

Findings from the second research wave of the independent Evaluation of the FCDO Development Impact Bonds Pilot Programme

Full Report

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Acknowledgements

The lead authors of this report are Kay Lau (Project Manager), James Ronicle (Lead Analyst), Sara Rizzo, Alma Agusti Strid and Daniel Silver (Researchers), Jennifer Armitage (VfM lead) and Zachary Levey (DIBs expert).

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Executive Summary

Overview

This report is the Research Wave 2 Evaluation Report as part of the Independent Evaluation of FCDO's (formerly DFID) Development Impact Bonds (DIBs) pilot programme. The DIBs pilot programme runs over a period of almost six years, from June 2017 to March 2023. FCDO has allocated GBP 6.3 million for the three projects under the FCDO-supported DIBs pilot programme: 'ICRC: Humanitarian Impact Bond for Physical Rehabilitation'; 'Village Enterprise: Micro-Enterprise Poverty Graduation Impact Bond'; and support to 'British Asian Trust: to design impact bonds for education and other outcomes in South Asia'. The programme aims to test whether DIBs are a tool that FCDO is able to use and start to generate an understanding of how and when DIBs can add value in FCDO programming and support FCDO's commissioning, management, and effectiveness in delivering programmes on a Payment by Results (PbR) basis.

The DIBs pilot programme has the following objectives:

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

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

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

Objectives and scope of the evaluation

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 achieved¹. A service provider steps up to deliver the prescribed results. The main way a DIB differs from standard PbR is that a DIB brings in third party "investors" who provide the service provider with the investment/working capital needed to deliver activities designed to achieve the results. Under the DIB model, the investor also takes on a portion of the financial risk associated with failing to deliver the prescribed outcomes.

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

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

- **International Committee of the Red Cross** Humanitarian Impact Bond for Physical Rehabilitation (ICRC HIB);

¹ Funding is not necessarily 100% tied to results, this varies across DIBs.

- **Quality Education India** Development Impact Bond (QEI DIB); and
- **Village Enterprise** Development Impact Bond for micro-enterprise poverty graduation (VE DIB).

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

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

The two **evaluation questions** are:

EQ1: How does the DIB model affect the design, delivery, performance and effectiveness of development interventions?

EQ2: What improvements can be made to the process of designing and agreeing DIBs to increase the model's benefits and reduce the associated transaction costs?

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

Methodology and evidence base

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

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

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

Individual Project level <i>Projects under the DIBs pilot programme and identified comparison projects</i>	Programme level <i>DIBs pilot programme</i>	Wider DIB sector
<ul style="list-style-type: none"> • Interviews with key stakeholders² • Programme design documents • Internal project level monitoring and evaluation data • Project reporting • Data from comparable projects and previous phases • Cost data • Evaluations and learning activities 	<ul style="list-style-type: none"> • Interviews with FCDO staff, within the DIBs team • Review of programme level documentation 	<ul style="list-style-type: none"> • Interviews with DIB experts and stakeholders • Review of key literature and learning reports

Conclusions

The summary interim assessment against the evaluation questions is:

EQ1: How does the DIB model affect the design, delivery, performance and effectiveness of development interventions?

One of the main themes to emerge from the evaluation is that the DIB can be an **effective change management tool**. In all of these DIBs we have seen a greater focus on outcomes. In particular, in QEI and VE, the DIB encouraged a stronger outcomes-focused culture within both the service providers and funders. It provided the impetus to increase monitoring and evaluation activities, thereby improving the capacity to adapt and improve service delivery and manage projects towards outcomes that matter most. Stakeholders believe that this attribute is enhancing their ability to deliver **more outcomes than would be possible without a DIB**. Early results from VE and QEI suggest elevated outcomes performance in the DIB sites compared to previous delivery, and this will be further investigated in the next research wave.

The table below summarises the extent to which the different DIB effects were present across the four DIB projects. Each effect is 'RAG' rated³ on the extent to which it was identified across all projects, followed by individual ratings for each DIB. It should be noted that the rating identifies the extent to which the effect is present, not whether it had a positive effect (i.e. both positive and negative effects would be marked as green if present). It is important to bear in mind that stakeholders decided to use the DIBs for different reasons, and not all DIB effects were anticipated.

² Including designers, service providers, other outcome funders, outcome verification agents, project/performance manager, project evaluators/learning partners and investors.

³ Green = effect is present in at least three DIBs; amber = mixed evidence over presence of DIB effect; red = effect is not present in at least three DIBs.

EVALUATION OF THE FCDO DIBS PILOT PROGRAMME – RESEARCH WAVE 2

DIB effect	Summary	ICRC	QEI	VE	Cataract
Positive DIB effects					
1 Shift focus to outcomes, greater accountability	●	●	●	●	●
2 Drives performance management	●	●	●	●	●
3 Providers deliver adaptive management and course correction	●	●	●	●	●
4 Greater collaboration between stakeholders	●	●	●	●	●
Negative DIB effects					
5 Perverse incentives	●	●	●	●	●
6 Tunnel vision	●	●	●	●	●
7 Lowers staff morale, affecting other DIB effects	●	●	●	●	●
Greater outcomes					
8 Increased efficiency and effectiveness, leading to increased number of beneficiaries supported and outcomes achieved	●	●	●	●	●

Key ● Present ● Present to some degree ● Not present ● Too early to tell

Note: In the Cataract Bond, these effects were generally observed. However, these effects were not necessarily *stronger* than when compared to a similar grant-funded project.

The DIB effect described above also includes **wider spillover effects**. There is evidence of service providers and funders strengthening their outcomes focus and data-driven adaptive management in other parts of their organisations. For example, VE quickly rolled out the adaptive management techniques developed in its DIB to its non-DIB delivery because these practices proved to be effective. Funders in the Cataract Bond started implementing learning from this DIB in other non-DIB projects, to monitor the *quality* of surgeries and simplify outcome targets and performance management. The ICRC Humanitarian Impact Bond has inspired interest in impact bonds and innovative finance in humanitarian and fragile settings by a range of stakeholders (see [IBWG Pipeline Report⁴](#)).

⁴ Impact Bonds Working Group. (2020). Project Pipeline. <http://ibwg.com/pdfs/london/The%20Project%20Pipeline%20Report.pdf>

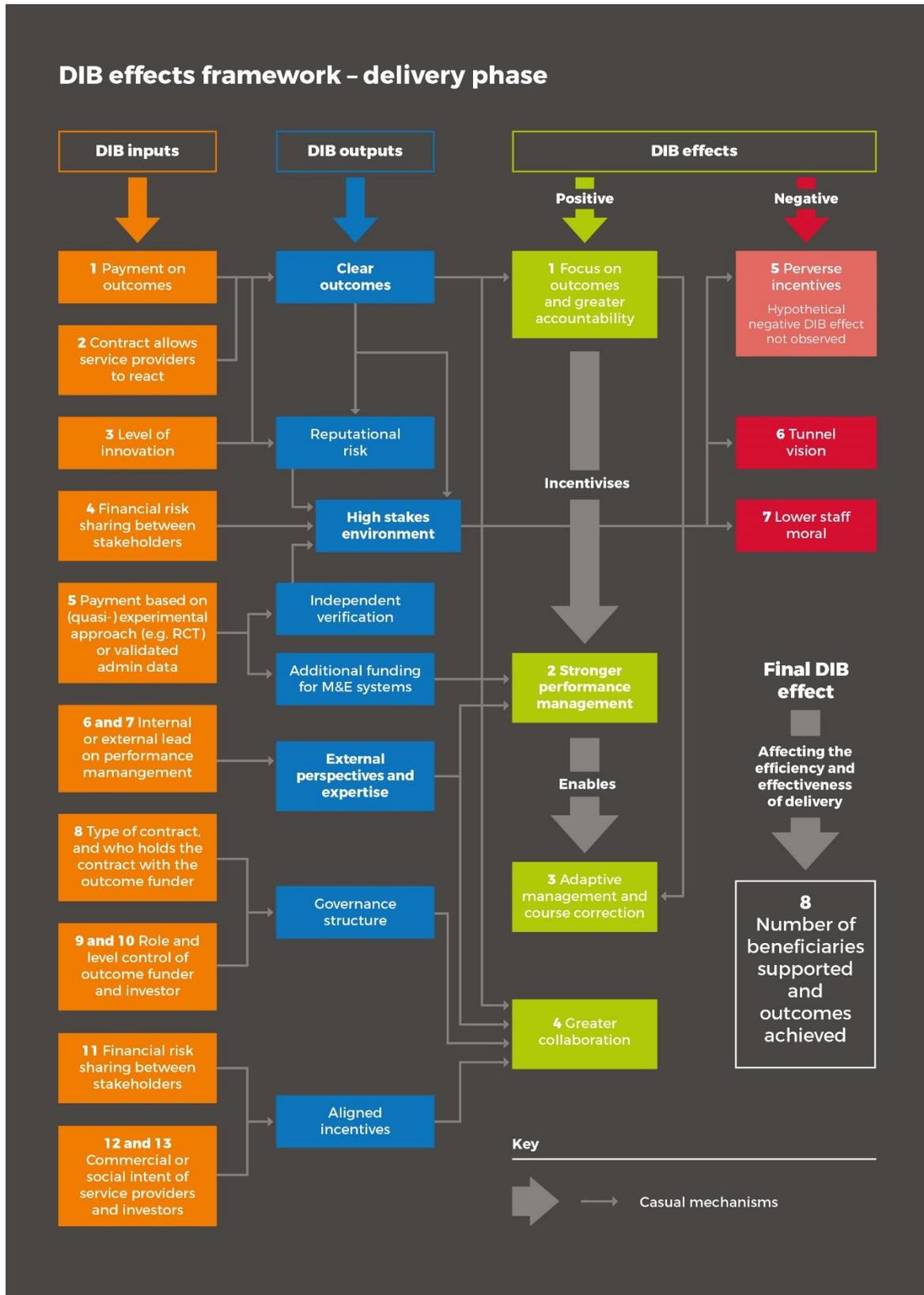
Our analysis across these four DIBs suggests there are four 'key ingredients' within the DIB that support greater outcomes. These four key ingredients cut across our understanding of how a DIB affects the delivery of development interventions.

- **Stronger focus on outcomes:** Tying payments to outcomes in the DIBs led to a clearer articulation of the specific results the project is trying to achieve. Everyone was made aware of priority outcomes and how the project was expected to achieve them.
- **Heightened performance management:** Stronger measurement approaches were introduced in the DIBs to help monitor the projects' progress against their stated outcomes. There was regular scrutiny of performance, which allowed the projects to quickly identify areas of under-performance and respond accordingly. An external performance manager often provided additional expertise, support and pressure.
- **External perspectives and expertise:** Multi-stakeholder partnerships facilitated by impact bonds brought in new perspectives and expertise to support project implementation. The participation of these new partners, such as investors and external technical advisors, helped strengthen project design, supported with problem solving, provided management support and advice, and introduced new tools and methodologies.
- **High-stakes environment:** Attaching payments to outcomes created financial risk for investors and sometimes for service providers. Increased accountability and heightened attention paid to DIBs increased reputational risks for all parties. Both elevated financial and reputational risks prompted rapid responses to challenges when project performance was under great scrutiny,

The figure below sets out our framework for understanding the relationship between DIB *inputs*, DIB *outputs* and DIB *effects*, relevant for the delivery phase, based on our analysis:

- **DIB inputs:** The key DIB characteristics linked to the funding mechanism, for example, payment on outcomes, financial risk sharing and involvement of external stakeholders. These are expected to affect how the DIB is funded, managed and evaluated.
- **DIB outputs:** The direct products resulting from the DIB inputs.
- **DIB effects:** The target and hypothesised benefits linked to use of a DIB, though noting that not all DIB effects are expected across all DIBs.

Figure 1: DIB effects framework



It is important to note that the DIB effects seen are not *exclusively* DIB effects. The implication of this is that a DIB is not always necessary. Some of the desired effects could also be achieved through a well-designed grant or PbR, and it is possible to design these to include many of the features of a DIB (e.g. in the case of the Cataract comparator site). However, the DIB appeared to be the catalyst for change that set things in motion and sped up changes. A key finding is that how the DIB affects delivery depends on how the DIB is structured and the target objectives of using a DIB.

This is starting to shed some light on when a DIB is most applicable. It would suggest a DIB may be most appropriate in some of the following contexts where:

- performance could be enhanced through a stronger focus on outcomes buttressed by performance management;
- the system / culture needs an external ‘disruption’ to bring about change;
- service providers would not be able to tolerate high levels of financial risk; and
- where providers would benefit from external expertise and support.

There is also a question about the types of providers and interventions suitable for funding under the DIB, and the extent to which they need to be ‘proven’ providers and interventions. The DIBs covered under the evaluation have only involved providers pre-disposed to this way of working and proven interventions. These are all key areas to further explore as part of the next research wave.

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?

Reducing transaction costs

The key additional costs during delivery relate to 1) verification to ascertain the outcome payments; 2) other evaluation costs related to generating learning on the use of the DIB mechanism; 3) investment vehicle/legal costs needed to use the DIB mechanism; 4) governance costs related to coordination and convening the generally larger number of stakeholders under a DIB; and 5) performance management costs, related to increasing the use of data to deliver adaptive management. DIB structures and costs vary, as do other funding mechanisms such as grants and PbR. However, generally it seems that verification costs are an additional DIB cost. Although they are also required in PbR and evaluation and performance management costs are not unique to DIBs., our finding is that these costs represent the higher end of monitoring and evaluation (M&E) costs. Investment vehicle and legal costs are unique to the use of the DIB mechanism, though we note some PbR mechanisms will also require these costs. Governance costs are also higher, but we note that this could be due to the fact that contracting intermediaries to deliver this could simply crystallise and formalise tasks and costs that were previously undertaken by the service provider and / or outcome funder.

Across the DIBs, the highest costs are in the areas of verification, especially the QEI and VE DIBs, which involved large Randomised Control Trials (RCTs) and quasi-experimental approaches. Intermediary costs represent the second highest proportion of costs. We note direct comparisons are difficult, as the role of the intermediaries vary significantly across the DIBs.

These costs are generally paid for by the outcome funders, as part of the total DIB costs. However, there are also some costs paid for by other funders, such as the separate learning grant paid for by FCDO in the case of the QEI DIB, which supports both the DIB itself, as well as wider market building in the region.. A number of stakeholders across intermediaries and service providers also mentioned that they are providing in-kind contributions, in terms of staff time.

There is some indication that these costs do lead to additional results, impacts and benefits. These additional costs are critical to the ‘magic ingredients’ and DIB effects discussed in section 4. For example, verification was noted as a key driver for a stronger focus on outcomes. The external expertise was noted as a key contributor to improved performance management and adaptive management in both the QEI DIB and Cataract Bond.

It remains too early to say how efficiency compares with other funding mechanisms. This will be revisited in RW3 when outcomes data are available.

However, we have some initial findings on how it might be possible to reduce transaction costs while maintaining the benefits of using a DIB.

1. Additional stakeholders result in additional coordination and communication costs, and as such, the costs and benefits of bringing in additional stakeholders should be carefully considered, and structures and processes should be put in place to clarify roles and decision-making processes.
2. Reporting requirements should be focused on use and what is necessary to support decision-making, given the shift to providers being responsible for outcomes, rather than inputs or activity.
3. The role of the intermediary should be carefully considered, to ensure costs and benefits are proportionate, and to support sustainability through developing service provider capacity.
4. Legal costs remain high. While stakeholders generally agreed that the market is not yet ready for template DIB contracts, there may be potential to use 'quicker and dirtier' contracts to support flexibility.
5. Experiences of delivering these DIBs have generated useful learning as to the true costs of delivering a DIB. These should be used to plan future DIBs, to avoid overstretch or the diversion of attention from other projects.
6. Across the sector, more needs to be done to consider how evidence can be generated to assess the value for money of the DIB mechanism. A commitment to collecting data in comparable formats and to sharing this information openly and transparently is needed.

Relevance of DIBs and increasing the model's benefits

Generally, stakeholders considered that DIBs were relevant to the sectors within which the pilot DIBs operated. For example, QEI and Cataract stakeholders noted that clear outcomes were characteristic of the education and health sectors, which meant they were well suited to DIB funding. The move to multi-year funding offered by the DIB was very relevant in the India context (QEI) and humanitarian sector (ICRC).

Covid-19 is also generating useful learning on the relevance of DIBs in dealing with shocks and how DIBs can be better structured to support this. While the effects of Covid-19 are not yet clear, what is emerging is that while the DIB is less flexible than grant-funded programmes in terms of target outcomes and contracting, in practice stakeholders have been very flexible. The focus has remained on the achievement of social outcomes. Resolutions have depended more on collaboration and discussion, rather than relying on force majeure clauses or legal action. The rigidity of the bond and the high transaction costs have made some stakeholders question its appropriateness in development contexts.

To increase the benefits of the DIB model, the guiding principle should be to design a DIB with clarity on the target benefits of using the model. The DIB can then be designed with these key objectives as well as the core DIB inputs or characteristics needed to achieve these objectives in mind. This ensures the model can be designed most effectively and efficiently to meet these objectives. As such, it is difficult to set out general learning, but we highlight some emerging learning across the key cost categories and design choices in the DIB:

Role of the intermediary: Most consultees agreed that the intermediary had an important role to play to ensure a structured interaction between stakeholders; distribute documents and updates; disseminate findings; and coordinate a large group with different priorities and needs as well as support the growth of the DIBs market. At the same time, intermediary costs represent a significant proportion of the *additional costs* involved in using a DIB, and not all stakeholders felt they added significant value. This may be because of the stage of the DIBs market. For the DIB market to grow, the intermediary role needs to be clearly defined and costed effectively. The precise role of the intermediary should be tailored to the specific DIBs, including the mix of stakeholders and skillsets brought by the other stakeholders.

Role of independent evaluation: The role of a rigorous approach to validating impact was noted to be a key contributor to a number of DIB effects. The use of validated administrative data versus experimental approaches should be guided by the target objectives of the DIB and the geographical / sector context. Potentially, there can be greater consideration of synergies between verification and performance management activities.

Performance management systems: All four DIBs involved significant strengthening of performance management systems, and there are promising indications that this is improving the efficiency and effectiveness of delivery. A key learning, especially given the Covid-19 situation, is the need for real time monitoring to support timely course correction.

Role of collaboration and governance: It is important to clarify roles, responsibilities and decision-making authority and processes across stakeholders in order to maximise collaboration.

Managing communication and learning: To maximise spillover effects, there is a need to focus on external communication and improving the sharing of learning between stakeholders.

As we have seen in the UK market, there seems to be some link between the size of the organisation and the intensity of the DIB effect, likely due to the fact that smaller organisations are generally nimbler and find it easier to change systems and processes. This may be a useful consideration when designing DIBs, selecting providers and considering the rationale and expected effects for using the DIB funding mechanism.

There is interest in understanding what the lessons are for scaling, mainstreaming and transitioning to SIBs or other structures with greater government involvement. There is recognition that transaction costs remain high, and that standardisation and establishment of 'best practice' are needed to reduce costs. However, more impact bonds and evaluations are needed to develop context-specific learning around the structuring and delivery of DIBs. Stakeholders also agreed on the importance of building service provider capacity in further growing the market.

Areas for consideration and further investigation in the next research wave

There are some themes and questions where there is not enough evidence yet to draw conclusions at this stage of the evaluation, but are important questions to continue considering in the next research wave,

- 1. Is a DIB necessary to achieve the DIB effects described in this document, or could similar effects be achieved through a well-designed grant or PbR project?** Our findings indicate that in some instances the same DIB effects could be achieved through a grant/contract that has more dedicated funding for performance monitoring and access to technical expertise for project design and implementation. Having said that, these elements are not always prioritised in conventional projects. Consequently, the DIB – and its high-stakes environment around the outcomes that matter most – seems to be the catalyst for change that is driving improved performance.
- 2. To what degree can a DIB be rolled out to the wider landscape of service providers?** Service providers included in the study already had a results culture and were pre-disposed to adopting an enhanced performance management system, and interventions had a historical track record of achieving results. This might have implications for when the DIB approach is scaled or applied more broadly – will it be as effective with organisations where these characteristics do not already exist?
- 3. Does the idea of a DIB as a change management tool mean it is only needed once in an organisation?** If a DIB shifts the focus and behaviour of a whole organisation, can another add value after the first is completed? Is a DIB a 'one-time pivot'? There have been instances of providers choosing not to engage in a second impact bond because they felt they had already benefited from the mechanism in the first impact bond, which made the high transaction costs of getting involved less appealing. We do not know the answer to this question yet because we do not know a) how far-reaching the spillover effects have been, b) how sustainable they are, or c) how this view might change if transaction costs go down over time.

4. **How appropriate is a DIB in development contexts?** The impacts of Covid-19 are unprecedented, yet large scale shocks are not uncommon in development contexts. Therefore, the ways that DIBs responded to Covid-19 provides a 'litmus test' for the efficacy of the model in development contexts. At the time of the research, Covid-19 had just become a pandemic and we do not fully know its medium to long-term effects on the projects. What we do know, though, is that the DIB appears to have both helped and hindered the projects' response to Covid-19.
5. **Does a DIB displace other delivery?** There were some suggestions in the research that a DIB project diverts skilled staff, expertise and resources away from other parts of the organisation. One thing that is worth exploring in further research is, therefore, the opportunity costs and the optimal allocation of resources associated with a DIB. Is the DIB itself more effective, or is elevated performance simply a function of more resources and skills?
6. **Is performance management most effective when provided through a third party?** The DIB effect seemed stronger when projects had access to additional resources and technical expertise, which is provided by external third parties. On the other hand, one of the major sources of additional costs of DIBs during the implementation phase were the additional monitoring and evaluation costs. The best approach to balance cost, effectiveness and sustainability merits additional investigation.

Lessons Learned

Below we set out the lessons of potential wider relevance for the implementation of DIBs. We highlight that there is still significant variation across existing DIBs and the evaluation sample (and overall number of DIBs) remains small. This should be borne in mind when taking stock of the lessons learned to date.

1. **The DIB effect varies across DIBs depending on the stakeholders involved, their motivations for using the DIB, and the structure of the DIB.** It is useful to carefully consider the objectives of using a DIB and ensure that the DIB is structured to support this. This report sets out emerging evidence for how DIB inputs, aligned to design choices, can affect the DIB outputs and DIB effects observed. For example, in DIBs where service providers are responsible for leading on performance management is where we have seen the strongest evidence and plans for rolling out improved systems across the service providers' programming. If strengthening performance management systems is a key target objective of the DIB, DIB designers may want to consider this when deciding between having an internal or external lead on performance management. Stakeholders' motivations of using a DIB, and the DIB effects targeted, should be used to judge the success of a DIB, while noting that what success means may change over the lifetime of the DIB, especially in this early phase of the market.
2. **A DIB can be an effective change management tool.** In these pilot DIBs, the funding mechanism has been a catalyst and driver for change and better use of data to inform delivery.
3. **In many ways, the DIB effects seen are not dissimilar to what has been observed in the PbR market. A key additionality of the DIB is the coalition of outcome funders, investors and intermediaries.** Opinions varied as to whether the achievements might have been possible without this external input, but stakeholders generally agreed that these additional skills added value to and strengthened delivery. A DIB can provide the flexibility to enable different stakeholders to provide support in different ways, beyond rigid roles and responsibilities.
4. **Additional stakeholders do result in greater coordination and communication costs.** These costs can be managed by having clarity on what added value different stakeholders are bringing and clarifying roles, responsibilities, level of input and decision-making processes.
5. **Transitioning to an outcome-based contracting model requires a shift in perspectives, on the part of both providers and outcome funders.** Funders accustomed to input-based contracts and monitoring inputs and processes are finding the need to adapt to a more hands-off approach. To maximise the

benefits of moving to an outcome based contracting model, and to reduce provider costs, reporting requirements can be reviewed to ensure this is focused on use and what is necessary to support decision-making.

6. **Delivery of a DIB requires strong internal and external communication.** The increased senior management focus on a DIB and direction of additional resources to a DIB can cause tensions internally. For example, departments and teams that are not delivering the DIB will require careful managing. DIBs are complex by nature. All stakeholders also noted the potential reputational risk of investors who make a profit in this sector and the need for strong public relations to manage this. To grow the market, learning needs to be proactively and transparently shared.
7. **There have been some teething problems during these pilot DIBs, as service providers noted aspects of the DIB that required more time and resources than expected and budgeted for.** For example, this included setting up the DIB, delivering the DIB to meet RCT requirements and building relationships with investors. To ensure attention is not diverted from other projects, these should be appropriately planned for and costed into budgets.
8. **The role of the intermediary should be carefully considered, to ensure costs and benefits are proportionate.** Across the DIBs, intermediaries have represented a significant proportion of additional costs but were also broadly noted (though not always) to be key contributors to the DIB effects. There is a balance between bringing in external expertise and building the capacity of providers and funders to take on some of these tasks. The Kangaroo Bond has sought to balance this by taking a phased approach, with the intermediary handing over responsibility to the provider over the life of the Bond. It is also interesting to note that in the SIB market, the additional costs associated with intermediaries and the desire to build internal capacity has been a key driver for working directly with investors.
9. **Validation costs can be high – there is a trade-off between rigour and cost.** It is also possible to build synergies between verification and performance activities, to reduce costs and maximise the benefits of these activities. For example, verification information can be used to test performance management data and to support course correction and adaptation.
10. **Measuring cost-effectiveness of the DIB funding mechanism is extremely challenging.** Full costs, including in-kind contributions, are not being captured. Some stakeholders note that financial reporting requirements to funders is also lower, due to the move to a focus on outcomes. This makes it difficult to assess value for money.
11. **Legal costs remain high and the DIBs have seen a general willingness to work more flexibly outside formal contractual provisions.** In the response to Covid-19, there seems to be greater flexibility than the contract formally provides for, and a certain unwillingness to go through legal proceedings. The extent to which all eventualities need to be incorporated into the contract, and the extent to which more informal processes can be used, depends on the existing relationships and levels of trust between stakeholders.

Recommendations

Recommendations to FCDO

1. **FCDO can support the wider market in collecting more robust cost data.** The evaluation has found it challenging to gather consistent cost data across the four DIBs, and more could be done to routinely collect costs to support assessing the value for money of DIBs. This will likely require a combination of support to stakeholders, creating consistency between different approaches, building requirements into contracts and providing reassurance that the objective is not to identify cheaper or more expensive providers, but to build learning for the wider sector. This presents an opportunity for FCDO to collaborate with other donors and outcomes funders interested in this space.

2. **FCDO should consider how it can apply DIBs where most appropriate to its portfolio, based on the parameters set above.** In designing future DIBs after the pilot programme, FCDO should set out the problems that using the DIB will address - that is, the target objectives of using the DIB. It can then draw on the evidence base on how best to structure the DIB to maximise these targeted benefits. This report provides some emerging evidence of how DIB inputs (aligned to key design choices, for example in terms of the level of risk sharing between stakeholders, the type of contract, and the governance structure) lead to DIB outputs and DIB effects.
3. **FCDO should consider following up with DIBs after the end of delivery (building this into contracts as needed) to test the sustainability of outcomes and spillover effects.**

Recommendations to the wider DIB sector

4. **Clarify roles and responsibilities upfront.** The many stakeholders involved in a DIB can drain resources and time. To ensure stakeholders are adding value to delivery, roles and responsibilities should be clearly defined and linked to the specific experience and expertise stakeholders are bringing.
5. **Build flexibilities into the contract to respond to changing situations without having to substantially change contracts.** Setting up and changing legal contracts is expensive. It will likely be impossible to incorporate all eventualities into a contract; therefore, building in flexibilities and agreed steps for approving changes will help the DIB mechanism remain relevant in crisis situations. The more that DIB contracts can be made public and learnings captured may help accelerate learnings in this area.
6. **Be transparent and share lessons learned as well as key successes and challenges to support the strengthening of the market.** There is a very high level of scrutiny and focus on these early DIBs. It can be difficult to openly share 'failures'. However, these challenges, such as the removal of underperforming service providers, can be seen as a success of these pilots in generating learning. A broader understanding of what 'success' looks like, for instance, including generating learning of what does not work, especially during this pilot phase, will be important for building the wider market.

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1.0 Introduction



1.0 Introduction

1.1 Overview of the DIBS pilot programme

In 2017, FCDO, formerly DFID, launched the pilot DIBs programme, which aims to build the evidence for the suitability of DIBs in improving the efficiency and effectiveness of development programmes in areas including income generation, health and disability. In 2018, Ecorys was commissioned to evaluate the programme, focusing on generating learning to inform FCDO's future policy to make the most effective use of DIBs. This is the second report (of three) and captures initial learnings and findings from the implementation stage.

1.1.1 DIBs and the current stage of the market

FCDO recognises three types of payments by results (PbR), funding whereby payments are made after the achievement of pre-agreed outcomes (FCDO, 2014). Results-based aid (RBA) involves payments to governments and results-based financing (RBF) involves payments to other kinds of service providers, for example, private sector firms or non-governmental organisations (NGOs). The third type of PbR is a DIB, which is the focus of this evaluation.

In a standard PbR contract, there are four actors:

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

DIBs involve two additional agents:

- i. the **investor(s)**, which provide(s) the working capital to deliver the intervention and may be able to make a return on their investment, calibrated to the level of outcome achieved; and
- ii. in some cases, the **intermediary**, which can assist with the development and commercialisation of the DIB, and with the monitoring and support of the delivery of the intervention⁵.

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

As of December 2020, Brookings⁶ counts 196 impact bonds across 33 countries, of which 184 are Social impact bonds (SIBs) and 12, Development Impact Bonds (DIBs). The majority of the impact bonds contracted to date are in the employment (63) and social welfare (including *poverty reduction, child and family welfare, and homelessness*, 63) sectors, followed by health (30) and education (23). The majority of impact bonds are in high-income countries, particularly the US and UK. 18 impact bonds

⁵ A number of SIBs are not intermediated, such as the Manchester City Council SIB with action for children and Bridges.

⁶ Brookings Institution Global Impact Bond Database, December 1, 2020. <https://www.brookings.edu/wp-content/uploads/2019/01/Global-Impact-Bonds-Snapshot-December.pdf>

have been contracted in developing countries, with India (3) in the lead, followed by South Africa (2), Cameroon (2) and Colombia (2). In developing countries, the most common sectors for impact bonds have been health (6) and employment (5), followed by education (3).

1.1.2 Objectives of the DIBs pilot programme

FCDO's 2014 PbR Strategy⁷ set out the ambition for PbR to become a major part of the way FCDO works. FCDO's move towards PbR is explained as part of a broader reform to ensure good value for money is achieved from the development budget.

FCDO 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, FCDO's economic development strategy, which was released in January 2017, re-committed FCDO to "assess[ing] the scope" of DIBs as a financing tool. It is in this context that the DIBs pilot programme was launched.

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

- Understand the process of agreeing and managing DIBs and the implications of DIBs for FCDO's processes;
- Build an understanding of whether DIBs enable efficient and effective delivery of programmes; and
- Build an understanding of the conditions necessary for DIBs to be an appropriate commissioning tool for the FCDO, and the costs and benefits of using them.

