight²⁷ existing ICRC physical rehabilitation centres, and build an 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; d) operationalise the three new centres using improved operational protocols that are based on effective efficiency measures.

Project success will be measured using the Staff Efficiency Ratio which will count the number of patients who have regained mobility following the fitting of a mobility device divided by the number of staff working in the rehabilitation centre. This ratio will be measured in each of the 3 new centres operationalised by the ICRC.

To monitor patient outcomes, ICRC plan to generate, for example, participant exit surveys and videos of participants completing mobility tests. Where appropriate and feasible, ICRC plans to collect beneficiary feedback on services provided through SMS technology.

The project started in July 2017 and will end in July 2022, when the level of staff efficiency in the new centres will be measured. The ICRC will only be paid by outcome funders in July 2022. The size of the outcome payment depends on the level of efficiency achieved, and is scaled to incentivise greater efficiency savings. If the new centres operate less efficiently than past centres (or do not open) the ICRC and its investors will make a loss on their investment. But, if the centres deliver more efficiently, delivering services to more people with the same resources, then the ICRC and its investors will recover their investment and can make a moderate return on their investment.

DFID is providing £2m of outcome funding to the project. The total value of outcomes funding is ~£20m. Other donors contributing outcome funding to the project include the governments of Belgium €10m (~£8.8m), Switzerland CHF 10m (~£8m) and Italy €3m (~£2.6m). These outcome payments are tied to the Staff Efficiency Ratio and will be paid to the ICRC in full or part in July 2022 based on the level of efficiency achieved. In addition, the La Caixa Foundation has will make a €1m (£0.88m) payment to the ICRC once the new centres are built (year 3 of programme).

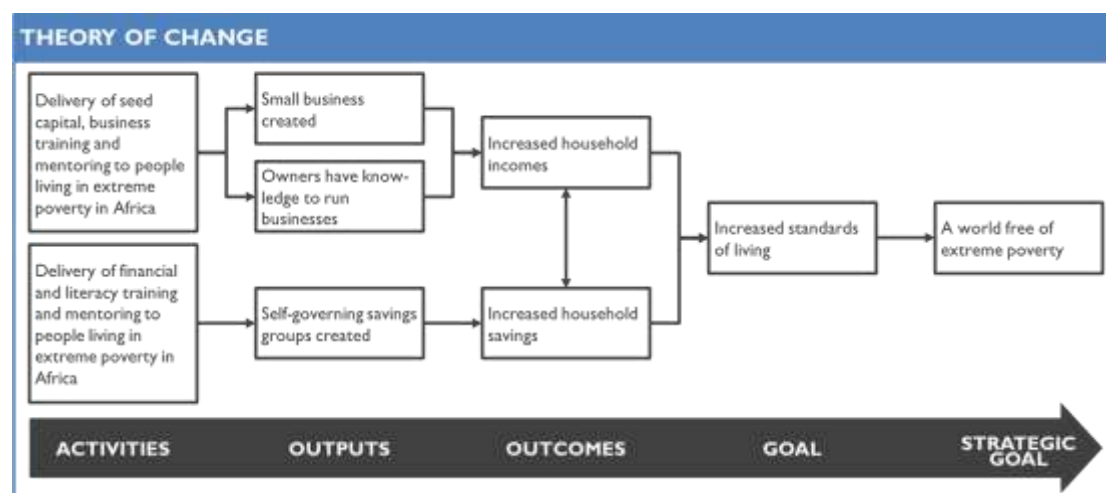
²⁷ Cambodia, Pakistan, Myanmar, Zinder and Niamey in Niger, Mali, Togo, Madagascar

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

Village Enterprise will deliver a micro-enterprise graduation programme that aims to increase the incomes of individuals living on incomes of less than £1.90/day in Kenya and Uganda. A pay-for-outcomes model was preferred because graduation programme impact has varied based on location and implementation models. While there is an indication that capital-centric graduation programmes that combine enterprise training with seed capital to start a business, as well as other inputs (e.g. consumption smoothing activities or additional cash transfers) can have positive impacts on poverty reduction – there is uncertainty over the volume and type of inputs needed. Further graduation programmes that combine many inputs are often expensive.

Under the Impact Bond model, Village Enterprise will be paid \$1 for every \$1 of current and future increase in household levels of consumption (which is a proxy for income) that Village Enterprise achieves for participating households compared to households who are not receiving the intervention. The results will be measured using a cluster-designed Randomised Controlled Trial implemented by an independent evaluator 6-18 months after Village Enterprise have finished their intervention in order to monitor sustainability of benefits created.²⁸

The outcome that donors will pay for and the payment formula used to calculate the payment is closely tied to Village Enterprise's theory of change, and the goal of the programme which is improved living standards and graduation from poverty. It was designed to incentivise achievement of the desired goals, while being measureable and preventing perverse incentives or gaming. It is also designed to incentivise Village Enterprise to deliver cost-effectively at scale, with the target number of beneficiaries expected to be greater than 12,660. It is also hoped that the model could be replicated for other graduation programme interventions.



Village Enterprise is raising the capital it needs to deliver the activities from private investors, who will share in the risk that if Village Enterprise does not deliver the results they may lose some of all of their investment in the programme. At the same time, investors may make a moderate return on their investment if Village Enterprise delivers to the same level it has in the past, or larger returns if Village Enterprise significantly increases the benefit it is creating for households. Village Enterprise will raise the investment they need overtime. This is different from the ICRC programme, where investors committed their investment upfront.

²⁸ The RCT will measure households' assets (durable and productive assets), consumption (food consumption, recurrent expenses and infrequent expenses), and savings (sum of funds set aside in the organised business savings group and independently).

Under the impact bond model, Village Enterprise plan to implement their existing graduation model which consists of providing training, seed capital, and ongoing mentoring and support, to groups of three entrepreneurs – enabling each group to start a microenterprise. However through the DIB model, Village Enterprise has the flexibility (from the outcome funders) to adapt their inputs and activities to deliver greater impact for participating households, subject only to maintaining appropriate do no harm safeguards.

The 5 components of the planned VE programme include:

- **Targeting:** VE works to identify individuals who live under \$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 are self-governing councils of ten businesses comprising 30 individuals, each BSG with its own constitution. BSGs create the platform through which VE carries out the training program, as well as develop trust and respect between the participating community members.
- **Training:** Local mentors deliver a four-month training program 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.
- **Seed Funding:** Seed capital is granted to each group of 3, 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 have decided to give 65% of business a \$150 seed, and the remaining 35% of households will receive \$450 to experiment 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.

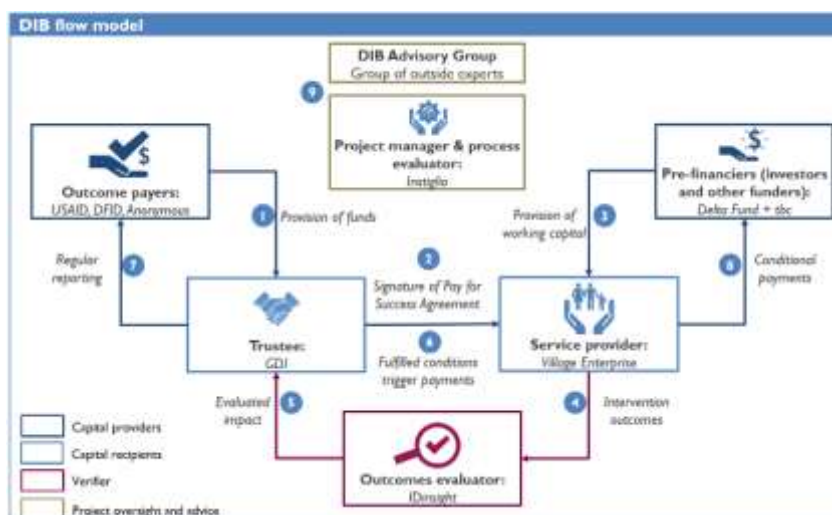
Business Mentors guide each new group in selecting an enterprise that is best positioned to flourish, considering the team's skill set, local market conditions, risk factors, and profitability. Participants are expected to complete a small business application to be considered for funding. The form details the type of business to be created. To ensure the business is viable and will not have negative impacts, the Business Mentor, Field Coordinator, and Assistant Country Director review the form. This review also helps VE determine if there will be saturation of a certain business type. When that is detected, the Business Mentor and Field Coordinator engage with the business groups to develop plans for alternative businesses.

When creating their business plans, some participants will plan for multiple income generating activities (IGAs). This practice helps beneficiaries ensure income is smoothed year-round and helps hedge against risks of devastation in the case of failure of one IGA. 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%). Village Enterprise's experience is that the entrepreneurs may start-off with one activity, but evolve into other and multiple types of activities overtime – generating different income streams.

Given a seed funding transfer to beneficiaries, the payment calculation is based on resultant increase in household level of a) consumption and b) assets above the initial seed transfer.

DFID is an outcome funder in the project. The total outcomes payments available are \$4.3m. The total cost of the DIB and surrounding activities is \$5.3m (of which \$0.5m is for outcome verification activities, and \$0.07m for DIB learning activities). DFID is providing \$2m, USAID \$1.26m and Wellspring Philanthropic Fund \$2m.

The governance structure for the VE DIB is:



3 - British Asian Trust to design impact bonds in South Asia

DFID is providing technical assistance to support the British Asian Trust to design and launch impact bonds in South Asia. The technical assistance includes DFID staff resources and grant financial support to the British Asian Trust to cover design and results measurement activities.

The majority of DFID's assistance will focus on the detailed design and launch of an impact bond to deliver better learning outcomes for up to 200,000 primary school children in India. DFID will support work to finalise the design of the impact bond, the legal structuring and performance management systems for the project as well as the design and implementation of the results measurement activities – that will ensure outcome payers are paying for verifiable quality results. The detailed design of the impact bond will occur in 2018, with the programme expecting to launch in December 2018. BAT aim to produce a DIB financial and programme management framework that is replicable, and would help to reduce costs when designing and structuring future impact bonds. The Impact Bond will include 4 education service providers (NGOs) that each have a different delivery model.

With DFID's support, BAT will also commission learning activities around the project. The aim of these learning activities is to (a) provide cross learning between key stakeholders in the social finance space (b) support the creation of shared tools and resources to enable the entry of new players in the impact bond market. The project will also generate data on the cost-effectiveness of different education interventions – through the impact evaluation and cost-reporting. There may be scope to also evaluate how each intervention delivered the services – which aspects of the services were most important in contributing/not to the outcomes (but this not certain, and has not been commissioned yet).

With DFID's support BAT will also commission research activities to assess the suitability and feasibility of using DIBs, SIBs (or similar PbR models) to deliver education or other sustainable development goals in other DFID priority countries in South Asia. This work will take place between December 2019 and December 2020, producing detailed feasibility studies by December 2020.

Annex C – Stakeholders & data available in each DFID DIB Pilot Project

Type of Data	ICRC	Village Enterprise	British Asian Trust, (BAT)
Project Stakeholders	<p>Designer: ICRC and Kois</p> <p>Service Provider: ICRC</p> <p>Service users: In new ICRC centres, and the 8 pilot centres.</p> <p>Local Governments in Mali, DRC, and Nigeria.</p> <p>Donors: Governments of Switzerland, Belgium, UK and Italy, and La Caixa Foundation</p> <p>Investors: Led by Munich Re, plus 5 others</p> <p>Outcome verifier: Philanthropy Associates</p>	<p>Designer: Instiglio, Wellspring</p> <p>Service Provider: Village Enterprise</p> <p>Beneficiaries: 12,660 – 13000 households in Kenya and Uganda</p> <p>Donors: DFID, USAID, Wellspring Philanthropic Fund</p> <p>Investors: Delta Fund, 5-6 others TBC by March 2018</p> <p>Trustee (who holds outcome funders money and acts as counter party for DIB): Global Development Incubator</p> <p>Investors:</p> <p>Local Government: Local government representatives in Kenya and Uganda</p> <p>Project Manager: Instiglio (Includes stakeholder management, troubleshooting evaluation challenges, conflict resolution between stakeholders)</p> <p>Process evaluator: Instiglio</p> <p>Outcome Verifier: IDinsight RCT</p>	<p>Designers: British Asian Trust, Michael & Susan Dell Foundation, UBS Optimus Foundation, Dalberg.</p> <p>Service Providers: Gyan Shala, Educate Girls, Kaivalya, SARD (Society for All Round Development) – based in India.</p> <p>Service users/ Beneficiaries: 200,000 primary school children in Delhi, Gujarat and Rajasthan.</p> <p>National and district governments</p> <p>Outcome Funders: British Asian Trust, and others to be confirmed</p> <p>Investors: UBS Optimus will lead an investment pool of multiple private investors</p> <p>Performance manager: Dalberg will monitor provider performance and expenditure, helping problem solve, reporting on portfolio performance to the Investor.</p> <p>Outcome verifier: Gray Matters India</p> <p>Learning Partner: TBC via tender</p> <p>Wider stakeholders: private and public sector organisations, service providers interested in impact models in South Asia</p>
Design Phase	<p>Programme design documents – including programme summary documents and the detailed design work completed by Dalberg, and choice of centre locations.</p> <p>The design work also includes collection of data to establish a baseline for staff efficiency in comparable existing centres against</p>	<p>Project was designed (payment formula, evaluation design, and project structure) by Instiglio²⁹ Instiglio is also providing project management and process learning services throughout the life of the VE DIB. Instiglio managed the process to contract signature, including designing the outcome payment formula (alongside the first donor Wellspring Philanthropic Fund). Instiglio coordinated weekly design calls, and recorded most of the key decisions taken by the working group (VE, outcome funders, Instiglio and trustee). Though not all stakeholder reflections are fully documented.</p>	<p>Access to stakeholders and documents generated through DFID funded design of the education impact bond (results verification, project management), as well as the feasibility and proof of concept work completed to assess if impact bonds can be used to deliver other development outcomes in South Asia.</p> <p>This includes creating shared tools and resources to enable the entry of new players in the impact bond market.</p>

²⁹ Instiglio is an NGO that provides advice on results based funding models.

	which the staff efficiency achieved in the new centres will be measured		
Internal project level M&E Data	<p>ICRC is testing efficiency improvement measures in 8 other ICRC physical rehabilitation centres³⁰. This includes an external partner's support, and mid-term reviews and a final evaluation of their efficiency improvement actions.</p> <p>Every ICRC patient goes through a standardised physical functionality test at the end of their treatment – which confirms the fit of the new prostheses, orthoses and wheelchairs and checks that the patient has regained sufficient mobility to carry out day to day tasks.</p> <p>Input, input cost data is available, including numbers of staff working in the centres – as this is integral to the staff efficiency metric that triggers payment. ICRC record expenditure for the HIB against a specific budget centre. Expenditure to date is reported to donors quarterly.</p> <p>Output data e.g. on the number of patients receiving (new and follow on) services at the centre, and patients regaining mobility, faulty devices is reported monthly in ICRC centres and quarterly to donors. It is also</p>	<p>Village Enterprise has a comprehensive internal monitoring system, and routinely monitors all 5 aspects of programme implementation – targeting, business training, savings groups, business formation and mentoring. Collecting data on implementation and quality, including through spot checks. Field data is collected using remote monitoring systems and automatically synced. VE's M&E staff continuously monitor data accuracy.</p> <p>Targeting – this is completed by VE's local business mentors. VE aims to identify individuals who live under \$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, with inclusion and exclusion criteria. A minimum of 10% of households administered the PPI by each business mentor is randomly selected to also be administered the PPI by an enumerator.</p> <p>VE uses mobile phone TaroWorks software to collect field level data and upload to salesforce. Management information includes, output reporting for logframe: such as attendance at VE trainings, #businesses started, #businesses receiving first and second transfers, proportion of businesses still operating at end of programme, mentoring services provided, proportion of beneficiaries using savings groups, gender breakdown of savings group leadership.</p> <p>VE enumerators and field staff (other than business mentors) conduct spot checks in the field to confirm quality of training, and</p>	<p>The following four service providers were competitively selected to deliver interventions under the DIB and be repaid for the outcomes they achieve: Gyan Shala, Educate Girls, Kaivalya, SARD (Society for All Round Development).</p> <p>Each organisation has past experience/ track record of delivering similar education interventions and achieving results.</p> <p>Each provider has a different intervention approach for improving learning outcomes of marginalised children that range from (a) Direct whole school management including delivery of education services (Gyan Shala); (b) supplementary/remedial programmes to close learning gaps for children performing below grade-appropriate learning levels (educate girls); and (c) Principal/teacher training to improve quality of school leadership and quality and motivation of teachers (Kaivalya and SARD).</p> <p>British Asian Trust also expects to develop a real time data management system for service providers.</p>

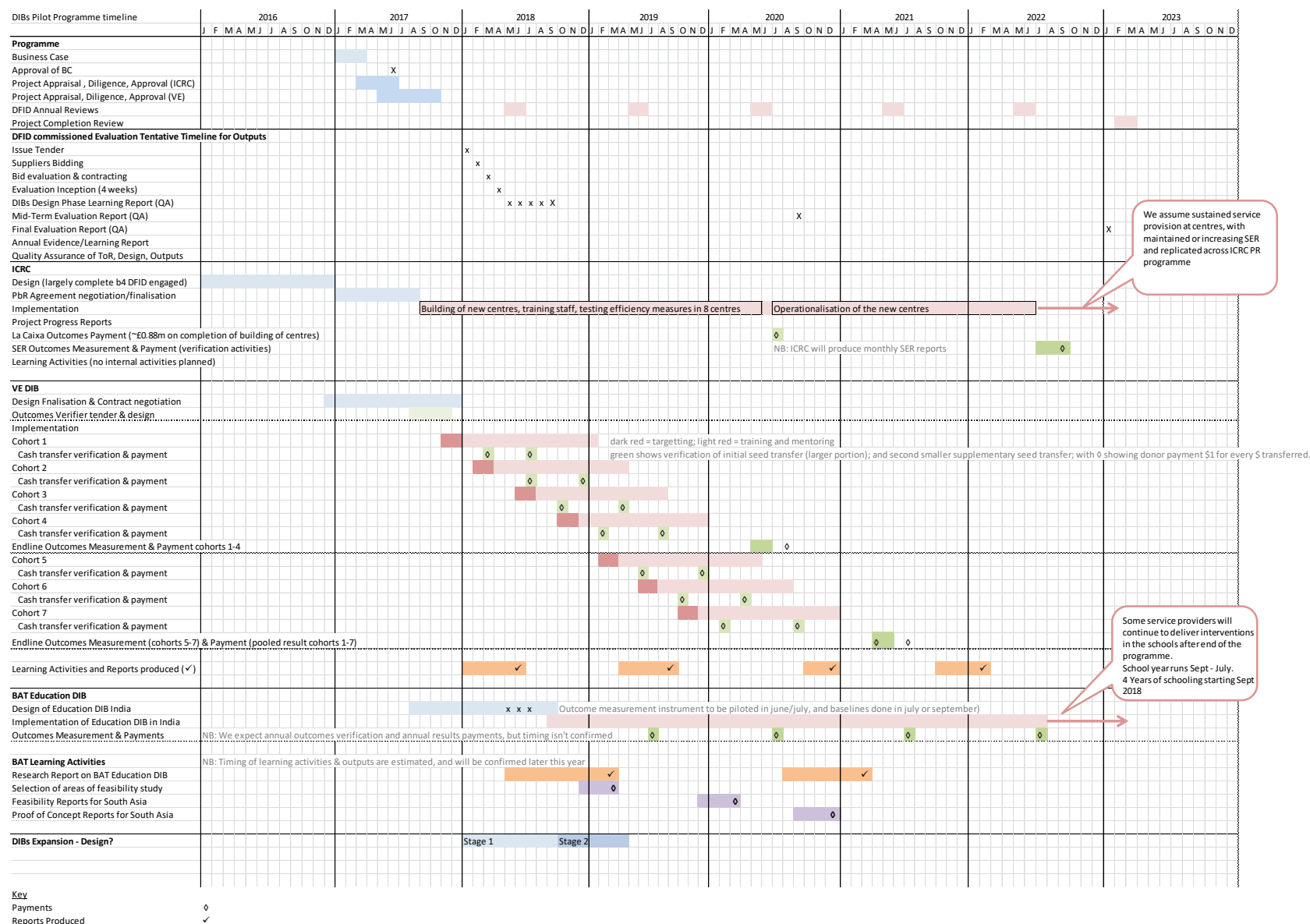
³⁰ (i) Cambodia, PRC Kompong Speu; (ii) Mali, CNAOM, Bamako; (iii) Myanmar, PRC Hpa-An; (iv) Niger, Hopital National de Niamey; (v) Madagascar CAM; (vi) Togo CNAOL; (vii) Pakistan, Muzaffarabad; (v i i) Niger, Hopital National de Zinder.

	disaggregated by gender, age, location and type of mobility device and service.	participant attendance at training sessions, savings groups. VE has a separate cost centre for the costs associated with the VE DIB – to enable costs to be collected independently. VE also has internal training manuals – used to train field staff.	
Outcomes Verification Data	ICRC's self-reported results data will be verified by an independent auditor who will visit a 5% sample of beneficiaries to confirm that they have regained mobility.	<p>An Independent quality Evaluator with experience in quantitative evaluation methods (IDinsight) has been contracted to measure outcomes. IDinsight will verify that the seed grants were transferred to beneficiaries as reported by VE (photo evidence, and spot check phone calls).</p> <p>IDinsight is also conducting designing and implementing a cluster-based RCT to assess the effect of the VE programmes on household assets (durable and productive assets), consumption (food consumption, recurrent expenses and infrequent expenses), and savings (sum of funds set aside in the organised business savings group and independently). The baseline will be collected by VE before randomisation occurs. The baseline consists only of PWR and PPI data. We anticipate ~ 10,000 endline surveys will be completed.</p> <p>IDInsights evaluation approach is of a good quality.</p>	<p>DFID is supporting the design, contracting, and implementation of the outcomes measurement and verification process. The outcomes (improved learning) will be measured annually by Gray Matters India. GMI is an experienced learning outcomes evaluator in India, with quantitative evaluation experience. The design of the evaluation appears robust.</p> <p>GMI will measure learning impacts using an experimental design with (control and intervention groups assigned using proportionate to size random sampling at the school level). Learning will be measured using a sample of schools at baseline then annually. Anticipate 50 schools and 1000 children per grade for each of the 4 interventions. Learning gains are measured using a grade-appropriate tests in literacy and numeracy that are aligned with relevant state curriculum. The data can be disaggregated. The GMI evaluation will determine outcome payments, and set aggregate learning gains targets per annum for each of the four education delivery models. Expect instruments to be piloted in June, and baselines to be collected in July 2018. Project to start in Sept 2018.</p> <p>The Performance Manager (Dalberg) will also have data on project level costs – enabling cost-effectiveness analysis to be possible.</p>
Long term Results	Provided the centres continue to operate, ICRC should continue to produce the same output and input data.	IDinsight will measure the final outcomes (i.e. impact on household assets, consumption) for households in VE's first 4 cohorts in the lean season in May-Jun 2020. This is 15months since VE ended its intervention with cohort 1, 12months for cohort 2, 8 months for cohort 3, and 4 months for cohort 4.	Annual Results measurement, which allows tracking of cohorts over the 4 years that the providers are intervening. There is no outcome measurement planned learning outcomes of children after the interventions end.

		Similarly IDinsight will measure outcomes for Cohorts 5-7 in May-Jun 2021 (10months from end of intervention for cohort 5, 8 months for cohort 6, and 4 months for cohort 7). See Gantt chart for how this also interacts with when the seed grants were paid.	
Beneficiary Feedback	ICRC is considering build a beneficiary feedback mechanism using mobile phone technology. But this is not available yet.	VE engage closely with beneficiaries through business mentors who visit beneficiaries in field. VE also collect a small number of beneficiary impact stories, and have a grievance procedure. Currently the Outcome Verification process doesn't include "open feedback from beneficiaries" it focuses on assets/ consumption data.	
Project Reporting	Quarterly written reports on progress against workstream activities, timeline and also on risks. Also six monthly steering group meetings (where investors and outcome funders and ICRC come together to review progress and suitability of agreement terms)	There will be six monthly working group calls to review progress on the project, and risk management. Instiglio will produce the reporting for this. Village Enterprise will also submit the project logframe ever 6months, allowing progress against outputs to be monitored. Interim calls will be held as needed.	
DIB mechanism Learning activities	None.	<p>Instiglio will also perform process evaluation activities which will assess the overall efficiency and effectiveness of the program, specifically surrounding the use of the DIB as an mechanism for scaling up the VE program. Instiglio will produce 3 reports (design phase; mid-term and final report). Instiglio will draw lessons from stakeholders through surveys, interviews, and project document reviews as well as their own experience of designing and managing the DIB. Given Instiglio's role in the DIB, this could not be considered as an "independent" process evaluation – but should still generate valuable insights. We expect this review to be of good quality.</p> <p>Instiglio are happy to share their instruments and will record the semi-structured interviews that they have with VE DIB stakeholders. The VE stakeholders have agreed that the recordings of the interviews can be shared with the DFID evaluation supplier.</p> <p>Instiglio will be running design phase interviews in January, alongside a field visit to VE in Kenya.</p>	<p>With DFID's support, BAT will also commission learning activities around the project. The scope of work of the learning partner is still being defined, with aim of commissioning in Mid-2018. With the following areas of interest</p> <ol style="list-style-type: none"> 1) provide cross learning between key stakeholders in the social finance space on the potential of DIBs and SIBs to influence public sector challenges 2) support the creation of shared tools and resources to enable the entry of new players in the impact bond market. 3) There may be scope to also evaluate how each intervention delivered services, which aspects of the services were important/not in achieving/not achieving the outcomes (but this not certain, and has not been commissioned yet).

Comparable past data	Baselines staff efficiency ratios from comparable existing ICRC physical rehabilitation centres.	From 2014 to 2017, a randomized controlled trial (RCT) evaluated the impacts of diverse components and variants of the Village Enterprise program – measuring impacts on households' assets, savings, consumption, income,	NGOs involved in the DIB, have past impact and cost data that is being used to inform outcome pricing.
----------------------	--	--	--

Annex D – DFID Indicative Programme Gantt Chart (subject to change)



End of ToR

Annex B: Design of the DIBs

This annex summarises the DIB design across the three DIBs, in terms of:

- Motivation for use of the DIB
- Payment mechanisms and outcome measure
- DIB Structure

B.1 ICRC

Motivation for use of HIB

ICRC's main motivations for using the impact bond as set out in the summary of the transaction are three-fold:

- the payment metric incentivises ICRC to invest in innovating in how it delivers services to increase the number of people benefiting from quality services, increasing the efficiency and value for money of rehabilitation services;
- the HIB enables the leveraging of pay-for-performance contracting to transfer risk from traditional public sector humanitarian donors to private investors; and
- the HIB enables ICRC to be supported by Outcome Funders, whose financing is contingent upon the outcomes achieved

The **payment mechanisms** are as follows³¹.

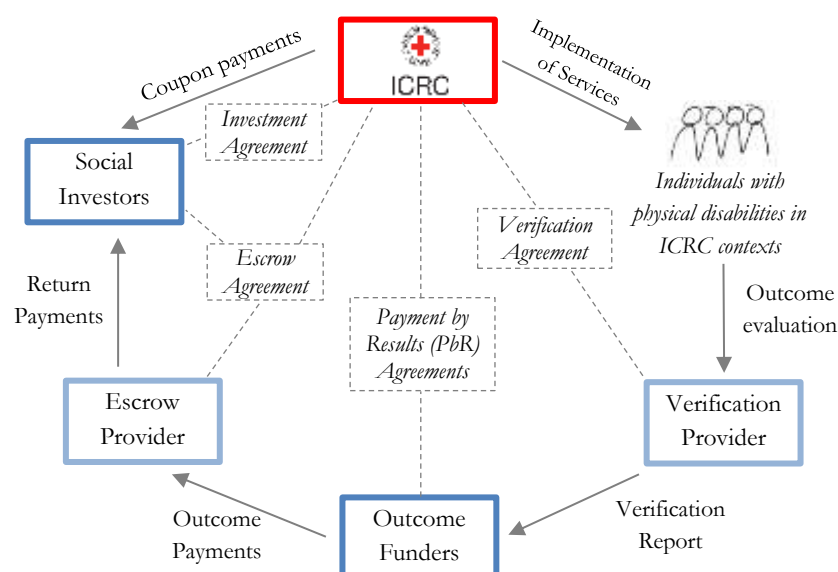
1. Social investors to make payments to the ICRC within one month of the closing date, and then on the first anniversary (3 July 2017) for a total of CHF 18,598,932 (54% cornerstone investor)
2. Investor capital protection - 60% of the commitments, and 2% annual coupon paid every July
3. Maximum committed outcome funding of CHF 26m 5 years after closing date, with the exception of La Caixa who will be invoiced based on the construction performance of the new centres.
4. Returns to Social Investors based on the SER of the PHII in the final year of the programme relative to the baseline SER (established from historical data from other ICRC centres in Africa) (the 'Outcome Measure')
5. Governance through a semi-annual committee (the 'Operating Review Committee') and ICRC reports quarterly on use of the 'commitments'
6. ICRC risk – if the outcome measure is less than or equal to one (i.e. there is no improvement in the SER of the PHII centres relative to the baseline centres), the ICRC will make a first loss payment of 10% of the commitments.

The outcome measure is the staff efficiency ratio, calculated as the # of beneficiaries having regained mobility thanks to a mobility device, divided by the # of local rehabilitation professionals.

³¹ PHII Summary of the Transaction

The figure below sets out the **contractual relationships**

Figure 10: ICRC HIB Structure



B.2 BAT – Quality Education India DIB

Motivation for use of DIB

The flexible outcomes-focused financing mechanism in the DIB model offers a solution to both improve the quality of primary school education for marginalised children in India and support NGOs to deliver their proven interventions at scale and by attracting new investment into tackling education challenges in India.

Payment mechanisms

The original financing structures for the DIB includes the money needed from the private investor, to pay the upfront working capital to the NGOs, and the resources from outcome funders, who pay the service providers on them achieving the outcomes. If the service providers achieve all of the outcomes, they will receive additional money from the outcome funders, as an incentive on top of the delivery costs.

Table 27: BAT Quality Education India payment mechanisms³²

What	How much	Details
Outcome payments	\$10 million	The donors in the DIB will pay for the outcomes that are achieved by the service providers during the contract lifetime
Investment/upfront	\$3 million + \$0.74	Investors pay for the costs for the delivery in the first year by the service providers. This initial working capital is the recycled for the four-year contract. If the outcomes are met,

³² British Asian Trust: Proposal to the Department for International Development (DFID) for Technical Assistance towards the Development Impact Bond (DIB). This report pre-dates finalisation of deal, so terms likely to change.

What	How much	Details
working capital	million in interest	the investors receive repayments, with 8 per cent interest p.a. (capped at \$0.74 million).
Service provider delivery costs	\$7.6 million + \$0.74 million as incentive payment	Service providers receive this amount to cover their delivery costs over four years of implementation. If more than 100% of their outcomes are achieved the service provider receives an incentive payment in the final year (capped at \$0.74 million).

The figures below show the financing and performance management **structure** of the DIB:

Figure 11: BAT – Quality Education India DIB’s financing structure (planned)