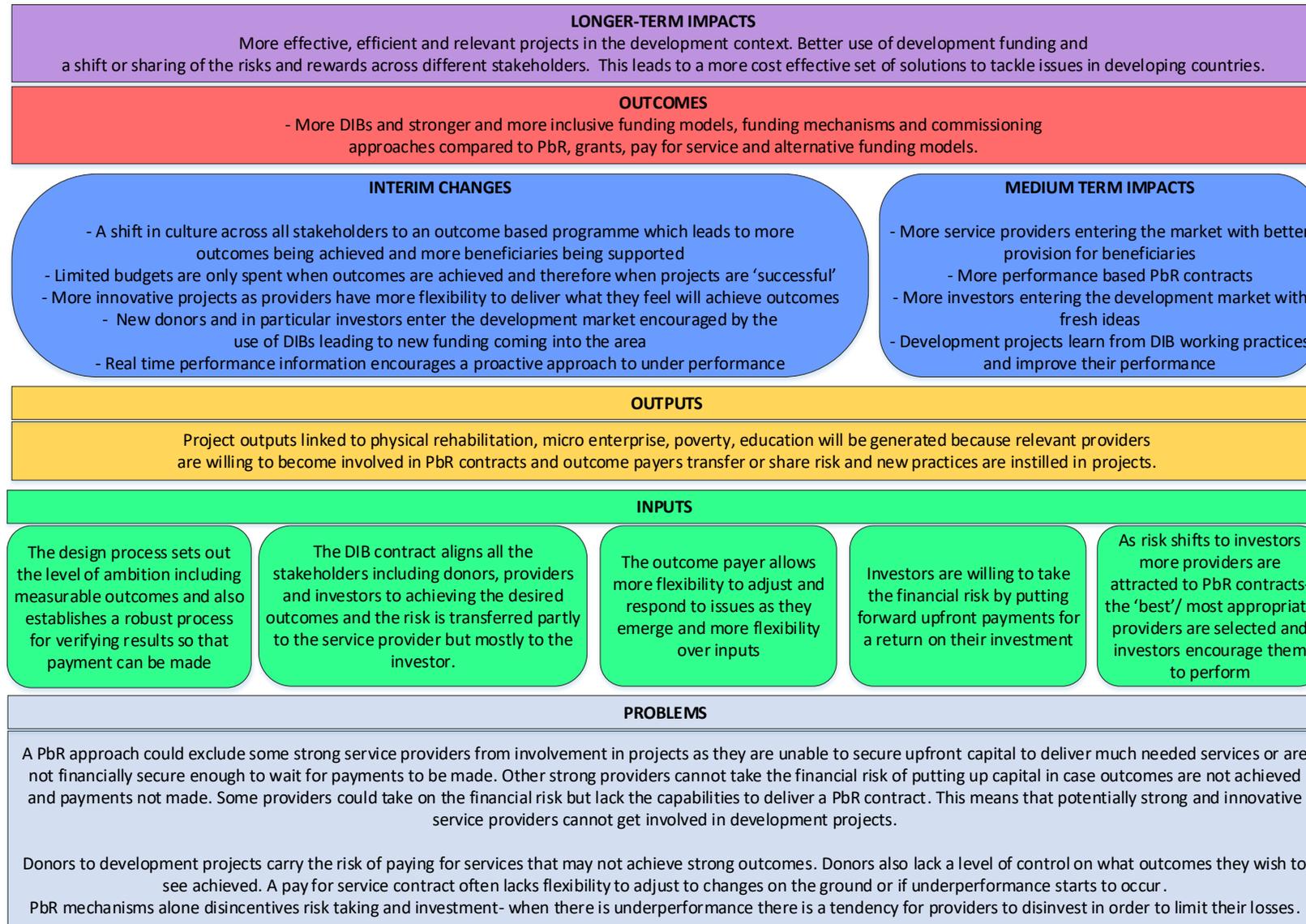
FCDO is piloting DIBs by supporting a small number of projects designed by other donors or delivery partners where a PbR and DIB financing structure is desirable and feasible. The pilot aims to gather evidence that will help FCDO understand when DIBs may be an appropriate commissioning tool and the costs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

1.1.3 Theory of change

In the Terms of Reference for the DIBs pilot programme evaluation, FCDO supplied a Theory of Change (ToC). As part of the proposal, the evaluation team updated this ToC, based on the understanding of the available evidence in relation to the potential, and challenges, of impact bonds. The ToC was revised during the evaluation inception phase, following consultation with FCDO and stakeholders involved in the DIBs funded through the programme. The ToC set out overleaf (see Figure 2.1) remains unchanged from the one presented in the inception report.

⁷https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/323868/Sharpening_incentives_to_perform_FCDOs_Strategy_on_Payment_by_Results.pdf

Figure 2.1: DIBs pilot programme theory of change



1.1.4 Selection of DIBs

The pilot programme is made up of three DIBs:

- **International Committee of the Red Cross (ICRC) Humanitarian Impact Bond (HIB) for Physical Rehabilitation** funds the building of three new physical rehabilitation centres in Mali, Nigeria and Democratic Republic of Congo (DRC), as well as two years of operations in these centres.
- The **Quality Education India (QEI) Development Impact Bond** aims to offer a solution at scale to the learning crises in India, by funding a range of high performing service providers to improve learning outcomes for more than 200,000 primary school aged children.
- The **Village Enterprise (VE) Development Impact Bond for Micro-enterprise Poverty Graduation** aims to raise the income levels of a minimum of 12,660 households through Village Enterprise's micro-enterprise development programme, known as a Graduation programme.

This evaluation report also draws on learning from the **Cameroon Cataract Bond**. The **Cameroon Cataract Bond** funds sight-restoring cataract surgeries, with the overall aim of enabling the Magrabi ICO Cameroon Eye Institute (MICEI), the first eye care hospital in Cameroon, to reach self-sufficiency in five years. The loan aims to expand the market reach and provide 18,000 quality eye surgeries, with cataract treatment services to the poor at low or no cost, and to help the hospital become a training institute for the region.

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

Further information on these DIBs can be found in Chapter 3.

1.2 Objectives of the Evaluation

The **purpose** of the evaluation is to generate learnings and recommendations on the use of DIBs as an instrument for aid delivery, by using the experience of the FCDO DIBs pilot programme to generate learning to inform FCDO's future policy aiming to make the most effective use of DIBs. The evaluation will also help FCDO 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 advantages and disadvantages of applying a DIB model, looking at whether any strong or weak performance in the project is attributable to the DIB model rather than, for instance, local context, the delivery team or any other mitigating factors. The evaluation focuses on whether the DIB leads to better and more relevant, efficient and effective activities compared to alternative funding models – known as the 'DIB effect'.

The two evaluation questions are:

- **EQ1:** How does the DIB model affect the design, delivery, performance and effectiveness of development interventions?
- **EQ2:** What improvements can be made to the process of designing and agreeing DIBs to increase the model's benefits and reduce the associated transaction costs?

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

1.3 Overview of the Evaluation Process

The evaluation is divided over three waves, with the majority of the research activity repeated during each wave. The waves are aligned with timeframes of the DIBs, which are being delivered between 2017 and 2023:

- Wave 1: **Set up** (April – February 2019): Focusing on the process of designing and launching the FCDO DIB pilot projects.
- Wave 2: **Delivery** (April – November 2020): Focusing on emerging lessons from the FCDO DIBs pilot projects, as well as from evidence generated by other DIBs.
- Wave 3: **Sustainability** (April 2022 – March 2023): Focusing on the legacy of the DIBs and the programme, including the extent to which outcomes and DIBs were sustained. This will also update the interim findings from Wave 2, providing a full assessment of the DIBs pilot programme, including costs and benefits.

Research Wave 2 (RW2) drew on the preparatory work undertaken during the Keeping in Touch (KiT) phase, which included a debrief of RW1 with FCDO covering lessons learned and key changes, key stakeholder interviews with the four DIBs and review of programme and DIB documentation and submission of the KiT report setting out refinements to the approach, fieldwork planning, costs template and interview guides.

Following the review and agreement of the KiT report by FCDO, Research Wave 2 included research and analysis at the individual DIB level for the four DIBs included in the scope of the evaluation, at the pilot programme level and at the sector level. This was conducted between March – July 2020. Further detail is set out in Section 2.

Findings from RW2 were presented at an internal Learning Workshop on July 16th, 2020. The aim was to contextualise the programme evaluation findings, compare differences and similarities between DIBs under study, share lessons learned and consider the implications for the wider sector.

1.4 Scope of the Research Wave 2 Report

This report provides feedback on the implementation of DIBs included within the DIB pilot programme, as well as the Cameroon Cataract Bond. This is a mid-term report, which captures initial learnings and findings from the implementation stage. The timing of the evaluation report means all four DIBs were in the middle of delivery when the research took place between March to July 2020. The report includes estimates of the costs involved in the implementation of the DIB. The report focuses on the use of the DIB in funding these projects and does not cover the intervention design or the delivery of the projects.

The report makes recommendations on the conditions that are needed for DIBs to be suitable and optimal. It also recommends possible ways to reduce costs in structuring and implementing DIBs while also increasing their benefits. The report has been complemented by specific case study reports focusing on each of the four DIBs, which are set out in Annex F.

The evaluation report and the case studies will be reviewed by FCDO, the Evaluation Advisory Group that has been established for the evaluation, FCDO's EQUALS quality assurance reviewers, and other

stakeholders, including those from the DIBs under the scope of the evaluation. On the basis of this feedback, the report will be finalised and communications products will be prepared with a view to most effectively communicating the evaluation findings both to DIB stakeholders and other stakeholder organisations, but also to the wider DIB sector.

1.4.1 Report structure

The remainder of this report is structured as follows:

- **Section 2** sets out the evaluation framework that has been used to guide the evaluation and summarises the main features of the methodology and the limitations of the available evidence.
- **Section 3** introduces the DIBs included under the scope of the evaluation.
- **Section 4** presents the analysis and findings of the evaluation in relation to EQ1, assessing how the DIB model affects the delivery phase of development interventions.
- **Section 5** presents the analysis and findings of the evaluation in relation to EQ2, in terms of the estimated costs attributable to the use of the DIB funding mechanism and identifying improvements that can be made to reduce the associated transaction costs.
- **Section 6** presents the analysis and findings of the evaluation in relation to EQ2, in terms of identifying improvements that can be made to the process of delivering DIBs to increase the model's benefits and reduce the associated transaction costs.
- **Section 7** summarises the lessons learned, which are of potential wider relevance for the delivery phase of DIBs.
- **Section 8** provides recommendations based on our findings and lessons learned, split between those applicable to FCDO and the wider DIB sector.

Additional information is included in annexes:

- **Annex A** sets out acronyms and a glossary of key terms used in the report
- **Annex B** sets out further detail on the DIBs
- **Annex C** sets out the references cited within the report and annexes
- **Annex D** sets out the list of consultees and documents reviewed as part of this research wave
- **Annex E** sets out further detail on the methodology used and the use and influence plan

Annexes published separately which should be considered part of the report include:

- **Annex F** sets out the case study reports agreed with the different DIB stakeholders
- **Annex G** contains the Terms of Reference for the evaluation
- **Annex H** sets out the detailed analysis of the DIB effect across the four DIBs.

1.4.2 Guide to use

We set out some guidance for use of the report below:

- Those primarily interested in findings of the report can skip past sections 3 and 4
- Those specifically interested in one of the four DIBs will find details per DIB in section 4 (discussing the DIB effect) and section 5 (discussing the costs of the DIB)
- Those interested in lessons learned can skip to sections 6, 7 and 8

2.0 Evaluation Framework



2.0 Evaluation Framework and Methodology

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

2.1 Evaluation framework

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

Table 2-1 sets out the evaluation framework for evaluation question 1 (EQ1), which sets out to assess how the DIB model affects the design, delivery, performance and effectiveness of development interventions, which we term the 'DIB effect'. Sub-questions relating to the DAC criteria of effectiveness and sustainability are included. Within these, there are sub-questions relating to comparisons between the DIBs within the pilot programme, and between the DIBs and projects funded through other funding mechanisms, and to spillover effects. Indicators linked to the hypothesised DIB effects were developed which was used to guide our discussions with stakeholders - these are set out in Annex E.

Table 2-1: Evaluation Framework – EQ1: How does the DIB model affect the design, delivery, performance and effectiveness of development interventions?

Effectiveness and sustainability sub-questions	Research Wave		
	1	2	3
To what extent were the four DIB projects successful in realising their aims, outputs, outcomes and impacts?	x	x	x
To what extent was the level of success and failure due to the DIB model - was the DIB model a small, medium or large driver of success and was it at all critical to the projects' overall performance?	x	x	x
Did the DIB model provide added value in relation to the cross-cutting issues of gender, poverty, human rights, HIV/AIDs, environment, anti-corruption, capacity building and power relations?			x
Where was the DIB model most effective - was its greatest value in terms of the design, delivery, relationship development, cost effectiveness, time efficiency or impact on beneficiaries?			x
Comparisons			
To what extent does the effectiveness vary across the four projects and why?	x	x	x
How does the effectiveness compare to other DIBs and funding mechanisms and why?	x	x	x
Spillovers			
To what extent did stakeholders involved in the DIB use any of the working practices of the model in their other work? To what extent did good practice within the DIBs spread to other interventions or organisations?	x	x	x
Does the increased evidence base developed in the DIB enable the projects to access additional funding?			x
Sustainability			
What is the legacy of the use of the DIBs? How sustainable are the DIB effects?			x

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

Table 2-2: Evaluation Framework – EQ2: What improvements can be made to the process of designing and agreeing DIBs to increase the model's benefits and reduce the associated transaction costs?

Efficiency, equity and relevance sub-questions	Indicators	Research Wave		
		1	2	3
Efficiency				
What (if any) are the extra costs of designing and delivering a project using a DIB model and how do they compare to other funding mechanisms?	Additional costs of the impact bond, disaggregated where possible by: <ul style="list-style-type: none"> • stage (design and delivery); • actor who incurs this cost; and • type of cost (staff time, consultancy and expertise costs, and the risk premium (return to investors, including interest)) Savings in programme costs (including staff time) as a result of the impact bond How effectively has risk been transferred - what is the alignment of transferred risks with return?	x	x	x
Where are the extra costs most prevalent and what specific items (staff, monitoring procedures etc.) have the highest costs? Are these extra costs mainly found in the design or delivery stages?		x	x	x
Do the extra costs represent value for money - to what extent do they lead to additional results, impacts and benefits?			x	x
Do any aspects to a DIB model (e.g., involving an investor, undertaking verification of outcomes) shorten or extend the timeframes of projects?			x	x
Who pays for these additional costs and to what extent do they see the benefits?		x	x	x
Are there any inefficiencies in a DIB model that can be reduced or are there any additional costs that are unnecessary?			x	x
Equity				
How well are the programmes fulfilling their targeting strategy? Are there certain sub-groups which are not being reached?	Any positive or negative changes to equity as a result of the impact bond		x	x
Comparisons				
To what extent does the efficiency of the DIB delivery vary between the four DIB projects and why?	Level of transaction costs of setting up a DIB compared with the average costs for other funding mechanisms (e.g., fee-for-service contracts)		x	x
How does the efficiency compare to other DIBs and funding mechanisms and why?	Changes in transaction costs over time (as projects start to learn from previous experience) Number of direct beneficiaries with improved outcomes as a result of DIB projects		x	x
Relevance				
In what circumstances are DIBs relevant in tackling issues in the development context?	Level of returns and profit made by the investors and extent to which that influences future involvement in both DIBs and development projects Number of DIB projects with improved cost-effectiveness	x	x	x

Efficiency, equity and relevance sub-questions	Indicators	Research Wave		
		1	2	3
What social issues, target groups, geographies and project scales do DIBs fit best and have the greatest of impact?	ratio compared with service providers' own past performance			x
Are DIBs appropriate in development contexts - is the existence of investors (and possible profits), payment only when results are made and strong expectations around measuring outcomes appropriate for donors such as FCDO?	Proportion of new FCDO DIB instruments commissioned that are informed by recommendations of FCDO DIBs evaluation reports Number of new FCDO programmes interacting with DIBs guidance, evaluation findings and reports	x	x	x
To what extent are DIBs applicable to FCDO's work - are they relevant across most, some or a few of FCDOs priority result areas?				x

2.2 Overview of the methodology

We use process tracing to assess the DIB effect (EQ1). Process tracing is a qualitative research method for assessing causal inference within small-n studies. The method seeks to assess the causal chains 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. In the evaluation, we compared the presence of DIB effect indicators in both the DIB areas and comparison sites to assess the extent to which the 'DIB effect' was more prevalent in the DIBs compared to the comparison sites. We then undertook qualitative research to assess the extent to which the presence of the 'DIB effect' could indeed be attributed to the DIB, compared to other factors. Our process tracing approach relies on the following five steps.

1. Creation of 'DIB effect' indicators (process induction)
2. Examine presence of indicators in DIB areas
3. Examine presence of indicators in non-DIB areas
4. Analyse difference between DIB and non-DIB areas
5. Process verification

These steps are discussed in more detail below, followed by Section 2.2 on Data collection and Section 2.2.3 on Analysis. Our approach to reporting and dissemination is in Section 2.2.4. Further detail is set out in Annex E.

2.2.1 Process tracing approach

Step 1: Creation of 'DIB effect' indicators

We set up hypothesised DIB effects and indicators as part of the inception phase, which were refined as part of RW1 and during RW2. These are set out in section 4.1. These were linked to the DIB ToC outlined above and drew on established literature and stakeholder consultations regarding the expected DIB effect. These were used to frame data collection and analysis.

Step 2: Examine presence of indicators in DIB areas

This was done through our DIB level data collection, see section 2.2.2.1.

Step 3: Examine presence of indicators in non-DIB areas

Research in comparator sites: In order to develop an understanding of how the DIB affected the delivery phase, the evaluation team also undertook data collection at comparator sites.

Across three of the DIBs, we identified similar programmes being delivered by the same service providers funded by the DIBs, but which were funded under grants. As part of the inception phase, a list of parameters which would affect the comparability of programmes was developed based on discussion within the evaluation team and FCDO. These were: project purpose and objectives; service provider and processes used; countries of operation; context; time period; size of project; level of donor oversight/influence; payment structure; and availability of data and stakeholders. The evaluation team then worked with the service providers and intermediaries, in order to identify potential comparator sites, and assessed the similarity to our impact bonds along these parameters.

The table below summarises the comparator sites:

Table 2-3 Comparator Sites

DIB	Grant funded programme	Comparability
ICRC HIB	Wider Physical Rehabilitation Programme, delivered by ICRC	The three HIB-funded centres are part of the larger programme. Efficiency improvement measures were tested in selected centres and being rolled out across both HIB and non-HIB funded centres.
QEI DIB	Similar interventions that the service providers are delivering in other locations	Several managers within the four service providers are involved in both DIB and non-DIB funded interventions. One of the outcome funders (MSDF) is also involved in some of the non-DIB funded interventions of these service providers. Interventions are broadly similar, but there is more flexibility in the non-DIB funded programmes to draw on other approaches and work with other providers; opportunities for collaboration are more limited in the DIB-funded interventions due to the constraints of the evaluation approach.
VE DIB	Current grant-funded programme	Broadly similar, but the approach to targeting is slightly different under the DIB, due to the use of the RCT. Under the non-DIB programme, VE delivers the programme in clusters of villages geographically near each other. The targeting also works slightly differently. In DIB areas, 50% of eligible villages were selected to be part of the treatment group, and the rest to the control. The DIB villages working with the poorest 70 households that qualify for participation according to the poverty assessments, whereas normal programming works with all qualified households.
Cataract Bond	Fitsum Birhan Specialized Eye Clinic – funded by the Hilton Foundation	Both the Cataract Bond and Fitsum Birhan Specialized Eye Clinic are funded in part by the Hilton Foundation. The comparator hospital is run by a different organisation and is smaller in size than the Bond. The Bond is also a tertiary eye care centre (including teaching elements) while the comparator is not. Funding in the Bond covers hospital construction and operational costs, whereas funding in the comparator covers capacity building and specific interventions (implementing an IT system, buying computers, providing training). The comparator is run as a social enterprise, whereas the Bond funded hospital is run as a non-profit. The comparator hospital was already running before receipt of the grant, while the Bond hospital was not. Therefore, whilst broad comparability is possible, there are a number of factors that differentiate the Bond from the comparator site, and so comparisons here should be treated with some caution.

During this Research Wave we interviewed staff working in the comparator sites, to determine the extent to which the DIB effect was also present in these sites. This was to support our understanding of other factors which may have also contributed to these DIB effect indicators.

The grant funded programme comparisons provided a useful comparator. In all cases except for the Cataract Bond, they are grant funded programmes delivered by the same service providers. There were some differences in the locations and interventions delivered between the comparator site and the interventions funded by the DIBs. Nonetheless, interviews with relevant comparator stakeholders provided useful information in terms of how use of a DIB affected delivery.

Step 4: Analyse difference between DIB and non-DIB areas

We first analysed the difference between DIB and non-DIB areas against each DIB effect, to ascertain if this DIB effect is also seen in non-DIB areas. However, a key challenge is that we cannot assume any differences between the DIB and non-DIB areas can be attributed to the DIB mechanism, because the comparators are not perfect – they all differ from the DIB, in terms of location, programming, time period, etc. Additionally, spillovers can be expected, where the same programme team are delivering both a DIB and a non-DIB.

Step 5: Process verification

Due to the challenge above, this step is key to establish causal inference. We assessed the evidence that the DIB mechanism contributed to the DIB effect indicators, relative to other possible explanations identified during fieldwork, and through the inception phase and RW1.

A summary assessment was then made about the extent to which this DIB effect can be considered present and attributable to the DIB (column 5 referenced below). Evaluator judgement was required. This involved assessing the evidence, including consideration of potential limitations and biases (e.g. where certain stakeholders were more removed from delivery), and considering the extent to which there was agreement between data sources and stakeholders. Evaluator judgement was used to come to an assessment. This was then validated by stakeholders – the summary tables in Annex H were shared with stakeholders for comment and the DIB effect assessment discussed during the internal learning workshop. Stakeholders broadly agreed with our assessments, and these were further refined following discussions with stakeholders.

To organise our data, findings against each DIB effect were organised into a framework with five columns:

- 1) Extent to which the DIB effect was observed in the comparator site
- 2) Extent to which the DIB effect was observed in the DIB project
- 3) Reasons or causal drivers for this DIB effect, linked to the DIB
- 4) Reasons for the DIB effect, not linked to the DIB
- 5) Summary assessment about the extent to which this DIB effect can be considered present and attributable to the DIB.

2.2.2 Data collection

There were three levels of research activity in this research wave (RW2), at the individual DIB level, programme level and sector level. Further detail on these levels is set out below. The Lead Analyst undertook quality assurance on the data collection tools, processes and data collected.

2.2.2.1 DIB level data collection

This level of research relates to the four DIBs under the scope of the evaluation. In order to examine the DIB effect, we undertook the following:

We used the following data collection processes to examine the presence of DIB effect indicators in the DIBs:

- **Data analysis:** Quantitative figures on the performance of the DIBs to date, including performance metrics, outcome payments and returns. In order to ascertain the reliance we could place on programme data, we updated the Data Quality Assessment (DQA) checklist.
- **Document review:** The evaluation team reviewed key documents related to each DIB to further understand the delivery phase (see Annex D).
- **DIB consultations:** Consultations with key stakeholders to understand how the DIB mechanism is affecting the delivery of the project (including the Covid-19 response), any spillovers on the organisation or wider DIBs market, perceptions of the efficiency of the mechanism, reflections on the relevance of the DIB mechanism, lessons learned and satisfaction with progress to date (see Annex D for a list of stakeholders consulted). Data collection instruments were reviewed by FCDO as part of the KiT report. Instruments built on the learning from our interviews in RW1 and were refined after an initial round of interviews.
- The **sampling strategy** used was purposive. There were a limited number of stakeholders involved in the delivery phase, and random sampling was not considered necessary or appropriate. For the DIB-level

research, for the most part, the evaluation team contacted all relevant stakeholders, namely investors, service providers, outcome funders, performance managers and outcome evaluators. All stakeholders involved were invited to participate in the evaluation, though some stakeholders did not respond. However, the evaluation team has tried to address this by drawing on a range of programme documentation and triangulating the findings and data from stakeholder interviews from RW1.

The table below sets out the number of organisations interviewed, and the total number of organisations involved per impact bond stakeholder category. In parentheses in this table under the 'interviewed' columns, we have included the number of individuals interviewed. Details on the stakeholders involved in the four DIBs are set out in Annex B.

Table 2-4 Stakeholders consulted

Category	ICRC		QEI		VE		Cataract Bond	
	Interviewed	Total	Interviewed	Total	Interviewed	Total	Interviewed	Total
Outcome Funders	2 (3)	5	2 (3)	5	1 (2)	3	3 (6)	3
Investors	1 (1)	7 ⁸	1 (2)	1	-	9	2	2
Advisors / Intermediaries / Performance Managers	-	-	2 (3)	3	1 (1)	1	1 (2)	1
Service Providers	1 (4)	1	4 (26)	4	1 (20)	1	1 (3)	1
Other funders	-	-	1 (2)	1	-	-	-	-
Outcome Evaluator	0	1	1 (3)	1	0	1	0	1
DIB researchers	-	-	-	2	-	-	-	-
Others							-	1

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

We also spoke to programme stakeholders in the identified comparator sites. A full list of consultations is set out in Annex D.

Cost data: The evaluation team obtained information on the additional costs of delivering a DIB in comparison to other funding mechanisms. This was gathered using a set cost template developed under the KiT phase, building on the work the Government Outcomes Lab is doing to strengthen consistency across the sector. Additionally, we also gathered data against the Value for Money (VfM) framework delivery during the inception phase, which included measures of economy, efficiency, effectiveness and equity of the DIBs (see Annex E for further detail).

2.2.2.2 Programme level data collection

This level relates to the DIBs pilot programme and synthesises the finding across the four DIBs. Data collection processes included:

- **FCDO consultations:** The evaluation team held one consultation with the FCDO DIBs team, in order to develop further understanding of the programme, and how it related to FCDO priorities in this area.

⁸ Of the seven investors, there is one cornerstone investor and one placement intermediary that identified the other five investors. The one investor consulted represents over 50% of the total investment.

- **Programme document review:** The evaluation team reviewed key programme-level documents, such as internal reports written by FCDO.
- **Internal learning workshops:** The internal workshop brought together 15 key stakeholders from across the three FCDO DIB pilots and the Cameroon Cataract Bond. The workshop involved a discussion on the validity of these findings for the different DIBs, and additional perspectives and nuances across the range of DIBs present. Results from the learning workshop were used to refine the evaluation team's analysis and findings and have been incorporated in this evaluation report.

2.2.2.3 Sector level data collection

This level of research seeks to provide the wider contextualisation to our findings. Data collection processes included:

- **Literature Review:** this involved a literature review on the impact bond (social impact bonds and development impact bonds) and payment by result sector more broadly, covering both academic and grey literature.
- **Other consultations:** The evaluation team held consultations with DIB advisors and key stakeholders of existing DIBs, to understand how the DIB mechanism is affecting the delivery of projects and lessons learned in other DIBs. We conducted two consultations in total.

2.2.3 Analysis

Analysis was first done at the DIB level, and then synthesised across the programme and contextualised within sector level findings. These are discussed further below.

2.2.3.1 DIB level analysis

Our analysis of the DIB effect at the DIB level covered steps 4 and 5 of process tracing, which included analysing the difference between DIB and non-DIB areas and assessing the weight of evidence for the DIB mechanism compared to alternative explanations.

The value for money approach considered the costs incurred in a DIB, compared these with PbR and input-based/grant financing, and assessed how the DIB costs compares with the *benefits* seen under DIBs, PbR and input-based financing.

Building on work with GO Lab, we developed a standard cost template with standard categories and definitions. This was refined with input from the DIBs. Our approach involved asking DIB stakeholders to provide full costs where this was available and estimate how this would have differed had it been grant or PbR-funded.

2.2.3.2 Synthesis – programme and sector levels

Synthesis was then undertaken across the programme and sector levels. The DIB effect hypotheses were refined. Based on the assessment of DIB and non-DIB drivers during the DIB-level analysis, a clearer understanding of the link between DIB inputs, DIB outputs and DIB effects was developed. This was used to structure our analysis at the DIB pilot programme level, to better understand similarities and differences across the DIBs, and potential implications for future DIBs. Where relevant, we also drew on sector level information, both from the literature review and our other DIB consultations.

We also compared the DIB costs and effects to evidence from the PbR sector.

- **Effects:** Compared to RW1, we increased our focus on how the DIB effect compares to the PbR effect. In our DIB consultations, we probed to understand what aspect of DIBs are leading to DIB effects. The literature review covered the drivers and mechanisms by which PbR leads to the observed 'PbR' effects. This was used to undertake a qualitative comparison between the use of PbR and DIBs, to understand how DIB effects differ from PbR effects, drawing on a nuanced understanding of what *aspects* of PbR and DIBs are leading to these effects.
- **Costs:** Drawing on PbR consultations from RW1 and a review of the literature, we built an understanding of additional costs and cost savings resulting from use of PbR. We consulted with the DIB service providers to discuss, where relevant, their experiences with PbR. Drawing on the costs template, we worked with DIB stakeholders to estimate additional/reduced costs as a result of using a DIB, and hypothetical differences, should PbR have been used instead.

2.2.4 Reporting and dissemination

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

Table 2-5: Deliverables mapped to target audiences

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

This **report** forms evaluation report 2, which includes early feedback on the delivery of the DIBs (including an estimate of delivery costs) and recommendations for expanding and improving the DIB programme and these DIB mechanisms. This is also complemented by specific **case studies** focusing on each of the three DIBs (see Annex F). An **internal workshop** was held to discuss emerging findings.

The main learning from RW1 is the importance of building on momentum during publication of the report. We will produce an external facing version of the report, blogposts and learning outputs to support uptake of the report, framed as 'lessons learnt' and 'how tos'. Following the publication of the evaluation report, an **external workshop** will be planned which will bring stakeholders from across the DIB sector. The purpose would be twofold: Firstly, to bring learning into the programme and to understand the DIB effect and lessons learnt in delivery in other DIBs to contextualise the programme evaluation findings; and secondly, to share lessons from the programme and consider the implications for the wider sector.

2.3 Methodological limitations

The table below sets out the key methodological limitations, the mitigations undertaken and the effect on evaluation findings.