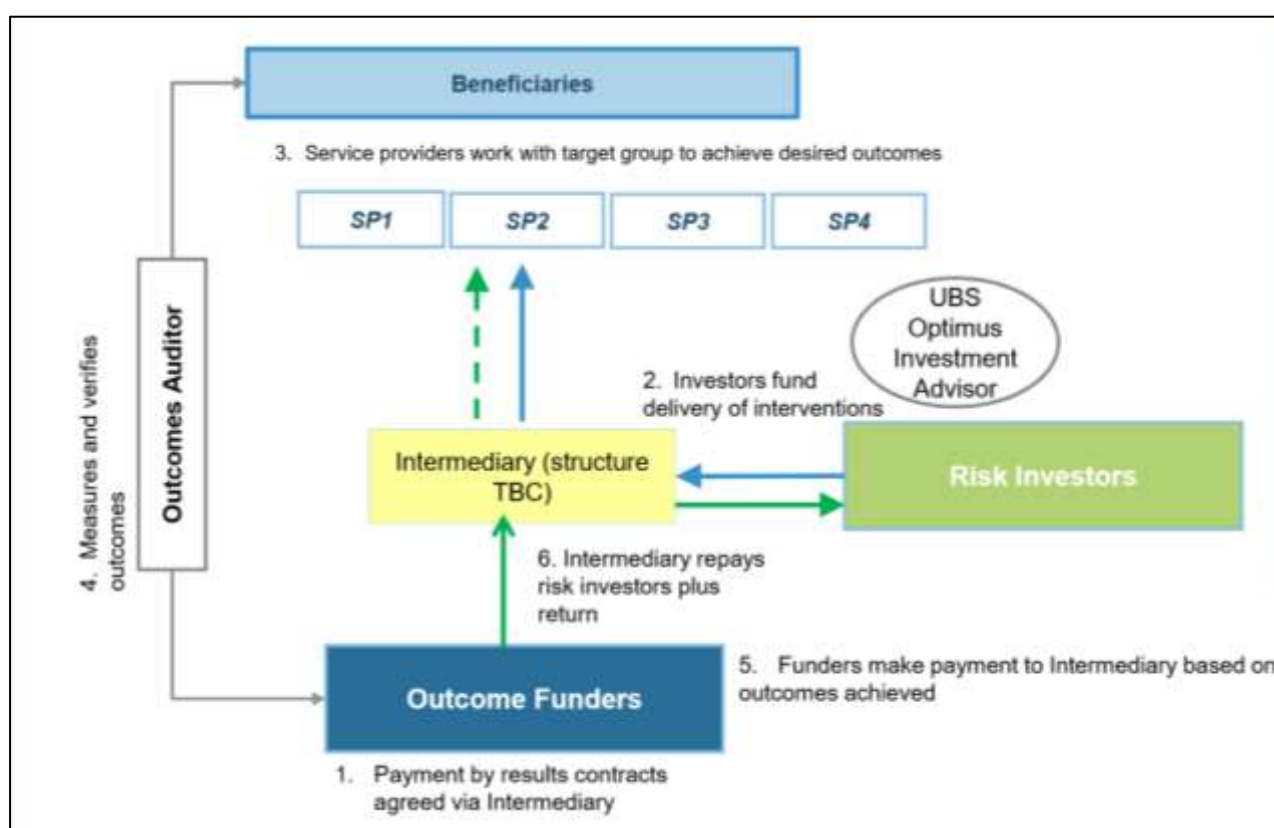
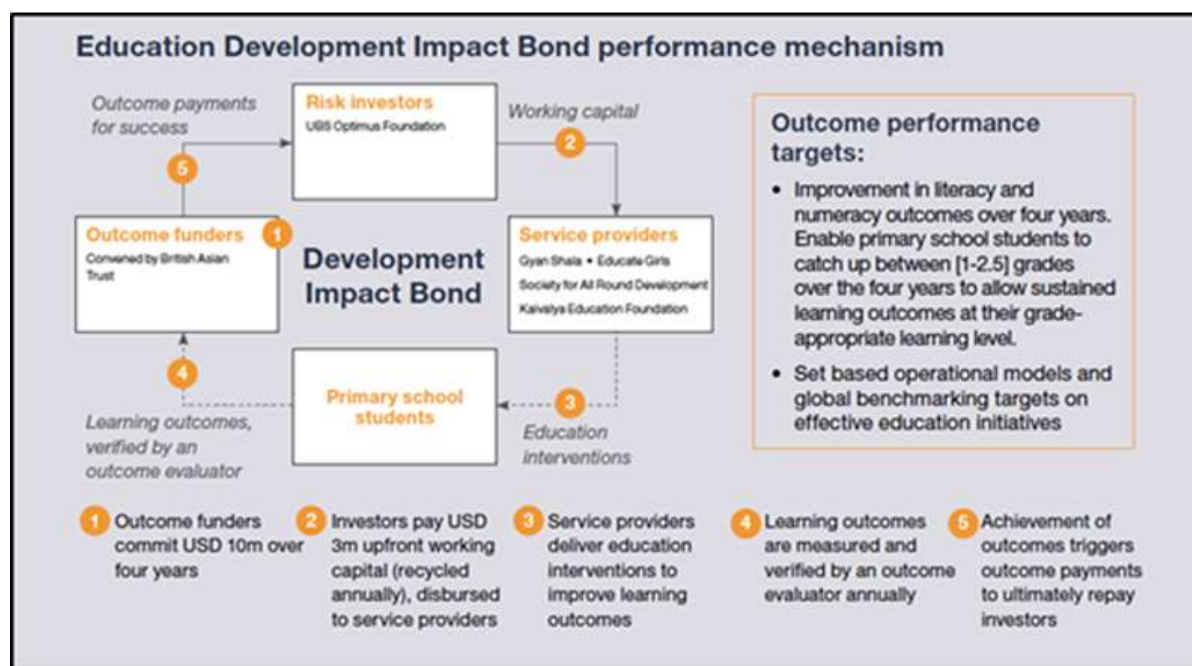


Figure 12: BAT Quality Education India DIB's performance management structure



B.3 Village Enterprise

Motivation for use of DIB

The Graduation Model was believed to be a cost-effective and evidence based intervention but despite promising levels of impact, outcomes have varied across geographies and implementation teams. VE therefore saw the DIB as a potential opportunity for:

- Greater levels of flexibility
- Performance incentives to drive impact
- Using a pay-for-success model to enable donors to challenge entrepreneurially-minded development practitioners to master and demonstrate cost-effective delivery.

The **payment mechanisms** follow closely the theory of change of the poverty Graduation Model, paying attention to sustainability considerations:

- It captures and rewards increases in consumptions during the lifecycle of the project, which is a reliable proxy for financial welfare of the households, an essential objective of poverty graduation.
- At the same time, it rewards the improvement in the household's assets as well. This is a critical feature of this payment formula for two reasons. First, growth in assets provides some guarantee that impact will sustain. Second, the inclusion of assets ensures that the service provider does not face a perverse incentive to distort the household's preferences regarding how additional income is used (i.e. consumed, saved or invested).

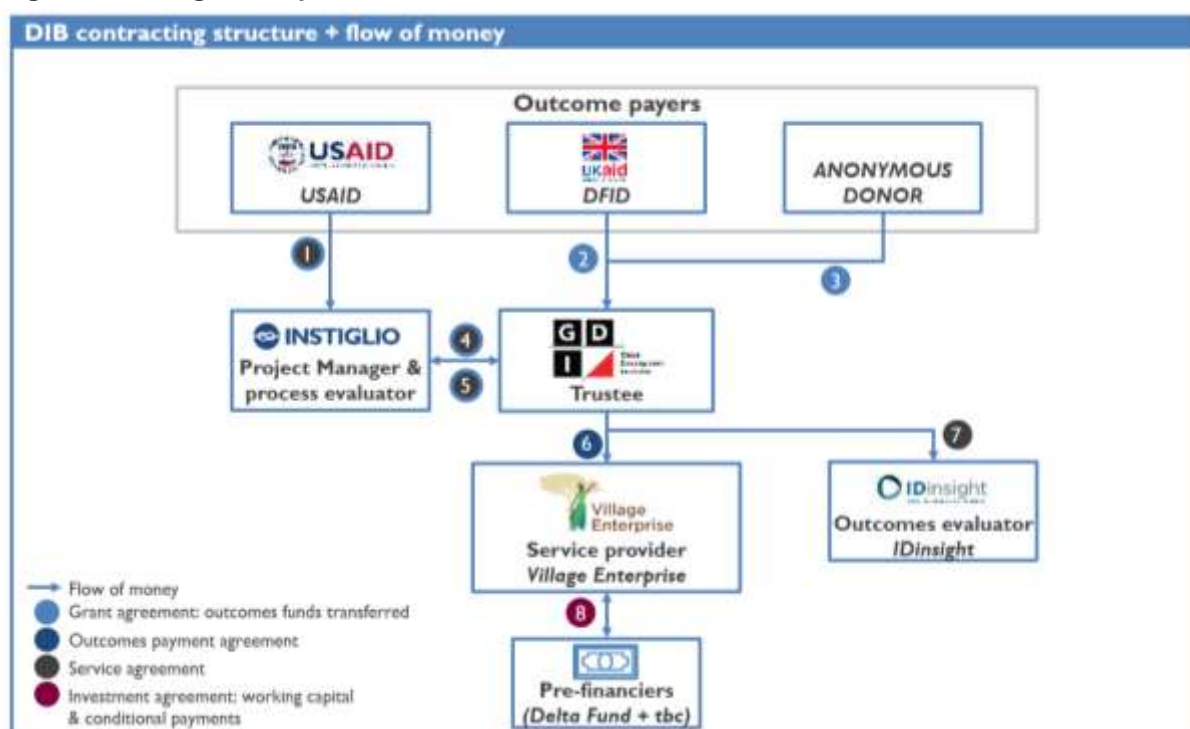
The overall outcome payment from outcomes payers to Village Enterprise is capped at USD\$ 4,280,618. Payments for seed funding are capped at a total of USD\$ 1,200,000, and \$150 for

each household. All funding not used as seed funding may be transferred and used as outcomes payments.

In addition, there is a payment cap per household for the outcome payment (excluding the initial payment, or “seed funding” reimbursement) equal to \$265. The purpose of this payment cap is to limit the IRR of the program, as well as to increase the number of households the service provider will work with, avoiding scenarios of outcome payers paying for too few households. The payment cap still allows VE some flexibility to spend more to increase impact.³³

The **programme structure** is as follows:

Figure 13: Village Enterprise structure



³³ Village Enterprise DIB Design Memo

Annex C: Literature Review

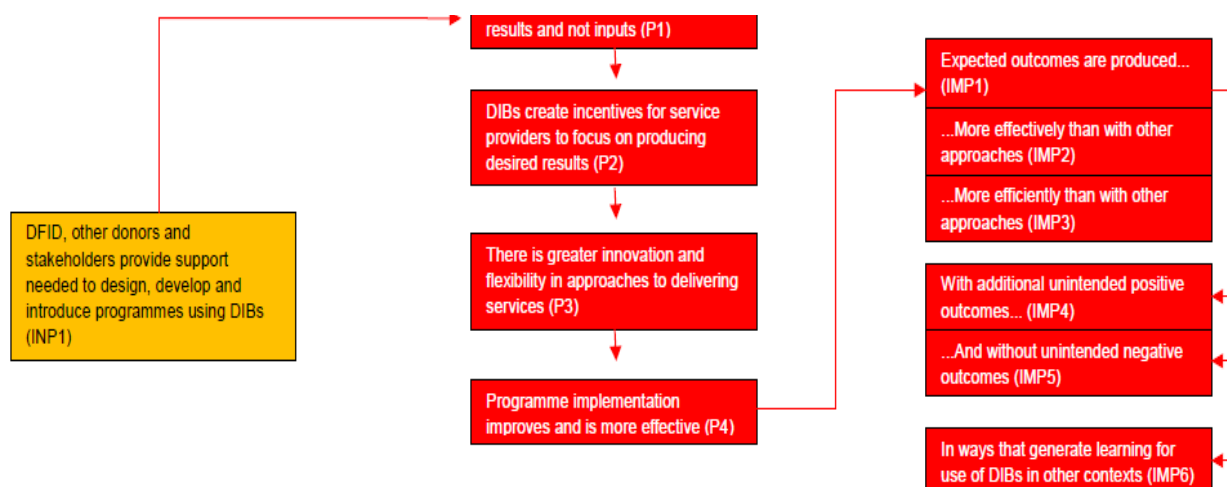
The objective of the literature review is to contextualise the findings emerging from the DIBs pilot programme with those from the wider impact bond sector. The review focuses predominantly on DIBs, but also draws on findings of SIBs operating in low and medium income countries, and SIBs and PbR more 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 C.1 explores the ways in which the DIB model is hypothesised to affect interventions.
- Section C.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 C.3 reviews the evidence base mapped to the hypothesised effects of DIBs set out against the framework used above.
- Section C.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 C.5 concludes with a summary of the challenges to evaluating impact bonds, and approaches that have been used.

C.1 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.³⁴

Figure 14: Framework for synthesising evaluation evidence



³⁴ The framework draws upon papers by Clist and Drew (2015) and Clist and Verschoor (2014).

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 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 subsection 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 28: 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 ³⁵	Introduction to impact bonds – 5 benefits.

³⁵ <http://www.instiglio.org/en/impact-bonds/>

Title	Detail
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.

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 14 above.

C.1.1 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.

C.1.2 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**.

C.1.3 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 1: 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.

C.2 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.

C.2.1 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 29: 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	Additional costs need to be offset by other benefits, such as increased outcomes or efficiency gains (including reduced staff time or transaction costs). 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.

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.

C.2.2 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 three 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.³⁶

³⁶ <http://www.instiglio.org/en/impact-bonds/>

C.2.3 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 30 below:

Table 30: 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.

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.

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 subsidised³⁷. 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 the mechanism which has been used to judge whether SIBs work better than other funding

³⁷ 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.

models is unclear. This may negatively impact on the value for money provided by the impact bond and the associated subsidies.³⁸³⁹

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. This is addressed in 5 ways rhetorically:
 - 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

³⁸ Social Impact Bonds: An overview of the global market for commissioners and policymakers

³⁹ 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.

displaces funding, unless prevention/remedial cost savings pay for the impact bond (Department of Budget and Finance 2013).

C.3 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 evaluations⁴⁰). Where there are evaluations on specific impact bonds or PbR programmes, only a minority focus specifically on the effect of the funding instrument.

C.3.1 Input

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

⁴⁰ For further information see: <https://www.biglotteryfund.org.uk/research/social-investment/publications>

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 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 outcomes payers in the West London Zone SIB, or different government departments in the Youth Engagement Fund).

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 mainstream investors.

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.

C.3.2 Process

Outcome funders focus on results and not inputs

Hands-off nature of outcomes 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 outcomes payers 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 payers, 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 low-powered incentives in relation to 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

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, but a number were innovative in the sense that they trialled 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 VCSE⁴¹ 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.

C.3.3 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

⁴¹ Voluntary, community and social enterprise (VCSE) organisations and social investors

evaluations⁴² 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).

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 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 expectation of both being innovative and 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.

With additional unintended positive outcomes... and without unintended consequences...in ways that generate learning for use of DIBs in other countries

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)

⁴² 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.

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.

C.4 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.

C.4.1 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 bonds⁴³:

Table 31: 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 payers / co-investors	

C.4.2 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.

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).

⁴³ https://www.dropbox.com/s/ccfixil4cgtgq79/Mid-term%20Progress%20Report_June8%272018.pdf?dl=0

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).

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.

C.5 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.

C.5.1 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.

Table 32: Strengths and weaknesses of existing evidence and evaluation approaches and methods related to SIBs and DIBs (Drew and Clist 2015:27)

C.5.2 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).

C.5.3 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

	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 un evidenced 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 SIBs 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>

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.

C.5.4 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 D: Key Stakeholders interviewed

The table below sets out the key stakeholders interviewed as part of the inception phase.

Table 33: Key Stakeholders Interviewed

Entity	Meetings Held
ICRC HIB	ICRC Project Manager
VE DIB	Village Enterprise Team Instiglio Teams
BAT QE DIB	British Asian Trust UK Project Manager
DFID	DIBs Lead Advisor and Programme Manager and DFID PbR Advisor

Annex E: Key Documents Reviewed

The table sets out the key documents reviewed as part of the inception phase.

Table 34: Key Documents Reviewed

DFID / DIB	Titles of documents
DFID	DIBs Evaluation Stakeholder Group ToR
	EQUALS inception Report Reviewer template
	Summary of DIBs Pilot Programme M&E
	2 page factsheets
	DRAFT DIBs strategy 29/12/2016
	Final DIBs Pilot Programme Business Case
	Pack 1 - What is an Impact Bond? Why is it relevant to DFID?
	Pack 2 Learning from real Impact Bonds in use by DFID
	Pay Poverty - 21/5/2018
	DFID PbR Evaluation Framework
	DFID Smart Guide to PbR
	DFID PbR Strategy 2014
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
BAT	DFID (November 2017) <i>DIBs Business Case Addendum</i>
	British Asian Trust (May 2018) <i>Education Development Impact Bond in India Quarterly Report</i>
	British Asian Trust: <i>Proposal to the Department for International Development (DFID) for Technical Assistance towards the Development Impact Bond (DIB)</i>
	Annex 1 - Outcomes Evaluation Design Summary (excl financial and personnel data)
	Annex 2 - End User Voices Capture Template.compressed
	Annex 3 - Performance Management Framework
	Annex 4 - MIS Document for Gyan Shala.compressed
	Annex 5 - Draft Survey Tool for Gyan Shala
	Annex 6 - Risk Matrix as of May 2018
Village Enterprise	VE DIB Design Memo (short public version)
	VE DIB Design Memo (long non-public version)
	VE DIB Evaluation proposal
	1 st VE Interim report (April 2018)
	Cash Transfer Verification Report

DFID / DIB	Titles of documents
	Outcomes Payment agreement
	RCT Report 1- Cash-Plus: Poverty Impacts of Transfer-Based Intervention Alternatives
	RCT 1 impact report- key findings
	Process evaluation- Process Review Learning Agenda and Workplan

Annex F Potential Comparison Programmes

The tables below set out a comparison between the DIBs against the proposed comparison programmes, in order to identify areas of similarity and difference. We compare the projects based on intervention type, context, service provider, level of donor oversight, as well as areas affecting evaluability, such as available data and availability of stakeholders for interviewing.

We consider that the most important parameters are the service provider and processes used, project purpose, availability of data and stakeholders and payment structure (i.e. not DIB funded). The other criteria are important to understand other reasons for potential differences between the DIB and comparator site. Local experts will be key to support the evaluation team's understanding of the context and plausibility of the causal claim.

Table 35: Comparison of ICRC and potential comparator programmes

Title	ICRC Humanitarian Impact Bond for Physical Rehabilitation	Potential Comparison sites.		
Parameters for comparison	Project	3 Centres used to calculated benchmark	Other new centres being built where efficiency measures will be rolled out	Other centres where efficiency measures are being rolled out
Project purpose and target population	Help disabled people living in conflict affected locations regain mobility by providing mobility aids Test measures to increase efficiency of rehabilitation services	Project purpose 1 only	Project purpose 1 only	Project purpose 1 only
Countries	Mali, Nigeria, and DRC	Cambodia, Pakistan, Myanmar, Zinder and Niamey in Niger, Mali, Togo, Madagascar	TBD	TBD
Context	Variable – key drivers of PRP centre efficiency include the continent where the centre is located, whether ICRC manages the centre, number of staff, net floor area, index of conflict based on the global fund for peace, estimate of how much leverage the ICRC has over the centre, number of months the ICRC has been partnering with the centre, and the ratio between number of bench workers and the number of professionals in e ach centre.			
Time period	Jul 2017 – Jul 2022	Historic	Same time period, with centres going through first 2 years of operation	Same time period, but the centres may not be going in the first 2 years of operation

Title	ICRC Humanitarian Impact Bond for Physical Rehabilitation	Potential Comparison sites.		
Parameters for comparison	Project	3 Centres used to calculated benchmark	Other new centres being built where efficiency measures will be rolled out	Other centres where efficiency measures are being rolled out
Total Project Value / Scale (beneficiary #)	Around CHF 18.6m ⁴⁴ and # of beneficiaries TBC	TBC	TBC	TBC
Service provider	ICRC	ICRC	ICRC	ICRC
Processes used	ICRC protocol + additional efficiency measures	ICRC protocol	ICRC protocol + additional efficiency measures (precise measures TBD, and may be different to those used in the project)	ICRC protocol + additional efficiency measures (precise measures TBD, and may be different to those used in the project)
Level of donor oversight / influence	Low - ORCM mainly as a reporting body	Low – unearmarked funds		
Payment structure	Impact Bond. However, ICRC will be paid actual expenditure incurred by the investors, so long as it doesn't exceed the initial budget set.	Funding to delegations	Funding to delegations	Funding to delegations
Available data	M&E data Cost data Efficiency data for the pilot (unclear whether this will continue to be collected at the other centres)	M&E data Cost data	M&E data Cost data Any additional data captured by the new IT system	M&E data Cost data Any additional data captured by the new IT system
Availability of stakeholders for interview	Yes	It depends whether the centres are still operational. HQ and programme staff will be available.	Yes	Yes

⁴⁴ PHII Summary of the Transaction

Table 36: Comparison of VE and potential comparator programmes

Title	Village Enterprise Graduation Programme	Potential Comparison sites.	
Parameters for comparison	Project	Previous project	Remainder of existing project not covered by DIB
Project purpose and target population	<ol style="list-style-type: none"> 1. Equip people living in extreme poverty with resources to create sustainable business 2. Increase household incomes 3. Increase household savings 	<ol style="list-style-type: none"> 1. Equip people living in extreme poverty with resources to create sustainable business 2. Increase household incomes 3. Increase household savings 	<ol style="list-style-type: none"> 1. Equip people living in extreme poverty with resources to create sustainable business 2. Increase household incomes 3. Increase household savings (but with some different outcome measures for example education, nutrition, and WASH)
Countries and regions	Uganda and Kenya	Uganda and Kenya	Uganda and Kenya The programme is being held in different regions (exact regions TBC) with different contextual factors at play, including levels of poverty, ethnic groups and market access.
Context	<p>Village Enterprise implements a Graduation programme for people living in extreme poverty that aims to equip them with resources to create sustainable businesses. VE's graduation approach aims to help budding entrepreneurs to launch and run a business, increase their income and savings, improve their standard of living and permanently break the cycle of poverty.</p> <p>The graduation programme has been running since 2012, initially as a fully grant funded programme. The DIB was launched in November 2017 covering approximately 30% of the programme's activities. The remaining 70% of the programme is continuing to run under the grant-funded model, albeit in different geographical locations and with some different outcome measures.</p> <p>The DIB structure and oversight of the DIB parties is being managed (not at an operational level) by the intermediary, Instiglio. Independent outcome verification being conducted by IdInsight. Village Enterprise is the delivery body providing services to beneficiaries and manages the day to day operations. Instiglio is not involved in the actual provision of services to beneficiaries or in VE's programming nor in the non-DIB part of VE's programme.</p>		
Time period	Nov 2017 – Nov 2021	Historic (2013-2016)	Nov 2017 – Nov 2021
Total Project Value / Scale (beneficiary #)	~\$2.5m (capped payment of \$4.2m to Village Enterprise) 12,600 across 7 cycles. ⁴⁵	TBC	TBC c. 25,000
Service provider	Village Enterprise	Village Enterprise	Village Enterprise
Processes used	Village Enterprise protocol	Village Enterprise protocol	Village Enterprise protocol
Level of donor oversight / influence	Low	Low though stakeholders commented on reduced flexibility	
Payment structure	Development Impact Bond	Grant-funded	Grant-funded
Available data, including outcomes being measured	M&E data <ul style="list-style-type: none"> • Consumption and expenditure • PPI 	M&E data Cost data RCT	M&E data <ul style="list-style-type: none"> • Consumption and expenditure • PPI

⁴⁵ Village Enterprise DIB Design Memo.

Title	Village Enterprise Graduation Programme	Potential Comparison sites.	
Parameters for comparison	Project	Previous project	Remainder of existing project not covered by DIB
	Cost data (from November 2017)		<ul style="list-style-type: none"> Household assets Education Nutrition WASH Cost data
Availability of stakeholders for interview	Yes	Yes	Yes

Table 37: Comparison of BAT Quality Education India DIB and potential comparator programmes

Title	Quality Education India DIB	Potential Comparison sites.	
Parameters for comparison	Project	Previous DIB project (Educate Girls)	Existing provision not funded by a DIB
Project purpose and target population	To improve literacy and numeracy outcomes with over 200,000 primary school children in Delhi, Gujarat and Rajasthan	To improve education in rural by increasing enrolment and learning outcomes for 18,000 children in rural Rajasthan	All four service providers have been implemented previously in different areas with evidence on their effectiveness (the DIB is an opportunity to scale effective provision).
Countries and regions	3 regions in India: New Delhi, Gujarat and Rajasthan	Bhilwara in Rajasthan.	
Context	<p>The aim of the DIB is to enable 200,000 children to attain or move towards attainment of their age appropriate learning levels. The delivery operations will take place in Rajasthan (mid district tbc), Gujarat, and a municipal in New Delhi. All four NGOs in the DIB are delivering expansions of existing programmes or building on current work. The NGO interventions purposively chosen to include a range of operational models, namely: improving whole school management, remedial/supplementary learning, and teacher and school leader training.</p> <p>The overall programme is being managed by British Asian Trust (BAT), with independent outcome verification of the DIBs conducted by Grey Matters India. Dahlberg Consulting (involved in the implementation of the first Educate Girls DIB and the design of the current DIB) has been contracted as the performance manager and will be working directly with the NGOs.</p> <p>In addition to overseeing the set-up and implementation of the main structures and processes for the DIB, BAT are overseeing learning and replication activities to support the future development of DIBs in South Asia.</p>		
Time period	Sep 2018 – July 2022	Historic (2015 – 2018)	Historic and current (TBC)
Total Project Value / Scale (beneficiary #)	~£10 million outcome payments (£3 million investment)	Total outcome payments expected is \$367,000 (87% of ClIFF's total outcome payment) and a cap of \$422,000.	TBD

Title	Quality Education India DIB	Potential Comparison sites.	
Parameters for comparison	Project	Previous DIB project (Educate Girls)	Existing provision not funded by a DIB
	200,000 across four service providers over four school years ⁴⁶	18,000 children in the district of Bhilwara in rural Rajasthan. ⁴⁷	
Service provider	Educate Girls (remedial education) Gyan Shala (whole school management) Kaivalya (School leader and teacher training) SARD (Teacher training)	Educate Girls	Gyan Shala Kaivalya SARD Educate Girls (TBC)
Processes used	TBC	TBD	TBD
Level of donor oversight / influence	TBD	TBD	TBD
Payment structure	Development Impact Bond	Development Impact Bond (tied 100% of funding to outcomes)	Grant-funded (assumed)
Available data, including outcomes being measured	M&E data (specific framework for each service providers) Cost data (One of the key objectives of the programme is to understand cost per outcome. Return made by UBS will be transparent.)	TBD	TBD
Availability of stakeholders for interview	YES	TBC	TBC

⁴⁶ Figure is from the BAT India Technical Assistance Grant Proposal

⁴⁷ <http://instiglio.org/educategirlsdib/wp-content/uploads/2016/03/EG-DIB-Design-1.pdf>

Annex G: Research Tools

G.1 Overview

This annex includes the research tools to be used for the DIB-level research in Research Wave 1. It includes:

- Plan for DIB-level research
- Topic guide for all stakeholders
- Framework for comparator sites

G.2 Plan for DIB-Level Research

G.2.1 Purpose of DIB-level research

The purpose of the DIB-level 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, we will undertake the following tasks:

- Data collection and analysis
- Document review
- DIB consultations
- Research with comparator sites

The research is divided over three waves, with the majority of the research activity repeated during each wave:

- **Wave 1: Set up** (April - November 2018⁴⁸): 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. 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, including the extent to which outcomes and DIBs were sustained. This will also update the interim findings from Wave 2.

G.2.2 Purpose of Research Wave 1

The purpose of the initial wave of research with the three DIBs is to

- Understand the DIB model in further detail, the reasons why a DIB was pursued and what stakeholders hope it will achieve

⁴⁸ We are currently in discussions with BAT regarding these timescales and how they fit with the timing of their impact bond.

- Understand the successes and challenges in setting up the DIB, including: how the area has developed its DIB; the rationale for their focus; the early successes and challenges in setting up the DIB; and the critical aspects that need to be considered when designing the DIB
- Identify lessons learnt from these DIBs that can be applied to future DIBs and DFID

Whilst these will be the primary areas of focus for this research wave, it may be possible to identify early progress and lessons in delivery.

G.2.3 Research tasks

Some of this information has already been collected during the Inception Phase, and this research wave will build on this information.

Data collection and analysis

We aim to gather the following data from each of the DIBs during this wave:

- Amount of investment leveraged, broken down by party
- Anticipated surplus paid to other parties (returns, dividends, performance payments, loans interest), broken down by date (year) and parties
- Anticipated number of beneficiaries supporting, broken down by date (year), location and beneficiary characteristics
- Anticipated primary outcomes, broken down by date (year), location and beneficiary characteristics
- Anticipated secondary outcomes, broken down by date (year), location and beneficiary characteristics
- Anticipated amount of outcome payments, broken down by outcome, location, date and donor party

Document review

We will review key documents related to each DIB. We expect this to include:

- Internal progress reports
- Internal and external learning and evaluation reports
- Business and financial cases
- Memos explaining decisions to fund each pilot DIB (from both DFID and external funders)
- Records of the project appraisal process, negotiations, and decisions taken during the negotiation of each DIB
- Project monitoring reports

DIB consultations

We will undertake tele-interviews with the following broad stakeholder groups (recognising that this will need to be tailored to each DIB):

- Project managers / performance managers / intermediaries
- Service provider: Project managers
- Service provider: Service managers

- Outcomes funders / donors (including DFID)
- Investors
- Outcomes verification agents
- Project level process evaluators / learning partners
- Advisors
- Local governments (if on steering committee)

Where there are more than two stakeholders in the same stakeholder group, we will select a representative sample across the three DIBs. Here we will adopt a purposive sampling approach to ensure we interview a representative set of stakeholders. We will use the sampling frame set out in the Inception Report.

Research with comparator sites

The research in the comparator sites will primarily compare the set up of the DIBs with the set up of the comparator projects. This will examine whether the same innovations, opportunities and challenges existed in the comparator sites as in the DIBs. The specific DIB indicators we will examine are:

- 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
- Perceptions on rigour of design stage
- Level of ‘innovation’ / risk in project delivery, in terms of:
 - new type of intervention altogether;
 - an established intervention that has been adapted; 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
- Number and type of providers participating in PbR contracts, and their historic experience with PBR contracts
- Strength of relationship of partners involved and levels of collaboration and/or coordination
- 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
- 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)

To achieve this, we will undertake the following activities in the comparator sites:

- Data collection and analysis, focusing on:
 - Scale of project, in terms of delivery cost and number of beneficiaries
 - Set up costs
 - Analysing qualitative data (i.e. independent evaluations) and stakeholder consultations

Ideally the stakeholder consultations would focus on these areas, solely focusing on the other DIB effect indicators (linked to delivery and impact) in the later research waves. However, if there is a risk of 'institutional memory loss' (i.e. with the historic comparator sites the risk that stakeholders involved will not be available in future research waves) then we will consult about all DIB effect indicators now.

Case study report

Following the visit, we will produce a case study report. This will focus on the DIB model and early successes and lessons learnt in developing a DIB. As we intend the report to be publicly available, the content will be signed off by those consulted. We expect the report to be between 3 – 5 pages.

Sequencing of research activities

It is important that the following activities are undertaken before the stakeholder consultations:

- **Data collection and analysis and document review:** This is in order to:
 - Ensure we have as much information on the DIBs as necessary, so the consultations can focus more on opinions/experiences and less on gathering information
 - Use the consultations to clarify/fill gaps in the information
- **Research with comparator sites:** This is to enable the process verification stage to take place during the stakeholder consultations (see 'Framework for Comparator Sites' for more information)

G.3 DIBs Evaluation: Wave 1 Research Tools: Topic Guide for All Stakeholders

G.4 Briefing for Researchers

G.4.1 DIB level research and DIB consultations

See 'Plan for DIB-Level Research'.

G.4.2 Purpose of consultations

The purpose of the consultations is to understand the following:

- Background information
- How the DIB came about
- DIB model
- DIB development
- Partnership working
- The 'DIB effect'

- Success, challenges and lessons learned
- Impact on wider perceptions of DIBs
- Next steps

Each consultation should last around one hour, though for the main points of contact this should be 90 minutes.

G.4.3 Using this topic guide

Each interview will need to be tailored in two ways:

Tailored to specific DIB: Each DIB has a different focus and so the specific questions of interest and relevance will vary. Before the visit it is important you familiarise yourself with the work from the inception phase. You should also tailor it based on information from:

- ▶ reviewing background documents and data gathered; and
- ▶ other consultations as part of the research wave visit (if taken place).

Tailored to specific stakeholder type: The guide will need further tailoring based on the stakeholder's specific role in the DIB.

You will need to have undertaken the analysis in the comparator site before undertaking these consultations. You will need to have the comparator site framework to hand when you undertake these consultations (see 'Framework for Comparator Sites').

Key questions are in red text – if you are short on time it is imperative these questions are asked.

G.4.4 Introduction to interviewees

Introduce evaluation:

This project is part-funded by the Department for International Development (DFID) in the UK. DFID has part-funded three DIBs (DIBs), to test their effectiveness in different contexts. These are:

- ICRC (International Committee of the Red Cross) Humanitarian Impact Bond for Physical Rehabilitation, which aims to help disabled people living in conflict-affected locations to regain mobility
- Village Enterprise Micro-Enterprise Poverty Graduation Impact Bond, which aims to support extremely poor households to start micro-enterprises that increase incomes and living standards
- British Asian Trust DIB, which aims to deliver better learning outcomes for primary school children in India.

DFID has commissioned Ecorys to independently evaluate the three DIBs. The evaluation is focusing on two core areas:

- Assess how the DIB model affects the design, delivery, performance and effectiveness of development interventions
- Explore 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

As a part of the evaluation we are undertaking interviews with key stakeholders involved in each of the three DIBs. We are consulting with stakeholders at three points:

- Now: To explore the set up of the DIB
- 2020: To explore how the DIB is progressing part way through
- 2022: To explore the overall impact of the DIB

For this interview we are interested in finding out about how the DIB mechanism has impacted on the set up, delivery and costs of the project.

Explain how information will be used

The information from the interview will be used to produce a series of outputs:

- **Case study report**, which will be published and in which the area will be named. You will have chance to review the report before it is published to check for accuracy
- **Programme-level report**, which will draw together findings from all three DFID-funded DIBs and compare these with findings from research into other impact bonds. Where possible comments will be anonymised, but in some cases people may be identifiable. We will also want to include facts and figures specific to each DIB (and name the DIB). If there is anything you want to remain confidential please raise this during the interview.
- **Learning output**, a short 'how to/top tips' guide focusing on top tips in designing DIB structures

Gain consent and answer questions

Gain explicit consent for us to take notes and explain they can request this data be deleted at any point. Write down in your notes that they have given explicit consent (important with introduction of GDPR)

Check whether they have any questions about their involvement in the research before interview begins

Background information

1. **Please provide some background information on you, your organisation and role in the DIB.**

Probe:

Prior experience in undertaking a similar role in a previous project

Prior experience in impact investing more broadly

Prior experience in relation to PbR (PbR) contracts and/or DIBs

How this DIB came about

2. **Could you please explain why the service was commissioned through a DIB?**

Probe:

Which organisation(s) had the original idea

What hoped to gain from using a DIB

Whether other commissioning processes were considered (and why they were not selected)

Why their organisation decided to become involved (in DIBs more broadly and this specific DIB)

3. Was there anything that made your organisation hesitant about becoming involved?

If so:

- ▶ What was this?
- ▶ Were these concerns overcome, and if so how?

DIB model

[Ask all stakeholders to gather general understanding from everyone on DIB model. Probe on specifics of model with Project managers / performance managers / intermediaries and advisors. Probe on specifics of intervention with service providers. Probe on specifics of investment with investors.]