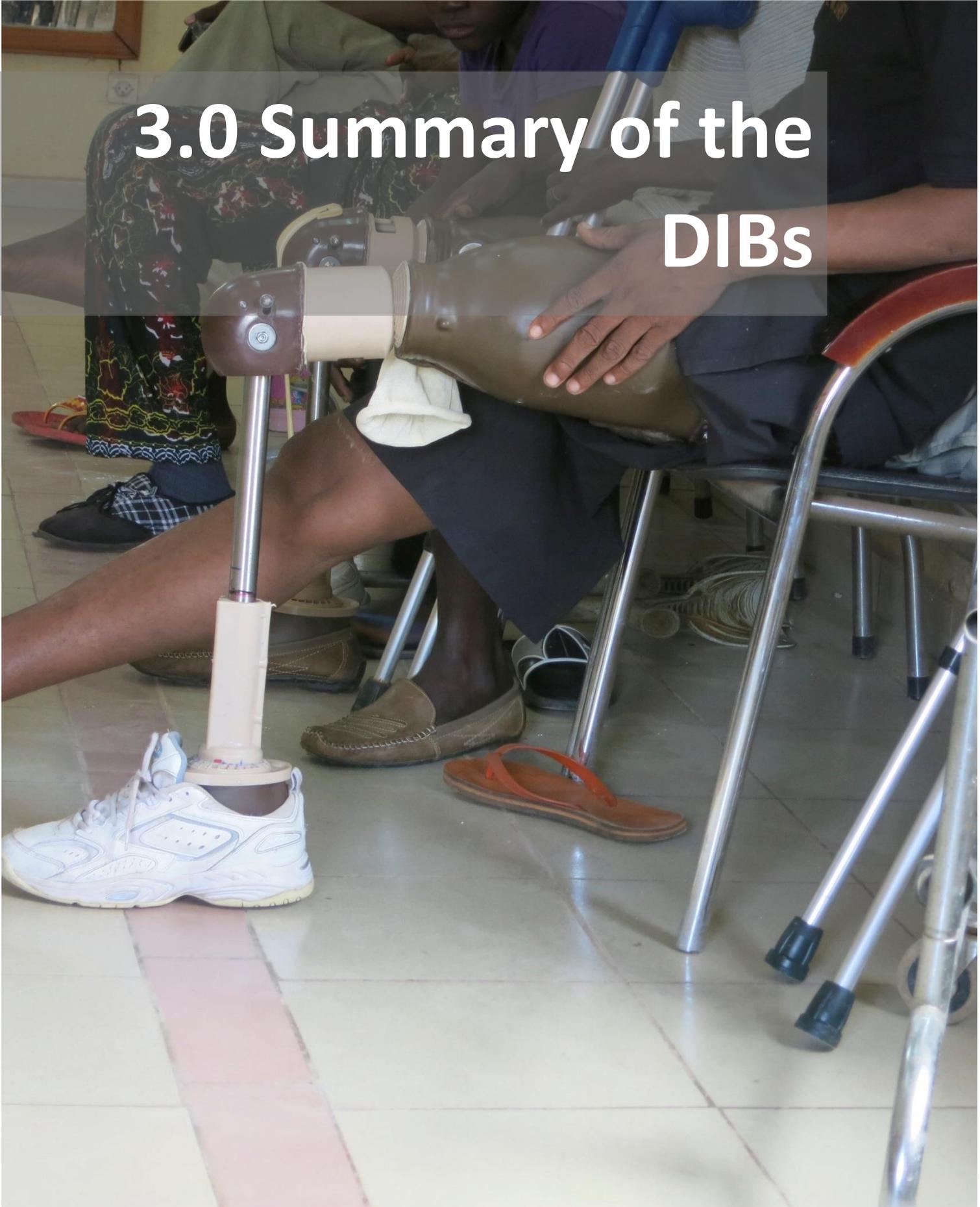
Table 2-6: Limitations and mitigations

Limitations	Mitigations and effect on findings
Generalisability of findings: The number of DIBs both within this evaluation and in the wider sector is small and very varied, limiting the ability to make generalisable conclusions about the effectiveness of DIBs.	The analysis and findings have been carefully presented, with reference to the specific contexts, DIBs and stakeholders that the findings relate to, where applicable. Furthermore, the evaluation examines the extent to which the DIB effect holds true across different sites.
Approach to causal inference: The effect of using a DIB is not quantified. The use of experimental or quasi-experimental methods in order to claim attribution is not appropriate in these contexts.	The evaluation focuses on contribution, using a process tracing approach, and to understand the drivers by which a DIB contributed to the DIB effect.
Limited availability of cost data: The cost analysis is limited by the limited availability of cost data, including in-kind costs such as staff time.	The team worked with stakeholders to estimate costs. Cost data was complemented with findings from the qualitative and quantitative data to gain an overall assessment of the cost effectiveness of the DIBs.
Response bias: Different stakeholders involved in impact bonds have different perspectives and interests in the DIB mechanism. This can introduce certain biases and need to be taken into account. For example, it is possible beneficiaries will overstate the benefits of support when being interviewed due to a desire to please the researcher and project ⁹ . It is also possible that projects and those who gain from the DIB mechanism will over-claim the benefits of the DIB and wish to downplay the effect of any perverse incentives.	We reinforced the anonymous nature of the interviews and the desire for honest accounts to reduce response bias. Additionally, drawing on our experience with SIB evaluations, we have used exercises and prompts to help stakeholders consider the possible factors that contributed to project delivery and to explain how their DIB compares to the other DIBs to help them consider why there might be similarities or differences. The use of comparator sites provided a degree of objectivity when assessing the impact of the DIB mechanism. Ultimately, though, our evaluation was dependent on what stakeholders communicated, combined with the evaluation team's judgement and experience with impact bonds. Hence, the risk of bias due to different interests and other factors cannot be completely avoided. Not all stakeholders agreed to participate in the evaluation, though across the two research waves, we managed to speak to most stakeholders across the four DIBs. To reduce nonresponse bias, we ensured we spoke to at least one stakeholder across the different DIB categories across the four DIBs, and also triangulated findings across interviewees and DIB documentation.
Sampling bias: The size of the DIBs means that for some stakeholder groups (for example, beneficiaries and practitioners) we will only be interviewing a sample. To a degree we will be reliant on the projects to recruit stakeholders to be interviewed, and they may target recruitment at stakeholders more favourable towards the projects.	Especially as we were delivering fieldwork remotely, we were reliant on service providers to select relevant practitioners for interview. We asked to speak to a random selection of practitioners, but this was a convenience sample rather than random sample. We were unable to speak with final beneficiaries. Due to challenges with internet connectivity and access, we were unable to use random sampling methods as already intended. We have set out the categories of findings we think will be most affected, namely findings around potential <i>negative</i> DIB effects of perverse incentives and tunnel vision.
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	Drawing on our experience with SIB evaluations, we have used exercises and prompts to help stakeholders consider the possible factors that contributed to project delivery; and explain how their DIB compares to the other DIBs to help them consider why there might be similarities or differences. Our comparison analysis takes into

⁹ Knox and Bukard (2009). Qualitative Research Interviews in Psychotherapy Research Vol. 19, Number 4 – 5 (July – September 2009).

Limitations	Mitigations and effect on findings
<p>stakeholders may struggle to accurately articulate the relative contribution of different factors. Furthermore, context is important, and there remain limitations in the comparability between the DIBs and the identified comparable projects and PbR comparisons.</p>	<p>account the areas in which the comparison projects are similar and dissimilar to the DIB funded projects (for example, the Cataract comparator site is slightly different to the others, in that it is not the same intervention being delivered by the same provider). This was used to guide the analysis. Our local experts, who are both sector and geographical experts, provided some contextual input.</p>
<p>Covid-19: As a result of Covid-19, data collection across the four DIBs is being done remotely, affecting the breadth of stakeholders we are able to interview, and potentially the quality of data collection.</p>	<p>We used remote interviews to collect data. We managed to speak to a large range of stakeholders, including providers and practitioners, but were unable to speak to final beneficiaries. We have highlighted where we believe this has limited findings and, if possible, intend to undertake additional data collection in RW3 to mitigate this limitation.</p>
<p>Inability to quantify DIB effects</p>	<p>It has always been clear that not all DIB effects can be quantified. We have discussed with each DIB the likely outcomes/effects that can be quantified as part of KiT. However, we recognise that there will be other DIB effects that cannot be quantified. Our approach to weighing up the costs and benefits of the use of the DIB draws on qualitative data in this wave, with the expectation that we will be able to incorporate quantitative benefits in the next research wave. Where possible, we have linked costs to DIB drivers, and drivers to effects, so there is clarity on the costs of different DIB effects (whether or not quantifiable).</p>

3.0 Summary of the DIBs



3.0 Summary of the DIBs

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

The four DIBs and FCDO's engagement in the DIBs are briefly summarised below:

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

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

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

- The **Quality Education India (QEI) Development Impact Bond** aims to offer a solution at scale to the learning crises in India, by funding a range of high-performing service providers to improve learning outcomes for more than 200,000 primary school aged children. A further aim of the project is to drive focus towards outcomes-based contracts in the development sector, with the long-term aim to transform the way education interventions are funded in India. Therefore, engaging the Indian Government is key in this project, as well as including robust measurements, and considering ways to standardise processes and produce templates for future outcome-based contracts. There are three service providers involved, each delivering different interventions.

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

FCDO is providing funding for programme management, legal advice, learning and evaluation. FCDO joined the programme in January 2018 and fed into the project design. FCDO was interested in joining a DIB that involved a rigorous impact evaluation with the potential to generate important learning and potentially attract new funders. The emphasis on learning was a key rationale for involving Brookings as a separate learning partner.

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

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

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

- The **Cameroon Cataract Bond** funds sight-restoring cataract surgeries with the overall aim of enabling the Magrabi ICO Cameroon Eye Institute (MICEI) – the first eye care hospital in Cameroon – to reach self-sufficiency in five years. The loan aims to expand market reach and provide 18,000 quality eye surgeries, including cataract treatment services to the poor at low or no cost, and to help the hospital become a training institute for the region.

Up to USD 2.8 million of outcomes payments will be made, including USD 2.68 million in repayment of principal and interest to lenders and USD 0.12 million in incentive payments to the hospital. The outcome payments are tied to the achievement of three outcomes (number of cataract surgeries, quality of surgery and financial sustainability of the hospital), and incentive payments to the hospital are tied to the equity target (at least 40% of surgeries provided to individuals belonging to the bottom two wealth quintiles of the population in Cameroon). The outcome funders are the Conrad N. Hilton Foundation (Hilton Foundation), The Fred Hollows Foundation and Sightsavers. The investors are the US International Development Finance Corporation (DFC), formerly Overseas Private Investment Corporation (OPIC) and the Netri Foundation.

This Bond is not part of the FCDO pilot DIBs programme.

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

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

The types of stakeholders involved also vary. The types of investors span the spectrum of primarily commercial (ICRC HIB) to primarily charitable organisations (QEI and VE). The nature of the outcome funders also varies across the DIBs. For ICRC and VE, the outcome funders are primarily bilateral donors, and for the QEI DIB and Cataract Bond, they are primarily foundations. The ICRC HIB, VE DIB and Cataract Bond all fund one service provider each, while the QEI DIB funds three service providers.

The following sub-sections provide further detail:

- Section 3.1 compares the interventions funded by the DIBs in terms of the target groups, activities, anticipated outcomes and impact, timescale, total value and cross-cutting issues
- Section 1.1 categorises the four DIB structures along key characteristics
- Section 3.3 draws together implications for the evaluation based on this section.
- Section 3.4 provides an update on the four DIBs.

Annex B provides more detail, covering 1) the stakeholders involved in the DIBs, and 2) key motivations for using the DIB mechanism across the four DIBs.

3.1 Programme components

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

Table 3-1: Programme components

Component	ICRC	QEI	Village Enterprise	Cataract Bond
Target groups	People with physical disabilities	Marginalised children	People living in extreme poverty (on less than USD 1.90 per day)	Low-income patients and middle-income patients with cataracts in urban and rural areas in Cameroon
Activities	<p>Build three new physical rehabilitation centres in counties with significant unmet need in Mali, Nigeria and Democratic Republic of Congo.</p> <p>Train local staff to deliver high quality physical rehabilitation services in these centres</p> <p>Pilot and rigorously assess pilot efficiency improvement measures across eight existing ICRC physical rehabilitation centres, and build a Digital Centre Management System that will be rolled out across all ICRC physical rehabilitation centres with the aim of improving efficiency and maintaining patient outcomes</p> <p>Operationalise the three new centres using improved operational protocols that are based on effective efficiency measures</p>	<p>Three non-government organisations (NGOs) delivering education programmes. Delivery model types include improving whole school management, supplementary learning and teacher and school leader training</p> <p>Activities include workshops, trainings and e-resources as well as meetings with community groups</p>	<p>Local mentors deliver a four-month training programme to equip participants with the necessary knowledge to run a business</p> <p>Seed capital is granted to each group of three participants, to enable them to start their business</p> <p>Creation of Business Savings Groups (BSG), which are self-governing councils of businesses</p> <p>Mentors provide continuous guidance to the participants for one year, coaching them in choosing the focus of their business, as well as how to grow and manage their business and finances</p>	<p>Funding cataract-related equipment and consumables and activities, involving provision of a comprehensive intervention programme at the MICEI, including outreach/awareness, diagnosis, transport, treatment and follow-up care</p>
Anticipated outcomes	<p>People with physical disabilities receive comprehensive rehabilitation services (mobile devices and associated physiotherapy treatments)</p> <p>Through the delivery of mobility devices, children can attend school and adults can find jobs, thereby gaining mobility, autonomy, and dignity and becoming an active member of society</p> <p>A significant amount of time is freed up for family members taking care of relatives with disabilities, who can now work more. The household as a whole can increase its sources of income and improve its living standards</p>	<p>Improved school processes, systems and infrastructure</p> <p>Higher teacher motivation</p> <p>Better content delivery and engagement with students</p> <p>Increased peer to peer learning in teachers</p> <p>Improved student retention and attendance</p> <p>Improved school infrastructure</p>	<p>People living in extreme poverty are equipped with the resources to create a sustainable business</p> <p>People living in extreme poverty are able to create businesses and sustainably increase their household incomes</p> <p>People living in extreme poverty are able to increase their household incomes and therefore increase their household assets, savings and consumption</p> <p>Secondary outcomes resulting from improved incomes, such as</p>	<p>Local capacity and knowledge enhanced</p> <p>Accessibility/availability of cataract surgical service delivery improved</p> <p>Quality of cataract care improved</p> <p>Development of a self-sustaining operating model that provides more affordable cataract services</p> <p>Reduced cataract blindness prevalence (by age group)</p> <p>Greater economic and social impact</p>

Component	ICRC	QEI	Village Enterprise	Cataract Bond
	A more socially cohesive and stable society thanks to a larger workforce actively contributing to the country's prosperity The new centres operate more efficiently, and this is sustained		wellbeing, diets, access to education and healthcare are achieved	
Outcome metric(s)	Staff Efficiency Ratio (SER), calculated by the number of beneficiaries having regained mobility thanks to a mobility device, divided by the number of local rehabilitation professionals	Difference in learning outcomes between the comparison group and intervention group, measured in standard deviation	Increase in household income, proxied through consumption and assets	Number of cataract surgeries Quality of cataract surgeries Financial sustainability of the hospital Equity target - at least 40% of surgeries provided to individuals belonging to the bottom two wealth quintiles of the population in Cameroon (linked to bonus payment to service provider only)
Geographical Coverage	New centres in Mali, Nigeria, Democratic Republic of Congo Testing of efficiency measures in Cambodia, Pakistan, Myanmar, Zinder and Niamey in Niger, Mali, Togo, Madagascar	Gujarat, Mumbai, Uttar Pradesh and Delhi	Regions in Uganda and Kenya	MICEI hospital to serve population of Cameroon and broader Central Africa region
Total value	CHF 26.1 million (USD 28.5m as at Jan 2019)	Up to USD 11.8 million	Total committed USD 5.3 million, of which USD 4.3 million relates to outcome payments	USD 3.5 million total budget committed by outcome funders, of which USD 2.8 million relate to outcome payments (USD 2.68m to lenders and USD 0.12m to hospital)
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 and dignity so that they are able to become active members of society. Furthermore, family members who were taking care of them will be able to work more, and the intention is that the household as a whole can increase its income	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	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 hospital is working with a model of cross-subsidisation, and is working to a target of providing 40% of surgeries to individuals in the bottom two wealth quintiles of the population in Cameroon by the end of year 5

3.2 DIB structures and characteristics

The structure of the four DIBs under the scope of the evaluation were quite varied. Table 3-2 categorises the four DIBs against a range of characteristics. We refer back to these characteristics, or DIB *inputs*, and how they influence different DIB effects, in Section 4.

Table 3-2: DIBs against DIB characteristics

Characteristic / Input		Description	ICRC HIB	QEI DIB	VE DIB	Cataract Bond
No	<i>Payments</i>					
1	Nature of payment outcomes	<i>Were payments made squarely for outcomes or was some payment made for inputs, activities or outputs?</i>	Majority of payment on outcomes. Around 4% (EUR 1m) milestone payment on construction of centres	94% payment on outcomes 6% covers contingency costs on the DIB, including costs for evaluation and advocacy.	100% payment on outcomes	100% payment on outcomes ¹⁰ (though the achievement of outcomes only affects the interest payable)
	Level of innovation / flexibility					
2	Level of innovation	<i>The features of the intervention, and whether it is totally new, an expansion of an existing programme or involves a programme whose underpinning principles have already been tested</i>	Expansion of the existing programme of a service provider. Implementation of a programme proven successful (efficiency improvement measures testing) and new Digital Centre Management System.	Expansion of the existing programme of a service provider and implementation of a programme already proven successful into new schools (using new methods)	Expansion of an existing programme of a service provider	Implementation of a programme already proven successful but in a new context
3	Level of outcome orientation and flexibility versus specific intervention defined	<i>Extent to which the contract involves a specific and well-defined intervention and service provider, or specific outcomes which enables service providers to organise work as they prefer</i>	Contract involves a specific and well-defined intervention, though there is room to test and adapt	Contract focuses on achievement of specific outcomes – intervention defined but subject to change and adaptation depending on needs	Contract focuses on achievement of specific outcomes – intervention defined but subject to change and adaptation depending on needs	Contract involves a specific and well-defined intervention
	Metrics					
4 & 11	Nature of capital used to fund services	<i>Risk borne by private investors or distributed among different actors through capital protection measures and risk sharing arrangements</i>	Presence of capital protection measures (60%) Presence of risk sharing arrangements – potential downside for service provider	Full risk on investors Presence of risk sharing arrangements – potential upside for service provider	Full risk on investors Presence of risk sharing arrangements – potential upside for service providers	Presence of capital protection measures (Full protection) Presence of risk sharing arrangements – potential upside and downside for service provider

¹⁰ Outcomes include number of surgeries completed, quality of surgeries and financial sustainability of the hospital.

Characteristic / Input	Description	ICRC HIB	QEI DIB	VE DIB	Cataract Bond	
<i>Measuring impact</i>						
5	Validation of impact	<i>Payment based on experimental/quasi-experimental or validated administrative data¹¹</i>	Payment based on validated administrative data. This will include verification of records and physical verification of mobility of beneficiaries.	Payment based on quasi-experimental methods	Type II payments are based on experimental methods. Type I payments (reimbursement of seed capital) are based on seed transfer audits	Payment based on validated administrative data.
<i>Operating model</i>						
6	Strength of performance management system	<i>How hands on are the other stakeholders? Is there a dedicated performance management function?</i>	Strong – internal	Strong - external	Strong – internal	Strong - external
7	Lead on managing performance	<i>Who takes the lead in performance management?</i>	Service provider	Investor + intermediary	Service Provider	Intermediary
8	Type of contract¹²	<i>Typologies of structure depending on which actor has the contract with the outcome funder.</i>	Direct	Managed – the key role is held by the investor	Outcomes fund. Outcome funders directly contract and disburse payments to a trustee (the independent manager of the 'fund'). The trustee separately holds a direct contract with the service provider.	Direct
<i>Governance arrangements and level of involvement of stakeholders</i>						
9	Outcome funder	<i>Role of the outcome funder / investor toward service providers and its level of control over the organisations involved in the impact bond</i>	Low	Low	Low	Moderate
10	Investor		Low	High	Low	Low
<i>Stakeholders</i>						
12	Social intent of service providers	<i>Are the service providers / investors a charity or company without explicit social values?</i>	Strong	Strong	Strong	Strong
13	Social intent of investors		Commercial	Social	Social	Social and Commercial

¹¹ In a true experiment, eligible participants are randomly assigned to a 'treatment' or 'control' group. In quasi-experimental approaches, there is no such randomisation, but rather, statistical methods are used to mimic a randomised trial to estimate the impact of the intervention. Administrative data relates to data collected by programme staff during implementation.

¹² In a direct impact bond structure, the service provider contracts directly with the outcome funder. In a managed impact bond structure, the outcome funder holds the contract with the intermediary. The intermediary plays an important leadership role throughout the process of the deal and is responsible for performance management of the service provision (Gustafsson-Wright et al, 2015).

3.3 Implications

The DIBs under the scope of the evaluation are very different. The types of programmes funded by the DIBs, and the contexts in which they are operating, vary significantly. The types of stakeholders involved, and their objectives, differ. The impact bonds have also been operationalised in a range of legislative, taxation and accounting frameworks. The structure of impact bonds has been modified to account for these contexts, actors, objectives and constraints.

This tells us most of all is that there is no one ‘DIB’ model, and also that it can be applied to a variety of different contexts (though it is too early to say how *successfully* it can be applied). The differences between the DIBs makes it challenging to compare the four different DIBs within this evaluation.

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

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

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

3.4 Update on Delivery

At the time of RW2 (April to June 2020) all four DIBs had been in their implementation stage for at least two years. The sub-sections below set out more detail.

3.4.1 ICRC HIB

At the time the case study research was undertaken (April to June 2020) the ICRC HIB was in year three, out of five years. While there had been some delays, the HIB was still on track to deliver against its overall timeline. As a result of Covid-19, there were uncertainties about the timeline due to delays in the building of the centre in Nigeria and uncertainty about staffing in other countries, as ministries of health understandably had other priorities.

The outcome measure is based on the efficiency of delivery, rather than the number of people reached. The assumption is that the centres would reach operational capacity in the second year and as implemented efficiency measures start to take effect at the same time. Hence, the intention is for centres to operate between July 2020 to June 2022, before the Staff Efficiency Ratio is calculated and validated. As of the time of reporting, two out of the three centres have started operating (Nigeria and Democratic Republic of Congo centres in November and December 2020 respectively), a slight delay from the original July start date.

At the time of reporting, no outcome payments have yet been made. The first outcome payment is due to La Caixa on the completion of the construction of the centres. Other outcome payments are due in year 5, at the completion of the HIB. At the time of reporting, ICRC considered that it was still on track to achieve the target outcomes.

3.4.2 QEI DIB

The QEI DIB reached the end of its second year, out of four years, in March 2020. The DIB had performed well up to this date, showing a trend of improved learning outcomes for two years in a row. All the service providers who were evaluated in Year 2 exceeded learning targets and recorded a better performance than comparison groups.

At the end of its first year, the QEI DIB consortium dropped one intervention – the indirect model delivered by Society for All Round Development (SARD). Due to delays, technical and logistical issues, SARD did not meet their targets for Year 1 under the DIB model and was not considered ready for the DIB requirements. Kaivalya Education Foundation (KEF) was asked to expand its indirect model from Ahmedabad (Gujarat) to Mumbai (Maharashtra). A new intervention delivered by the Educational Initiative (EI) and Pratham InfoTech Foundation (PIF), using an EdTech model, was added to the DIB.

As a result of Covid-19, Gyan Shala's endline evaluations could not be completed due to the nationwide lockdown that was announced in India on March 24th. The academic year was already complete when Covid-19 reached India, annual exams were ongoing in most Indian states, and schools were preparing for the summer break. Across service providers, therefore, about 99% of enrolment targets were met. Outcome payments were planned to go ahead, using proxy results for Gyan Shala. Significant impacts are expected for Year 3. Prolonged school closure and financial hardship experienced by many Indian families and related mass migration to home villages as a result of lockdown measures are expected to cause substantial learning losses and compromise next year's enrolment levels.

3.4.3 VE DIB

At the time of reporting the VE DIB was in its final year of implementation: all seven cohorts of the programme had received training and the final grants had been disbursed. Cohorts 1-4 of the VE DIB in Kenya and Uganda had successfully completed all activities and the end-of-cycle internal results showed positive outcomes. As of the August 2020, 3,156 businesses have received the lower value grant (\$50) and 1,610 businesses have received the higher value grant (\$150). \$1.1 million had been disbursed at the time of reporting, compared to a maximum payment of \$1.2 million with a maximum payment of \$4.3 million potentially payable by the end of the DIB.

Due to lockdown restrictions, VE believed there was some risk the target of increasing household income would not be achieved, and data collection and outcome evaluation of the first four cohorts of businesses were delayed. For Cohorts 1-4, VE assumed that a significant proportion of savings and assets as a result of the programme would be used by programme participants during the lockdown period either to smooth consumption during a time of lower earning and/or to diversify income generating activity. The assumptions behind the payment formula are being reviewed for Cohorts 1-4.

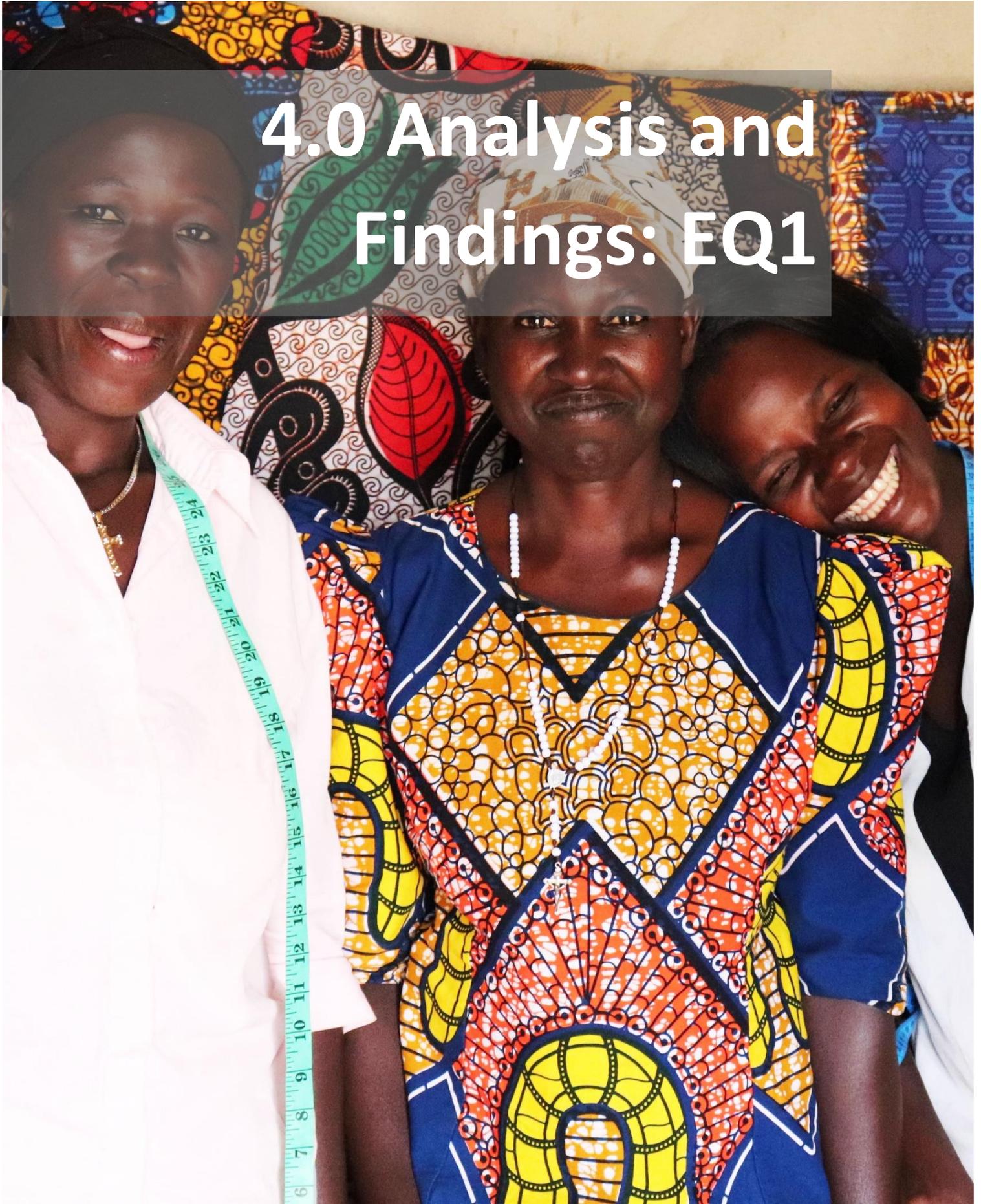
3.4.4 Cataract Bond

The Cameroon Cataract Bond reached the end of its second year, out of five years, in February 2020. Up to this point, the bond had performed well and was on track to achieve targets set for year two, except for its equity target. The Bond faced challenges in the design, measurement, monitoring and verification of the equity target which may result in the target being adjusted in year three, though the equity target is only linked to payment at the end of year 5. The first set of outcome payments, related to outcomes only, are due at the end of year three.

For the Cameroon Cataract Bond, the pandemic posed practical challenges to the hospital, which had operated at reduced capacity since Spring 2020. When the case study research was conducted, the hospital was only open for emergency surgeries. While the hospital was expected to return to the provision of cataract surgeries, following the implementation of social distancing rules, the capacity of the hospital is expected to be reduced for a longer period of time. This will affect the volume of surgeries the hospital can conduct and may impact the achievement

of targets. No changes to the targets were deemed necessary for year three, as targets are on track to being achieved. Targets for the fifth year may be reassessed depending on the severity and the length of the impact of the pandemic. As of December 2020, the Main Hospital was open for surgeries (not just emergency ones) with a full suite of Covid-19 hygiene and safety protocols in place. However, a continuing constraint is the shutdown of outreach.

4.0 Analysis and Findings: EQ1



4.0 Analysis and Findings – DIB Effect (EQ1)

Summary

Across the four DIBs, there has been evidence that the DIB has contributed to a shift in focus to outcomes and greater accountability, which has incentivised stronger performance management and enabled the delivery of adaptive management and course correction. To some degree, the DIB has also supported greater collaboration between stakeholders. This appears to have led to increased efficiency and effectiveness, with early signs that the DIB has outperformed the same interventions when funded through grants in two of the DIBs. However, as the DIBs are still in progress, it remains to be seen what the final result is in terms of number of beneficiaries supported and outcomes achieved. Opinion varies across stakeholders in terms of the extent to which these effects are due to the DIB.

There was limited evidence of the DIB contributing to perverse incentives or ‘tunnel vision’ (only focusing on outcomes that payments are attached to). However, this might be because the evaluation was unable to deliver in-person fieldwork, and so was only able to examine the ‘front line’ – where you would expect to detect such negative effects – to a small degree. There was some indication that the pressures and workload required to deliver the DIB lowered staff morale, but this does not seem to have had a negative effect on staff turnover or delivery.

There was also evidence of spillover effects. Across the four DIBs, lessons from the DIB were being transferred to non-DIB programmes. There is also early indication that experiences with the DIBs is building the innovative financing market and the evidence base of the respective sectors of the DIBs.

There seem to have been four key ingredients, agreed by stakeholders as central to benefitting from the use of the DIB. These were: clear outcomes; high stakes environment; external expertise and perspectives; and stronger performance management.

It is important to note that the DIB effects seen are not *exclusively* DIB effects. The implication of this is that a DIB is not always necessary. Some of the desired effects could also be achieved through a well-designed grant or PbR, and it is possible to design these to include many of the features of a DIB (e.g. in the case of the Cataract comparator site). However, the DIB appeared to be the catalyst for change that set things in motion and sped up changes. A key finding is that how the DIB affects delivery depends on how the DIB is structured and the target objectives of using a DIB.