4. Please explain the DIB model.

Probe:

Interventions funded (including beneficiaries to be supported, size of cohort, how will be identified)

PbR structure (which outcomes payments are attached to, level of outcome payments and whether cap on outcomes)

Legal and contractual structures and relationships (e.g. whether there is a SPV)

Measurement and verification process for outcomes

How service is being financed (use of social investment and grants, who from, when it is being repaid, expected returns, whether service provider/outcomes funder has capital at risk)

Whether specific terms and conditions in contract (e.g. minimum service requirements)

Have you made any changes to your organisation to accommodate the DIB? If so, what?

DIB development

5. How was the DIB developed?

Probe:

Who led the process?

Which organisations were involved? Who was responsible for what?

How long did the process take?

What options did you consider but reject and why (e.g. different interventions / outcomes / PbR structures)?

6. What was your experience of developing the DIB?

Probe:

What went well?

What were the challenges?

In hindsight, do you think the DIB model is the right one, and was it developed in the right way? If not, what would you prefer to be different?

In hindsight, do you think you could have developed the DIB more simply or with less cost? If so, how?

Do you think this DIB could be done at a larger scale? What would need to be different/kept the same?

7. We are producing a learning document: 'Top tips in designing DIB structures'. Based on your experiences you have just described, what are your top tips for others in designing DIBs?

Probe:

Outcome metrics

Verification

Pricing

Contracting

Involving stakeholders

Governance

Partnership working

8. How would you describe your working relationship with the other stakeholders within the DIB?

Probe:

Donors

Service provider(s)

Investors

Project managers

Outcome verification agents

Advisors / intermediaries / fiduciaries

Local government

Other stakeholders

DIB effect

9. What is the 'DIB effect'? I.e. what is different because the service is commissioned through a DIB, compared to a grant, fee-for-service contract or PbR?

10. I am going to read out some of the claimed advantages of DIBs during their set up. To what extent do you think these are correct in this DIB?

- a. Brings in more **finances** to the development sector (i.e. what is the source of the investment (particularly whether private financing), and where would this have been directed if it had not funded this project?)

If involves private capital:

- i. What is the mobilisation ratio? i.e. for every \$1 of ODA mobilised \$x in private financing
- b. Allows projects to take place at greater **scale**, because donor is only paying for success and so can take greater risks, and because in a PbR service providers would be unwilling to pay upfront for something particularly large because of the risk they would lose large amounts of capital. (i.e. is this taking place at a greater scale than would have happened under a different contract?)
- c. Provides **longer-term and more stable funding**, which enables organisations to invest more in the service (e.g. monitoring systems) and allows for longer term and more rigorous tracking of systems (i.e. is the funding over a longer term and more secure than other sources? How has this affected the way the project is set up and monitored?)
- d. More **innovative** services because of the risk transfer from government/outcomes funder partly to service provider but mainly to investor, who have higher appetite for risk (i.e. what is the level of innovation/risk in the project, in terms of whether it is a new type of intervention altogether; an established intervention that has been adapted; or an established intervention that has been applied to a new context, e.g. location, policy area?)
- e. More service providers entering the PbR market due to transfer of risk (i.e. could the service provider have bid for this project if it was a PbR contract?)

If service provider could have paid for it under PbR contract:

- i. Has the DIB financing allowed the service provider to invest in / fund other things?
- f. Leads to more **careful and rigorous design of programme interventions** because business case has to be robust in order to attract external investment
- g. Greater **collaboration and/or coordination** between stakeholders as there is an alignment of interests (i.e. has the DIB brought new partnerships together that would not have worked together otherwise? Either at the donor or delivery level?)

11. I am going to read out some of the claimed disadvantages of DIBs during their set up. To what extent do you think these are correct in this DIB?

- a. Complex to design. *If so:*
 - i. Which elements in particular
 - ii. Did this require external expertise (and if so what)
- b. Expensive and time consuming to set up and implement. *If so:*
 - i. How long did it take to design and launch the project?
 - ii. Which elements were more expensive / time consuming and why?
 - iii. How much more expensive / time consuming?

- iv. What was the opportunity cost from this? I.e. what did it detract from (e.g. working on / funding other projects)

Comparing the DIB and comparator sites

Show the consultee (or talk through with them) the framework from the comparator sites. For each DIB effect indicator ask:

12. To what extent do you think the DIB site and the comparator site are the same / different in this area? What might explain this difference?

Probe:

- To what extent do you think this is because of the DIB mechanism?

Lessons learnt

13. What lessons have you learnt in developing the DIB?

14. What would you do differently next time?

15. Would you consider becoming involved in future DIBs? Why/why not?

16. Has your involvement changed your perception of DIBs? If so, how?

17. [For investors only] How do DIBs compare to other impact investing opportunities? What advantages do they have? What disadvantages to they have?

Early progress in delivery

18. Is the service currently running? If so, how are things going?

Probe:

- What is going well?
- What are the challenges?
- To what extent is the DIB affecting delivery? In what way?

Close

19. Is there anything else you would like to say about your involvement in the DIB, that we have not already discussed?

Explain next steps for research:

Produce case study report that will be published. A copy will be sent to the interviewees to check for accuracy.

Two future rounds of interviews (2020 and 2022) to explore the development of the DIB. The next visit will focus on service delivery.

Thank and close.

G.5 DIBs Evaluation: Wave 1 Research Tools: Framework for Comparator Sites

G.5.1 Briefing for Researchers

DIB level research and DIB consultations

See 'Plan for DIB-Level Research'.

Purpose of comparator sites

One of the most challenging aspects of the evaluation will be to isolate the effect of the DIB on project performance and delivery – the 'DIB effect'. There are 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. Some stakeholders, particularly those incentivised to grow the impact bond market (such as investors who wish to invest in more DIBs), may be included 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 be 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.

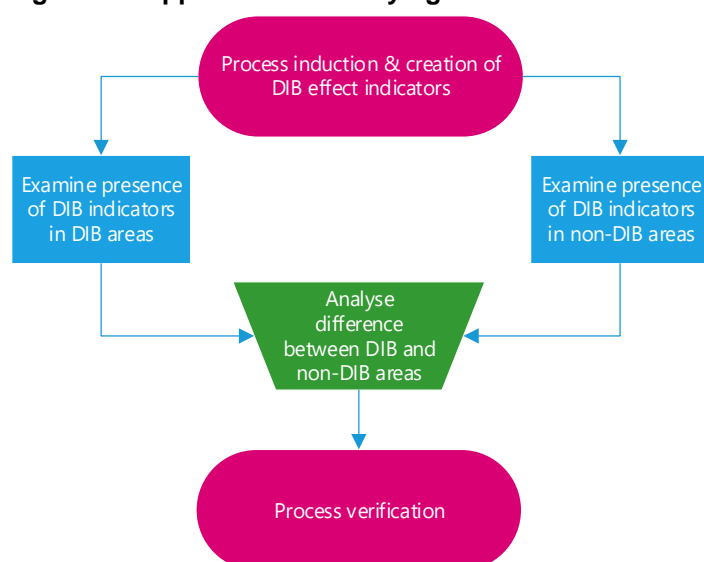
The evaluation will be adopting process tracing to identify the DIB effect. This involves estimating the counterfactual (what would have happened if the projects were delivered through alternative funding mechanisms) by identifying the differences between delivery of this project and other similar interventions, 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 will be used in this evaluation, is summarised in Figure 1 and detailed below.

- **Process induction and creation of 'DIB effect' indicators:** We have produced a set of indicators through which to measure the outcomes the DIB mechanism is expected to achieve (listed in **Table 1**).
- **Examine presence of indicators in DIB areas:** During WP2: DIB-level research, we are examining the extent to which the DIB effect indicators are present within the DIBs. We will use 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 are also asking 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 are also examining 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.

- **Examine presence of indicators in non-DIB areas:** During WP2: DIB-level research we will also identify whether the DIB effect indicators are present within similar interventions delivered through alternative funding mechanisms. This will be achieved through both primary research (for example, interviews with DIB stakeholders who have been involved in previous similar interventions) and secondary research (for example, evaluations and research of similar interventions).
- **Analyse difference between DIB and non-DIB areas:** This analysis will identify the elements that are specific to the DIBs that are not present, or are present to a lesser degree, when the interventions are delivered through alternative funding mechanisms.
- **Process verification:** The evaluation cannot assume that any differences between the DIB and non-DIB areas can be attributed to the DIB mechanism; it will be necessary to undertake further research to establish causal inference. During WP2: DIB-level research, we will use process verification to assess the extent to which the DIB mechanism contributed to the DIB effect indicators, relative to the other possible explanations identified during the process induction exercise. This will involve 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 through interviews and workshops.

Figure 15: Approach to identifying DIB effect



G.5.2 DIB effect indicators

In Table 1 are all of the DIB effect indicators. The indicators highlighted in red are the focus of Research Wave 1 (i.e. those related to set up).

Table 38: DIB effect indicators

Claimed DIB effect	Indicator to measure presence of 'DIB effect' in DIBs and comparator sites
Claimed advantages	
<p>Crowd-in private, additional, upfront, long-term, stable and secured funding, which:</p> <ul style="list-style-type: none"> • Brings in more finances to the development sector • Allows projects to take place at greater scale • Enables risk transfer from outcomes payer and service provider to investor 	<p>Scale and source of funding (including whether private financing), and where this funding would have been directed if it had not funded this project</p> <p>Duration and 'security' of funding</p> <p>Mobilization ratio: for every \$1 of ODA mobilized \$x in private financing</p> <p>Extent that supplier pre-financing was required for PbR contract</p> <p>Opportunity cost of using own funds – i.e. has DIB financing allowed the organization to invest in other things</p>
<p>Shift focus to outcomes</p> <p>More innovative services (or larger-scale innovative services) because:</p> <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 	<p><i>Set up</i></p> <p>Perceptions on rigour of design stage</p> <p>Level of 'innovation' / risk in project delivery, in terms of:</p> <ul style="list-style-type: none"> • new type of intervention altogether; • an established intervention that has been adapted; or • an established intervention that has been applied to a new context, e.g. location, policy area, target population <p>Scale of project, in terms of delivery cost and number of beneficiaries</p> <p>Extent and quality of external expertise</p>
<p>Drives performance management</p> <p>Greater accountability, as impact bond builds leads to culture of monitoring and evaluation</p> <p>More careful and rigorous design of programme interventions</p>	<p><i>Delivery</i></p> <p>Extent to which delivery decisions are made to maximise outcomes</p> <p>Extent to which service provider feels more incentivized to offer user-specific supports (the human touch element)</p> <p>Level of flexibility found within the project to alter project delivery</p> <p>Extent to which service provider feels it can take risks and innovate</p> <p>Extent to which service provider feels it has autonomy over delivery</p> <p>Level of responsiveness and agility of partners to deal with bottlenecks, issues and challenges</p> <p>Extent and quality of external expertise</p> <p><i>Monitoring</i></p> <p>Strength of monitoring and evaluation systems developed, including verification of outcomes and duration of outcomes tracking</p> <p>Transparency of outcomes – i.e. levels of reporting internally and externally</p> <p>Strength of performance management and measurement systems</p> <p>Use of real time performance information to inform ongoing delivery</p> <p><i>Sustained impact</i></p> <p>Extent to which systems and practices implemented as part of project are embedded across the wider organisation and/or sustained once the DIB ends</p>

All of the above factors leading to more beneficiaries supported, and more outcomes achieved, ultimately leading to more effective and efficient services	Number of beneficiaries supported per GBP / FTE Number of outcomes achieved per GBP / FTE
More service providers entering the PbR market due to transfer of risk	Number and type of providers participating in PbR contracts, and their historic experience with PBR contracts
Greater collaboration and/or coordination between stakeholders as there is an alignment of interests	Strength of relationship of partners involved and levels of collaboration and/or coordination
Claimed disadvantages	
Complex to design	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	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	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	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	Range and level of secondary outcomes achieved

G.6 Implementing the process tracing

To implement the process tracing approach, you need to follow these steps. They need to be done in this order (i.e. examine the presence of the DIB effect indicators in the non-DIB areas before undertaking the DIB stakeholder consultations).

G.6.1 Examine presence of indicators in non-DIB areas:

To identify the DIB effect indicators in comparator sites you will need to undertake two main activities:

- **Primary research:** Consultations with stakeholders involved in comparator sites
- **Secondary research:** Accessing information on the sites from data held by organisations and independent evaluations

Which source will provide which piece of information depends on the nature of the comparator site and the sources of information available. The framework below provides a structure for you to identify the presence of the DIB effect indicators in the comparator sites.

G.6.2 Examine presence of indicators in DIB areas:

This can be done by asking questions in the 'DIB effect' section in 'Topic Guide for All Stakeholders'.

G.6.3 Analyse difference between DIB and non-DIB areas

This can be done by having the framework below with you when undertaking the DIB consultations. Discuss with the stakeholders the extent to which the DIB and non-DIB areas compare in relation to the DIB effect indicators.

G.6.4 Process verification

Explore with the stakeholders the difference between the DIB and non-DIB areas, and what factors might be responsible for the difference (including the DIB effect). This can be achieved by asking questions in the 'Comparing the DIB and comparator sites' section in 'Topic Guide for All Stakeholders'.

G.7 Comparator site framework

Claimed DIB effect	Indicator to measure presence of 'DIB effect' in DIBs and comparator sites	Identification of DIB effect indicators in comparator sites across different research methods	
		Primary research	Secondary research
Claimed advantages			
Crowd-in private, additional, upfront, long-term, stable and secured funding , which: <ul style="list-style-type: none">• Brings in more finances to the development sector• Allows projects to take place at greater scale• Enables risk transfer from outcomes payer and service provider to investor	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		
More innovative services (or larger-scale innovative services) because: <ul style="list-style-type: none">• Risk transfer from government/outcomes funder partly to service provider but mainly to investor, who have higher appetite for risk	Level of 'innovation' / risk in project delivery, in terms of: <ul style="list-style-type: none">• new type of intervention altogether;• an established intervention that has been adapted; or		

	<ul style="list-style-type: none"> an established intervention that has been applied to a new context, e.g. location, policy area, target population <p>Scale of project, in terms of delivery cost and number of beneficiaries</p>		
More careful and rigorous design of programme interventions	<p>Perceptions on rigour of design stage</p> <p>Extent and quality of external expertise in programme design</p>		
More service providers entering the PbR market due to transfer of risk	<p>Number and type of providers participating in PbR contracts, and their historic experience with PBR contracts</p>		
Greater collaboration and/or coordination between stakeholders as there is an alignment of interests	<p>Strength of relationship of partners involved and levels of collaboration and/or coordination</p>		
Claimed disadvantages			
Complex to design	<p>Extent to which stakeholders believe the design to be complex</p> <p>Demands of project design in terms of time and need for external expertise</p> <p>Length of time it took to design and launch the project</p>		
Expensive to set up and implement	<p>Set up costs</p> <p>Cost per outcome / beneficiary</p> <p>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)</p>		

Annex H: Potential Comparison and Benchmark Programmes for Cost Analysis

The table below sets out potential impact bonds which can be used to benchmark against the impact bond costs of the three DIBs. A number of DIBs are still under development, and it is not yet clear when these will be launched. This list will have to be reviewed on an ongoing basis over the course of the evaluation.

Table 39: Benchmark DIBs and SIBs

DIBs	SIBs in Developing Countries
Implementation Stage	
Peru Sustainable Cocoa and Coffee Production DIB	Colombia Workforce Development SIB
India Educate Girls DIB	
Cameroon Cataract DIB	
India (Rajasthan) Maternal and Newborn Health DIB	
Under Development	
Cameroon Kangaroo Mother Care DIB	Brazil Secondary Education SIB
Palestine Type II Diabetes DIB	Mexico the Future in my Hands SIB
Palestine (West Bank and Gaza) Employment DIB	South Africa ECD Impact Bond Innovation Fund – Social Development
Peru Climate-Smart Agriculture DIB	South Africa ECD Impact Bond Innovation Fund – Social Health
Ethiopia Newcastle Disease Prevention DIB	South Africa HIV Prevention and Treatment SIB
Syrian Refugee Employment DIB	South Africa Workforce Development SIB
Papua New Guinea Gender-Based Violence DIB	Argentina Youth Employment SIB
Uganda Empowering Women and Youth in the Coffee Value Chain DIB	Brazil Chronic Illness SIB
Fecal Sludge Management DIB	Tajikistan WASH SIB

Source: Gustafsson-Wright et al 2017

In addition to comparing costs with the proposed comparison projects, see section 6.2.5, which are all grant funded, we also propose comparing the pilot DIBs with PbR programmes, in order to compare the cost effectiveness of grant, PbR and impact bond funding mechanisms.

The main criteria to ensure comparisons are valid were determined to be:

- PbR programmes delivered by a service provider;
- PbR programmes delivered within the same sector and working toward similar outcomes
- PbR programmes delivered in the same location/region/context (for example humanitarian contexts for the ICRC HIB)

Where these do not exist within DFID's portfolio for the three DIBs funded through the DFID DIBs pilot, we propose speaking to both a PbR programme working in the same sector/towards the same outcomes, as well as PbR programmes working in the same location/region, in order to understand the effects of these factors on the operation of the PbR programme.