It is difficult to say how Covid-19 will affect the likelihood of the DIBs achieving their target outcomes, but before Covid-19, the DIBs appeared to be broadly on track to achieve most of the target outcomes. When asked about the extent to which the DIB has met expectations and the likelihood of participation in another DIB, stakeholders generally agreed it was too early to say.

There is also a question about the types of providers and interventions suitable for funding under the DIB, and the extent to which they need to be ‘proven’ providers and interventions. The DIBs covered under the evaluation have only involved providers pre-disposed to this way of working and proven interventions. These are all key areas to further explore as part of the next research wave.

This section focuses on Evaluation Question 1: *How does the DIB model affect the design, delivery, performance and effectiveness of development interventions?* – otherwise known as the ‘DIB effect’. It focuses on how the DIB model has affected the delivery and performance of the four projects under examination. Research Wave 3 will examine how the DIB has affected effectiveness and the likelihood of sustainability.

The section introduces the DIB effects related to the delivery phase (section 4.1), and then describes the extent to which these DIB effect indicators were apparent in the four DIBs included in the evaluation, and the extent to which DIB factors and non-DIB factors contributed. This is done in summary in section 4.2, and then in more detail by DIB effect in sections 4.3 to 4.8. This analysis draws primarily on consultations with stakeholders involved in the four projects and stakeholders in the identified comparator sites. The section also considers how the presence

of these indicators compares with other impact bonds and PbR; this draws on consultations with wider stakeholders and the literature review undertaken during the scoping stage.

Section 4.9 discusses the spillover effects observed and section 4.10 concludes on findings to date against the evaluation questions.

Sections 5 and 6 draw on this analysis, in order to identify ways to improve the design and delivery of DIBs and address Evaluation Question 2 - *What improvements can be made to the process of designing and agreeing DIBs to increase the model's benefits and reduce the associated transaction costs?*. Section 5 considers relative costs and benefits of different DIB set ups. Section 6 considers how the model can be improved in order to increase the 'DIB effect' – that is, the benefits of using the DIB mechanism.

Detailed information on the findings per DIB are set out in Annex F: case studies on the DIB, and Annex H: which sets out details on the DIB effect.

4.1 The DIB effect indicators

As described in Section 2, in order to understand the DIB effect, the evaluation uses comparative analysis between a DIB and a non-DIB and process tracing to understand DIB and non-DIB factors. This involved creating hypothesised DIB effects and assessing the extent to which they exist in the DIBs compared to the comparison sites, and the degree to which this can be attributed to the DIB mechanism. The first research wave focused on DIB effects related to the set-up phase and design of DIBs, including, for example, enabling service providers to get involved in PbR contracts and allowing outcome funders to pay only on outcomes. In this report, we focus only on DIB effects relating to the delivery phase.

The process of developing the DIB effects was iterative. Initial hypothesised effects were drawn from a literature review, previous SIBs evaluation work and stakeholder consultations during the KiT phase. These were used to frame interview questions. Subsequently, these were refined during analysis and through team workshops. Analysis across the DIBs reviewed commonalities in terms of the links between the DIB inputs (set out in Section 3.2), DIB outputs and DIB effects.

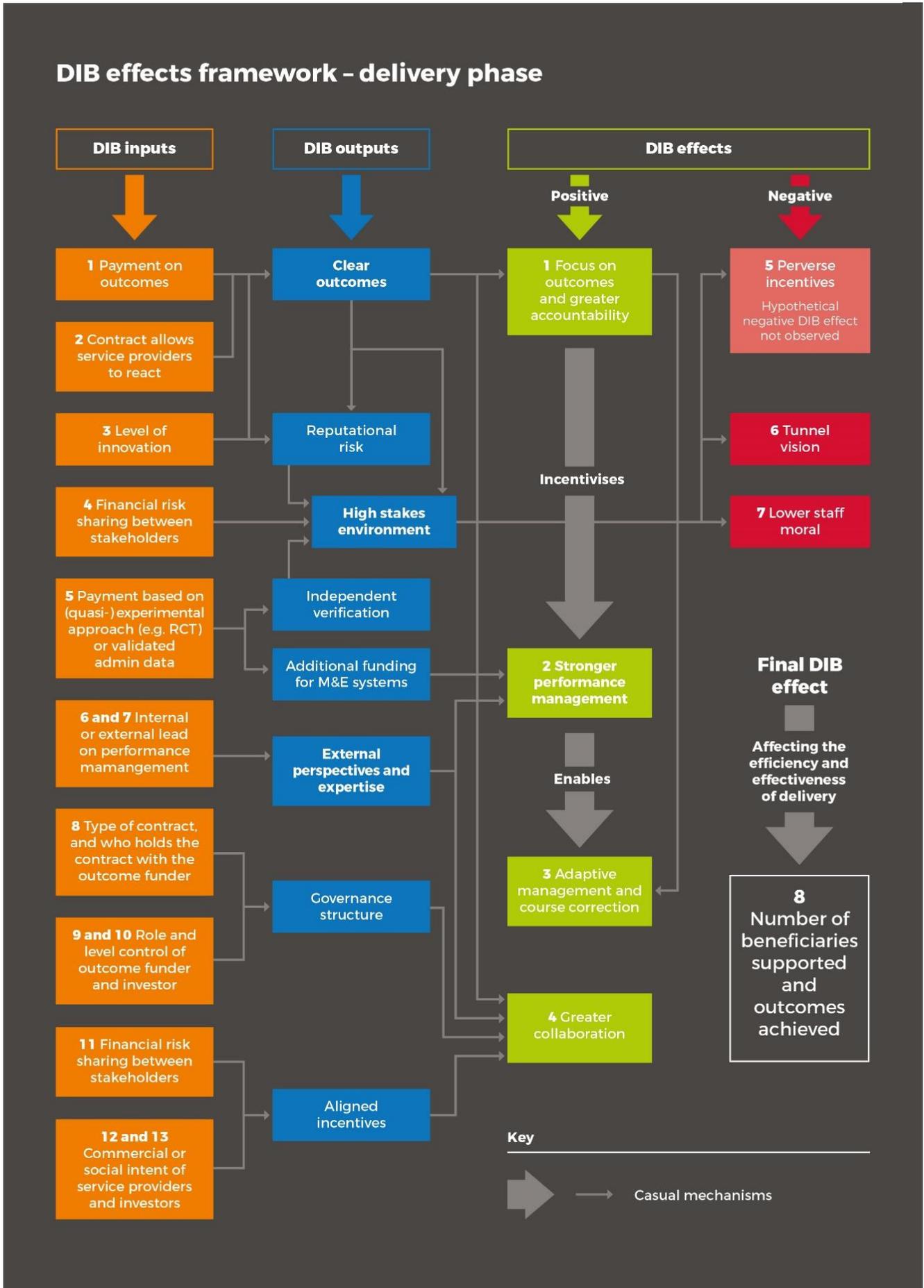
We use the terms as follows:

- **DIB inputs:** The key DIB characteristics (see Table 3-2) linked to the funding mechanism that affect how the DIB is funded, managed and evaluated, as well as the commercial or social intent of the stakeholders involved.
- **DIB outputs:** The direct products resulting from the DIB inputs.
- **DIB effects:** The target and hypothesised benefits linked to use of a DIB, though noting that not all DIB effects are expected across all DIBs.

The figure below sets out our framework for understanding the relationship between DIB inputs, DIB outputs and DIB effects relevant for the delivery phase, which has been developed based on our analysis.¹³ This excludes non-DIB components and frames our reporting in the sections to follow.

¹³ An initial set of DIB effects and indicators were provided in the Inception Report. These were refined following RW1, to allow for a more nuanced description of the DIB effects.

Figure 4.1: DIB effects in delivery phase



Four DIB ‘ingredients’ resonated with stakeholders as particularly key to benefiting from use of a DIB – these are 1. Clear outcomes; 2. High stakes environment; 3. External perspectives and expertise; and 4. Strong performance management and are highlighted in the figure above.

We note not all DIB effects are expected for the different DIBs but exploring the expected and unexpected DIB effects across the DIBs is useful to better understand how the effects compare to the ‘hypothesised’ DIB effects, and better understand how the different DIB characteristics, structures and stakeholders influence the DIB effects.

4.2 Presence of the DIB effect indicators: Summary

In Table 4-1 we summarise the extent to which the different DIB effect indicators were present across the four DIB projects. Each effect is ‘RAG’ rated¹⁴ on the extent to which it was identified across all projects, followed by individual ratings for each DIB. It should be noted that the rating identifies the extent to which the effect is present, not whether it had a positive effect (i.e. both positive and negative effects would be marked as green if present).

Below the table we provide more analysis on the presence of each of these effects. It is important to note that in the ICRC HIB, due to the timeline of the HIB, it is too early to comment on a number of DIB effects, as the Physical Rehabilitation Programme (PRP) centres were not yet operational at the time of the research.

Table 4-1: Presence of DIB effect indicators in the four DIB projects

DIB effect	Summary	ICRC	QEI	VE	Cataract
Positive DIB effects					
1 Shift focus to outcomes, greater accountability	●	●	●	●	●
2 Drives performance management	●	●	●	●	●
3 Providers deliver adaptive management and course correction	●	●	●	●	●
4 Greater collaboration between stakeholders	●	●	●	●	●
Negative DIB effects					
5 Perverse incentives	●	●	●	●	●
6 Tunnel vision	●	●	●	●	●
7 Lowers staff morale, affecting other DIB effects	●	●	●	●	●
Greater outcomes					
8 Increased efficiency and effectiveness, leading to increased number of beneficiaries supported and outcomes achieved	●	●	●	●	●
Key	● Present	● Present to some degree	● Not present	● Too early to tell	

Each of the sub-sections below covers a separate DIB effect. We first discuss the hypothesis for the DIB effect, and then set out findings for the four projects. As set out in Section 2, our approach focuses on whether the DIB effect was observed in the DIB and comparator project, and then assessing the extent to which it can be attributed to the DIB, based on a consideration of the DIB and non-DIB factors which contributed to the effect. We then summarise the evidence against the DIB effect and compare findings across the DIBs, including any learning on how variation in DIB structures and characteristics as set out in Table 3 3 affect the DIB effects. We note that to

¹⁴ Green = effect is present in at least three DIBs; amber = mixed evidence over presence of DIB effect; red = effect is not present in at least three DIBs

date there has been limited research which considers how variation in DIB structures affect the DIB effect. Hence, where possible, we include findings to support the generation of useful learning for the wider sector.

Sections 4.3 to 4.6 cover DIB Effects 1-4, section 4.7 discusses the negative DIB effects (Effect 5-7), and section 4.8 discusses the final DIB Effect 8. In each of the DIB effect sections we include:

- 1) **Hypothesis** setting out how the DIB is expected to lead to this DIB effect;
- 2) **Analysis from the four projects.** A table summarises findings per DIB in a DIB table, which is followed by narrative detail. The table includes:
 - **DIB effect:** an overall summary RAG rating on whether this DIB effect was observed and attributable to the DIB,
 - **Effect observed in comparator site vs DIB:** the extent to which this effect was observed in the comparator site versus the DIB, RAG rated – where the effect was seen in the DIB but not in the compactor site, or where the DIB effect was stronger in the DIB, this was ‘green’, where the DIB effect was seen in both, this was ‘amber’, where the DIB effect was not seen, or stronger in the comparator site, this was ‘red’, and
 - **DIB and non-DIB drivers:** key drivers contributing to this effect.
- 3) **Findings** which synthesise across the DIBs and drawing on the literature review and sector consultations. This was framed around the DIB mechanisms set out in Figure 4-1 and included details of the DIB inputs where relevant. Relevant sections of the DIB effect framework (Figure 4-1) are excerpted. We then discuss non-DIB mechanisms contributing to the effect and the necessity of the DIB to achieving this effect, before comparing our findings with evidence from the wider impact bond and PbR sectors.

4.3 Effect 1: Shift focus to outcomes and greater accountability

Effect 1: Hypothesis

In traditional grant programmes or fee-for-service contracts, service providers are accountable for inputs, activities and sometimes outputs, and outcome funders generally manage against set workplans and budgets. By attaching payments to outcomes rather than inputs or activities, DIBs encourage all stakeholders to focus on the achievement of target *outcomes* instead of outputs. The involvement of different stakeholders and governance structures builds service providers’ accountability to outcome funders and investors.

4.3.1 Effect 1: Analysis from four projects

Summary: Across all DIBs, there was evidence that the use of the DIB led to a greater focus on outcomes and greater accountability compared to the comparator sites and what stakeholders thought would have happened had it been funded through a grant. However, the strength of this effect varied across the DIBs.

Table 4-2: Effect 1

Effect 1: Shift focus to outcomes, greater accountability	ICRC	QEI	VE	Cataract
DIB effect	● Effect seen, though also attributable to the longer-term, project nature of funding (not specific to the DIB)	● Effect observed and mainly attributed to the DIB	● Effect observed and mainly attributed to the DIB	● Effect observed and partially attributed to the DIB, though also seen in comparator site
Effect observed in comparator site vs DIB	Yes in both, though there was greater pressure and focus on outcomes under the DIB	Yes in both, though there were clearer targets and more rigorous evaluation under the DIB	Yes in both, but stronger under the DIB	Yes in both
DIB drivers	Clear outcomes, high stakes environment	Clear outcomes, high stakes environment	High stakes environment	Clear outcomes and high stakes environment.
Non-DIB drivers	Longer-term funding and defined project period (compared to ICRC's normal funding)	Quality and commitment of providers, who were already used to focusing on outcomes and using data		

Key: ● Characteristic observed and attributable to the DIB; ● Characteristic somewhat observed and/or somewhat attributable to the DIB; ● Characteristic not observed and/or not attributable to the DIB / ■ Characteristic observed in the DIB and not observed / weaker in the comparator site; ■ Characteristic observed in both the DIB and comparator site; ■ Characteristic not observed in the DIB

- ICRC HIB:** ICRC stakeholders noted that there was increased pressure to focus resources on the HIB centres and increased accountability to outcome funders, compared to its normal grant-funded programmes. Outcome funders noted that the reporting received from ICRC was more frequent and detailed than under grant funded programmes. ICRC stakeholders noted that this was due to more specific outcomes, longer-term, secured funding and a defined project period. ICRC stakeholders noted that this was due to the HIB, as ICRC funding is normally on an annual basis and designated to the country mission level, rather than by 'project'. However, ICRC stakeholders considered that delivering against longer-term project outcomes could be achieved in other ways, e.g. by specifying these factors in a grant agreement.
- QEI DIB:** Stakeholders agreed there was greater focus on outcomes and accountability compared to non-DIB programmes. Additional reputational risk is seen as motivating rather than discouraging. To a certain degree, providers were already used to working against outcomes and had some evaluation capability. However, outcomes and targets were clearer and more crystallised in the DIB, and the evaluation methodology was more rigorous. Along with potential reputational risk, this contributed to greater pressure to deliver. One service provider noted:

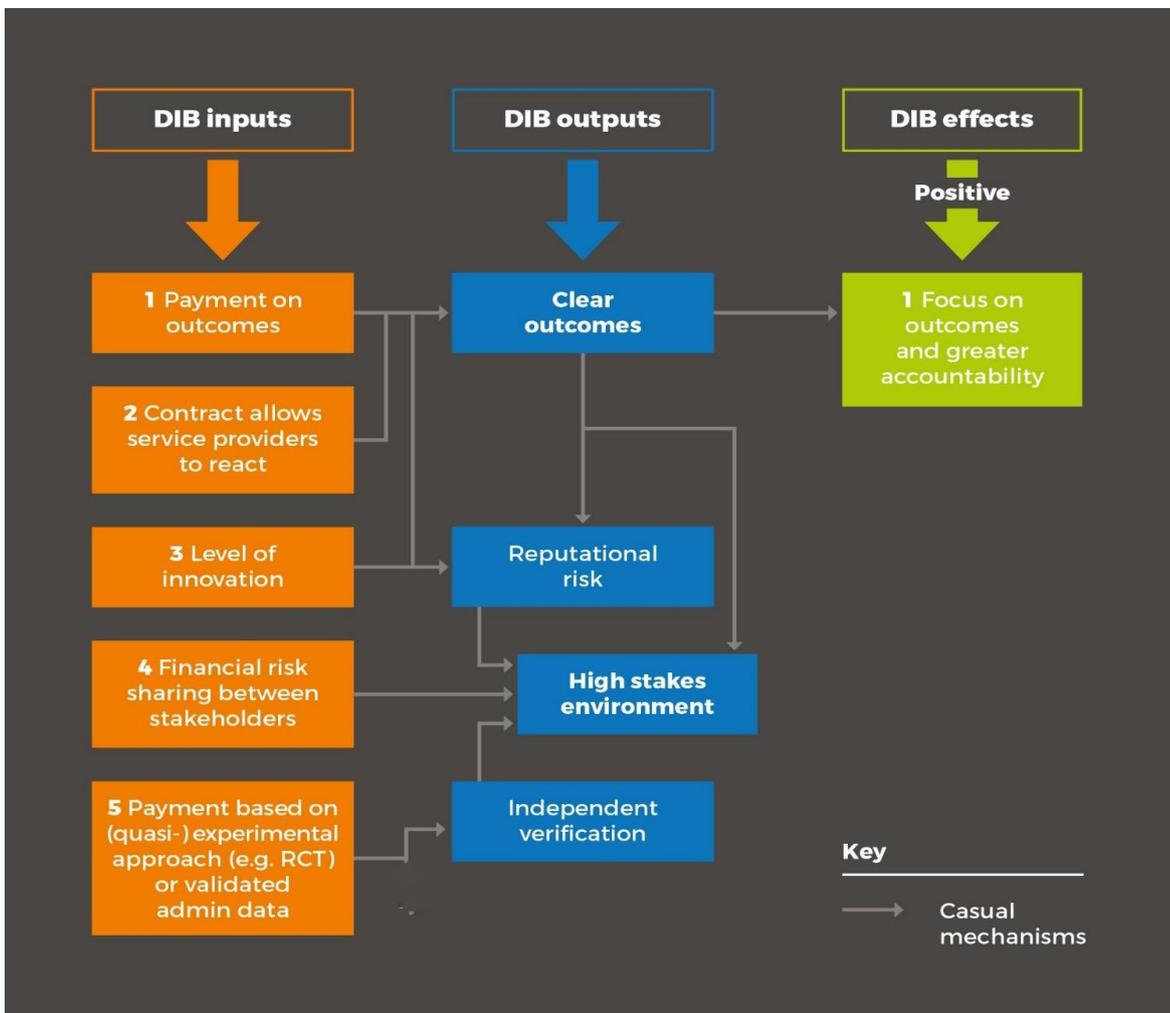
“Accountability is driven with much more force in the DIB. We push ourselves to go the extra mile to deliver as best as we can. The fact that fellows, teachers and headmasters all know how the entire process is designed and what the expected outcomes are, is triggering accountability.”
- VE DIB:** Stakeholders agreed that there was an increased focus on outcomes and quality, rather than quantity, compared to previous programming and non-DIB funded programming. One business mentor noted, *“Our energy is focused on the outcomes”*. This was attributed to the greater urgency and pressure created by the DIB, which supported the cultural change to increase focus on outcomes. However, it was also noted that VE is a 'risk taking organisation' already focused on outcomes.

- Cataract Bond:** The DIB had increased the hospital’s focus on outcomes, though an increased focus on achieving outcomes (volume of and successful delivery of surgeries) was also present in the comparator hospital due to the need to achieve financial sustainability. Some stakeholders in the Cataract Bond noted that outcomes in the eye care sector are generally clear, though having specific outcomes on quality and equity did increase focus on these outcomes. One outcome funder noted that having focused outcomes with fewer indicators made it easier to manage delivery and increased the accountability of the provider. The outcome metrics, independent verification and payment structure contributed by motivating staff to achieve targets. Significant resources had been invested into achieving the equity target even though only a small bonus was attached, suggesting it may be the target itself rather than the payment that is key. However, stakeholders noted that the quality of the service provider and the commitment of the head doctors in particular were the main contributors to this effect. Finally, having the Africa Eye Foundation (AEF) as a backer also contributed to this focus, due to AEF’s strong oversight and focus on achieving outcomes.

4.3.2 Effect 1: Findings

Across all DIBs, there was evidence that the DIB led to a stronger focus on outcomes on the part of service providers, but also that of outcome funders. However, the extent to which this was the case varied across the DIBs. The figure below sets out the key DIB inputs and outputs identified across the four DIBs. These are discussed in turn below, before discussing other non-DIB contributors, and contextualising our findings within the broader PbR and impact bonds sector.

Figure 4.2: DIB Effect 1 framework



4.3.2.1 Clear outcomes

Clear outcomes, and clarity on the measurement approach, were found to be key to shifting focus to outcomes and increasing accountability. Stakeholders agreed this was a key ingredient contributing to the DIB effects. Across all four DIBs, the majority of payments were made on outcomes, instead of inputs or activities, except for 4% on the construction of centres (ICRC) and 6% to cover contingencies, evaluation and advocacy (QEI). However, in the case of Cataract, achievement of outcomes only affected the interest payment. This relates to **Input #1: Payment on outcomes.**

Clearer outcomes are not exclusively a feature of impact bonds and are also found in PbR contracts. However, output measures (rather than outcome measures) remain more common in PbR contracts¹⁵, potentially due to the lower ability of service providers to absorb financial risk, compared to investors. PbR contracts also tend to only have a proportion of funding linked to outcomes, whereas in the case of the four DIBs, the majority of payments was on outcomes. It is unclear if it is necessary or beneficial to put the full weighting of payment onto outcomes (i.e. 100% PbR), and how this may affect the focus on outcomes. We discuss the role of financial risk below.

4.3.2.2 High stakes environment

Service providers agreed that financial and reputational risk, heightened by the use of independent verification, contributed to the high stakes environment which drove a focus on outcomes and greater accountability within the DIBs to both internal and external stakeholders. This was highlighted as another key ingredient contributing to the DIB effect. Financial risk, reputational risk and independent verification are discussed in turn below.

Table 4-3: Input #4

Input # 4: Financial risk sharing		<i>Financial risk</i>
Presence of risk sharing arrangements		
ICRC	Yes – potential downside for service provider	Providers having ‘skin in the game’ was referenced by many stakeholders as a key incentive for stakeholders to deliver. As set out in Table 4-3, service providers in the four DIBs all had ‘skin in the game’, with either potential downsides, upsides or both depending on outcomes (Input #4). Financial risk sharing is also affected by the level of funding that the DIB provides as a proportion of total funding for a project. For example, the Cataract Bond only provides a small proportion of the total funding of the hospital, and
QEI	Yes – potential upside for service provider	
VE	Yes – potential upside for service providers	
Cataract	Yes – potential upside and downside for service provider	

as such, financial incentives are relatively low.

It is not clear the extent to which having a target is sufficient, or the extent to which financial risk is needed to support this focus. For example, in the Cataract Bond the service provider was very focused on delivering of the equity target, even though only a small bonus was attached, and the hospital could easily cover the losses. There was also a strong focus more generally on outcomes in the Cataract Bond, despite the fact that achievement only affects the interest and bonus payment. This points to the importance of other factors in driving the outcomes focus, such as reputational risk. Furthermore, in the QEI DIB, stakeholders reported that teachers and headmasters were also more focused on outcomes, even though there was no financial risk or reward for them. The independent evaluator noted, “*The financial premium is important, but what really motivates providers is the huge reputational risk, as they are validating their model through the DIB, and their credibility is at risk.*” On the other hand, a few providers noted that a financial incentive for teachers and headmasters who are doing well would

¹⁵ Perrin, B. (2013). Evaluation of Payment by Results: Current Approaches, Future Needs.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/213938/payment-results-current-approaches-future-needs.pdf

help to sustain motivation.

The risk to investors also drives stronger involvement of some investors (see section 4.6.2.3) **which can in turn drive increased accountability.** For example, in the case of QEI DIB, the investor has the right to veto the continuing of the DIB and is heavily involved in monitoring performance. While we do also see grants suspended for underperformance, the clear outcomes and rigorous verification approach increases the pressure on providers.

Financial risk is also a feature of PbR contracts, with service providers taking on this risk, though normally only for a proportion of funding. Only two of the four DIBs had potential downside as well as upside for service providers.

Reputational Risk

Reputational risk was cited by all service providers as a key driver for the increased focus on results. The reputational risk was somewhat lower as all four DIBs involved the delivery and scale-up of tested interventions. However, the DIB funding mechanism was still in the pilot phase, and hence the DIBs were all very high-profile. A key objective for many stakeholders was to use this pilot to test the DIB mechanism. As such, there was a feeling among some stakeholders that these pilots could not be allowed to fail.

It is unclear the extent to which the level of reputational risk and pressure will remain the same after these pilot DIBs. Consideration of how financial risk and reward drives delivery will be important to sustain outcomes in future DIBs. For example, in the case of the QEI DIB, stakeholders noted that under the DIB, the field team and teachers were working harder to ensure the achievement of outcomes. While they were facing reputational risk, they did not have the opportunity for financial return. A few consultees noted that in order to sustain their motivation, and ultimately improve outcomes, it would be important to consider how they could be incentivised, and their good performance rewarded in the future.

Reputational risk is also a feature of PbR contracts, with accountability against set targets. However, due to the scale of these DIBs, the high-profile nature of these pilot DIBs and the number of stakeholders involved, reputational risk of non-delivery in the DIBs will generally be higher than the majority of PbR projects.

Independent verification

An independent verifier using a methodology more rigorous than what service providers are used to was noted to be a key driver in increasing the focus on outcomes in QEI, VE and Cataract. Clarity on the evaluation approach has also standardised delivery in the Cataract Bond. One service provider stakeholder noted, *'Measuring outcomes from a cataract surgery from the standard of the DIB, has [standardised] the outcome metrics used in training.'* The VE intervention has been subject to a previous RCT. Nonetheless, stakeholders noted that clarity on the outcomes that will be evaluated has incentivised increased focus on achieving these outcomes.

Independent verification is also a key feature of PbR contracts, involving both experimental and validation of administrative data approaches.

4.3.2.3 Non-DIB drivers and necessity of a DIB

The quality and commitment of providers were cited as a key non-DIB contributor. For the most part, service providers were already committed to working to outcomes and using data to adjust performance. However, the DIB was said to increase this focus and accountability.

In the case of the ICRC HIB, the project nature of the HIB, with specific outcomes and multi-year funding, was also noted to be a key contributor. For ICRC, normal funding is less project-based, committed annually and marked to the country mission level. As such, it was noted that novelty of working to *project* funding was a factor in contributing to this effect. Stakeholders noted that this could be done with a grant, though such highly earmarked contributions significantly limit ICRC's flexibility.

4.3.3 Effect 1: Comparison to other impact bonds and projects

The shift to focusing on outcomes and increased accountability of providers has been reported to be one of the strongest and most consistently highlighted SIB effects. Williams (2019) argues that the most significant impact of SIBs in the long-term is the increasing focus within government and the third sector on outcomes as a basis for allocating public and philanthropic capital. For example, service providers in the London Rough Sleepers SIB reported that outcomes funders had stepped back and focused on results over inputs.¹⁶

There is also strong evidence of service providers becoming more focused on outcomes. This was observed in the Fair Chance Fund¹⁷, the Youth Engagement Fund¹⁸, the CBO SIB outcome fund evaluation¹⁹, and the KPMG evaluation of the New South Wales Social Benefit Bonds²⁰.

The evidence in the PbR sphere is more mixed. For example, reviews of the Girls' Education Challenge (GEC) and the FCDO funded Health Results Innovation Trust Fund both found a mixed picture across projects. While there was evidence that PbR contracts can result in a greater focus on outcomes, this was not found to be the case across all projects. One hypothesis is that measures can fail to incentivise recipients if they are too complex relative to the incentive size. Where there was a greater focus on outcomes, this was found to generally be due to having a specific target outcome, rather than the payment itself. This was found to be in the case of the GEC and the FCDO funded Health Results Innovation Trust Fund (HRITF) programme. Across both cases though it seems to have been the outcome itself rather than the payment that drove this focus.²¹

4.4 Effect 2: Drives performance management

Effect 2: Hypothesis

Stakeholders do not always have the ability, resources or inclination to develop and deliver strong performance management. Payment on outcomes requires the collection of rigorous data on outcomes, which incentivises stakeholders to strengthen performance management systems. DIBs can also drive performance management, by providing the space for adaptation, bringing in expertise where required and funding investment into performance management systems.

4.4.1 Effect 2: Analysis from four projects

Summary: With the exception of ICRC where it is too early to tell, this was observed across all projects, including the Cataract Bond, where this was not an expected effect. The table below provides further detail.

¹⁶ 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/>

¹⁷ The Fair Chance Fund was an innovative three-year programme, funded by the Ministry of Housing, Communities and Local Government (MHCLG) and the Cabinet Office / Department for Digital, Culture, Media and Sport (DCMS), and designed to improve accommodation, education and employment outcomes for homeless young people aged 18 to 24.

¹⁸ A fund that aimed to help disadvantaged young people aged 14 to 17 to participate and succeed in education or training.

¹⁹ Ronicle, J., Fox, T. and Stanworth, N. (2016). Commissioning Better Outcomes Fund Evaluation: Update Report. Big Lottery Fund, ATQ Consultants, Ecorys.

²⁰ KPMG. (2014). Evaluation of the joint development phase of the NSW Social Benefit Bonds trial. Sydney: Government Advisory Service. <https://www.osii.nsw.gov.au/assets/office-of-social-impact-investment/files/Evaluation-of-the-Joint-Development-Phase.pdf>

²¹ Holden, J and Patch, J. (2017). The experience of PbR on the Girls' Education Challenge (GEC) programmes: Does skin in the game improve the level of play? Girls' Education Challenge. UK Aid. <https://www.pwc.com/gx/en/government-public-sector-research/assets/skin-in-the-game-pbr-on-the-gec-final.pdf>; Evans, A. (2016). Results based financing in Zambia – an informal, unpublished annex. <https://www.researchgate.net/publication/308985858>; One hypothesis is that measures can fail to incentivise recipients if they are too complex relative to the incentive size.

Table 4-4 : Effect 2

Effect 2: Drives performance management	ICRC	QEI	VE	Cataract
DIB effect	● Too early to say	● Effect observed and mainly attributed to the DIB	● Effect observed and mainly attributed to the DIB	● Effect observed and mainly attributed to the DIB, though also seen in comparator site. Aravind technical expertise present in both DIB and comparator site.
Effects observed in comparator site vs DIB	DCMS and EIM are expected to drive performance management, but these are not yet rolled out	■ Yes in the DIB, and to some extent in the comparator site due to spillovers	■ Yes in the DIB, and improvements also rolled out in the comparator site	■ Yes in both
DIB drivers		■ DIB Effect #1 – focus on outcomes and accountability, External expertise , including intermediary support	■ DIB Effect #1 – focus on outcomes and accountability incentivised use of data	■ DIB Effect #1 – focus on outcomes and accountability, External perspectives and expertise through the Steering group and Aravind technical expertise
Non-DIB drivers		■ Existing capabilities of service provider, and commitment	■ Existing capabilities of service provider, and commitment, VE funding of M&E systems	

Key: ● Characteristic observed and attributable to the DIB; ● Characteristic somewhat observed and/or somewhat attributable to the DIB; ● Characteristic not observed and/or not attributable to the DIB / ■ Characteristic observed in the DIB and not observed / weaker in the comparator site; ■ Characteristic observed in both the DIB and comparator site; ■ Characteristic not observed in the DIB

- **ICRC HIB:** The HIB funds the development of the DCMS and EIM, which will support performance management within ICRC and is expected to improve efficiency. The outcome metric is based on the level of efficiency, which incentivised the roll out of these systems. However, these have not yet been rolled out to the HIB funded centres or wider PRP. One ICRC stakeholder noted:

“Efforts to ... test new measures, and to improve efficiency, has come thanks to the HIB, it has forced us to do this. However, theoretically, could have done this without a HIB.”

- **QEI DIB:** Stakeholders agreed that providers had improved their monitoring and evaluation (M&E) systems and practices. One outcome funder noted, *‘[the DIB has made the service provider] much more determined to understand how to improve your performance, but also because there is an aim to understand what might be the issues with delivery.’* Managers, field team, teachers and headmasters were able to read and use data to inform their practices, to a greater extent than in the comparison sites. The clarity of outcomes and targets meant it was easier for teams to understand which parts of the interventions needed improvement. One service provider noted, *“We used to track outcomes already, but because of the DIB model, we are now aware of a very clear correlation between outcomes and each intervention’s track, so we know on which track we need to focus on to achieve certain outcomes”*. The pressure created by a high-stakes environment, ambitious targets and independent evaluation, and a dedicated performance manager intervening on a regular basis in data collection, analysis and use, were also noted to be critical factors. The independent evaluator noted, *“as [providers’] credibility is at risk, with a DIB, they are keen to understand the data and use it to make decisions. Monitoring and evaluation are usually just a checkbox. This is a big change in mindset”*. Many stakeholders highlighted that the quality of providers was a key success factor. The providers were noted to be flexible, data-driven and focused on outcomes, with the DIB then further ‘unlocking’ things already inherent in the service providers’ models. It is unclear whether results would have materialised also in providers with weaker

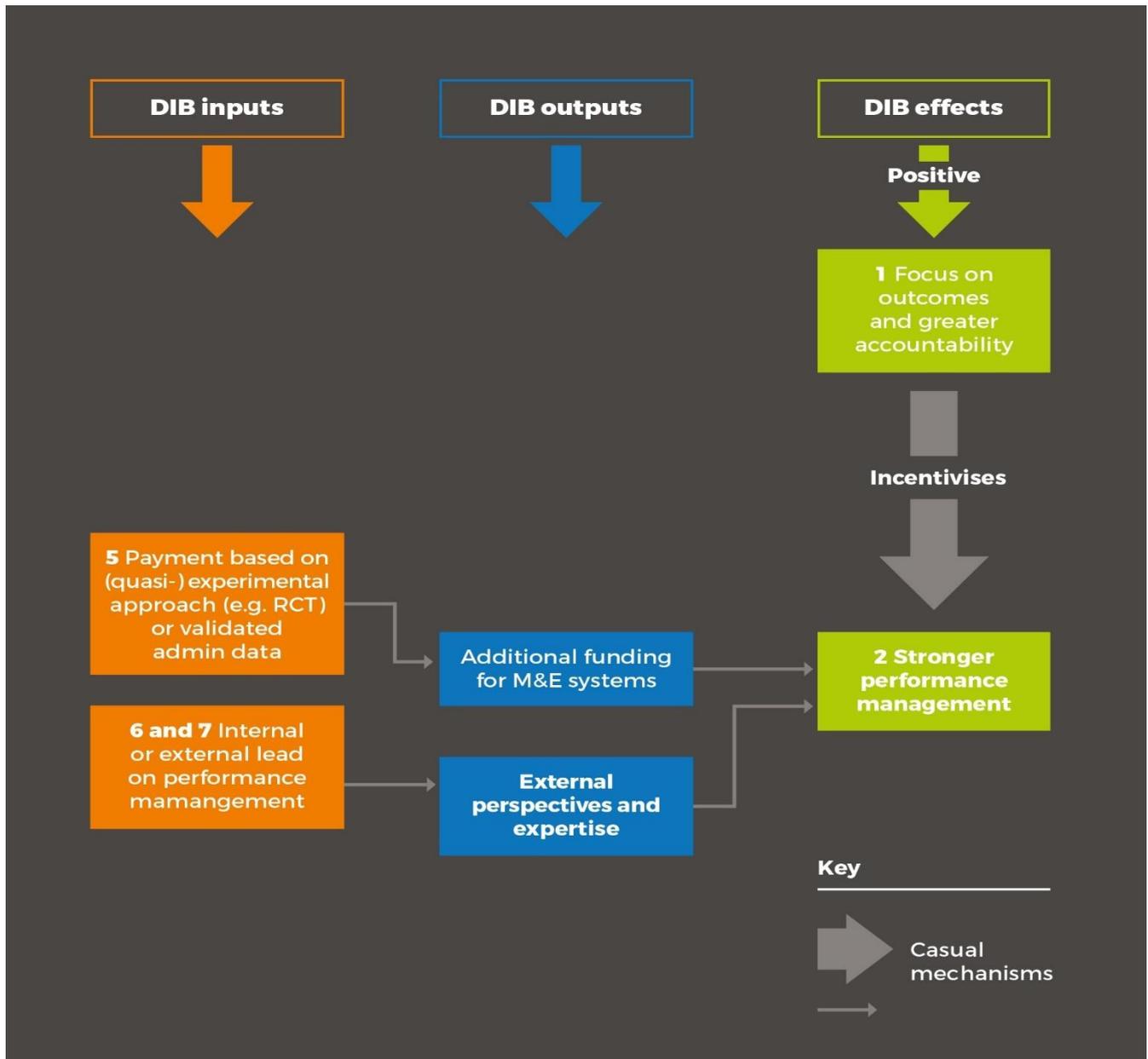
and less data-driven M&E systems. The DIB added value to existing processes, as one service provider noted, *“A third-party perspective helps, as the team might miss out on something if they always act in the same way by default”*.

- **VE DIB:** Stakeholders agreed that performance management mechanisms and monitoring systems were strengthened to generate information useful for delivery, which better enabled business mentors to track performance and tailor support. The DIB also catalysed the transition to digitalisation and use of dashboards, which meant staff received data more quickly and in a more accessible way. Stakeholders also reported that data was used to assess staff performance and that the ability to use data was added as a key consideration in recruitment. VE stakeholders noted that most changes were responses to issues identified before the DIB, with some solutions identified before the DIB, and others during the DIB. Stakeholders agreed that the DIB has created greater urgency to make these changes and increased senior staff focus on outcomes. It has also created greater demand for data across the organisation – whereas previously programme teams were not always fully convinced of the value of M&E data, the DIB has incentivised its greater use. The other actors in the DIB structure – the intermediary, outcome funders and investors – provided external accountability, but improvements to the adaptive management system were mainly driven in-house, and VE self-funded the performance management system. These changes have also been rolled out to the non-DIB programmes. One staff member noted, *“To prepare for the [DIB] we have now generated a stronger and more pointed M&E system which is being rolled out across all programmes”*. Opinion is mixed in terms of whether these innovations would have occurred under a grant funded programme, due to the combination of both DIB and non-DIB contributory factors.
- **Cataract Bond:** There is strong evidence that both the DIB and the comparator site improved their monitoring and evaluation systems after receiving funding, which contributed to improved results. This is likely because both eye centres were supported by a strong technical advisor (suggesting, in this case, that it is possible to achieve the same level of performance management through a grant funding technical assistance). The outcome funders and service provider agreed that the DIB also contributed by incentivising and driving the provider to make these changes faster through the DIB structure (outcome funder). One outcome funder noted, *“The DIB has added a lot of structure, governance, thought on financial, targets, operating models”*. Other outcome funders and the bond manager also noted that the outcome targets contributed to the need for improved monitoring and collection of data to support more informed decision making to achieve targets. The DIB was not expected to have such a strong effect on performance management.

4.4.2 Effect 2: Findings

Across the three DIBs that are operational, there is evidence that the DIB has supported stronger performance management systems. This was agreed by stakeholders to be one of the key ingredients in the DIB. The figure below sets out the key DIB drivers identified across the four DIBs, and the links between the DIB inputs and outputs. These are discussed in turn below, before discussing other non-DIB contributors and the necessity of a DIB to achieve this effect. We then contextualise our findings within the broader PbR and impact bonds sector.

Figure 4.3: DIB Effect 2 framework



4.4.2.1 Incentivised through focus on outcomes and greater accountability

Stakeholders pointed to the increased pressure and focus on outcomes as a result of the DIB mechanism as a key driver and incentive for strengthening performance management systems (see section 4.3). The DIB also requires strong outcome data and incentivises better tracking and understanding of delivery issues and how to improve performance to maximise outcomes.

The rigour of the approach to validating impact (Input #5) is also key. In the case of VE and QEI, the increased rigour of the evaluation approach was noted as a key driver and incentive to strengthen performance management systems and drive improvements. In the case of VE and QEI, the increased rigour of the evaluation approach was noted as a key driver and incentive to strengthen performance management systems and drive improvements. In the case of QEI, the ConveGenius Insights (CGI, formerly Gray Matters India) tool was found to be stronger at identifying weak performance, compared to less rigorous assessment tools previously used. In the case of the Cataract Bond, one outcome funder reflected that the independent verification pushed the service provider to be

more driven towards achieving outcomes, as the approach to verification was more robust than what the service provider had been used to.

4.4.2.2 Additional funding and resources

Across the four DIBs, there was commitment of time and resources to performance management, both funded through the DIB (for example, the DCMS and EIM represent 15% of the ICRC HIB budget) as well as supplemented by self-funding (as was the case in the VE DIB). In the VE DIB, this additional commitment was noted to be because the DIB *required* better use of data, and through this, the programmes team developed an appreciation for the value and potential of M&E data in driving better performance.

4.4.2.3 External perspectives and expertise

Stakeholders also pointed to the technical expertise and support provided by the other DIB stakeholders as a key contributor. This included the intermediary and technical advisor in the cases of QEI, Cataract and VE, as well as of outcome funders and investors in VE. Service providers in the QEI DIB noted that Dalberg’s collaborative approach and tracking supported and motivated the team, and that having a new perspective was useful. Cataract stakeholders pointed to the importance of the governance structure itself, where DIB stakeholders ‘ask the hard questions’ providing structure to performance management and holding delivery to a higher standard.

Table 4-5: Input # 6&7

Input # 6 & 7: Lead on managing performance	
ICRC	Service provider
QEI	Investor and intermediary
VE	Service provider
Cataract	Intermediary

The four DIBs were structured differently in terms of whether the performance was managed ‘internally’ by the service provider (ICRC), or ‘externally’ by an intermediary (VE, QEI and Cataract Bond) or investor (see Table 4-5 [Input #6&7](#)). The research found there can be trade-offs involved in these approaches:

External performance management brings in external expertise but is not always tailored. For example, the strong expertise of Dalberg and Aravind in the QEI DIB and Cataract Bond respectively were noted to be critical to drive improvements in performance management. However, **external support may sometimes be insufficiently tailored.** One service provider in QEI pointed out that, while the intermediaries’ support was of high quality and very useful, the focus was on the outcome metrics of the DIB, with insufficient focus on the *sustainability* of outcomes. One service provider also noted that they needed additional guidance, support and capacity building to support ongoing performance management, especially in terms of understanding how to deal with the trial and error that is required when developing a situation-based intervention.

Strengthening in-house performance management is key to sustainability. In ICRC and VE, the service provider was responsible for leading on performance management. An important rationale in the VE DIB design was to strengthen the capacity of VE and support sustainability. It is also in these two DIBs that we see the strongest evidence and plans for rolling out the system across the service providers’ programming. In the case of QEI, there were anecdotal comments that some of the improvements had also been rolled out to the non-DIB funded programme, but there were also concerns from one service provider that the focus of the performance manager was on the achievement of the annual DIB targets, at the expense of other outcomes and sustainability.

4.4.2.4 Non-DIB drivers and necessity of a DIB

Non-DIB factors also contributing to strong performance management systems included the quality of providers and their existing capacity and interest in strengthening systems to support adaptive management. All the service providers in the DIBs already had strong performance management systems and an interest in strengthening them further. Hence, it is difficult to draw learning as to whether the DIB model would be equally or more effective with service providers with weaker systems.

There was disagreement about the extent to which a DIB was necessary to achieve stronger performance management. In some cases, stakeholders reflected that these could have been achieved without the DIB. For example, this improvement was also noted in the Cataract comparator site. Learning has been rolled out to the non-DIB funded VE programmes and is planned to be rolled out across the ICRC PRP programme. However, stakeholders generally agreed that the DIB served as a useful catalyst and created an urgency to improve performance management systems.

4.4.3 Effect 2: Comparison to other impact bonds and PbR projects

There is also evidence that SIBs drive performance management, through the need to collect data and adapt, and due to increased awareness of targets. There is evidence of providers improving performance management systems as a result of the SIB. For example, this was observed in the Fair Chance Fund and the Peterborough SIB. There is also some evidence of these improvements being sustained after the end of the intervention.²²

In DIBs, strengthened performance management and ability to use data to improve delivery as a result of capacity building was also noted to be key DIB effects in the South Africa ECD Bond and Cameroon Kangaroo Mother Care DIB, according to the wider stakeholder interviews conducted for this evaluation. Similarly, the Educate Girls DIB resulted in an increase in the analysis and use of data from the field, which also led to a strong system of performance management across other programmes.²³

There is also evidence that PbR contracts can support stronger performance management. PbR contracts sometimes involve a project manager or intermediary, and many have supported the building of stronger systems to capture, process and better understand the context behind the data.²⁴ A review of the FCDO funded Girls Education Challenge programme, which was partially PbR funded, found that views were mixed as to whether PbR had strengthened the internal monitoring system, both across the PbR and non-PbR funded organisations. This variation in response was thought to be a result of the broad range of organisations funded, some of which already have strong capacity in this area.²⁵

PbR projects often do include an intermediary and other external support, but where the DIBs may add value is in the involvement of investors and the governance structures that provide support and supervision.

²² ICF. (2019). Evaluation of the Fair Chance Fund Final Report. Ministry of Housing, Communities and Local Government. <https://www.gov.uk/government/publications/fair-chance-fund-evaluation-interim-report>; Pioneers Post. (2013). Good Deals 2013 SIB Case Study 2: One Service. Peterborough. <https://vimeo.com/77489645>

²³ Gustafsson-Wright, E. and Boggild-Jones, I. (2019b) Paying for education outcomes at scale in India. Centre for Universal Education at Brookings. <https://www.brookings.edu/research/paying-for-education-outcomes-at-scale-in-india/>.

²⁴ Nonprofit Finance Fund. (2019). Pay for Success: The First 25. A Comparative Analysis of the First 25 Pay for Success Projects in the United States. Available at: <https://nff.org/report/pay-success-first-25>

²⁵ Holden and Patch (2017).

4.5 Effect 3: Providers deliver adaptive management and course correction

Effect 3: Hypothesis

Traditional grant funded programmes can be inflexible and make it difficult for providers to adapt. Under the DIB, providers have more flexibility and autonomy to deliver what they feel will achieve outcomes. Providers are able to deliver process and incremental innovation.

4.5.1 Effect 3: Analysis from four projects

Summary: This was observed to some extent across all four DIBs. The table below provides further detail.

Table 4-6: Effect 3

Effect 3: Providers deliver adaptive management and course correction as they have more flexibility and autonomy	ICRC	QEI	VE	Cataract
DIB effect	● Effect observed. The HIB funds the DCMS and EIM which will support adaptation. The HIB funding provides more flexibility in some ways.	● Effect somewhat observed. Attributed to the DIB. However, flexibility is also limited by the DIB, due to the use of the RCT.	● Effect observed and attributed to the DIB in both	● Effect observed in the DIB. Not exclusively due to the DIB
Effect observed in comparator site vs DIB	Yes in both	Somewhat in both	Yes in both	Yes in both
DIB drivers	Funding of DCMS and EIM	DIB Effect 1 and 2	DIB Effect 1 and 2	DIB Effect 1 and 2
Non-DIB drivers	Quality of providers – already using data and committed to meeting targets. Flexibility in budget	Quality of providers – already using data and committed to meeting targets.	Quality of providers – already using data and committed to meeting targets.	Quality of providers – already using data and committed to meeting targets. DIB forms limited proportion of funding.

Key: ● Characteristic observed and attributable to the DIB; ● Characteristic somewhat observed and/or somewhat attributable to the DIB; ● Characteristic not observed and/or not attributable to the DIB / ● Characteristic observed in the DIB and not observed / weaker in the comparator site; ● Characteristic observed in both the DIB and comparator site; ● Characteristic not observed in the DIB

- **ICRC HIB:** The HIB supports adaptive management and course correction, through the funding of the DCMS and EIM. Stakeholders agreed that it would be harder to fund outside of a HIB, as funders generally prefer to fund more tangible outcomes, noting “*funders [generally] want to fund direct outcomes... and pay for prostheses.*” Additionally, compared to ICRC’s normal budgeting cycle, there is more flexibility in the HIB budget in some ways, but less in others. Funding can be transferred between years, and between the IT and activity budget; on the other hand, the funding can only be used for the defined project.
- **QEI DIB:** Providers were already using data to tweak and adapt their interventions to local needs. However, the focus on outcomes and strengthened performance management further supported course correction and adaptation. Additionally, the flexible pot of funding that service providers get as part of the DIB allows them to adjust inputs and activities in order to achieve the expected outcomes. However, stakeholders pointed out that

for attribution purposes in the evaluation method, flexibility is limited in some ways as providers are not allowed to radically change their interventions or collaborate with other education providers and use their materials. The financial and reputational risks were also seen as too high to ‘radically innovate’ in the DIB; however, the purpose of the DIB was not to radically innovate but for service providers to test existing models and gain visibility through the DIB. The extent to which providers had the flexibility to adapt in grant-funded programmes varied. Some noted that they already had high levels of flexibility in non-DIB programmes, and in some cases, even higher flexibility as they did not have to follow strict DIB timelines and requirements. However, others noted that in grant-funded programmes, the structure and budget were defined and difficult to change. One QEI stakeholder noted:

“We have seen much more nimbleness among providers than we might have seen in other contexts this year, much better understanding of how to work around and anticipate delays and work to achieve targets even with these delays, creative thinking.”

- **VE DIB:** The DIB provided flexibility and afforded autonomy for the team to tailor support to business owners. One staff member commented, *“The assumption that people have of DIB financing is true: the DIB gives flexibility to achieve outcomes”*. As well as providing autonomy, the DIB also incentivised adaptation and course-correction. One staff member noted, *“We have developed more efficient processes in regard to getting information to staff at all levels and have placed emphasis on improving data-driven adaptive management capacity specifically because of the DIB”*. These process innovations have then led to improved programme delivery due to the streamlining of data and the availability of real time updates which then informs the mentoring provided by VE. VE also noted it was able to pilot a larger grant size specifically due to the DIB. However, VE also reported that non-DIB funded programmes had a high level of flexibility. Furthermore, the contractual arrangements, the requirements of the RCT and the large number of DIB stakeholders were also reported to *hinder* flexibility.
- **Cataract Bond:** The hospital has significant autonomy from other funding, and in this way, there is no significant difference between the DIB and non-DIB mechanism in terms of the flexibility to adapt. However, stakeholders agreed that the hospital was more motivated to achieve outcomes due to the high stakes environment brought about by the DIB, which drove it to be more flexible and adaptive. The data on performance had informed decision-making. For example, issues with sterilisation led to a change in protocols. Issues with reaching equity targets informed the hospital’s redesign of its outreach strategy. The flexibility is also a result of the DIB being a limited proportion of the funding that MICEI receives and the hospital being guided by its own business plan.

4.5.2 Effect 3: Findings

Across all four DIBs, there was evidence of increased adaptation and course correction, as a result of the increased focus on outcomes and accountability (DIB effect 1) and strengthened performance management (DIB effect 2). The DIB *mechanism* itself appeared less flexible than alternative mechanisms (see Section 6.1.1 on the DIB response to Covid-19), and the use of RCTs and quasi-experimental approaches hindered flexibility to some degree (as was the case in VE and QEI). However, the DIB seemed to instil a flexible *mindset* as a result of the focus on outcomes. The financial and reputational risk increased accountability and acted as a driver to address underperformance more quickly, whilst the strengthened monitoring meant providers were able to more quickly understand areas of under-performance. It remains an open question as to whether the flexibility inherent in DIB execution is offset by the relatively lower flexibility of the DIB mechanism and its need for rigorous measurement and evaluation.

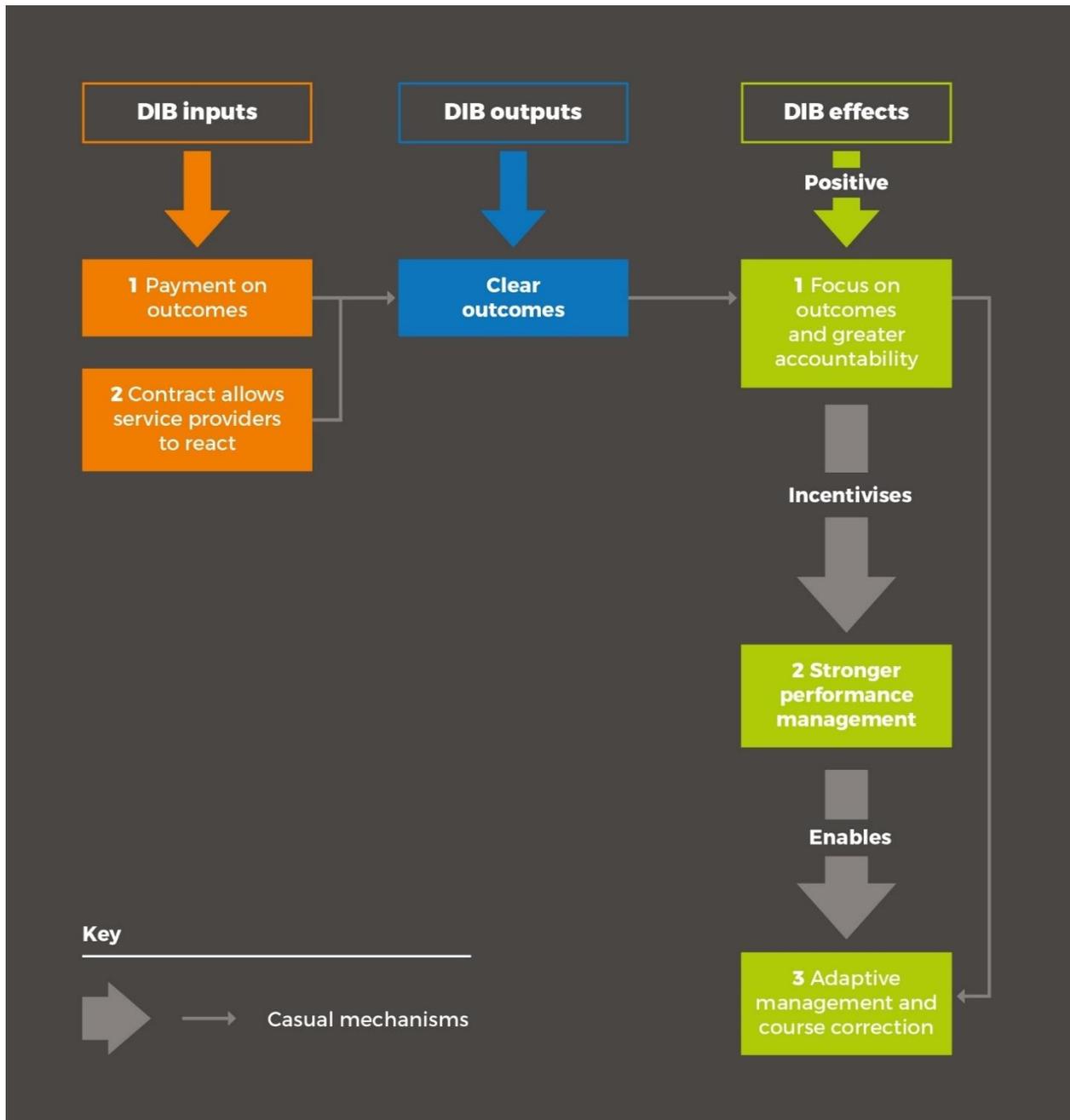
The level of flexibility providers already had in their grant funded programmes affected the strength of this DIB effect. In the Cataract Bond and VE, service providers already had significant autonomy under grant funded

programmes. However, VE mentioned that there was more focus on delivering activities and achieving outputs in grant funded activities. One stakeholder noted that the DIB enabled a more flexible response to Covid-19, as normal funding does not afford as much flexibility in terms of adapting activities. In the QEI DIB, certain service providers noted that the DIB increased flexibility, whereas others noted it limited flexibility in some ways. For ICRC, the HIB provided more flexibility in some ways (flexibility to transfer funding between years and the IT and activity budget) but less in others (set budget for HIB activities).

Variation also depended on the governance structures. In the VE DIB and QEI DIB, decisions were made collaboratively between all DIB stakeholders, which had some advantages but meant some decisions took longer. On the other hand, in the ICRC HIB, the Operating Review Committee Meeting (ORCM) was primarily for informational purposes, and as such there was flexibility for ICRC to adapt activities and shift budget lines. The hospital had a high level of flexibility in the Cataract Bond.

The figure below sets out the key DIB mechanisms that drove this greater flexibility and adaptation. We describe these in further detail below. We then contextualise our findings within the broader PbR and impact bonds sector.

Figure 4.4: DIB Effect 3 framework



4.5.2.1 Focus on outcomes and greater accountability (DIB Effect 1)

All DIBs were focused on outcomes, though specific interventions were specified in the QEI DIB as the objective was to test different models. The extent to which the DIB *increased* flexibility and space for providers to adapt varied.

The focus on outcomes rather than inputs also seems to have increased providers' flexibility in terms of managing and reporting on finances, and in this way, afforded more flexibility in terms of shifting expenditure between budget lines. Stakeholders reported that, in normal grant funding, it is common to have to request approval for shifts in inputs across budget lines. With the exception of ICRC who managed a parallel HIB budget, there appeared to have been no requirement for the other service providers to report costs spent. Service providers appeared to not have managed DIB funding in the same way as they would have done grant funding,

with DIB costs calculated on a less frequent basis. One investor noted that this represented a fundamental shift in thinking, from an input-based grant-making modality to an output/outcome based one. As such, it is more useful to think of a DIB as paying for outcomes, rather than thinking of a DIB as a ‘cost plus’ transaction, that is, the cost of delivery plus the additional costs required for a DIB (for example verification and intermediary costs). This can be seen as a shift to accountability for results, rather than accountability for inputs and expenditure.

4.5.2.2 Stronger performance management (DIB Effect 2)

Across all DIBs, stronger performance management systems and capabilities were also reported to enable stronger adaptive management and course correction. Having rigorous, robust data also meant that adaptive management and course correction was informed, and stakeholders reported that this led to greater efficiency and effectiveness of delivery.

4.5.2.3 Non-DIB drivers and necessity of a DIB

There were other factors unrelated to the DIB that also drove this flexibility and adaptive management. This included the quality of providers, who were already using data and committed to meeting targets. All providers were already interested in adaptive management and pre-disposed to working in this way, and the DIB was reported to draw this out further and ‘unlock’ thinking already in organisations. Additionally, the project nature of ICRC’s HIB funding increased flexibility in some ways compared to their regular funding – there was more flexibility under the HIB to reallocate expenditure between HQ, field expenses and IT investments, as well as between years, in comparison to the ICRC’s regular funding. In the Cataract Bond, the DIB forms a limited proportion of the hospital’s funding, and the hospital had high levels of flexibility under its other funding.

Contractual and management approaches that enabled a service provider to adapt and innovate are not unique to a DIB. However, it seems that the shift to a focus on accountability for results is what enabled a lighter accountability for inputs and expenditure.

4.5.3 Effect 3: Comparison to other impact bonds and PbR projects

The evidence on the extent to which PbR and impact bonds have driven adaptation and flexibility is mixed.

In the case of SIBs, there is evidence to suggest that the mechanism does afford service providers greater flexibility and freedom, and thus can lead to more innovation in delivery through performance management, course correction and adaptation. This was the case in the Peterborough SIB, Ways to Wellness SIB and Youth Engagement Fund,²⁶ Trailblazers SIB²⁷ and Fair Chance Fund²⁸. On the other hand, Gustafsson-Wright et al (2015) found that few deals had reported using data to make course adjustments along the way. They found that in some cases, adaptation was possible where there was an ‘ideal combination of expertise’ in the intermediary.²⁹

²⁶ Pioneers Post. (2013). Good Deals 2013 SIB Case Study 2: One Service. Peterborough. Available at: <https://vimeo.com/77489645>.

²⁷ 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. <http://www.piru.ac.uk/assets/files/Trailblazer%20SIBs%20interim%20report%20March%202015,%20for%20publication%20on%20PIRU%20site%20April%20amended%2011%20May.pdf>

²⁸ ICF. (2019). Evaluation of the Fair Chance Fund Final Report. Ministry of Housing, Communities and Local Government. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/793810/Fair_Chance_Fund_final_report.pdf.

²⁹ 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/>

In the case of the Educate Girls DIB, one of the few DIBs to have concluded to date, the flexibility of the DIB allowed the provider to make significant course corrections, which resulted in learning gains for girls³⁰.

There is good evidence that PbR can drive adaptation and flexibility. PbR contracts can accommodate trial and error to better understand best practice by allowing service providers the flexibility to adapt their approach.³¹ Adaptations were not dramatic changes to the theory of change but rather adapting of delivery approaches and allocation of resources between activities. However, these were not only due to PbR, and non-PbR projects also made adaptations.

However, others found, for example in the Girls Education Challenge, that PbR did not incentivise adaptation, but rather seemed to have led organisations to be more risk averse. Projects noted a tension in being encouraged to adapt while being accountable for contracted, pre-planned output milestones. Many stakeholders also noted that the processes to make changes to milestones and budgets were heavy, which was a significant barrier in adapting.³²

Therefore, this would suggest that the transfer of risk away from the service providers in the DIB may have allowed service providers to innovate and adapt more than in PbR projects – though it is very difficult to compare given the small number of completed DIBs to date, and the variation in context.

The service provider’s ability to adapt and innovate during delivery is likely to be impacted by the amount of autonomy granted to them. An evaluation found that in certain World Bank PbR projects, funders granted limited autonomy to service providers, which is likely to affect their ability to adapt³³.

This contrasts to the DIBs, where we have found high autonomy granted to providers. This could be due to the fact that in PbR, often only a proportion of funding is tied to achievements, and hence funders still require greater oversight and accountability on processes and use of inputs. While some DIBs did report having to work within the constraints of the DIB (e.g. the design of the RCT), there was no indication that there were other restrictions on the ability of stakeholders to innovate and adapt.

4.6 Effect 4: Greater collaboration between stakeholders

Effect 4: Hypothesis

DIBs bring different stakeholders together, across the public and private sphere and different sectors. There is alignment of interests to achieve the target outcomes, which leads to the sharing of information and expertise that leads to more effective and efficient delivery.

4.6.1 Effect 4: Analysis from four projects

Summary: This DIB effect was observed to some extent across all DIBs, though in the case of the Cataract, it was noted to be no higher than in comparator programmes. The table below sets out further detail.