We set out some initial ideas below of DFID funded programmes working in similar sectors.

Table 40: Comparator PbR programmes

DIB	Potential comparators
ICRC	TBD
VE	The Employment Fund in Nepal
BAT	Girls Education Challenge

The feasibility of using these programmes to serve as comparison will be assessed as part of Research Wave 1.

Annex I: Detailed Evaluation Work Plan

Table 41 sets out the detailed evaluation workplan. Additionally, to support the evaluation planning, we have reviewed the alignment between the evaluation waves and the DIB timelines. We set this out in Table 42 (ICRC), Table 43 (Village Enterprise) and Table 44 (BAT).

Table 41: Detailed Evaluation Workplan

	Year 1											Year 2												
	2018/19											2019/20												
	Q1		Q2		Q3			Q4				Q1			Q2			Q3			Q4			
	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	F	M		
WP2: DIB-level research																								
Data analysis																								
Document review																								
DIB consultations & field visits																								
Comparator sites																								
Cost analysis																								
WP3: Programme-level research																								
DFID consultations																								
Programme document review																								
Literature review																								
Learning workshops																								
WP4: Analysis, reporting & dissemination																								
Analysis																								
Evaluation reports																								
Learning reports																								
Agree learning themes for proceeding wave																								
Annual briefings																								
Webinars																								
Project management & QA																								
Client meetings																								
Establish project management framework																								
Establish Evaluation Steering Group																								
Finalise financial management arrangements																								
Agree measurements of quality of implementation																								
In-house & external QA of reports																								
Formal updating of risk register, & flagging of any significant risks to DFID																								
Formal updating of work plan																								
Regular internal monitoring of expenditure against budget & KPI indicators																								

[illegible]

	Year 3				Year 4				Year 5			
	2020/21				2021/22				2022/23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
WP2: DIB-level research												
Data analysis												
Document review												
DIB consultations & field visits												
Comparator sites												
Cost analysis												
WP3: Programme-level research												
DFID consultations												
Programme document review												
Literature review												
Learning workshops												
WP4: Analysis, reporting & dissemination												
Analysis												
Evaluation reports												
Learning reports												
<i>Agree learning themes for proceeding wave</i>												
Annual briefings												
Webinars												
Project management & QA												
Client meetings												
Establish project management framework												
Establish Evaluation Steering Group												
Finalise financial management arrangements												
Agree measurements of quality of implementation												
In-house & external QA of reports												
Formal updating of risk register, & flagging of any significant risks to DFID												
Formal updating of work plan												
Regular internal monitoring of expenditure against budget & KPI indicators												
Reporting against KPIs												
Detailed financial reports to accompany invoices												
	Research Wave 2: Delivery				KiT					Research Wave 3: Sustainability		

Table 42: ICRC Evaluation planning

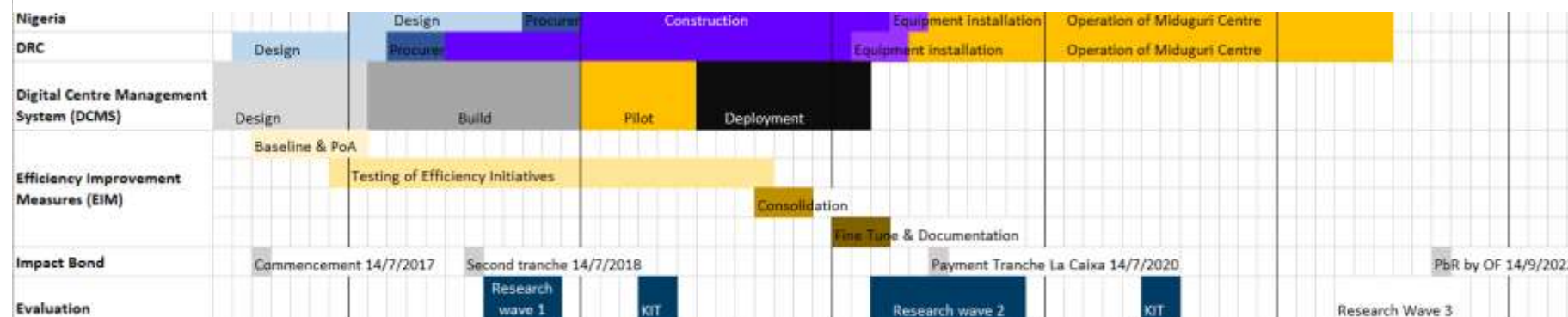


Table 43: Village Enterprise Evaluation Planning

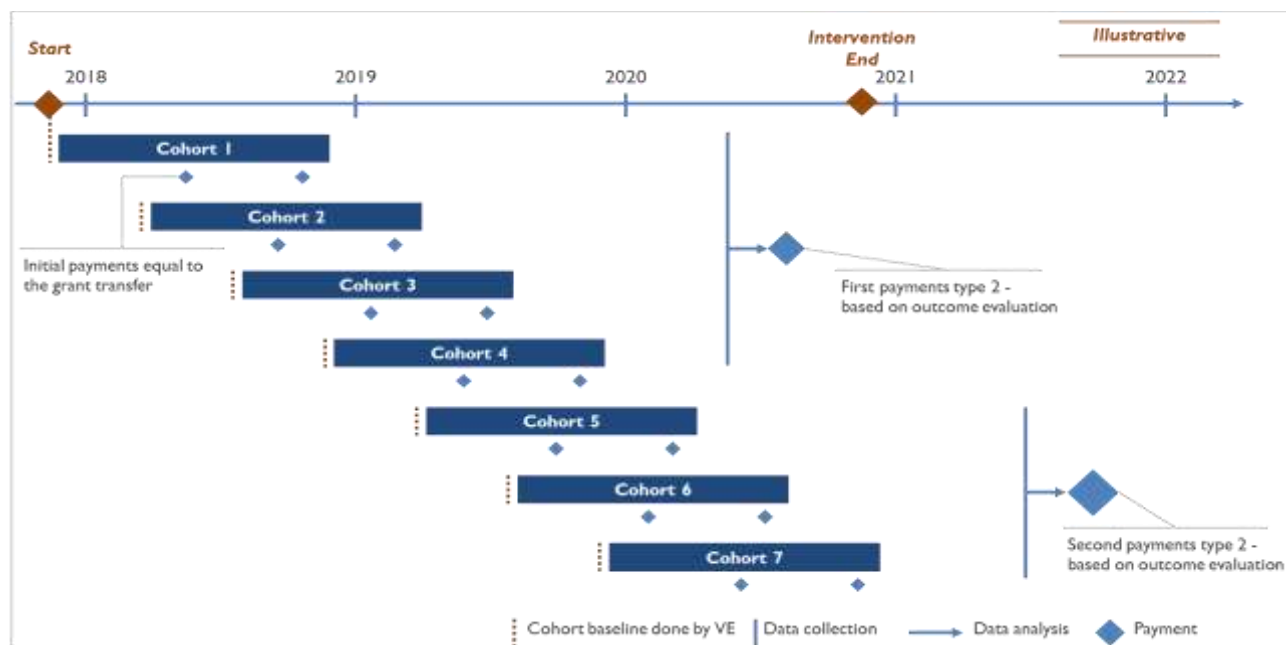


Table 44: BAT Quality Education India DIB evaluation planning

BAT (India Education DIB) timeline	2018					2019					2020					2021					2022																																							
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D																								
DFID Technical Assistance Outputs																																																												
Output 1: DIB evaluation and performance management tools designed and implemented	Intensive design and development phase					ongoing implementation and monitoring phase																																																						
Output 2: Creation and dissemination of evidence based learning and knowledge on the effectiveness of	partnership and learning programme development					Intensive learning phase										Learning dissemination phase																																												
Output 3: Tools developed to enable replication and scaling of DIBs across the South Asia region						development of supporting tools and frameworks					Intensive engagement phase for replication																																																	
BAT report to DFID																																																												
Quarterly progress reports			X			X			X			X			X			X			X			X			X			X			X			X			X																					
Quarterly financial reports and payment requests			X			X			X			X			X			X			X			X			X			X			X			X			X																					
Quarterly expenditure forecasts			X			X			X			X			X			X			X			X			X			X			X			X			X																					
Annual progress review				X	X																																																							
India Education DIB																																																												
Design of Education DIB India	from Aug 2017: outcome measurements piloted in June/July and baseline done in July or September																																																											
Implementation of Education DIB in India						every 6 months the NGOs will provide MI to the Outcome Evaluator on behalf of UBS																																																						
Outcome measurements and payments																																																												
BAT Learning activities	NB: timing of learning activities and outputs are estimated and will confirmed later																																																											
Research report BAT education DIB																																																												
Selection process of areas of feasibility study																																																												
Feasibility reports for South Asia																																																												
Proof of Concept Report for South Asia																																																												
Ecorys evaluation																																																												
Inception phase: Making contact with the DIB programmes and other key stakeholders, and developing an understanding of the programmes																																																												
Wave 1: Process of designing and launching the DFID DIB pilot projects																																																												
Wave 2: Emerging lessons from the DFID DIBs pilot projects, and evidence generated by other DIBs.																																																												
Wave 3: Legacy of the DIBs and the programme, including the extent to which outcomes and DIBs were sustained.																																																												
Kit																																																												

Annex J: Evaluation Budget

TOTAL VALUE: £293,552.90

Annex K: Team Composition

We have assembled a highly complementary team of experts – both local and international – that contains all of the necessary sectoral and methodological expertise required for the assignment. We first present the quality of the selected team to demonstrate that it is able fulfil the evaluation objectives, with significant experience evaluating international development projects, knowledge of SIBs and DIBs, skills in assessing the costs of projects, and relevant thematic expertise.

Annex L: Key Performance Indicators

The next two tables set out the Key Performance Indicators, and a proposed survey to be completed by DFID and the Stakeholder Group, which will feed into a number of indicators.

We propose that we report against the KPIs after each payment milestone (e.g. Inception Report and Evaluation Reports in 2018, 2020 and 2023).

Table 45: KPIs

Description	Target Indicator	Source of data
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.	1. Submission of reports 2. DFID and stakeholder group survey 3. EQUALS score
Supplier demonstrates how evaluation approach and activities chosen represent value for money across life of contract.	Qualitative reporting by Evaluator	Ecorys to Report
Including proactive identification of efficiencies and savings – e.g. where opportunities arise that enable evaluator to leverage learning synergies and remove duplicative activities.	Value of savings generated.	Ecorys to Report
Evaluator manages risks proactively, letting DFID know if risks are emerging that could push the evaluation off track.	100% of outputs answer all evaluation questions, or have sought agreement from DFID to amend or remove a question well in advance.	Covered by Target indicator 1
If some questions are difficult to answer, informing DFID well in advance.		
Maintains a transparent and open relationship with DFID.		
Robust cost control in line with contract.	Costs remain within budget	Expenditure charged
Accurate and timely submission of forecasting and invoices.	Forecasts are submitted on time, with ≤5% variance with actual expenditure.	Forecasts
High quality team of personnel with relevant skills is maintained across life of evaluation. Knowledge is maintained across staff changes.	Performance of team.	DFID and stakeholder group survey
	Personnel with appropriate level of expertise are available across life of requirement.	DFID and stakeholder group survey
Transparent, honest and collaborative relationship with the Service Providers and learning providers in DFID DIBs – with advance warning provided to	Fewer than 4 complaints from service providers/ DIB stakeholders over (a) unexplained duplication of activities already complete by learning providers,	# of complaints lodged with DFID

Description	Target Indicator	Source of data
stakeholders of need to engage with evaluator	(b) excessively onerous engagement of stakeholders by evaluator.	
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.	DFID and stakeholder group survey

Table 46: DFID and Stakeholder Group Survey and Ratings

Key Performance Criteria	Sub Criteria	Rating (Strength, Weakness or No Indication)	Comment
	How do you rate performance against:	1 to 6 (see criteria below)	
Quality & Delivery	Outputs address all agreed evaluation questions		
	Quality of consideration given to wider evidence		
Personnel	Performance of team leader		
	Performance of other team personnel		

Rating	Definition
6	Responsibilities delivered with a high level of efficiency and effectiveness. Supplier proactive in taking steps to achieve outcomes according to contracted responsibilities
5	Responsibilities delivered efficiently and effectively
4	Minor effort required to improve delivery of one or more contracted responsibilities
3	Effort needed to deliver contracted responsibilities
2	Major effort needed to deliver responsibilities. Significant effort required from DFID where provider is not delivering
1	Serious under performance. Not meeting most contract deliverables

Annex M: Learning Note

The learning note sets out relevant findings from a number of social impact bond (SIB) evaluations in the UK and the initial, emerging findings from the consultations¹ undertaken as part of the DIBS pilot programme evaluation inception phase.

The note focuses primarily on two SIB evaluations in the UK:

- **Commissioning Better Outcomes (CBO) Fund:** Funded by the Big Lottery Fund, this Fund aims to support the growth of SIBs in England by providing an element of the outcomes payments. It operates for nine years (2013 – 2022) and aims to co-fund up to 35 SIBs. Ecorys is leading on the evaluation. The majority of the evaluation activity focuses on tracking 10 of the SIBs over their lifetime.²
- **Youth Engagement Fund:** This is a £16m SIB programme, funding four projects in England aimed at preventing young people from becoming NEET (Not in Education, Employment or Training). The programme is running from April 2015 to September 2018. Ecorys is leading on the evaluation.

The main learning in this note stems from these two programmes. However, the CBO Fund includes a literature review, with the aim that the evaluation incorporates the findings from other independent evaluations. The evaluation findings, and thus this learning note, therefore draw upon other SIB evaluations, including:

- Evaluation of the Peterborough One Service SIB
- Evaluation of the London Homelessness Bond
- Evaluation of the Fair Chance Fund
- Evaluation of the DWP Innovation Fund
- Evaluation of the Essex Multi Systemic Therapy Social Impact Bond
- Evaluation of the Health and Social Care SIB Trailblazers
- Evaluation of Birmingham City Council's Step Down Programme

The note therefore draws on the findings from evaluations of 27 SIBs. However, it should be noted that not all of these evaluations had completed and therefore they were interim findings. Additionally, not all SIBs in England have received independent (and publicly available) evaluations, and therefore whilst the note draws on a wide range of SIBs, it does not provide a full assessment.

We have split this note into three sections:

- **Section 1** provides the headline learnings from the DFID DIBs.
- **Section 2** explores how the DIB model affects the design, delivery, performance and effectiveness of development interventions, using the claims set out in the 2015 Brookings

¹ Information on ICRC and VE are drawn from consultations held with ICRC, VE and Instiglio respectively. Information on BAT is drawn from review of Proposal to DID for Technical Assistance towards the DIB (BAT). No consultations have been held with BAT yet, and hence we report on findings relating to BAT only in section 2.

² For further information see: <https://www.biglotteryfund.org.uk/research/social-investment/publications>

paper on impact bonds, DFID's learning note¹ and a literature review on PbR Contracts² as a framework to set out our findings and areas for further inquiry during the evaluation.

- **Section 3** considers what is known and hypothesised about how a DIB mechanism affects service delivery compared with other funding mechanisms in terms of efficiency and results.

Section 1: Headline learnings from the DFID pilot DIBs programme

As part of our inception phase, we have consulted ICRC, VE and Instiglio. As we have not yet consulted BAT, we have not included any learnings from the Quality Education India DIB. As VE DIB and ICRC HIB have only recently launched, the key learnings shared with us from ICRC and VE largely focused on the set-up phase. Our analysis is limited by the fact that we have not yet consulted with the other outcome funders, investors and the other stakeholders involved.

Set-up of the DIB

- Impact bonds are expensive when compared to other types of funding. Some stakeholders believe that their high transaction costs mean that using impact bonds on an ad hoc basis is not sustainable.
- It is a complex process to design and negotiate DIBs. Particularly difficult is agreeing on the outcomes payments and outcome measures that work well when linked to payments but also works as a measurement of the success of the programme, and that is understood by the different actors. Additionally, for certain actors such as ICRC, which has diplomatic immunity, arranging a legal framework that is binding is challenging.
- The outcome measures used by the 2 DIBs are very different, in terms of complexity and associated costs. VE is using a RCT to establish outcomes and noted that verification has been very resource intensive and that it has struggled with funding reliable and yet scalable (and more cost effective) approaches. On the other hand, ICRC's outcome measure is the staff efficiency ratio, which is based on data already collected under the existing M&E systems. Verification to documentation and visits to a sample of beneficiaries is planned.
- The design of the ICRC HIB required consideration of which centre locations were suitable for the HIB. Certain factors such as political uncertainty and high costs, linked to the humanitarian situation, meant certain locations which had great unmet need were nonetheless unsuitable for the HIB. The appropriateness of the impact bond for humanitarian contexts remains to be seen.
- These findings strongly corroborate with other evidence, including our own, around the duration and complexity of setting up impact bonds. Commissioners, service providers and investors we have consulted in the UK assert that the costs of development are in general falling, although we do not yet have evidence from implemented SIBs to support this. Some of the investors interviewed for our investor survey have said that their costs were falling due to replication, for example because local SIBs were using rate cards for outcome payments that had been previously developed by central government. The costs

¹ DFID Pack 2: Learning from Impact Bonds in use by DFID and others.

² Chinfatt, S. and Carson, M. 2017. Supplier Access to Prefinance in Payment by Results Contracts. Dalberg Intelligence.

were also said to be falling when SIBs were in the same or similar policy areas as previous contracts, although these benefits accrue only to the relatively few developers with previous experience in similar areas on which to draw. Additionally, one commissioner responding to our commissioner survey reported that they required less external support when they developed their second SIB because of the internal skills they had learned from being involved in the first one. What is not yet clear is whether the expectation that SIBs can be developed more cheaply will turn out to be true in practice. It is worth noting that stakeholders interviewed in 2014 also felt that SIB development costs would reduce, and to-date there is no evidence to suggest they have.

- It would appear that central outcomes funds have simplified SIB development, as the work to develop the SIB payment structure is only done once and can then be applied in multiple areas. Some commissioners we interviewed reported that they liked the simplicity of central outcomes funds with set rate cards – the commissioner can then decide whether they like the proposition or not, and it is much simpler and cheaper than developing a SIB locally and ‘reinventing the wheel’. Furthermore, we have seen cases where the cost of developing a local SIB has been less because it has replicated rate cards developed in central outcomes funds. One criticism of such funds made by commissioners and service providers, is that these are not local solutions to local problems, and (especially when procurement is undertaken at a national level), can lead to interventions being launched that do not perfectly fit into the local area and can displace local support. Later central outcomes funds have adopted a ‘blended’ approach of a central framework (and central government funding), blended with local commissioner funding and an ability to adapt the central model to the local context. This approach is regarded favourably.
- An alternative outcomes fund model adopted in the UK is a ‘top up fund’ that pays for some (typically 20%) of the outcomes payments for locally developed SIBs. This is the structure of the Commissioning Better Outcomes Fund and Life Chances Fund. Our evaluation of the CBO Fund has found that, three years in, the Fund has played a significant role in growing the market of locally-developed SIBs. In its first three years 11 local SIBs were launched that were part-funded by CBO – at the same time no locally commissioned SIBs were commissioned outside of this programme or from support with central government. There is good evidence from our surveys of commissioners that these SIBs would either have not launched, or would not be of the same scale/structure, without the CBO Fund. Furthermore, the Fund also led to a more diverse set of SIBs. Our evidence suggests there are three reasons why the CBO Fund increased the scale and diversity of SIBs:
 - Development Grant funding enabled SIBs to be developed that would not have been otherwise
 - Top-up funding encouraged commissioners to commit to the SIB who would not have done otherwise
 - Big Lottery Fund branding added credibility to the SIB.

Delivery of the DIB

- The DIBs are being managed in quite different ways, linked to the purpose and expected effects of the impact bond. ICRC informed us that they see the HIB as a source of new funding, and are largely delivering it under existing protocols and systems. VE have

informed us that they have used the space/autonomy provided by the impact bond to deliver its programmes more flexibly and adaptively, with a focus on delivering against the predetermined outcomes. This has also involved an updated M&E system. The contrast may be due to the fact that ICRC operates under a great deal of autonomy in its day to day operations, as its funding is largely not earmarked.

- The DIBs are conscious of the potential perverse incentives and adverse outcomes arising from the focus on results. They have sought to mitigate this by introducing measures such as staff training and ‘shielding’ of staff from the performance measures. For example, ICRC will be operating the new centres funded by the HIB under its normal protocols and guidelines.
- A DIB requires as much ‘real time’ information as possible in order to gauge progress. This means providers need good management information systems in place.
- Implementing the DIB has provided valuable learnings in terms of working with new donors in a new environment, and adapting internal accounting and budgeting systems to fit the impact bond and the 5 year timeframes.

Areas to explore during Research Wave 1

Research Wave 1 will focus on the set up process. As part of the research, we intend to collect additional learnings on:

- Experiences with creating a Trust (VE DIB) and engaging a mainstream investor (ICRC HIB);
- Dealing with legal/procurement challenges;
- DIB set up from outcome funder/investor perspective; and
- Metric design, pricing of outcomes, contractual design and legal structures.

Section 2: Findings against the claimed benefits and limitations of Impact Bonds

We set out the claimed benefits and assessments from the Brookings 2015 paper¹ and limitations from the DIB Learning Note and PbR Literature Review, then a summary of the findings to date from our evaluations of SIBs in the UK, and finally our initial findings from our consultations with the pilot DIBs.

Claimed Benefits	Brookings (2015)	SIBs CBO evaluation and update reports	DIBs pilot emerging findings
Crowd-in private funding and align financial and	Yes, but not necessarily additional capital	Our evaluations in the UK mirror the findings in the Brookings report.	This seems to be the case, but unsure whether it is additional capital. For some of the NGOs the DIB enabled them to access greater sources of

¹ Gustafsson-Wright, E., Gardiner, S., Putcha, V. (2015) The Potential and Limitations of Impact Bonds: Lessons from the First Five Years of Experience Worldwide. Brookings Global Economy and Development Program. We have excluded the prevention claim, as this does not seem relevant for DIBs.

Claimed Benefits	Brookings (2015)	SIBs CBO evaluation and update reports	DIBs pilot emerging findings
social returns for investors			funding than they have been able to before – for example VE received significantly more funding from pre-existing donors than they have for their other projects. We currently do not know whether this is additional capital for the development sector, but it is certainly additional capital for that organisation. Something to follow up during the course of the evaluation will be the extent to which the additional capital is a result of the impact bond offer.
Reduce risk for government / outcome funder	Yes, but not all risks are mitigated	Commissioners reported that they found this attractive because it guaranteed they only paid for success, something important in the current political climate – if the intervention did not achieve its expected outcomes the commissioners had not wasted resources on an unsuccessful intervention. However, recent work is beginning to suggest this is more complex than first envisaged. As the Brookings report alludes, not all risks are mitigated, as reputational risk still sits with the provider and the risk of adversely affecting beneficiaries still sits with both the commissioners and service provider. We have seen examples where the risk of ending the service is so high that the commissioner is willing to shift outcome payments to ensure the SIB works –	For the outcome funders, it is not yet clear whether the DIB does reduce their risks. The risk levels of the projects, and the share of risk taken on by the service provider and investors will be further investigated during the evaluation. Early indication is that certain risks <i>have</i> been transferred. For example, ICRC has stated that the risk level, or targets set are appropriately ambitious, and commensurate with the level of return for investors. If this is the case, a certain level of risk will have been effectively transferred to investors. DFID also notes that there are new risks associated with gaming, investors and measurement. We have discussed with the service

Claimed Benefits	Brookings (2015)	SIBs CBO evaluation and update reports	DIBs pilot emerging findings
		essentially it can create services 'too important to fail', and so there is minimal risk transfer.	providers the potential adverse effects from the focus on outcomes, and emerging findings and areas for exploration are set out in the limitation table below.
Shift focus to outcomes	Yes	Investors, service providers and commissioners reported that SIBs embed an outcomes-focused culture in service providers. This has been one of the strongest and most consistent findings across all our SIB evaluations. Most stakeholders are of the view that the SIB, and the shift to outcomes, increased both the number of beneficiaries the project supported and the outcomes achieved. However, this is specifically the outcomes that payments are tied to, and some are of the view that this has come at the expense of other, secondary outcomes. Ensuring your payment mechanism focuses on the outcomes you are trying to achieve is therefore of paramount importance.	<p>Broadly, this seems to be the case for the DIBs. The DIB model is requiring a focus on measurement of outcomes. We were informed that changes have been implemented to improve the evidence and evaluation of outcomes, and that service providers value the opportunity the impact bond provides for delivering programmes more flexibly.</p> <p>On the other hand, we understand that ICRC's outcome measure will be based on data already collected for the centres, and ICRC will be operating its programme under its normal protocols and guidelines. ICRC informed us that they do not expect significant changes in the running of the programme as a result of the impact bond.</p> <p>The extent to which the service providers' focus on outcomes is a shift from the previous non-DIB funded programmes, and the extent to which this is a result of the impact bond will be explored as part of the evaluation. The evaluation will also explore the fit between the outcome measure and the</p>

Claimed Benefits	Brookings (2015)	SIBs CBO evaluation and update reports	DIBs pilot emerging findings
			underlying objectives of the programme.
Drive Performance Management	Yes, though it is not clear that much course adjustment is occurring.	This has also been a consistent finding, in both our evaluations and others. The Health Trailblazers review ¹ noted the benefits of SIBs instilling ‘market discipline’ in the VCSE ² sector, covering elements of both better business planning and improved contact management. The DWP Innovation Fund evaluation also highlighted that, “The funding model appeared to have created a high intensity of focus on performance across nearly all projects and PbR was widely seen as having incentivised better performance.” ³ However, an independent review of four SIBs by Daniel Edmiston and Alex Nicholls argued that, on current evidence, a SIB model was no more effective than other forms of outcome based commissioning and PbR.	<p>We were informed that the DIB is an opportunity to improve systems and capacity for better performance management for VE and BAT. ICRC noted that the Staff Efficiency Ratio will be used across all its centres (though based on information they are already collecting) and that the piloting of the efficiency measures and IT system will improve performance management.</p> <p>As part of the evaluation, we will explore this in further detail, to understand what improvements are being made and how they are being done, the extent to which this is at the programme or organisation level, and the extent to which this is covered by costs under the impact bond, and if not, who is paying for this additional cost.</p> <p>We note that the outcome measure verification planned by ICRC, VE and BAT vary, (M&E data verification vs. RCTs respectively) and we will explore whether this also has</p>

¹ Tan et al, 2015. *An evaluation of Social Impact Bonds in Health and Social Care*. Policy Innovation Research Unit (PIRU), London. See:

<http://www.piru.ac.uk/assets/files/Trailblazer%20SIBs%20interim%20report%20March%202015,%20for%20publication%20on%20PIRU%20siteapril%20amendedpdf11may.pdf>

² Voluntary, community and social enterprise (VCSE) organisations and social investors

³ DWP, 2016. *Qualitative evaluation of the DWP Innovation Fund: Final Report*. DWP, London. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535032/rr922-qualitative-evaluation-of-the-dwp-innovation-fund-final-report.pdf

Claimed Benefits	Brookings (2015)	SIBs CBO evaluation and update reports	DIBs pilot emerging findings
			any effects on incentives of the service provider, and any effects on performance management.
Build a culture of monitoring and evaluation	Too soon to say, but there is some movement.	We agree with the Brookings report that it is too early to say. What is true is that stakeholders (commissioners and investors) have valued the outcomes focus of the intervention, but we have not yet found evidence of this being embedded more widely within organisations.	<p>ICRC does not foresee any significant changes to its M&E systems. VE have used the DIB as an opportunity to improve its M&E systems. It is unclear the extent to which the BAT funded NGOS' M&E systems have been designed specifically for the DIB.</p> <p>However, we can review this over the course of the evaluation, and identify if there are any 'spillover' effects to other programmes run by these organisations.</p>
Achieve scale	In absolute terms, no. In relative terms, somewhat.	There are numerous examples within the UK of where SIBs have enabled pilots to take place at scale – that commissioners would not have been comfortable funding innovative pilot projects at the scale that they are, but the 'de-risking' of the service through the SIB enables this to happen. This is true in both the Ways to Wellness and HCT SIBs.	This seems to be the case for BAT, which is scaling up existing operations. ICRC are using the DIB to access earmarked funds to test efficiency measures, which are then intended to be scaled up (including at the 3 centres funded by the HIB). While VE noted that they have been able to access more funding using the DIB, they noted that this was somewhat offset by the increased transaction costs. However, the expectation is that the programme will become more cost-effective as a result of being funded through the impact bond, and VE will be able to achieve scale going forward.

Claimed Benefits	Brookings (2015)	SIBs CBO evaluation and update reports	DIBs pilot emerging findings
Foster innovation in delivery	Mostly no, but to some extent yes.	Innovation in service delivery is often cited as one of the key benefits of SIBs, encouraged by the outcomes-based payment framework and relative freedom providers are given to devise their own solutions. There is, however, some evidence that the interventions commissioned via SIBs are not always as innovative as might be perceived or expected. We have found, as have others researching SIBs, that some interventions are relatively conventional in approach and/or are similar to other programmes which are not SIB funded. Usually the innovation is place-based – i.e. it is a new service that has not been delivered in that area, but it is not truly unique and innovative and has often been delivered elsewhere.	In terms of the intervention design, the DIBs are not particularly innovative. All three interventions have been delivered previously with quite a strong evidence base (VE has run a RCT, 3 out of the 4 NGOs in the BAT DIB have commissioned evaluations of their programmes). One element of the ICRC HIB does involve the piloting of efficiency measures and IT system. While the design of the VE DIB is not fundamentally different to the original delivery models, VE shared that they thought innovation has come from the increased focus on outcomes and opportunity for adaptive management. It may be that the opportunity for real-time course correction/adaptive management will be the main drivers of innovation. The extent to which this has happened will be a key focus of the evaluation.
Stimulate collaboration	Yes. There are very good examples of this. It has also proven to be a big challenge.	There is good evidence to support this in the UK. Firstly, SIBs enable collaboration between different commissioners aligned to the same outcomes. This is true, for example, in the Youth Engagement Fund. Secondly, SIBs enable collaboration during delivery. SIBs lead to an alignment of interest between the investor, commissioner and service provider.	On the donor/commissioner level, we have multiple outcome funders for each impact bond which seems to suggest that there has been a good level of donor collaboration. However, we need to explore the extent to which this is a result of the DIB. On the delivery level collaboration, we are not aware of any particular plans to collaborate with donors or investors during delivery, but

Claimed Benefits	Brookings (2015)	SIBs CBO evaluation and update reports	DIBs pilot emerging findings
		However, this collaboration can at times be difficult, as different stakeholders often have different ideologies and ways of working.	this will be explored during the evaluation. Additionally, BAT plans to stimulate collaboration through bringing together key stakeholders as part of its knowledge dissemination and information exchange work.
Sustain impact	Too soon to say.	We agree with the Brookings report that it is too early to say.	The evaluation will explore how and the extent to which the DIBs support sustainability.

Claimed Limitation¹	SIBs CBO evaluations	DIBs pilot emerging findings²
Complex to design	SIBs are complex to design. Some of the key challenges are: length of time to develop; relatively large set-up costs; complexity and lack of understanding of key parties; agreeing contracts to suit all parties; and limited commissioner capacity to develop SIBs. In particular, it is a challenge developing metrics that suit all stakeholders. Commissioners need metrics that reflect the benefits of change and avoid perverse incentives; investors need metrics that they can be easily measured and assess the risk of them not being achieved; and service providers need metrics that they can easily capture and use as evidence of progress towards their outcomes.	This was echoed by the DIBs. A particular challenge was the negotiation of outcome payments and an outcome metric to suit all parties. Additionally, working in a humanitarian situation presents an additional challenge for contracting to relatively rigid target outcomes over a 5 year period, due to the uncertainty and flux present within humanitarian contexts. As part of the evaluation, we will seek to understand the experiences of the different DIBs, the drivers of complexity, the costs of set up and identify any learnings around how to efficiency and effectively set up impact bonds.
Expensive to set up and implement	The long development time of the SIBs can mean large set-up costs. Some service providers reported that this scale of delivery excluded	This was confirmed by both DIBs. Outcome verification was cited as particularly expensive by VE.

¹ DFID Pack 2: Learning from Impact Bonds in use by DFID and others and Chinfatt, S. and Carson, M. 2017. Supplier Access to Prefinance in Payment by Results Contracts. Dalberg Intelligence.

² Information on BAT regarding these limitations was unavailable from the documents reviewed.

Claimed Limitation¹	SIBs CBO evaluations	DIBs pilot emerging findings²
	<p>them from getting involved in SIBs. Some emerging SIB models (e.g. spot purchase SIBs¹) could help address this issue and achieve greater economies of scale. However, some investors are more willing to invest at a lower level.</p> <p>The increased performance management requirements mean that management demands within service providers are typically higher than in other forms of contracts, adding indirect costs.</p>	<p>As part of the cost effectiveness element of the evaluation, we will explore the additional costs incurred as a result of the impact bond during the design, set up and implementation stage – in addition to outcome verification, this will include costs (and staff time even if not charged) of investor reporting, governance committees, performance management and SIB intermediation.</p>
Only strong providers will take on these contracts – they would have delivered anyway	<p>One of the advantages often claimed for SIBs is that the up-front funding that they provide enables the involvement of smaller service providers. While we have found scepticism among commentators about the extent to which SIBs could sensibly be embraced by smaller providers, there is some evidence that smaller providers are getting involved in SIBs, certainly as far as the CBO-funded SIBs we have reviewed are concerned. There is mixed evidence in this area, with the 2017 update report finding:</p> <p>a trend towards investment decisions based on the capacity and track record of service providers; and</p> <p>the involvement of smaller providers in SIB delivery.</p>	<p>This will be explored during the evaluation. The fact that the service providers are delivering programmes not dissimilar to programmes they have delivered in the past would seem to suggest that this is the case, though as mentioned above, the BAT DIB does involve scaling up of these programmes.</p>
Investors will never be interested in this	<p>The 2017 CBO update report found that investors are satisfied with the returns they are receiving and mostly positive about their experiences of SIBs.</p>	<p>The fact that the impact bonds have been successfully set up suggests that there is investor appetite for this.</p> <p>However, we have not yet spoken with investors, so will explore this</p>

¹ A spot purchase SIB is one developed by one or several service providers, which is then offered to commissioners for a pre-agreed price per outcome and with the flexibility for the commissioner to purchase only a single outcome, or a number of outcomes.