³⁰ UBS Optimus Foundation. (2018) Knowledge is power: The world’s first Development Impact Bond in education. Instiglio. <https://instiglio.org/educategirlsdib/about-the-dib/>

³¹ Pritchett, L., Woolcock, M. and Andrews, M. (2013). Looking like a state: Techniques of persistent failure in state capability for implementation. Journal of Development Studies, Vol. 49(1): 1-18.

³² Holden and Patch (2017).

³³ Honig, D. (2014). Navigation by Judgment: Organizational Autonomy and Country Context in the Delivery of Foreign Aid. <https://www.peio.me/wp-content/uploads/PEIO8/Honig%2026.1.2015.pdf>

Table 4-7: Effect 4

Effect 4: Greater collaboration between stakeholders	ICRC	QEI	VE	Cataract
DIB effect	● Effect observed though could have been achieved without a DIB.	● Effect somewhat observed and somewhat attributable to the DIB.	● Effect observed and somewhat attributable to the DIB.	● Effect observed, though this could have been achieved without a DIB.
Effect observed in comparator site vs DIB	Somewhat, though increased under the HIB	Somewhat in both	Yes, though increased under the DIB	Yes in both comparator and DIB
DIB drivers	Governance structure – ORCM brings stakeholders together, external perspectives	Governance structure and role of intermediary, external perspectives and expertise, aligned incentives	Governance structure and intermediary as convenor, external perspectives, aligned incentives	Governance structure (Steering group), external perspectives, aligned incentives
Non-DIB drivers	Noted the governance structure <i>could</i> be delivered without a DIB, though unlikely	Stakeholders with common interest in education	Use of RCT required stronger engagement with local government	Alignment of objectives, pre-existing relationships between stakeholders

Key: ● Characteristic observed and attributable to the DIB; ● Characteristic somewhat observed and/or somewhat attributable to the DIB; ● Characteristic not observed and/or not attributable to the DIB / ■ Characteristic observed in the DIB and not observed / weaker in the comparator site; ■ Characteristic observed in both the DIB and comparator site; ■ Characteristic not observed in the DIB

- **ICRC HIB:** Collaboration had increased to some extent, with outcome funders and investors more updated on progress compared to stakeholders of the wider ICRC PRP. ICRC stakeholders noted that the quarterly meetings were useful, with DIB stakeholders asking questions and bringing new perspectives. The structure and contractual mechanisms meant that outcome funder and investor input was primarily at the design stage in setting the outcome and payment targets. This meant that the outcome funder and investors had limited ability to influence the delivery of the project. Some outcome funders noted that the level of engagement in the HIB was higher than other programmes, with ICRC providing more frequent and detailed, outcome-based reporting to stakeholders. On the other hand, for other outcome funders, the level of engagement was lower than for other programmes.
- **QEI DIB:** The DIB's outcome orientation and the presence of an intermediary facilitated collaboration between a wide number of stakeholders. However, stakeholders agreed that it was unlikely that collaboration would have worked to this degree if stakeholders did not already share a common understanding and interest in the target outcomes. Stakeholders pointed out though that collaboration and the sharing of learning between service providers could be improved and the DIB restricted the ability of service providers to collaborate with other education NGOs in delivery compared to similar grant-funded programmes (as this would create bias in the evaluation approach). The independent evaluator in QEI noted, "Stakeholders are all different and motivated by their own internal goals, but at the same connected by a common interest in the overall benefits of the DIB".
- **VE DIB:** Stakeholders agreed that at both the implementation and management level, the DIB had allowed for greater collaboration and coordination between stakeholders. There are mixed opinions about the role and the necessity of the intermediary in convening DIB stakeholders and coordinating service providers and outcome funders. One outcome funder noted that the Steering Group structure meant that decision-making was more democratic than under a traditional donor-grantee relationship. Stakeholders' interests were aligned on the achievement of outcomes, which facilitated greater collaboration and led to stakeholders taking decisions to

maximise impact. The use of the RCT also obliged VE to increase engagement with local leaders and government staff, due to the use of treatment and control villages.

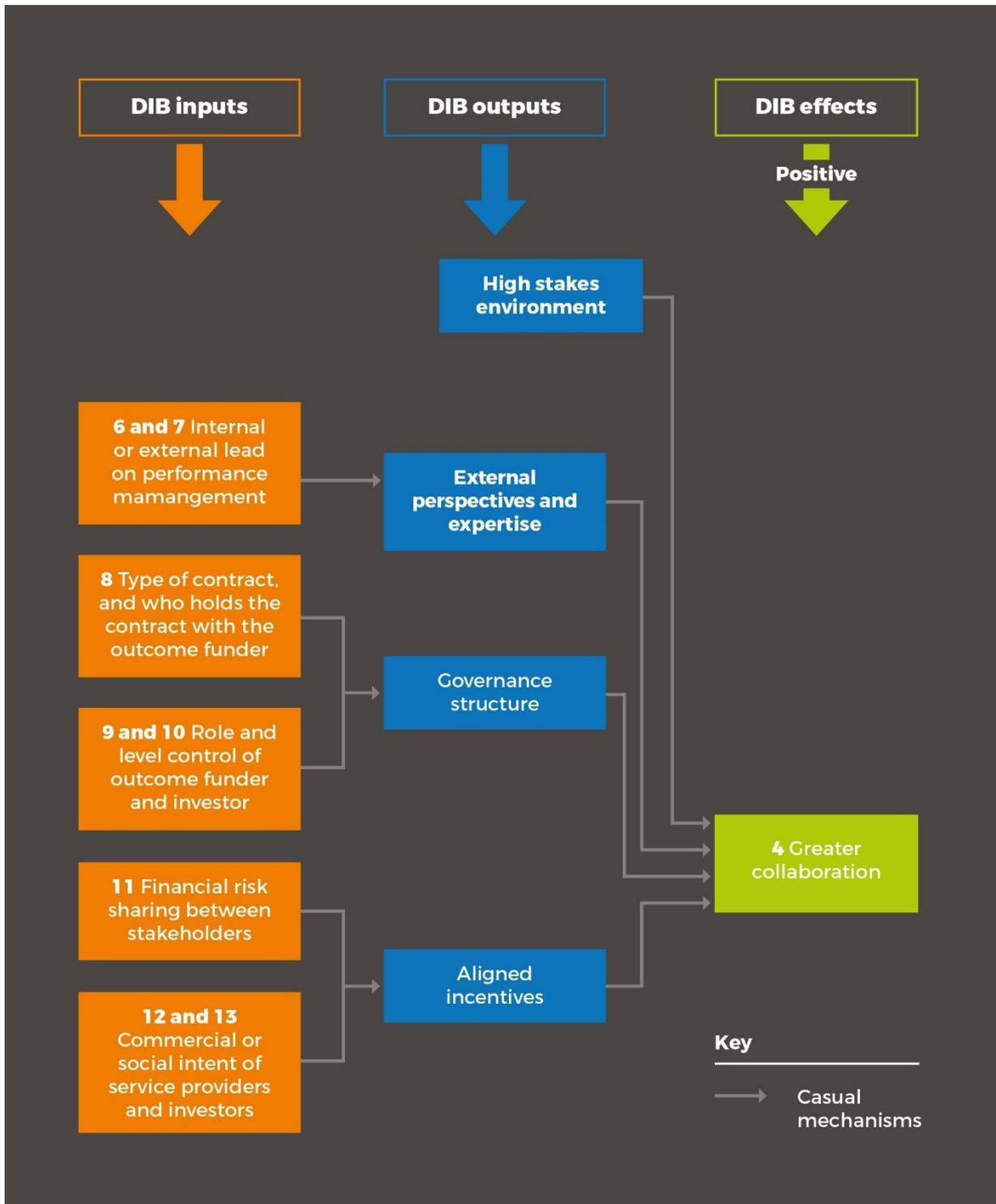
- **Cataract Bond:** This was an anticipated effect of the DIB. The outcome funders were collaborating more (though this built on existing relationships), but there was less collaboration between outcome funders and the service provider compared to grant-funded programmes. The role of the bond manager/intermediary was not expected to be as significant as it was. Some outcome funders reported that they were not working as closely with the service provider as they would have liked, due to the governance structure and the fact that outcome funders had more direct contact with the intermediary than with the service provider. Some outcome funders considered that the DIB represented additional reputational risk, as the intermediary managed the relationship with the service provider and there was limited transparency beyond the progress on outcomes. Stakeholders also pointed out that the service provider was very experienced in delivery, and hence the main contribution from DIB was to support a focus on results, performance management and commercial expertise. For example, stakeholders agreed that investor input during the structuring phase had been very important. There was also strong collaboration in the comparator site between the hospital and technical advisors.

4.6.2 Effect 4: Findings

Across the four DIBs, stakeholders agreed that the DIB has increased collaboration to some degree. Stakeholders agreed that all stakeholders had ‘skin in the game’. This meant interests were aligned to achieve target outcomes, which increased collaboration. The governance structures and role of the intermediary in convening also supported increased collaboration. The level of collaboration varied across DIBs and depended on the governance and contract structure as well as the level of stakeholder engagement.

The figure below sets out the key elements of the DIB that drive greater collaboration. These are discussed in turn below, before discussing other non-DIB contributors and the necessity of a DIB to achieve this effect. We then contextualise our findings within the broader PbR and impact bonds sector.

Figure 4.5: DIB Effect 4 framework



4.6.2.1 External perspectives and expertise

DIBs bring in additional external perspectives and expertise, namely investors and often intermediaries, compared to PbR and grant funded projects. Across all four DIBs, the role of the investors and other stakeholders were noted to be particularly important during the set-up phase, due to their commercial expertise. On the other hand, the role of investors and other DIB stakeholders varied depending on the contractual and governance structures:

- The ICRC HIB has been designed so that investors and outcome funders are primarily involved during the set-up phase. However, outcome funders and investors have limited ability to influence the delivery of the project or to declare force majeure, with the Operating Review Committee meetings for information purposes rather than decision making.
- On the other hand, in the Cataract Bond, the steering group has some responsibility for oversight on results and providing commercial support. Decision-making was fairly democratic and involved all stakeholders in the QEI and VE DIBs, though it was noted that investors in the VE DIB did not sit in the working group. Also, as discussed in section 4.4.2.3, performance management was supported by the intermediary and technical advisor in the case of QEI and Cataract.

While some point to increased collaboration as an increased transaction, there is indication that collaboration can positively contribute to the increased effectiveness of delivery, and correspondingly, increased outcomes. One outcome funder in Cataract noted that collaboration is not automatically a positive and depends very much on the expertise of the stakeholders – *“additional players in the bond matter if they bring additional skills or additional value”*. Stakeholders also noted that there is potential for value add and expertise from different sectors.

- The expertise of the DIB Coalition was noted to be a key value add of the Cataract DIB structure. The intermediary noted, *“Most of these targets would have been achieved and there would have had funding to do this. But the DIB brought in a different mix of people and financing who wouldn’t have been there otherwise”*.
- Similarly, investors were reported to have an important role to play in supporting the performance management system in the case of the VE DIB, and in driving performance management in the QEI DIB.

There also appears to have been more opportunities under these DIBs for stakeholders to flex their role, based on their expertise, and as relevant and appropriate to different contexts. One outcome funder noted that this was due to the range of stakeholders DIBs bring to the table, the flexible mindset inherent to the DIB, and the alignment in incentives. In a traditional grant, stakeholders generally take on more defined roles and responsibilities; in the DIBs there were examples of stakeholders sharing expertise and advice in ways which would not have been expected under traditional roles within grants.

- In the Cataract Bond, the investor as well as the bond manager provided commercial expertise. For example, the bond manager supported on scenario analysis during Covid-19. The outcome funders have also been able to advise and support on the equity target, the only target that has been problematic.
- Across VE and QEI, the experience and expertise of not only the intermediary, performance managers and knowledge partners, but also the investors and outcomes funders, was noted to be useful to support performance management and the response to Covid-19 (see section 6.1.1).

4.6.2.2 Level of outcome funder involvement

Table 4-8: Input #9

Input # 9: Level of control and involvement of outcome funder	
ICRC	Low
QEI	Low
VE	Low
Cataract	Moderate

Collaboration between outcome funders and service providers increased for some stakeholders but decreased for others. The **type of contract (Input #8,** see Table 4-9) and **governance structure** in the QEI and Cataract Bond meant the intermediary was the main contact with the service provider. While some outcome funders would have preferred more direct contact with the service providers, others noted that this generated useful learning in terms of how it is sometimes best to let a service provider “*give the hospital free rein to get the job done without interfering*”. The nature of the outcome-based contract also forced outcome funders to be more focused on outcomes. Service providers in ICRC and

Cataract reported pushing back on ad hoc requests for information, as this was outside the scope of the agreed contract. On the other hand, in the case of VE, the process evaluation identified that while some stakeholders appreciated being involved in decision-making, others would have preferred to delegate more of this to the intermediary. One stakeholder noted that the DIB is often sold to stakeholders as an opportunity to be more hands off and focus on outcomes, and hence some stakeholders may be less interested in feeding into discussions on how to resolve challenges.

4.6.2.3 Level of investor involvement

The level of investor involvement varied across the DIBs, and this seems to be linked to the extent to which they had ‘skin in the game’ based on the financial risk sharing (**Input #4**), the governance set up and the social intent of investors (**Input #13**), the type of contract (**Input #8**) and the level of control and involvement of the investor (**Input #13**), see Table 4-9).

Table 4-9: DIB characteristics influencing the level of investor involvement

DIB	Input #4: Financial risk sharing	Input # 13: Social intent of investors	Input # 8: Type of contract	Input # 13: Level of control of investor	Level of involvement
ICRC	Moderate: Presence of capital protection measures (60%)	Commercial	Between outcome funder and service provider	Low	Higher during set up, lower during delivery
QEI	High: Full risk on investors.	Social	Managed - the outcome funder holds the contract with the investor, who has a key role to play	High	Involved throughout set up and delivery
VE	High: Full risk on investors	Social	Outcomes fund: OFs contract the trustee, who separately contracts the service provider	Low	Involved throughout set up and delivery
Cataract	Minimal: Presence of capital protection measures (Full protection)	Social and Commercial	Between outcome funder and service provider	Low	Higher during set up, lower during delivery

■ Low; ■ Moderate; ■ High

Investors were reported to be most engaged during the structuring and less engaged during delivery in the Cataract Bond, where the investor was not part of the steering committee (though they have typically joined from the second year), and the ICRC HIB. The commercial expertise from investors was noted to be critical during the structuring phase, and this was also what many investors saw as their role. As one outcome funder in the Cataract Bond noted, “*OPIC [DFC] really pushed hard to get thorough details from the hospital on business plans, financial reports, systems and processes because that’s what lenders do. That push back was good for the hospital because it helped them to create more rigorous plans. So that was more about setting them up for success rather than structuring of the contract itself*”. Similarly, stakeholders agreed that the role of the ICRC

investor was primarily to input into the design of the DIB mechanism and to provide the upfront financing. During delivery, the investors have been more hands off. It was also noted that investors did not bring operational experience of managing hospitals or rehabilitation centres. Both the ICRC HIB and Cataract Bond involve more ‘commercial’ investors and have provided commercial expertise. Both DIBs also involve direct contracts between the outcome funder and service provider, rather than through the investor. The risk of the investor in both DIBs is lower than that of the other two DIBs. In the Cataract Bond, it is only the interest payment and bonus linked to the equity target that is at risk should outcomes not be met. Investors in ICRC have 60% of their investment protected (Input #4). It should also be noted that so far delivery is on track, and it will be useful to understand how investor involvement may change depending on performance.

The QEI and VE DIB saw higher investor involvement. In QEI, the investor was heavily involved. One service provider noted, “*All stakeholders are very supportive. UBS-OF [the investor] follows up with us on any matter: they call us and ask about the status of teachers and schools; they care about the project and support the team*”. The contract is a managed one where the investor holds the key role. The social investor holds the full financial risk of non-performance and has the power of veto on the continuation of the DIB³⁴. In the VE DIB, the social investor also holds the full risk of non-performance; the DIB is technically an outcomes fund, where outcome funders and service providers both hold separate contracts with the trustee.

4.6.2.4 Non-DIB drivers and necessity of a DIB

An important pre-condition seems to be common interests, with the DIB then providing the opportunity for collaboration between a larger number and range of stakeholders. Stakeholders pointed out that collaboration built on pre-existing relationships between some stakeholders and common interests (for example, in the case of QEI, all stakeholders were already interested in improving educational outcomes in India). However, the DIB connected these stakeholders to work together.

Stakeholders agreed during the emerging findings workshop that external expertise and collaboration was a key ingredient in the DIB.

4.6.3 Effect 4: Comparison to other impact bonds and PbR projects

Increased collaboration has also been highlighted as a key benefit of using SIBs. There is good evidence that increased collaboration has been seen across a number of SIBs, including the Peterborough prison SIB, the West London Zone SIB for children and young people³⁵, the trailblazers health and social care SIB, Life Chances Fund and Youth Engagement Fund³⁶.

There is emerging evidence that this is also the case for DIBs. Evidence from South Africa reports that a DIB for youth employment brought together a broad range of actors to secure quality employment for excluded young people. After an initial year of implementation, the program added new service providers, investors, and another outcome funder for the remaining three years.³⁷ This was also observed in the Kangaroo Mothercare Bond.

³⁴ This is based on the projected returns each year based on outcome performance. Every quarter, UBS-OF has to inform the steering committee about whether performance is on track. If too few children are reaching the expected targets, and the return is zero or negative, UBS-OF will halt the project as the investment is no longer viable.

³⁵ 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. July 2018. GOLab <https://s3.eu-west-2.amazonaws.com/golab.prod/documents/BSG-GOLab-EvidenceReport-20190730.pdf>

³⁶ 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/>

³⁷ Boggild-Jones, I. and Gustafsson-Wright, E. (2019). First social impact bond in South Africa shows promise for addressing youth unemployment. Brookings. <https://www.brookings.edu/blog/education-plus-development/2019/07/12/first-social-impact-bond-in-south-africa-shows-promise-for-addressing-youth-unemployment/>

As PbR generally brings in limited additional stakeholders, this is not noted as a key benefit of delivering under PbR.

4.7 Negative DIB effects

The strong focus on outcomes is key to the positive DIB effects. However, there is a risk that this same focus as a result of the high stakes environment can potentially lead to negative DIB effects, negatively affecting the efficiency and effectiveness of delivery. As such, the careful design of outcome metrics is critical for avoiding perverse incentives and tunnel vision and was further discussed in the RW1 report. The sections below discuss the three potential negative DIB effects during delivery, before contextualising findings within the broader SIB and PbR sector.

4.7.1 Effect 5: Perverse incentives

Effect 5: Hypothesis:

If the design of the metric is not sufficiently targeted to the intended outcomes, this can inadvertently create perverse incentives. For example, service providers may focus on the easiest cases (those more likely to achieve the expected outcomes) or neglect certain populations that are harder or more expensive to reach, also known as ‘cherry picking’ or ‘creaming’. Service providers may also change the level, quality, range and duration of support, in ways that increases the achievement of the target linked to payment, with negative effects for the underlying intended outcomes.

Findings: There is no indication yet that perverse incentives have affected delivery. However, an important caveat is that we were unable to undertake field visits in RW2 and hence limited in the extent to which we could speak with programme staff and final beneficiaries. We expect this to be a focus of data collection in RW3. Across the DIBs, the programmes were meeting their targeting strategy, and it does not appear that certain sub-groups were being excluded. Conversely, in the case of the QEI DIB and Cataract Bond, there were indications that there have actually been *positive* changes to equity as a result of the targeting strategy of the DIB. The careful defining of the target population, outcome evaluation methods and targets use of metrics was noted to be key in the QEI DIB and Cataract Bond. However, it is too early to tell in the ICRC HIB as centres are not yet operational.

Table 4-10: Effect 5

DIB effect	ICRC	QEI	VE	Cataract
Effect 5: Perverse incentives	●	●	●	●

Key: ● Characteristic observed and attributable to the DIB; ● Characteristic somewhat observed and/or somewhat attributable to the DIB; ● Characteristic not observed and/or not attributable to the DIB

- **ICRC HIB:** It is too early to tell as centres are not yet operational. However, there is no indication that perverse incentives have affected the selection of sites. Stakeholders have reported that ICRC have selected three very difficult sites, in light of its mandate to deliver in conflict situations, as opposed to sites where it would have been easier to achieve results.
- **QEI DIB:** The outcome metric measures improvement of students, rather than achievement of a certain level. The evaluation approach also samples schools instead of individual learners. This ensures service providers are incentivised to focus on achieving improvements across the class instead of cherry-picking students already performing at a high level. Improvements in learning outcomes have been seen at the classroom level, and service providers and the intermediary report that teachers have become more focused on the *entire* classroom under the DIB, rather than those most likely to perform well in tests.

- **VE DIB:** There is no indication that there has been cherry picking, but the approach to targeting is slightly different under the DIB to support systematic analysis under the RCT. The proportion of households living under \$1.9 a day line is similar in DIB and non-DIB villages. Within the selected DIB villages, the intervention is delivered in the 60 poorest households. In comparison, in the non-DIB villages, the intervention delivers to all qualified households (living under \$1.9 a day line). This change was a result of the RCT design and to increase comparability of households between the treatment and control villages.
- **Cataract Bond:** There is no evidence of cherry picking. The cross-subsidisation model and presence of both financial sustainability and equity targets deters cherry picking for the most part. The quality target drives quality. The equity target incentivises the reaching of rural and poor patients through the outreach programme. There is a trade-off between the financial and equity targets – the design stage considered this trade-off and put more weight on financial sustainability. At the moment, the equity target is not on track to being reached in year 5, but all stakeholders agree that this is potentially more to do with the method of calculation (as income data is slightly outdated from 2011) rather than failure of the intervention to reach more rural and poorer patients. Finally, we note that as a tertiary teaching hospital, MICEI tends to get the ‘harder’ cases, for example, people with pre-existing health conditions. This is not something linked to payment, and we will assess as part of RW3 the extent to which use of a DIB may have affected the *types* of cases taken on by the Cataract Bond.

4.7.2 Effect 6: Tunnel vision

Effect 6: Hypothesis

Focus on primary outcomes comes at the expense of secondary, unmeasured outcomes. For example, opportunities for leveraging synergy and project co-benefits are missed.

Findings: While noting the caveat that the evaluation team did not undertake in-country fieldwork and as such could not speak to all stakeholders, “**tunnel vision**” **does not seem to have been a problem across most of the DIBs**. There was a concerted effort to incorporate different outcomes (equity, financial sustainability and quality in Cataract and consumption, income and assets in VE). In the case of QEI, there were some concerns about whether the assessed outcomes (maths, learning and outcome) were sufficiently holistic; to address this, other outcomes are also being measured. It is too early to tell in the case of ICRC as the centres are not yet operational.

Table 4-11: Effect 6

DIB effect	ICRC	QEI	VE	Cataract
Effect 6: Tunnel vision	●	●	●	●

Key: ● Characteristic observed and attributable to the DIB; ● Characteristic somewhat observed and/or somewhat attributable to the DIB; ● Characteristic not observed and/or not attributable to the DIB

- **ICRC HIB:** This does not seem to be the case. ICRC is committed to the development of the DCMS. The project has gone over budget and exhausted the HIB funds, but ICRC is drawing on its own funding to complete the development of the system, demonstrating a commitment to outcomes not directly linked to payment.
- **QEI DIB:** The outcome metrics are linked to improvements in maths and language. A common risk in the use of educational outcome metrics is that teachers will ‘teach to the test’ at the expense of broader learning outcomes. The assessments are designed to test the application of skills gained rather than rote-learning, and in this way to not incentivise focusing narrowly on tests. Tests are not shown to the service providers which reduces the risk of ‘teaching to the test’. Some stakeholders considered that math and language outcomes and enrolment were good proxies for children’s holistic development, and the assumption is that mental health issues / other development issues will be reflected in learning outcomes. Hence, one of the service providers was increasing activity in other areas, such as improving the school environment, communication with parents

and children’s mental health, as they believe these things are important for children’s holistic development and learning outcomes. On the other hand, there are concerns from some stakeholders that the focus may be too narrow. According to one service provider, the DIB “can be restrictive, leaving no spare time to think about and explore different areas, for example socio-emotional learning, gender, domestic violence, as the team is too focused on DIB tasks and requirements”. However, stakeholders agreed that the risk of focusing on test results affects all education programmes, not just those funded by DIBs, and that team selection matters. Good staff, teachers and headmasters will focus on children’s holistic development, beyond narrow quantitative measures. It is not yet clear how incentives to focus on holistic development can be built into metrics. The qualitative assessments conducted by Dalberg also measure secondary outcomes, such as socio-emotional learning. However, unless payments are attached to secondary outcomes, the risk that these are overlooked remains. It is not yet clear if this is happening and will be further explored in RW3.

- **VE DIB:** This was not reported by stakeholders.
- **Cataract Bond:** Stakeholders noted that as the service provided is medical, primary and secondary outcomes are often interconnected. The improvement in data management also increased the level of data on secondary outcomes, and the focus on equity and cross-subsidisation has increased the focus on a range of outcomes. There is evidence of increased focus on the target outcomes, but no evidence that this was at the expense of other outcomes, for example, training.

4.7.3 Effect 7: Lowers staff morale

Effect 7: Hypothesis
 Performance management culture lowers staff morale, negatively affecting delivery, for example, by increasing staff turnover or demotivating staff.

Findings: The strong focus on outcomes and performance management, the potential financial and reputational risks and pressure involved, and the fact that certain tasks related to the DIB often took more resources than anticipated, were reported to lower staff morale across all DIBs. This does not seem to have increased staff turnover. However, across the DIBs there were reports that staff were demotivated or feeling pressured and overworked. It should be noted that these pressures were also reported to contribute to increased motivation, especially in cases of good performance.

Table 4-12: Effect 7

DIB effect	ICRC	QEI	VE	Cataract
Effect 7: Lowers staff morale	●	●	●	●

Key: ● Characteristic observed and attributable to the DIB; ● Characteristic somewhat observed and/or somewhat attributable to the DIB; ● Characteristic not observed and/or not attributable to the DIB

- **ICRC HIB:** Certain ICRC staff noted that there were frustrations with the set-up phase. As the set-up phase required more resources than anticipated, significant overtime was required. However, during delivery, the PRP team are positive about the HIB and the fact that it has facilitated the funding and rolling out of the DCMS and EIM.
- **QEI DIB:** One service provider noted that certain team members struggle with the “DIB’s excessive oversight and quantitative rather than qualitative assessments”. However, service providers reported that they felt motivated to perform and supported to achieve outcomes. Another service provider noted that teachers put in additional effort to ensure the entire classroom was learning, even the weakest students, as they knew they would be evaluated against the achievements of the entire class. Teachers had, though, been complaining

because work had been more intense, and yet they did not receive increased salaries. This may have implications for sustainability, which will be followed up in RW3.

- **VE DIB:** Among the VE staff interviews, some saw the additional pressure as a positive effect. However, other VE staff noted that this affected their morale; commenting that the pressure “*can be a bit much*” as their performance is judged on the performance of the business savings groups they manage. There is no indication yet that this has affected delivery.
- **Cataract Bond:** The targets and higher levels of responsibility motivated staff but could also demotivate staff when targets were not being met. There is no indication that this was negatively affecting delivery.

4.7.4 Effect 7: Comparison to other impact bonds and projects

There has been some evidence of perverse incentives in SIBs. In SIBs, the service provider survey undertaken for the CBO evaluation 2017 update report suggests that the outcomes-focused culture can also have adverse effects. Ecorys’s evaluations of other SIBs have seen some evidence of the ‘perverse incentives’, involving cherry picking. Cooper et al (2016) also reported tunnel vision in the case of one homeless SIB; the intervention failed to address systemic issues, and instead relied on an understanding of a homeless person as a ‘failed individual’. This narrower view also affected sustainability of results.³⁸

There is also evidence of perverse incentives in PbR projects. Holden and Patch (2017) noted that some programme staff in the field felt there were perverse incentives from PbR, to prioritise short term over long term³⁹. On the other hand, Clist’s (2017) review of FCDO PbR evaluations found that in a vast majority of cases, there was no evidence of cherry picking or gaming⁴⁰. A review of HRITF projects 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 services⁴¹.

In SIBs, there are some reports of the *potential* to create tunnel vision but limited examples of this happening in practice. On the other hand, there is some evidence of tunnel vision in the PbR sphere. Literature reviews have found that RBF health programmes tended to focus on easier to measure outcomes at the expense of harder to measure outcomes such as health systems strengthening.⁴²

Among Ecorys’s other evaluations of SIBs, 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. This appears to have been the case in some PbR projects as well. For example, in one Zimbabwe PbR project, staff reported more likely to suffer burnout (Kandpal 2016).

Warner (2013) also notes that benefits achieved in one area may be transferred as costs to another area, outside the scope of what is covered by the impact bond outcome metrics⁴³. Across the four DIBs, stakeholders consistently reported that attention and focus on the DIBs, including from senior management, was higher than for comparable projects (see 4.3). As attention and focus is to some degree finite, this may negatively affect the performance of the non-DIB funded interventions.

³⁸ Cooper, C., Graham, C. and Himick, D. (2016). Social impact bonds: The securitization of the homeless. *Accounting, Organizations and Society*, 55: 63–82.

³⁹ Holden and Patch (2017).; Upper Quartile (2015).; Cambridge Education. (2015). Evaluation of the Pilot Project of Results-Based Aid in the Education Sector in Ethiopia – Final Report EC 2004 - 2006. http://iati.dfid.gov.uk/iati_documents/5608531.pdf

⁴⁰ Clist, P. (2017). “Review of PbR” in DFID (ed.) *Establishing the Evidence Base*.

⁴¹ Kandpal, E. (2016). Completed Impact Evaluations and Emerging Lessons from the Health Results Innovation Trust Fund Learning Portfolio. World Bank Group. https://www.rbhealth.org/sites/rbf/files/IE%20and%20emerging%20lessons_Eeshani%20Kandpal.pdf

⁴² Grittner, A. (2013). Results-based Financing. Evidence from performance-based financing in the health sector. Bonn: Deutsches Institut fuer Entwicklungspolitik; Norwegian Knowledge Centre for Health Services (NKCHS). (2008). An overview of research on the effects of results-based financing. Oslo: NKCHS.; DFID. (2016b). Annual Review of WASH Results Programme 2016 Annual Review. https://iati.fcdo.gov.uk/iati_documents/5498968.odt

⁴³ Warner, M. E. (2013). Private finance for public goods: Social impact bonds. *Journal of Economic Policy Reform*, 16(4): 303–319.

The strong focus on outcomes across the four DIBs, and the challenge of identifying comprehensive outcome metrics that cover all target outcomes means that the risk of these negative DIB effects remains present across the four DIBs. In the four DIBs, other metrics not linked to payments are being monitored. Field visits and more in-depth discussions with field teams are planned in RW3, which will enable a closer assessment of these potential risks.