Claimed Limitation ¹	SIBs CBO evaluations	DIBs pilot emerging findings ²
		<p>further as part of the evaluation. In particular, we can explore whether the size of the impact bond was limited by i. service provider delivery capacity, ii. investor appetite or iii. outcome funders' available budgets.</p> <p>Additionally, we will explore the motivation behind the investments, whether driven by commercial interest or CSR. This is closely linked to the point below, in terms of what the funding would have been used for should the impact bond not been an option. On the flip side, we will also explore barriers to investment.</p>
They don't bring new money into development	From what we have seen to date this is correct. The vast majority of investment has been money that would have been spent on social interventions anyway. It is a realignment of existing capital rather than new capital.	This is linked to the first claimed benefit of the crowding in of private capital. It's not yet clear what the counterfactual is, i.e. what the outcome funders and investors would have funded/invested in if this impact bond was not available. We will explore this during interviews with the outcome funders and investors. We will also assess the additionality and VfM of impact bonds as part of our cost effectiveness analysis.
Providers get all the learning and we can never reduce costs	A number of stakeholders reported that mainstreaming of understanding of impact bonds is being hampered by the lack of information and learning stemming from the first set of funded SIBs. There are some robust independent evaluations of some of the first SIBs, but there is still a general lack of data on how most SIBs are performing. Stakeholders report that this lack of information	<p>Providers seem to be generally quite open about sharing learning, and value the fact that these are 'pilot' DIBs, important for generating learning in a relatively new field.</p> <p>ICRC did note that while they have committed to sharing data and collaborating on the evaluation for the term of the impact bond, the sharing of any information or learning after the 5 years will have</p>

Claimed Limitation ¹	SIBs CBO evaluations	DIBs pilot emerging findings ²
	<p>is making it difficult for them to build on the lessons learnt from earlier SIBs and to make reasoned decisions about the benefits and risks of SIBs.</p>	<p>to be discussed separately. “Data beyond the Programme Maturity Date is a matter for discussion and may be able to be provided on a ‘best efforts’ basis.”</p> <p>The contract provides for participation in any evaluation and provision of any information or documentation necessary, subject to confidentiality restrictions. The contract also provides a template for the quarterly status update reports and provides for bi-annual operating review committees.</p>
Adverse effects of outcomes-focused culture	<p>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. As mentioned previously, some providers believe the focus on primary outcomes has come at the expense of secondary outcomes.</p> <p>In addition, our evaluations have seen evidence of the ‘perverse incentives’ 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</p>	<p>This will be explored during the evaluation. We note that both ICRC and VE have developed mechanisms to seek to safeguard against this, either by putting ‘shields’ in place so that staff are not affected by the performance as measured by the outcomes measure, or by providing additional training to staff.</p> <p>The contracts also include clauses that seek to safeguard delivery against perverse incentives and the gaming of outcomes. ICRC’s contract includes a clause that states “ICRC will support and run the Selected HIB Centres in accordance with its usual policies, procedures and standards for PRP centres in a similar context.” VE’s PbR agreement includes a section which obligates VE to deliver services in accordance with the service specification, applicable legislation, trustee policies, good industry practice and quality assurance systems. VE is also</p>

Claimed Limitation¹	SIBs CBO evaluations	DIBs pilot emerging findings²
	outcomes or because the provider gets paid for having beneficiaries on the programme)	required to maintain control and risk mitigation activities, including safeguarding of programme participants, and a further section prohibits VE from trying to 'game' or prejudice the findings of the outcome evaluator.
Delivery context risks and uncertainties	Policy uncertainty is a key challenge for the design of impact bonds and PbR contracts. Policy changes can affect outcome metrics, which can present a risk to funders or service providers, in terms of meeting pre-set targets.	Policy uncertainty was cited by both ICRC and VE. ICRC noted that this was a concern during the design of the project, when the centres were being selected – certain centres were ruled out because they were too risky. The contracts also had to be set up to provide for the possibility of external factors affecting the construction and operationalisation of the centres. Similarly, VE set out to mitigate the risk of policy uncertainty by working closely with local government and formalising the relationship through a MoU.

Section 3: Performance and effectiveness of development programmes financing using a DIB mechanism compared with other funding mechanisms

The finding from our UK SIB evaluations to date suggest that the benefits of using a DIB mechanism may accrue slightly differently to the different actors. Our early research found that if interests are properly aligned, impact bonds represent a 'win, win, win' for the outcomes payer, provider and investor. Further research has broadly confirmed this view, with one of the largest benefits being they enable innovation to be scaled. However, through further research we have also found that providers and investors seem to value impact bonds more than outcomes payers, and that an impact bond represents only a 'partial win' for the commissioner or outcomes funder. This is because the outcomes payer still has to bear most of the time and cost of development with limited resources; ensure they are able to make future outcome payments in an era of continuously falling budgets; cannot transfer all the risk to investors; and do not always see the outcomes they paid for because of perverse incentives.

Our evaluation will explore the extent to which this also holds true for DIBs. ODA in the UK has been growing in recent years, although an increasing share is being delivered by other departments and the scale and severity of humanitarian emergencies has grown. Also, outcome funders face slightly different pressures, as they are not accountable for delivering statutory services, and the targeted beneficiaries are not their voter base. It will also be useful to understand

if and how DFID management of the DIBs pilot differs from their management of PbR or grant funded programmes, and whether using DIBs represents any time and cost savings for DFID.

As part of the inception phase, we also discussed with Village Enterprise and ICRC their observations on the differences between programmes financed using a DIB mechanism and other funding mechanisms, and their thoughts on the expected effects of the DIB financing over the course of the impact bond on the programme.

Village Enterprise

That payment is tied to outcomes means that VE had a greater will to performance manage. However, the monitoring systems that were already in place could have been simply rolled over. VE chose not to do this as it was a new funding mechanism for them and they wanted to think more carefully about managing for impact and how to use data to do this. VE were also able to generate additional funds through investment which they would not normally have received from their donors but this is a little offset by the resource intensive process so far.

“It has made us up our game. We are thinking about the outcomes instead of worrying about day to day activities but how each activity contributes to the overarching aims of the programme” (Consultation with Village Enterprise).

ICRC

Based on our initial consultations with ICRC, we understand that the access to new capital will be the main impact of the HIB. As the programme will operate under existing ICRC protocols and guidelines, it is not yet clear what impacts the impact bond will have on the performance and effectiveness of the programme. As part of the evaluation, we will work with ICRC to further explore and articulate the expected effects of the impact bond model for the intervention, as well as explore the additionality of the capital – whether this represents increased funding for ICRC, funding from new investors or benefits in terms of the longer-term nature of the funding.

Implications for evaluation planning

The different ways in which the impact bond is framed and expected to make an impact as hypothesised by VE and ICRC mirror the discussions about whether DIBs are primarily about aid effectiveness or mobilising private finance, and how DIBs fit into the ‘Maximising Finance for Development (MfD)’ debate. This will be an important focus of the evaluation, to understand the additionality and value for money case of impact bonds, and whether and how DIBs improve aid effectiveness and mobilise private finance (and the extent to which these funds represent new capital).

Annex N: Sections of the Report mapped to EQUALs checklist

1. STRUCTURE AND CLARITY		Corresponding Section
1.1	The product is accessible to the intended audience (e.g. free of jargon, written in plain English, logical use of chapters, 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 (including evaluation questions), and a bibliography.	Annex A, Section 5.4 and References.
1.5	Annexes increase the usefulness of the product.	Annexes
1.6	Any departures from the original TOR been adequately explained and justified.	Section 1.3
2. CONTEXT, PURPOSE, SCOPE AND OBJECTIVES		Corresponding Section
2.1	The product provides a 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 2.3
2.2	The inception process is clearly explained. Key stakeholders been identified and involved.	Section 1.2
2.3	The product provides a relevant and sufficient description of whether and how contextual factors (local, national and/or international) have influenced evaluation design.	Section 5
2.4	The product identifies key linkages between the intervention and other relevant projects / programmes / donors. If no linkages are identified, the product justifies why other projects / programmes / donors will not be relevant to the evaluation.	Section 3.4
2.5	The product describes what information is needed through the evaluation, and how that information will be used. The product describes the target audience(s) for the evaluation.	Section 5.2 and 5.3
2.6	The product describes whether the evaluation is for accountability and/or learning purposes.	Section 5.1
2.7	The product justifies the timing of the evaluation.	Section 5.2
2.8	The product clearly outlines what aspects of the intervention are and are not to be covered by the evaluation.	Section 5.2
2.9	The product confirms whether and how the evaluation purpose, scope and objectives were altered during the inception phase.	Section 1.3 and 5.4
3. EVALUATION FRAMEWORK		Corresponding Section
3.1	The product describes the intervention logic and/or theory of change. If this was developed during the inception phase, the product describes the development process.	Section 2.2
3.2	High level evaluation questions have been identified. They are sufficiently clear and specific. They are clearly related to the evaluation purpose, scope and objectives. Appropriate and relevant criteria (e.g. OECD DAC) are adequately reflected in the evaluation framework.	Section 5.4

3.3	Evaluation questions are relevant to the intervention logic and/or theory of change.	Section 5.4
3.4	The evaluation questions can be answered within the evaluation timeframe.	Section 5.4
3.5	The evaluation framework will be able to address the cross-cutting issues of gender, poverty, human rights, HIV/AIDS, environment, anti-corruption, capacity building, and power relations.	Section 6.6
4. METHODOLOGY AND DATA		Corresponding Section
4.1	The proposed evaluation methodology is described and justified in sufficient detail.	Section 6
4.2	These methods are appropriate for addressing the evaluation questions.	Section 4.5 and Section 6
4.3	The sampling strategy is described, and is appropriate. Primary and secondary data sources are appropriate, adequate and reliable. Sample sizes are adequate.	Section 6.2 and 6.3
4.4	There are adequate plans to consult with different stakeholders at all levels.	Section 6.2 and 6.3
4.5	There is an appropriate mix of qualitative and quantitative data collection. If not, it is adequately explained why not.	Section 6.2.4 and 6.5
4.6	The evaluation principles of accuracy and credibility are addressed.	Section 6.1.1.1
4.7	The design provides for multiple lines of inquiry and/or triangulation of data. If not, there is a clear rationale for doing otherwise.	Section 6.5
4.8	The methodology will enable the collection and analysis of disaggregated data to show difference between groups.	Section 6.6
4.9	Any methodological limitations are acknowledged and their impact on evaluation design discussed. Limitations are acceptable and/or they are adequately addressed.	Section 6.7.1
4.10	The proposed methods will be appropriate for assessing the cross-cutting issues of gender, poverty, human rights, HIV/AIDS, environment, anti-corruption, capacity building, and power relations.	Section 6.6
4.11	The framework allows for an appropriate exploration of Paris Declaration principles within the context of this intervention.	Section 6.1.1.1
5. INCLUSION AND ETHICS		Corresponding Section
5.1	The methodology respects concerns around gender, age, ethnicity, caste, religion, geographic location, ability, socio-economic status and hard to reach groups. If not, why not.	Section 6.6
5.2	The evaluation design includes consideration of DFID's commitment to human rights based approaches. If not, why not.	Section 7
5.3	The governance structures for the evaluation include diverse perspectives, and such perspectives will be free of control from organisational influence and political pressure.	Section 7
6.1	Management and governance arrangements are clearly described. These arrangements are appropriate.	Section 9
6.2	Accountabilities, responsibilities and lines of communication are absolutely clear.	Section 9
6.3	Expectations are realistic, given the available time and resources.	Annex H
6.4	There is a discussion of the budget for the evaluation. If so the proposed budget is realistic.	Annex I
6.5	Any risks and challenges identified within the original TOR have been adequately addressed.	Section 9.3
6.6	Issues of leadership capacity and institutional capacity are adequately addressed.	Section 9
6.7	The evaluation team composition is appropriate in terms of both sectoral and methodological expertise. The Team Leader has financial and human resource management skills, and a proven track record of timely high quality evaluations.	Section 9

6.8	The Evaluation Team includes local or national consultants. There is scope within the methodology to build the capacity of national evaluators.	Section 9
6.9	Partner countries participated in, or led, the design, and will participate in the evaluation process.	Section 9
6.10	Coordination with the policies and evaluations of other donors have been considered in evaluation design in order to minimise burdens and transaction costs on the partner country.	Section 3.4
7. USEFULNESS		Corresponding Section
7.1	The potential users and stakeholders, and the ways in which the evaluation could be used, have been identified.	Section 5.3 and 8.1
7.2	Issues of equity and gender have been considered in selection of stakeholders.	Section 6.2.3
7.3	There is evidence that the key users and stakeholders feel that priority questions and issues have been identified in the plan for the evaluation.	Section 4
7.4	There is a Communications and Dissemination Plan and it will enable a transparent process that engages and meets the needs of all users, including primary stakeholders.	Section 8.2
7.5	Stakeholders who will be affected by the intervention have access to evaluation-related information in forms that respect confidentiality.	Section 8.2
7.6	There is clarity around the final ownership / copyright of findings and evaluation products? This includes a description of the arrangements for storage and accessibility of any data generated through the work.	Disclaimer
7.7	The methods for communication are appropriate to meet the diverse needs of stakeholders, including gender concerns, and access for marginalised or non-literate groups affected by the intervention.	Section 8.2

Annex O: Draft DIB-level Evaluation Plan

The tables below set out the draft DIB-level evaluation plan. This have been discussed with some of the stakeholders in the 3 DIBs (tables 10, 12 and 15 capture some of the initial discussions). The evaluation plan will need to be further discussed as part of Research Wave 1 to agree roles, responsibilities and plans for data sharing across the different stakeholders. Additionally, a clear mapping of when it will be possible to share the data, and in what format, will be further clarified as part of Research Wave 1.

Table 47, Table 48 and Table 49 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 will relate to, and whether the data will also be requested for the identified comparison programmes. This will be confirmed as part of Research Wave 1.

Table 47: Proposed consultations

Stakeholder type	RW1	RW2	RW3	ICRC	Village Enterprise
Project managers / performance managers / intermediaries	x	x	x	n/a	Instiglio (Project Manager, Process Learning lead, CEO, Financial Model Developer)
Service provider: Project managers/service managers/practitioners	x	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
Outcome funders / donors (including DFID and other donors)	x	x	x	Governments of Switzerland, Belgium, UK and Italy, and La Caixa Foundation	DFID, USAID, Wellspring Philanthropic Fund
Investors	x	x	x	Munich Re, Lombard Odier pension fund, charitable foundations and others	Group of private family foundations and SV2, via ImpactAssets
Outcomes verification agents	x	x	x	Philanthropy Associates	IDInsight
Project level process evaluators / learning partners	x	x	x	N/A	N/A
National and district/local governments	If on steering committee	x	x	Local Governments in Mali, DRC, and Nigeria	TBC
Local organisations that work with the project	N/A	x	x	Ministry of Health in countries of operation	TBC

Stakeholder type	RW1	RW2	RW3	ICRC	Village Enterprise
Advisors (designers)	x	x	x	KOIS	N/A
Service users / beneficiaries	N/A	x	x	Sample of users in new ICRC centres, and the 8 pilot centres.	Sample of participating households in Kenya and Uganda

Table 48: Value for Money data

	Indicator	RW1	RW2	RW3	Comparison programmes	Stakeholder
1	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 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
2	Savings in programme costs (including staff time) as a result of the impact bond.	x	x	x		Service provider; outcome funder
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
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). (For example, ICRC M&E data will include disaggregated data on gender and age)		x	x	x	Service provider

	Indicator	RW1	RW2	RW3	Comparison programmes	Stakeholder
	Targeting costs if relevant (with the assumption that targeting costs increase when trying to access the hard to reach)					
8	Change in targeting approach based on the identified effects of the impact bond. Different effects of the intervention on the different sub-groups.		x	x	x	Service provider

Table 49: Other data

Data type	Examples of relevant reports	How this data will be used	Comparison programmes	RW1	RW2	RW3	Stakeholder
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
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 suggest perverse incentives).	x	x		x	Service provider
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
Investment returns	Progress reports	To understand how the DIB performs against targets.		x	x	x	Service provider
Outcome payments				x	x	x	Service provider
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