4.8 Effect 8: Greater outcomes

Effect 8: Hypothesis

An increased focus on outcomes (**DIB effect 1**), strengthened performance management (**DIB effect 2**) and increased flexibility and autonomy provided by the DIB is expected to lead to greater adaptation and course correction (**DIB effect 3**). Greater collaboration between stakeholders (**DIB effect 4**) supports improved delivery. This is all in turn expected to lead to increased efficiency and effectiveness in delivery, leading to an increased number of beneficiaries supported and/or outcomes achieved. The potential negative DIB effects of perverse incentives, tunnel vision and lowering of staff morale pose risks to the number and quality of outcomes achieved

4.8.1 Effect 8: Analysis from four projects

Table 4-13: Effect 8

Effect 8: Increased efficiency and effectiveness, leading to increased number of beneficiaries supported and outcomes achieved	ICRC	QEI	VE	Cataract
DIB effect	● Too early to say	● Observed in the DIB and primarily due to the DIB	● Observed in the DIB and primarily due to the DIB	● Observed in the DIB but could have been achieved without a DIB.
Effect observed in comparator site vs DIB	Too early to say	■ Yes in DIB, somewhat in comparator site	■ Yes in both, though stronger under the DIB	■ Yes in both
DIB drivers	Funding of DCMS and EIM which will improve efficiency and performance management	Focus on outcomes, strengthened performance management, long-term funding	Strengthened performance management, process innovations, increased data-driven delivery	Focus on outcomes, technical assistance, performance management, outreach programmes, though these were also present in the non-DIB comparator
Non-DIB drivers	Commitment of service provider	Quality of providers	Quality of provider and ethos	

Key: ● Characteristic observed and attributable to the DIB; ● Characteristic somewhat observed and/or somewhat attributable to the DIB; ● Characteristic not observed and/or not attributable to the DIB / ■ Characteristic observed in the DIB and not observed / weaker in the comparator site; ■ Characteristic observed in both the DIB and comparator site; ■ Characteristic not observed in the DIB

- **ICRC HIB:** It is too early to say. However, the expectation is that the DCMS and EIM will be rolled out to the HIB funded centres, as well as the 100 centres in ICRC’s PRP, which is expected to improve the efficiency and effectiveness of delivery.

- **QEI DIB:** For the second year in a row, providers have overachieved against their targets, compared to comparison schools and their historical performance. Many DIB-related factors can account for this, including the high-profile nature of the DIB and associated reputational risk; the outcome metric and evaluation design driving providers to focus on classroom-level improvement and therefore a wider cohort; clearer outcomes that better orient team's and teacher's work; and regular support from the performance manager. Additionally, the committed long-term funding freed up service providers' time, which would have spent fundraising, to focus on data, performance management and improving delivery. The available data for year 2 also indicates that performance to date has out-performed comparable interventions.

The table below was provided by CGI, the independent evaluators, and sets out the performance of the DIB in Y1, based on the independent evaluation. The numbers represent effect size, which measures the difference between treatment and control, or comparison, schools in terms of the improvements in learners' language and Math outcomes. Improvements are measured as endline learning level – baseline learning level. Practically, an effect size of 1 would mean that the DIB school would have an improvement 1 standard deviation higher than the comparison DIB group.

Year 2 achievement (column 5) was above target (column 4) for all service types. The targets were already set to be higher than the effects seen from other programmes across the world (column 3) and a meta-analysis of 50+ evaluations delivered by CGI in the Indian context (column 2).

Table 4-14: QEI target setting and performance

Service Type	Expected Effect size as per CGI data	Expected Effect size as per published data	Performance	
			DIB Targets	Y2 Achievement
Whole school models (Gyan Shala)	>0.6 (Large)	>0.5 (Large-Very Large)	0.9 (Large)	1.0* (Large)
School Leadership (KEF)	0.1-0.2 (Very Small - Small)	0.11-0.5 (Very Small – Small)	0.4 (Small)	0.6 (Medium)
Remedial (SARD)	0.5-0.8 (Medium)	0.2-0.8 (Small – Medium)	0.5 (Medium)	>1.5 (Very Large)
Ed-Tech (EI/PIF)	0.2-0.8 (Small – Medium)	0.2 – 0.8 (Small – Medium)	0.7 (Medium)	>1.5 (Very Large)

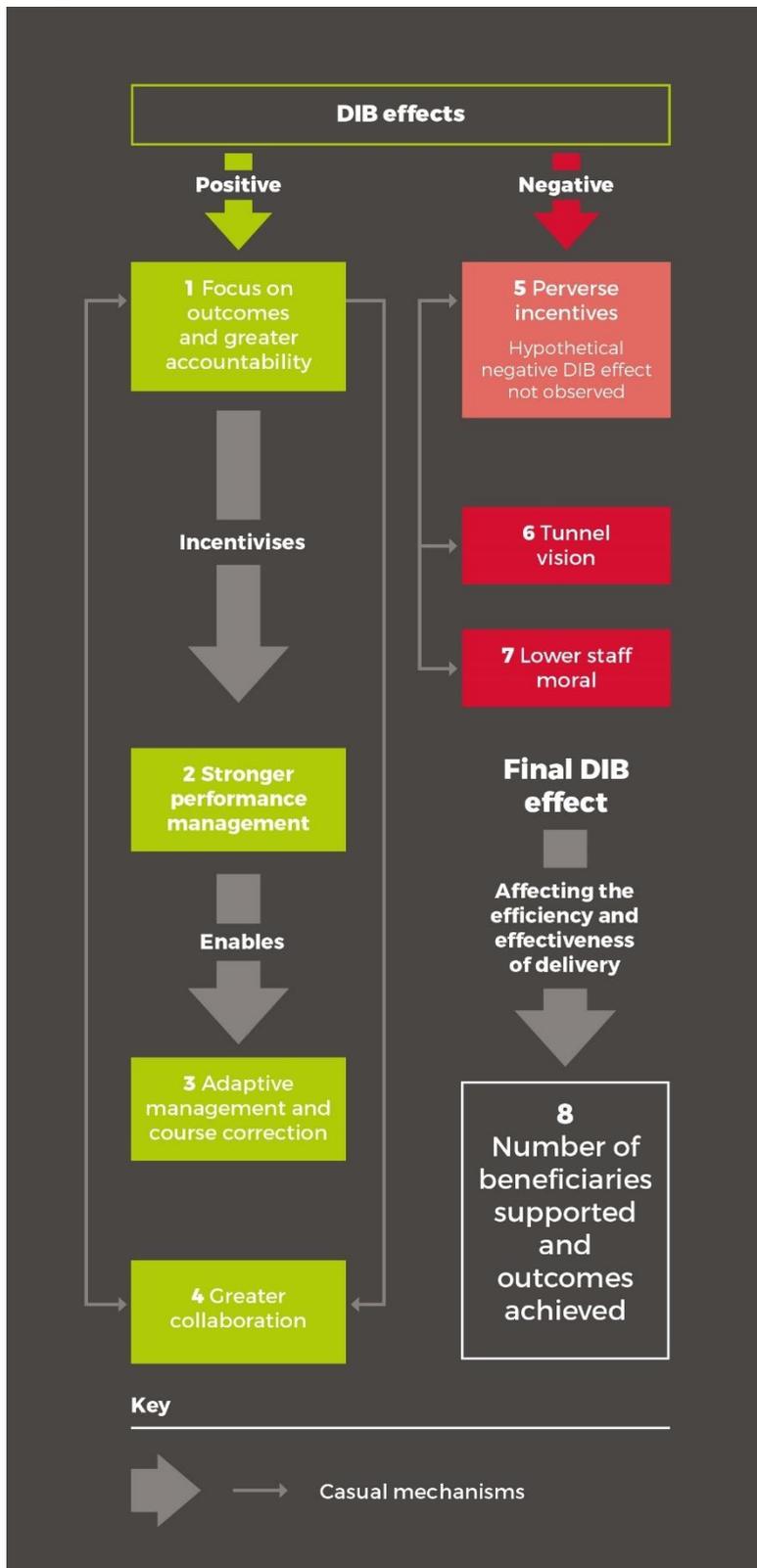
*Based on Y1 results, Y2 Assessment not conducted.

- **VE DIB:** The focus on outcomes and stronger performance management systems has increased the efficiency and effectiveness of the programme. Monitoring data indicates that stronger outcomes are being achieved under the DIB in comparison to non-DIB programming, especially in the case of the larger seed grant sizes. While many of the performance management improvements have also been rolled out to the non-DIB areas, there seems to have been increased pressures in the DIB programmes, with some mentors reporting they are encouraged to undertake more field visits to business mentors under the DIB.
- **Cataract Bond:** Stakeholders agreed that the focus on quality and equity have contributed to the service provider delivering more effective and efficient services than is likely to have happened without the DIB. For example, the provider was able to better track the profile of patients it was reaching through outreach to achieve the equity target. However, this could likely have happened without a DIB; in the comparator hospital, the grant funding and technical assistance provided also contributed to the delivery of more efficient and effective services, leading to greater achievement of outcomes.

4.8.2 Effect 8: Findings

The figure below sets out how DIB Effects 1-7 affect the number of beneficiaries supported and outcomes achieved.

Figure 4.6: DIB Effect 8 framework



Across the DIBs, there are promising signs that the DIB is contributing to increased efficiency and effectiveness, and consequently greater outcomes. We will be able to comment more conclusively on the extent to which this is the case after final results are released across the DIBs, in RW3. An additional factor contributing to the high stakes environment and focus is the fact that these are pilot DIBs, of interest to the wider sector. A number of stakeholders noted that stakeholders could not “afford for [the DIB] to fail”. Across all the DIBs, senior stakeholders and team members were dedicating more time to the DIB as a result. In addition to the earlier DIB effects, the nature of the committed funding, and the specific funding for improving efficiency (for example, in the case of ICRC) contributes to this improvement.

The sustainability of this increased efficiency and effectiveness is key to the value of the DIB. This depends on how sustainable key contributors to this increase in efficiency and effectiveness are, which are the increased focus on outcomes (including outcomes linked to quality and equity) and performance management. The extent to which service providers’ capacity are built to sustain these changes will be a key focus of RW3.

4.8.3 Effect 8: Comparison to other impact bonds and PbR projects

There is mixed evidence that SIBs reach more beneficiaries and achieve more outcomes, due to the limited number of evaluations comparing the use of SIBs, PbR and grant funding and the challenge of

establishing comparative baselines⁴⁴. There is some evidence of SIBs contributing to more beneficiaries being reached, for example in the Peterborough SIB,⁴⁵ the Fair Chance Fund and the Youth Engagement Fund.⁴⁶ However, an independent review of four SIBs 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 models⁴⁷.

In the few DIBs that have been completed, findings have been mixed – Educate Girls surpassed both outcomes targets. However, a CGD fellow noted that while results are “reasonably comparable to other programs, as they note,” it “doesn’t sound revolutionary for 3 years,” and are “hardly unprecedented for a pilot”, noting several examples of other organisations showing bigger learning gains⁴⁸. The Asháninka Impact Bond in Peru did not meet its targets⁴⁹.

Evidence for PbR projects is mixed. Some reviews have found that PbR can increase quality, access and use, with some studies estimating that PbR can double aid effectiveness⁵⁰. A 2010 PbR review showed that a total of 85% of PbR projects achieved or overachieved desired results within or below budget, compared to 49% of traditional projects⁵¹. However, Perrin (2013) found that most results relate to access rather than health or final outcomes and tend to be short term in nature⁵². There is also limited evidence that this is due to the PbR mechanism. Most studies focusing on whether results are associated with PbR rather than whether they are due to the use of PbR. It is very difficult to say whether this is due to the focus on results or simply the funding, and it is difficult to refute the hypothesis that alternative approaches could not have delivered equally promising or even better results.⁵³

We expect to be able to more fully assess this DIB effect in RW3, as the DIBs come to an end. However, we note that due to our evaluation approach, it will not be possible to quantify any additional benefits due to funding through a DIB rather than a PbR project. Comparisons of QEI and VE performance against grant funded comparators should provide some indication as to the additional DIB benefits, as compared to grant funding.

4.9 Spillover effects

The DIB effects focus on the effects at the intervention level. However, across the four DIBs, stakeholders also reported a number of spillover effects at the *organisation* level as well as the *wider ecosystem* level. These are detailed below.

⁴⁴ Fraser et al. (2018); Mason, P., Lloyd, R. and Nash, F. (2017). Commissioning Social Impact Bonds (SIBs) Learning from the Qualitative Evaluation of the London Homelessness Social Impact Bond. Department for Communities and Local Government.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/658939/Commissioning_Social_Impact_Bonds.pdf; Thomas, A. and Griffiths, R. (2014). Innovation Fund pilots qualitative evaluation. Early implementation findings. Department for Work and Pensions.

⁴⁵ UK Ministry of Justice. (2013). Statistical Notice. Interim re-conviction figures for the Peterborough and Doncaster Payment by Results pilots. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/206686/re-conviction-results.pdf

⁴⁶ Ronicle and Smith (2020).

⁴⁷ Edmiston, D. and Nicholls, A. (2017). Social impact bonds: The role of private capital in outcome-based commissioning. Journal of Social Policy, 47(1), 57-76.

⁴⁸ Saldinger, A. (2018). The Educate Girls DIB exceeded its goals: How did they do it and what does it mean?

<https://www.devex.com/news/the-educate-girls-dib-exceeded-its-goals-how-did-they-do-it-and-what-does-it-mean-93112>

⁴⁹ Clarke, L., Chalkidou, K. and Nemzoff, C. (2018). Development Impact Bonds Targeting Health Outcomes. CGD Policy Paper.

Washington, DC: Center for Global Development. <https://www.cgdev.org/publication/development-impact-bonds-targeting-health-outcomes>

⁵⁰ Bernal, P., Celhay, P. and Martinez, S. (2018). Is Results-Based Aid More Effective than Conventional Aid? Evidence from the Health Sector in El Salvador. Inter-American Development Bank Social Protection and Health Division.

⁵¹ Pearson, M., Johnson, M. and Ellison, R. (2010). Review of major Results Based Aid (RBA) and Results Based Financing (RBF) schemes. DFID Human Development Resource Centre. Available at:

https://assets.publishing.service.gov.uk/media/57a08afb40f0b652dd000a04/Results-Based-Financing-Schemes_Report.pdf.

⁵² Perrin, B. (2013). Evaluation of PbR (PbR): Current Approaches, Future Needs: Report of a Study Commissioned by the Department for International Development.

⁵³ Pearson et al. (2010).

4.9.1 Organisation Level Rolling out of processes and learning

The first category of spillover effects at the organisation level includes processes and learnings from the DIBs being rolled out by DIB stakeholders. This is key to the success of the use of a DIB for many stakeholders. As one outcome funder noted, *“The good stuff from this bond is when it infects other projects, that’s when it has good success”*.

Across all four DIBs, service providers noted that they were transferring lessons from the DIB to their non-DIB programmes, which is promising in terms of the sustainability of these changes:

- **ICRC HIB:** In-built into the design of the HIB was the idea that processes and systems generated under the HIB would be rolled out across the PRP. Efficiency improvement measures were tested in other centres, and learning is being transferred to the centres funded under the HIB, as well as other centres across the PRP. Once developed, ICRC plans to use the DCMS in both the DIB and non-DIB centres.
- **QEI DIB:** Through regular senior and field staff meetings, service providers were transferring learnings from the DIB to their non-DIB programmes, in terms of MIS, data analysis and use, performance tracking, quarterly reporting systems, as well as safeguarding policies and practices. One DIB stakeholder noted that they thought that even without intermediary support after the end of the DIB, providers’ new mindset and focus on learning outcomes were expected to continue. One service provider noted, *“The more thorough and more regular data collection and analysis is being reflected in the rest of the programme as well. Whatever best practice we identify in one project gets replicated in other projects delivered by the organisation”*. QEI stakeholders agreed that even without intermediary support after the end of the DIB, providers’ new mindset and focus on learning outcomes were expected to continue. Management and field teams had developed a better understanding of which activities were serving which outcomes, and this has the potential to inform their future practices.
- **VE DIB:** Interviews with VE highlighted that the adaptive management process and performance management dashboards, established under the DIB programme, have been rolled out across all of VE’s programming, including the non-DIB funded programme. Business mentors highlighted how these tools enabled them to make decisions based on data, and senior stakeholders reflected that the tools have led to tangible impacts on the quality of support provided to business owners. The VE process evaluation found that additional pressure to achieve results *“influenced the culture around data, having created greater demand for data across the organisation to support decision-making and having changed perceptions of the M&E team”*. VE had also added performance management skills to its recruitment criteria.
- **Cataract Bond:** In the Cataract Bond, there has been focus on building the capacity of the hospital, especially in the areas of performance management, outreach and equity, which is expected to affect future non-DIB funded delivery.

The extent to which strengthened performance management systems are rolled out and continue after the end of the DIB has important implications for the value and relevance of a DIB. Cataract and QEI stakeholders agreed that the key value add of the DIB is the change to providers’ mindsets, focus on outcomes, capability and practices, and the way it incentivises and necessitates the use of data. The strengthening of performance management systems and the building of capacity to deliver this is the key DIB driver that is sustainable. In comparison, other DIB drivers such as the high stakes environment, external perspectives and aligned incentives, depend specifically on the DIB funding mechanism, and do not continue after the end of the DIB. As such, the strengthening of performance management systems and capacity is key to sustaining improvements in efficiency and effectiveness. This will also have implications as to whether a DIB should be primarily seen as a *change management* process, and whether there is value in a service provider getting involved in a second DIB. In the case of the Educate Girls DIB, Educate Girls declined to get involved in a second DIB, as it considered it had already reaped the full benefits of engagement in a DIB, and hence the transaction costs involved in delivering a DIB would be less worthwhile the second time round. On the other hand, the evaluation of the Youth Engagement Fund also reports that SIBs generally operate more effectively when they are replicated, as service providers are able to build on their relationships and lessons learnt from their previous experience

working with a SIB.⁵⁴ The next research wave will explore the sustainability of performance management systems, without the presence of a performance manager, the external evaluation and the DIB high stakes environment.

In the Cataract Bond, there have also been spillover effects in the outcome funders, who are using the learning from the DIB for their wider grant-making and programming. This includes lessons on designing outcomes and indicators, delivering equity outcomes and structure programmes:

- **Designing outcomes and indicators:** One outcome funder had started asking its grantees to collect data on the *quality* of surgeries. This outcome funder also highlighted that they planned to roll out the affordable methodology for validation of outcomes developed for the bond across their other programmes. The outcome funder also noted that they planned to draw on learning on simplifying outcome targets and performance management, nothing:

“Fred Hollows have projects that have a logframe with many indicators, which can be time consuming and not always efficient in informing decision-making. With four key indicators, they can still say they are comfortable with the progress of the project.”

- **Delivering equity outcomes:** Two outcome funders and the intermediary are using the EquityTool to track the income levels of users on their other programmes. They are also drawing on the learning on costs and reach from the DIB’s outreach programme to adjust their own outreach programmes. One outcome funder noted that the DIB was an important catalyst for change. While these changes could have been implemented without a DIB, these changes take time, and the DIB generated evidence that these changes do drive better results. However, it is still early days, and some outcome funders point out that they need to wait until the completion of the DIB and once repayments are made to take stock of what is being learnt.
- **Structuring programmes:** One outcome funder anticipated using a focused steering group per project, which had provided focus in the DIB. The outcome funder also intended to draw on lessons it had learned on the implementation structure to its other projects, and the importance of having clear roles.

Comparing spillover effects with the DIB effects in the DIB-funded intervention generates useful lessons about the DIB effect, and the specific drivers which drive these effects. Comparing the extent to which effects are in place in the DIB and non-DIB setting can help shed light about the relative contribution of unique DIB factors (involvement of external stakeholders, including investors and intermediary and payments linked to outcomes) versus other factors such as stronger M&E, performance management and focus on outcomes. This can also generate information about whether the DIB effects would be expected to be strongest the first time it is delivered in an organisation, as a sort of ‘organisation change management’ or whether it is worthwhile for stakeholders to get involved in multiple DIBs. This will be explored further in RW3, but there are some interesting insights so far:

- In the case of VE, the service provider noted that it could have rolled out the strengthened M&E and performance management without the DIB, and indeed this was funded by VE. However, one stakeholder noted that previously staff members were hesitant about the relevance of rigorous monitoring, given the many factors affecting outcomes. However, the DIB drove staff members to use M&E data. This increased confidence in M&E data and a willingness to draw on this data to adapt, across both DIB and non-DIB funded programming.
- In the case of QEI, monitoring processes and strengthened data collection had been rolled out to non-DIB settings. Following up on relative performance under DIB and non-DIB areas will identify whether the strong external intermediary role and high-risk environment contributes to improvements and will shed light on the sustainability of improvements under the DIB (e.g. if one would need to continue funding through a DIB, and an intermediary, to see these improvements).

⁵⁴ Ronicle, J. and Smith, K. (2020). Youth Engagement Fund Evaluation. Fina Report. Ecorys. Available at: <https://www.gov.uk/government/publications/youth-engagement-fund-evaluation-final-report.e>

4.9.1.1 Increased visibility

The second category of spillover effects at the organisation level involve effects due to increased visibility from involvement in the DIB. In the case of the QEI DIB, as a result of visibility and recognition through the DIB, one service provider is now liaising with the government to expand its activities and develop content and curriculum for different Indian states. Through CGI's development of a more sophisticated testing model, based on learning outcomes, CGI also acquired significant visibility in the market. BAT is increasing its presence in the social finance market in South Asia. Stakeholders agree that there is increased visibility for VE, buoyed by communications, conferences and publications. Finally, while it is too early to say, VE expects that the increased evidence base developed under the DIB and visibility afforded by the DIB will enable it to access additional funding after the DIB.

4.9.1.2 Diverting of attention

The final category relates to a potential negative spillover. There is some indication that the high stakes environment diverted attention to the DIB funded interventions, which may potentially have a negative impact on the non-DIB funded interventions. In the case of ICRC, stakeholders noted that, especially during the design phase, the PRP team spent a lot more time on the HIB funded interventions, in comparison to the non-HIB funded PRP centres. In the VE DIB, business mentors reported that the targets were higher and that they were required to visit businesses more regularly under the DIB. Senior management clarified that this was actually not the case. The DIB incentivised managers to focus more on the targets that in theory have always been there, but have not always been closely followed, which created the perception of “increased targets”.

4.9.2 Ecosystem level

Beyond the organisation level, there was also a range of spillover effects in terms of building the innovative financing market and the respective sectors of the DIBs. DIBs have increased the capacity of stakeholders to work with innovative financing mechanisms and there is some indication that DIBs have sustained stakeholder interest in engaging with these mechanisms. DIBs are also expected to contribute to the evidence base on outcome-based financing and the DIBS' respective sectors. There are some promising indications of this, but these effects are likely to be more pronounced in RW3 and will be further explored then.

The DIB has also increased the capacity of the stakeholders involved to work with innovative financing mechanisms and to share this knowledge with others. For example, VE's process evaluation identified that, *“VE's work was a valuable investment, now having the financial structure, experience and capacity for future use... and can help guide others embarking on the same journey”*. ICRC stakeholders also noted that the experience has been invaluable in increasing its capability to work with innovative financing mechanisms and outcome-based contracts, to meet its ambitious targets for income generation from new financing models.

The DIB has also sustained stakeholder interest in engaging with innovative financing mechanisms, though certain stakeholders note they will wait to see the success of these impact bonds before deciding if they will continue engaging in these mechanisms. Some investors expressed interest in investing in more impact bonds. QEI DIB stakeholders have also started conversations about designing and developing a second DIB, supported by BAT's advocacy work. ICRC has been encouraged by its experience so far and is looking to increase its income from new financing models, though enthusiasm still varies across the organisation. Finally, an objective of ICRC and some of the outcome funders in using this HIB was to facilitate investor interest in humanitarian and Fragile and Conflict Affected Situations (FCAS) contexts, though it remains too early to tell if this is successful.

There is also the expectation that experience of the DIBs will support the building of the evidence base on the relevance of outcome-based financing. The QEI DIB and VE DIB have invested in additional learning and evaluation activity, though VE stakeholders point out that a single DIB provides limited evidence, and that the

evaluation was not designed to compare DIBs vs non-DIBs programming. The QEI DIB experience is generating information that will enable the development of a rate card, which may facilitate future impact bonds or outcome funds in the education sector. This evaluation itself is contributing to the building of the evidence base on the relevance of DIBs in development contexts.

Finally, across all of the DIBs, the nature of the interventions and rigorous outcome validation approaches are intended to contribute to the building of evidence base in the DIBs' respective sectors, though this remains to be seen.

- Stakeholders agree that the sustainability of the **QEI DIB** lies in its ability to create evidence for funders and government of the merits of outcomes-based, age-appropriate interventions and increase their roll-out across India. As BAT noted, *“We wanted learning outcomes to become mainstream”*. The rigorous testing methodology developed by CGI has been useful to generate learning about the relative costs and effectiveness of different models and for DIB stakeholders to advocate with the government about switching to outcome-based financing.
- A key objective of the **VE DIB** is to build greater knowledge of ‘what works’ in terms of income graduation models and poverty reduction, including the effects of different grant sizes.
- In the **Cataract DIB**, outcome funders consider that the DIB is contributing to the evidence base of how to determine the level of cross-subsidisation of services possible in different contexts.
- **ICRC’s** Efficiency Improvement Measures testing includes the systematic testing and documenting of the effects of different measures, to better understand how to set up PRP centres going forward to maximise efficiency.

4.10 Conclusions

At the time of reporting, the DIBs were still in delivery phase, and it remains too early to conclude on the success of the DIBs. Nonetheless, below we set out emerging findings against the evaluation questions.

4.10.1 To what extent were the four DIB projects successful in realising their aims, outputs, outcomes and impacts?

It is difficult to say how Covid-19 will affect the likelihood of the DIBs achieving their target outcomes, but before Covid-19, the DIBs appeared to be broadly on track to achieve most of the target outcomes. This is with the exception of the Cataract Bond’s equity target, and the ICRC HIB, where it remains too early to say.

As set out in Table 4-15, stakeholders had a number of aims of using the DIB. An important point raised by a number of stakeholders is that DIBs should be judged against the motivation for doing a DIB, and the specific objectives of the DIB. However, stakeholders also noted that what success means might also change over the lifetime of the programme, especially in these early days of DIBs as we are still learning about the mechanism. For example, in the case of the Cataract Bond, while a key original objective was to crowd in additional investment to prevent avoidable blindness, stakeholders now consider that the improvements the DIB has achieved in performance management are some of the key successes of the mechanism. However, other stakeholders are now less convinced of the value of the DIB mechanism in the case of the Cataract Bond intervention, as it has not crowded in additional investment, has involved additional set up costs and involves a tested intervention that already works well through grant funding.

When asked about the extent to which the DIB has met expectations and the likelihood of participation in another DIB, stakeholders generally agreed it was too early to say. The table below maps out the extent to which expected benefits of using a DIB have materialised to date.

Table 4-15: DIB Aims and extent to which these have materialised to date

DIB	Aims	Extent to which this has materialised
ICRC HIB	Service provider: test a new funding mechanism and build capacities to access innovative financing. Building relationships with the private sector and building the market for investment into fragile and conflict affected situations. Additional benefit of accessing long-term funding.	A new funding mechanism is being tested, and ICRC and stakeholders are documenting lessons learned. Capacities to access innovative financing are being strengthened in ICRC. Long-term funding has been secured. Building relationships with the private sector and a market for investment into Fragile and Conflict Affected Situations (FCAS) contexts is ongoing.
	Outcome funders: testing new funding mechanism and approach to closing of the humanitarian financing gap, supporting ICRC to build stronger relationships with the private sector. Opportunity to fund investments into efficiency with reduced risk – with the majority of payment only made where these measures do increase efficiency, and ultimately, outcomes.	The effects of stronger relationships with the private sector and extent to which this funding mechanism will support the closing of the humanitarian financing gap remains to be seen. The HIB is successful in ensuring funders only pay on success and increased outcomes.
	Investors: testing and building a new market	Achieved in part. Remains to be seen extent to which the market for HIBs and innovative financing in the humanitarian sector is developed.
QEI DIB	To galvanise the market of high performing NGOs in India to deliver at scale and support the learning crisis.	The DIB has been successful in strengthening and supporting the service providers to deliver at scale and generating credible evidence for the potential for these providers to support the learning crisis.
	To engage the government and explore the potential transition from DIB to SIBs in India, and support the transition to more rigorous assessment approaches	This remains ongoing, and the DIB and BAT are scaling up its advocacy and communication efforts. There are promising signs of engagement with government, including conversations between MSDF and state governments.
	To scale the learning and successes of the Educate Girls DIB and test the model on a larger scale to explore the opportunities to reduce transaction costs	To be determined.
	To test the applicability of a rate card ⁵⁵ with a standard pricing framework of potential outcomes, as used in social impact bonds (SIBs).	To be determined.
VE DIB	Developing a market for outcomes in poverty alleviation and contributing to the evidence base of poverty graduation interventions.	The RCT contributes to the evidence base of poverty graduation interventions. It remains to be seen the extent to which this contributes to market development.
	Testing how the graduation model can be implemented at scale.	On track to be achieved
	Opportunity to prove effectiveness of the approach, attract more funding for services, scale intervention while maintaining impact and contribute to learning in the sector (service provider).	Impact has been maintained to date, and the experience is contributing to learning in the sector. The internal monitoring data also shows positive signs of increased effectiveness under the DIB. However, some stakeholders point to the fact that one DIB provides insufficient evidence, and the VE process evaluation and RCT has not been explicitly designed to compare DIB versus non-DIB programming.
	Testing how the graduation model could be implemented in a way that moderates transaction costs, shifting the focus of funders from monitoring outputs to outcomes, and incentivising and affording the opportunity service providers to track and manage results and adapt accordingly (Intermediary - Instiglio and anonymous donor).	On track. Funders are monitoring outcomes not outputs, and it has incentivised the service provider to track and manage results and adapt accordingly
	Paying only on outcomes (outcome funders).	Achieved. Outcome metric is increased income proxied by consumption and assets. In light of Covid-19, the assumptions for calculating sustainability of the outcome are under review.
	Bring government attention to the poverty graduation model (noted by one investor).	To be determined. Interviews suggest this is on track to be achieved. VE is now better known and government officials have attended mobilisation workshops

⁵⁵ In the context of payment-by-results, a rate card is a schedule of payments for specific outcomes a commissioner is willing to make for each beneficiary/ service user that verifiably achieves each outcome

DIB	Aims	Extent to which this has materialised
	Increasing visibility of Village Enterprise and raising additional funding for VE	Visibility of VE has increased, and stakeholders are confident that there is an increased likelihood of additional funding for VE, though this will depend on evaluation findings
Cataract Bond	Outcome funders and investors: test mechanism to build the market for outcomes-based financing in the eye care sector, crowding in additional investment to prevent avoidable blindness and supporting the expansion of innovative financing in the eye care sector. Testing the DIB model to generate public goods.	The DIB brought impact investing and results-based finance into a space that did not exist before by sharing the risk of the investment between outcome funders, service provider and investors. The DIB has crowded in limited additional finance to the sector. The DIB model is being tested and useful learning generated.
	Service provider (AEF): the international recognition that came from working together with the outcome funders and the potential to receive upfront financing with more favourable terms than a commercial loan, while sharing the risk of its operations with the outcome funders.	On track to be achieved

4.10.2 To what extent was the level of success and failure due to the DIB model - was the DIB model a small, medium or large driver of success and was it at all critical to the projects' overall performance?

It is too early yet to assess the success of projects given the stage of delivery, and it is challenging to attribute projects' performance to the contribution of the DIB model. What has emerged from the RW2 research is that the DIB has contributed to increasing focus on outcomes, driving performance management and adaptation, and increasing collaboration between stakeholders, though the extent to which this was the case varies across DIBs. There are promising indications that these effects have improved the effectiveness of delivery. There is mixed opinion across stakeholders about the extent to which these effects are due to the DIB. While many of these effects might be possible under grant or PbR funding, the DIB was referred to by many as the 'catalyst' that set things in motion and sped up changes. This also varied across the DIBs, depending on the DIB set up and the intervention funded. For example, the Cataract Bond only funded a proportion of the hospital, which was newly set up under the DIB; as a consequence, because the DIB was only a small proportion of the hospital funding (\$2 million out of a total \$12 million), it had less of an effect on the project than in the projects where the DIB funded the whole or majority of activities. The DIB also brings together a range of skills and strengthened collaboration as a result of aligned incentives. The fact that these DIBs are pilot ones has undoubtedly increased the focus, resources and attention directed to them, and it is difficult to assess how DIB effects in subsequent DIBs may differ.

The DIB effects seen are not exclusively DIB effects. For example, stakeholders in the ICRC HIB and Cataract Bond in particular noted that the effects seen could have been achieved through other means. ICRC stakeholders noted that a lot of the contributors to the DIB effects – funding of the EIM and DCMS, project nature and defined outcomes – could have been delivered without a DIB. Similar effects were seen in the comparator site for the Cataract Bond, a well-designed grant to a committed provider. All DIBs built on other aspects, such as the selection of high-quality providers predisposed to working with data and committed to achieving outcomes.

Under each DIB effect we have considered the necessity of the DIB, that is, whether or not it is critical to achieving the effect. With the exception of the involvement of investors and other stakeholders, many of the DIB mechanisms are also seen under PbR or could be introduced to PbR and grant mechanisms. Under PbR funded projects, we also see many of the DIB effects, though it is difficult to compare whether the *strength* of the effects is stronger under the DIB.

The implication of this is that a DIB is not always necessary. Some of the desired effects could also be achieved through a well-designed grant or PbR, and it is possible to design these to include many of the features of a DIB (e.g. in the case of the Cataract Bond comparator site). A key finding is that how the DIB affects delivery

depends on how the DIB is structured and the target objectives of using a DIB. This should be a key consideration in determining the relative costs and benefits of using a DIB, and whether the specific objectives, contexts and types of stakeholders mean a DIB would add value. For example, a DIB may be particularly worthwhile where a stronger focus on outcomes, space to adapt and external pressure is expected to *catalyse* changes.

It is difficult to know whether the same successes seen under these DIBs will also be the case if weaker service providers are selected. The DIBs covered under the evaluation have only involved providers pre-disposed to this way of working. This was noted to be a key contributor. Stakeholders agreed that the success of interventions was very much driven by the quality of the service providers, all of whom were data-driven organisations with strong M&E systems in place, and an interest and commitment to improvement. This *selection bias* of selecting providers pre-disposed to the DIB model should be considered when considering the DIB effect. QEI stakeholders reflected that there remained a risk of tunnel vision and perverse incentives, and that ultimately the quality of staff was critical to ensure children's holistic development is considered, beyond quantitative measures, point to the importance of careful selection of providers. This highlights the importance of selecting service providers that are ready to deliver against strict DIB requirements or preparing them to do so.

This also raises questions about the types of providers and interventions suitable for funding under the DIB, and the extent to which they need to be 'proven' providers and interventions. It is unclear whether a DIB would be suitable for providers who need more support, and how a DIB may need to change to support this.

Furthermore, across all DIBs, the interventions related to the scale up of existing, proven interventions. However, some Cataract Bond stakeholders consider that DIBs could add more value when used to test innovative solutions and use the mechanism as an opportunity to gather data and evidence on the effectiveness of untested interventions. As these are pilot DIBs, stakeholders noted that it was too risky to test a new funding mechanism and new intervention – it remains to be seen whether investors will have sufficient risk appetite to fund untested interventions through a DIB structure, and the levels of capital protection required.

There are interesting aspects to further explore in RW3. For example, further changes are expected for contracts as the implications of Covid-19 become clearer. The appropriateness of DIB contracts to respond to shock will shed light on the relevance of DIBs in humanitarian and Fragile and Conflicted Affected Situations (FCAS) contexts. RW3 will also focus on sustainability. Further consideration of the drivers and mechanisms leading to different DIB effects will inform our understanding of the extent to which effects are sustainable and how future DIBs can be best structured to maximise and sustain DIB effects. Finally, we anticipate undertaking data collection in-country in RW3, which will enable us to speak to a larger number of field staff and final recipients and users. This will be useful to further delve into the potential negative DIB effects, for example, the extent to which the pressure to achieve results may be leading to perverse incentives and tunnel vision.

5.0 Analysis and Findings – EQ2



5.0 Analysis and Findings – Costs of designing and delivering DIBs (EQ2)

Summary

Our analysis has focused on costs during the delivery phase. This excludes set up costs and investor returns. Operating a project through a DIB requires additional costs compared to a grant. Key additional costs during delivery relate to 1) verification to ascertain the outcome payments; 2) other evaluation costs related to generating learning on the use of the DIB mechanism; 3) investment vehicle/legal costs needed to use the DIB mechanism; 4) governance costs related to coordination and convening the generally larger number of stakeholders under a DIB; and 5) performance management costs, related to increasing the use of data to deliver adaptive management. DIB structures and costs vary, as do other funding mechanisms such as grants and PbR. However, generally it seems that verification costs are an additional DIB cost, though they are also required in PbR. Evaluation and performance management costs are not unique to DIBs, but our finding is that these costs represent the higher end of M&E costs. Investment vehicle and legal costs are unique to the use of the DIB mechanism, though we note some PbR mechanisms will also require these costs. Governance costs are also higher, but we note that this could be due to the fact that contracting intermediaries to deliver this could simply crystallise and formalise tasks and costs that were previously undertaken by the service provider and / or outcome funder.

Across the DIBs, the highest costs are in the areas of verification, especially the QEI and VE DIBs, which involved large RCTs and quasi-experimental approaches. Intermediary costs represent the second highest proportion of additional costs. We note direct comparisons are difficult, as the role of the intermediaries varies significantly across the DIBs.

These costs are generally paid for by the outcome funders, as part of the total DIB costs. However, there are also some costs paid for by other funders, such as the separate learning and communication grants paid for by FCDO in the case of the QEI DIB. A number of stakeholders across intermediaries and service providers also mentioned that they are providing in-kind contributions, in terms of staff time.

There is some indication that these costs do lead to additional results, impacts and benefits. These additional costs are critical to the 'key ingredients' and DIB effects discussed in section 4. For example, verification was noted as a key driver for a stronger focus on outcomes. The external expertise was noted as a key contributor to improved performance management and adaptive management.

It remains too early to say how efficiency compares with other funding mechanisms. This will be revisited in RW3 when outcomes data are available.

However, we have some initial findings on how it might be possible to reduce transaction costs while maintaining the benefits of using a DIB:

1. Additional stakeholders result in additional coordination and communication costs, and as such, the costs and benefits of bringing in additional stakeholders should be carefully considered, and structures and processes put in place to clarify roles and decision-making processes.
2. Reporting requirements should be focused on use and what is necessary to support decision-making, given providers are responsible for outcomes, rather than inputs or activity (as in more traditional grants).
3. The role of the intermediary should be carefully considered, to ensure costs and benefits are proportionate, appropriate for the phase of the market and to support sustainability through service provider capacity.
4. Legal and financial costs remain high – there may be potential to use 'quicker and dirtier' contracts, to support flexibility.
5. Experiences of delivering these DIBs have generated useful learning as to the true costs of delivering a DIB. These should be used to plan future DIBs, to avoid overstretch or the diversion of attention from other projects.
6. Across the sector, more needs to be done to consider how evidence can be generated to assess the value for money of the DIB mechanism. A commitment to collecting data in comparable formats and to sharing this information openly and transparent is needed.

5.1 Introduction

This section covers part of EQ2 and explores the efficiency of the DIB mechanism and identifying improvements that can be made to the process of designing and agreeing DIBs to reduce the associated transaction costs. The section is structured as follows:

- Section 5.2 sets out our approach to the costs and efficiency analysis
- Section 5.3 discusses the additional costs and benefits per impact bond
- Section 5.4 analyses costs and benefits per cost category.

This section addresses the evaluation sub-questions:

Costs

- 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?
- Who pays for these additional costs?
- How does the efficiency compare to other DIBs and funding mechanisms and why?

Benefits

- Do the extra costs represent value for money - to what extent do they lead to additional results, impacts and benefits?
- Who pays for these additional costs and to what extent do they see the benefits?
- Section 5.5 discusses emerging learning, against the following evaluation sub-questions:
- What improvements can be made to the process of designing and agreeing DIBs to reduce the associated transaction costs?
- Are there any inefficiencies in a DIB model that can be reduced or are there any additional costs that are unnecessary?

5.2 Approach

Drawing on learning from RW1, the evaluation team developed a pro forma to capture additional costs in a more standardised way. The pro forma included cost categories and definitions that aligned with other tools being used in the sector (e.g. GO Lab). The pro forma was designed to be populated using budget and actual expenditure related to the DIB, together with estimates from the comparison sites in order to identify additional costs. For each category, stakeholders were requested to fill out a) total DIB costs; and b) estimated costs had the project been funded through a grant; to arrive at the difference, which would be *additional* costs due to it being a DIB. Table 5-1 sets out the cost categories the evaluation team asked DIB stakeholders to provide costs against.

Table 5-1: Cost Categories

Cost Category	Description
Service Delivery	Costs of delivering the service

Cost Category	Description
Verification	Costs of verifying the outcomes achieved, in order to inform the outcomes payment
Other evaluation	Costs of any other learning and evaluation activities
Investment vehicle	Operational costs of Special Purpose Vehicle e.g. Escrow; trustee fees
Governance	Staff time and expenses required to prepare and join meetings with external DIB stakeholders
Performance management / Monitoring and Evaluation	Costs related to performance management and outcomes reporting, including systems costs, staff time

There continued to be challenges in collecting cost data for some of the DIBs. An emerging finding was that given the focus on outcomes and the fact that some of the DIBs budgets were informed not by costs, but by cost per *outcome*; providers and stakeholders were often not required to report on expenditure. In contrast, in input-based financing, reporting against budgets tends to be required on a regular basis. As such, across a number of the DIBs, DIB expenditure was not routinely tracked against the budget.

In general, DIB stakeholders completed templates using budget and forecast information for the entire life of the DIB. Unlike RW1, which included additional costs such as in-kind staff time, these costs were not included in RW2. These costs were generally not being tracked by stakeholders, either for the DIB, or in comparators. As such, any comparisons are based on qualitative data (e.g. stakeholders comparing whether less or additional time was spent on managing the DIB compared to similar grants). A linked implication is that actual expenditure is mainly incurred by the service provider, and, where applicable, the intermediary/project manager/knowledge partner. Costs incurred by the other stakeholders (e.g. management and oversight) is generally not included within the budget. As a consequence, the cost pro forma does not fully cover costs from the perspective of the different stakeholders, which was a focus for RW1. However, qualitative data collected and analysed provides insights into any differences in costs (either additional costs or cost savings) compared to grant funded projects from the perspective of different stakeholders.

We also asked for stakeholder perceptions on the efficiency and cost-effectiveness of additional costs. While none of the interventions had been PbR funded, we also discussed how hypothetical PbR costs may compare with DIB costs.

Finally, our comparisons with PbR draw on the literature, but data on additional PbR costs remains limited. A key finding from the PbR literature is that, similar to DIBs, the structuring of PbR varies significantly. As such, it is impossible to categorically compare DIB costs with PbR cost. We provide some indicative comparisons where relevant. These limitations should be borne in mind when reviewing this section.

5.3 Impact Bond costs and benefits – detailed DIBs findings

This section discusses costs across the four DIBs. We present the completed pro forma along with findings in terms of the nature of these costs, any cost savings and perceptions as to the value for money of these costs. Across all four DIBs, stakeholders agreed that additional costs as a result of the DIB during the delivery phase were lower than additional costs during the set-up phase.

5.3.1 ICRC HIB

ICRC set up a parallel budget to manage the HIB budget. Expenditure against budget is reported quarterly and provided the basis for this costing analysis. Costs have largely been incurred as expected, with the exception of service delivery costs – the development of the DCMS is currently running just over-budget and is forecast to be

just under CHF 700k over budget. Additional DIB budget lines have been repurposed to cover some of these additional costs, and ICRC will also cover the remaining costs using other funding from its reserves. For the purpose of comparability across the DIBs, the table below sets out forecasted costs across the lifetime of the DIB.

Table 5-2: ICRC HIB forecasted costs – delivery phase

Cost category	Incurred by	Total DIB Costs - CHF (A)	Estimated costs had it not been a DIB – CHF (B)	Additional costs - CHF (A)-(B)	Additional costs - USD ⁵⁶	Notes
Service Delivery	Service provider	18,918,932	18,918,932	0	0	Costs related to delivery of the service
Verification	Service provider, paid out to independent auditors	33,000	0	33,000	36,264	Costs due to be incurred in 2022 to verify outcome metrics
Investment vehicle	Service provider	25,000	0	25,000	27,473	Escrow costs
Governance		470,000	0	470,000	516,484	Additional ICRC costs to manage the HIB, including ORCM costs and additional personnel not required had it not been a HIB
Performance management						

Service delivery costs included ICT costs, running costs and programme management and were budgeted to be CHF 18,918,932 with no additional costs compared to a non-DIB programme. Verification costs are budgeted to be CHF 33,000. Additional investment vehicle costs e.g. Escrow are CHF 25,000. There are additional costs related to Governance and Performance management (e.g. outcomes reporting), totalling CHF 470,000; this is based on part of HIB HQ salary budget lines related to the Head of the HIB role, which would not have been necessary had it not been a HIB, and also the costs of external reporting, involving staff time and printing costs.

The investors and OFs interviewed noted that during delivery, there have been no additional costs. Investors noted the time required to manage this investment is comparable to other investments, and can be considered covered by the investor return, representing an additional cost for outcome funders. Outcome funders noted that the DIB required less time to manage than comparable grants delivered by other partners, as oversight and management is limited to the quarterly Operating Review Committee Meetings.

Stakeholders disagreed as to whether the additional investment vehicle, governance and monitoring and evaluation costs provided value for money. Some stakeholders considered that the value of these costs was primarily to enable outcome funders to pay on outcomes, and as such, the VfM of these costs was for outcome funders to determine. Given the choice, these stakeholders would prefer to deliver under a grant to avoid the 'leakage' in terms of the investor return. The quarterly ORCM represents extra costs, but these are used mainly to provide updates, rather than as decision-making or advisory forums.

⁵⁶ Based on current exchange rate of 1 USD = .91 CHF

5.3.2 QEI DIB

UBS-OF and BAT have estimated the additional costs using the approved budgets and forecasts for key activities and drawing on cost analyses conducted by service providers. One service provider also confirmed that there were no additional costs as a result of delivering under a DIB.

Table 5-3: QEI DIB forecasted costs – delivery phase

Cost category	Incurred by	Total DIB Costs – USD (A)	Estimated costs had it not been a DIB – USD (B)	Additional costs – USD (A)-(B)	Notes
Service Delivery	Service provider	7,806,000	7,806,000	0	
Performance management	Performance Manager	902,851	590,000	312,851	This is the cost of Dalberg
Verification	Independent evaluator	640,000	480,000	160,000	Evaluation contracted to Grey Matters India (GMI). GMI estimated this is 20-30% higher than other programmes
Legal costs	Legal teams	132,000	0	132,000	Legal costs do not include pro-bono Hogan Lovells legal work or MDSF legal costs.
Governance	Intermediary	134,640	0	134,640	30% of FCDO grant of £340k, at current ex. rate of GBP 1 = USD 1.32
Market Building costs					
Other learning and advocacy costs	Intermediary and Learning partner	314,160			This is the total budget for learning and advocacy related activities from FCDO grant
Cost category	Incurred by	Total DIB Costs – USD (A)	Estimated costs had it not been a DIB – USD (B)	Additional costs – USD (A)-(B)	Notes
Service Delivery	Service provider	7,806,000	7,806,000	0	
Performance management	Performance Manager	902,851	590,000	312,851	This is the cost of Dalberg
Verification	Independent evaluator	640,000	480,000	160,000	Evaluation contracted to CGI. CGI estimated this is 20-30% higher than other programmes
Legal costs	Legal teams	132,000	0	132,000	Legal costs do not include pro-bono Hogan Lovells legal work or MDSF legal costs.
Governance	Intermediary	134,640	0	134,640	30% of FCDO grant of £340k, at current ex. rate of GBP 1 = USD 1.32
Market Building costs					
Other learning and advocacy costs	Intermediary and Learning partner	314,160			This is the total budget for learning and advocacy related activities from FCDO grant

Service delivery costs are estimated to be \$7,806,000 with no additional costs compared to a non-DIB as reported by service providers. Verification costs, based on the evaluation contracted to ConveGenius Insights (CGI), are \$640,000. CGI informed us that the verification costs are in line with the costs of rigorous verification for other programmes, though perhaps 20-30% higher than less rigorous approaches.

There are no additional costs related to the investment vehicle as UBSOF was already set up to provide this function. However, additional legal costs are also being incurred during implementation through a contract with ReedSmith to provide ongoing legal support including agreements between BAT and outcome funders and

extensive pro bono legal work, critical to the DIB, is also being provided by Hogan Lovells which is not estimated here. Governance costs are covered by a FCDO grant of approximately \$442,000, of which 30% (\$134,640) is used specifically for the DIB and additional staff time is provided by BAT. Additional monitoring and evaluation costs are related to performance management provided by Dalberg Advisers and are estimated to be around \$313,000, based on an estimate that costs would have been \$590,000, had it not been a DIB. The total cost of Dalberg Advisers is \$903,000 funded jointly by the consortium (technical partners and investor).

Overall, stakeholders considered that the additional costs, namely the verification and intermediary costs were VfM:

- **Verification costs** were considered good value for money by DIB stakeholders. A key objective of the DIB was to demonstrate the value of using rigorous assessment approaches and to compare the cost-effectiveness of different models. The approach being used by CGI is being discussed with state governments. The rigorous approach also supported oversight of performance, including the identification of one under-performing provider who was removed following the first verification.
- **The cost of the performance manager, Dalberg, represents an additional DIB cost.** A rule of thumb used by some organisations for M&E costs is 5-10% of total delivery costs. Since evaluation costs are estimated under verification, additional performance management costs (\$313,000) are estimated by comparing Dalberg costs to 5% of the total value DIB budget. One outcome funder noted that while performance management costs made the overall DIB more expensive than a grant, it was important to consider this in the context of additional results achieved. The service providers consider that the support of Dalberg has been invaluable to improving delivery. Some stakeholders noted that value for money should focus on the price per outcome where the cost of the intermediary is already built into this price. Other stakeholders have noted that as the market matures, ideally the service providers would do more of the performance management in-house.
- An additional cost not reflected in the pro forma is the costs relating to regular communication between stakeholders. We see in section 4.6 that QEI DIB involved significant collaboration costs, in comparison to some of the other DIB. There was mixed opinion about whether this represented VfM. There is evidence that this collaboration supported improved efficiency and effectiveness and is important more widely to mobilise donors to invest in DIBs. The contribution of collaboration to the achievement of outcomes will be further unpacked as part of the next research wave. We understand that QEI stakeholders have reflected that collaboration has been key to strengthen the response to Covid-19 (see section 4.6).

Finally, one outcome funder noted that the DIB provided more transparency as they only pay when outcomes are achieved and hence have more confidence that the money is well spent.

Market building costs

Learning partner and advocacy costs are estimated to be \$270,000, which is funded by FCDO. The learning partner, Brookings, is delivering learning activities aimed to generate learning from use of the QEI DIB and the wider sector. BAT is also delivering advocacy work and market building, to support the development of new social finance work in the region. These costs do not relate only to the QEI DIB but can be seen as learning and market building costs, contributing to generating evidence and supporting the entire sector.

These 'market building' costs are seen as important for early-stage DIB market development, and critical to supporting the achievement of spillover effects, see section 4.9. A number of objectives for the QEI DIB include effects at the wider sector and innovative finance mechanism level.

As these costs are not necessary to deliver a DIB, it is expected that these costs will decrease as the market matures. As such, these should be considered as separate market building costs. Whilst they are important for the

learning and sustainability for DIBs in general stakeholders do not consider it a core cost that will be part of future DIBs.

Additionally, it is useful to note that these costs have been ‘crystallised’ given FCDO’s specific grant to BAT to cover market building activities but do not represent the full costs of market building. MSDF and BAT are providing additional staff time to support advocacy activities – this involves engagement with the India state governments. Additionally, many of the other stakeholders involved in the other DIBs are also involved in activity to grow the market, but costs have not been captured as these are not directly linked to the DIB. BAT, USBOF and MSDF are also delivering additional communication activities not covered here. BAT, with support from stakeholders such as Brookings and GO Lab, has sought to improve communication with the public. This involved bringing communication functions in-house, benefiting from the BAT internal team, to develop a communication strategy that is more cohesive and aligned to the DIB needs and complexity.

5.3.3 VE DIB

Village Enterprise estimated additional costs based on the financial report for July 2019 to June 2020 and updated forecasts based on the original budget in the Outcomes Payment Agreement

Table 5-4: VE DIB forecasted costs – delivery phase

Cost category	Incurred by	Total DIB Costs – USD (A)	Estimated costs had it not been a DIB – USD (B)	Additional costs - USD (A)-(B)	Notes
Service Delivery	Service provider	3,985,000	Not estimated	Not estimated	VE has incurred additional costs to support verification, enumerators for M&E and the DIB coordinator and saving and enterprise lead, which would not have been needed had it not been a DIB
Performance management					
Verification	Independent evaluator	478,162	0	478,162	Cost of IDinsight. VE costs for verification are included under the service delivery line.
Investment vehicle	Service provider	40,000	0	40,000	Registration, Audit, Management fees for the investment structure managed by Village Enterprise
Trustee fees	Trustee	105,000	0	105,000*	Trustee Fees. *Assumed 100% additional cost
Governance	All stakeholders	196,854	0	196,854*	The figure here includes consultancy fees for Instiglio for project management *Assumed 100% additional cost This does not include time spent by other stakeholders on governance, although service provider costs can be assumed to be covered by their contract.
Project management	Project manager				
Market Building Costs					
Other evaluation	Project manager		70,915		Cost of the process evaluation not considered an essential DIB cost, but a market building cost

Service delivery costs are estimated to be higher compared to a non-DIB, based on analysis presented in the combined annual Financial Reports from Nov 2017 to June 2020. These higher costs are due to higher investment in M&E tied to adaptive management and rigorous monitoring, increased field management personnel expenses due to more intensive oversight and increased field transportation costs due to the design of the DIB and RCT.

Verification costs are \$478,162 based on the contract with IDInsight for the RCT evaluation and do not include any verification costs incurred by other stakeholders⁵⁷. The cost of the process evaluation (\$70,915) is included in the DIB costs and covers the use of the DIB mechanism. However, it is not considered an essential component of the DIB. Since VE contracts directly with investors, an LLC and non-profit underneath was created with \$40,000 in costs for registration, audit and management fees for the investment structure. The Trustee role involves supervising and coordinating, leading all parties to perform due diligence activities, overseeing the outputs from the project manager and the outcomes evaluator and overall fund management (holding funds, invoice and reporting on cash flows). Governance costs have not been separately estimated, though stakeholders have reported the hours they have spent on various governance and management tasks. The project manager's role cuts across governance and project management and costs are forecast to be \$196,854.

It should be noted that improvements to the performance management system was funded by VE and will be included in the analysis of additional service delivery and performance management costs expected to be undertaken at the end of the project. This includes the cost of additional enumerators (people who collect data for surveys) and M&E, DIB coordinator and Saving and Enterprise Lead. Cost drivers for additional costs are travel costs for M&E; staff costs for DIB coordinator and Saving and Enterprise lead.

There have been some cost savings as a result of the DIB, though these have not been estimated. The centralisation and streamlining of data systems has resulted in cost savings. Cost savings as a result to Covid-19 (on transportation and lunches) have been repurposed to staff capacity building, to better support communities in terms of using phones and the internet.

The process evaluation reports the following hours of staff time:

- Stakeholders report spending on average four hours preparing for and attending quarterly meetings, indicating good overall coordination.
- The average time across stakeholders for individual project management is just under 12 hours per month, but this ranges from 0 hours to 57 hours. Identifying how to reduce this time was noted to be key to support the scaling of the DIB mechanism.

The largest additional cost during implementation is the RCT. There was mixed opinion about whether this presents VfM. Some outcomes funders noted this is critical as it creates more confidence in the outcomes being achieved. Others questioned whether the significant and implementation constraints on the service provider involved were necessary, given this model is tested and proven, including in the VE contexts.

The process evaluation identifies lessons around efficiency. The trustee has streamlined its work, especially on due diligence. A key learning is that clarity of procedures and roles is required, as well as agreement on what the implications are should a stakeholder not meet a due diligence requirement. VE has developed its capacity and invested significant resources to manage the service provider-investor process and relationships with nine different investors – more time than expected was required, as well as pro-bono support, particularly on contract negotiations due to Covid-19. A key learning is that this needs to be built into the project design and resourcing. Stakeholder collaboration has improved since the DIB launch, which has led to more efficient problem solving. A key learning is that the project manager role and governance structure needs to be clear. Efficiency could be improved if there is clarity on processes and decision-making and when stakeholders are required to provide approval.

⁵⁷ Noted these costs will increase given COVID and the extra precautions the evaluator needs to take to conduct household surveys. Figures pending so will be updated in RW3

5.3.4 Cataract Bond

Cameroon Cataract Bond estimated additional DIB costs are based on the agreed fees and contracts with third parties.

Table 5-5: Cataract Bond forecasted costs

Cost category	Incurring by	Total DIB Costs - USD (A)	Estimated costs had it not been a DIB - USD(B)	Additional costs - USD (A)-(B)	Notes
Service Delivery	Service provider	2,000,000	2,000,000	0	Based on initial estimate for DIB costing rather than expenditure as service delivery costs for the DIB not routinely tracked during implementation
Verification	External evaluator	161,135	96,6810	64,454	External evaluator costs AEDES/IRESKO
Other evaluation	N/A	0	0	0	
Investment vehicle	DFC	30,000	0	30,000	DFC loan maintenance fees and legal fees
Governance	Bond manager	175,000	Not yet estimated	175,000	Volta Capital fees for governance and performance management
Performance management					

Forecast service delivery costs and any additional DIB costs incurred by the hospital are estimated based on costing analysis undertaken by the hospital as there is not a separate budget for DIB related interventions against which expenditure is being tracked. Additional verification costs are \$64,000, 40% of the cost (\$161,135) for the external evaluator AEDES/IRESKO. This is based on the assumption that should a traditional grant been used, evaluation would involve a mid-term and end term review and data validation using spot checks and internal audit. Investment vehicle costs including USDFC loan maintenance fees and legal fees are \$30,000. Additional governance and performance management costs are \$13,000 and \$39,000 respectively. This is based on the assumption that 30% of Volta Capital's fee (\$175,000) is additional compared to a non-DIB and 25% of Volta's time is spent on governance related activities (convening meetings and managing all stakeholders) and 75% on performance management activities (outcomes reporting, analysing data, problem solving and using all these to drive improved performance towards outcomes).

While useful for validating achievements and determining the interest and bonus payment, some stakeholders raised the fact that the validation reports from the independent evaluator are less valuable than those provided by the intermediary – there may be ways to reduce duplication.

Some outcome funders also reported savings in terms of less time involved in oversight and management of the service provider, given their more hands-off role in the governance structure (see section 4.6). As the intermediary takes on the core role of management, it is likely that these savings have been passed on to the intermediary and are crystallised into Volta Capital's fees.

5.4 Analysis of additional costs and benefits

5.4.1 Costs

Additional costs during implementation are summarised under the pro forma categories below. We note that there are still some gaps in the estimates of comparison costs, and additional work is needed to ensure consistency across the DIBs. Also, as we have not included estimates of staff time, costs vary depending on the extent to which they have been ‘crystallised’ through formal contracts, for example, where contracted out to an intermediary. The purpose of the table below is not to make comparisons between the DIBs but to build a greater understanding of the differences between the DIBs and what drives these differences. The total cost of the DIB – the maximum outcome payment - is used to present the additional costs as a percentage of the total cost of the DIB; this helps to show the differences in costs in relation to the scale of the DIB. As we see in the descriptive analysis below, the differences between the DIBs are related to the design choices of the programme, linked to the DIB characteristics/inputs set out in Section 3.2. For example, verification costs seem to vary depending on the verification approach and the performance management costs vary depending on whether an intermediary is involved.

Verification costs ranged from .1% to 9.1%, while other evaluation costs were broadly comparable across the QEI and VE DIBs. Investment vehicle / legal costs were all under 1.5%. With no intermediary in the ICRC, governance and performance management costs of 1.8% are an estimate of what ICRC’s additional costs are, due to the use of the HIB. VE and Cataract Bond both had intermediary costs of around 5%, while QEI’s intermediary and performance manager costs came to just over 11%. Performance management and governance functions are performed by different stakeholders depending on the structure of the DIB. For VE, additional performance management costs have not been estimated separately from additional service delivery costs as these are performed by VE. QEI and CCB both estimated additional performance management costs of 3.4% and 1.1% respectively.

As found in RW1, there appears to be economies of scale, with costs linked not only to the size of the DIB but also to design choices. Generally, additional costs at the implementation stage are lower than for the set-up phase. Further detail is discussed under each cost category below.

Table 5-6: Comparisons of additional DIB costs across DIBs during implementation

Costs category	ICRC (USD)		QEI (USD)		VE (USD)		Cataract (USD)	Bond
	Costs	As %	Costs	As %	Costs	As %	Costs	As %
Verification	36,264	0.1%	160,000	1.74%	478,162	11.2%	64,454	2.30%
Investment Vehicle / legal costs	27,473	0.1%	132,000	1.44%	40,000	0.93%	30,000	1.07%
Governance			134,640	1.47%	196,854	4.6%	13,125	0.47%
Performance management costs	516,484	1.8%	312,851	3.41%			39,375	1.41%
Trustee Costs	-	-	-	-	105,300	2.5%	-	-
Maximum outcome payment	28,665,691		9,180,000		4,280,618		2,800,000	

Benefits

We also consider per cost category the extent to which these extra costs represent value for money, and whether they lead to additional results, impacts and benefits. At this stage of the evaluation, it is too early to compare the costs and benefits between different funding mechanisms – the achievement of outcomes remains to be seen, and will be further explored as part of RW3, when final outcomes are reported. It is worth noting that not all benefits can be quantified – such as benefits related to the building of the market, strengthening of the evidence base and building of capacity.

However, we have set out below initial reflections on the links between the costs, DIB mechanisms and DIB effects observed to date.

5.4.2 Verification costs

Costs remain unchanged from RW1, as they involved an agreed contract and budget with independent, external evaluators/auditors. As noted in RW1, there are two clear groupings of verification costs. Costs related to QEI and VE are much higher, as they involve a quasi-experimental and experimental approach respectively. In the case of QEI, the approach taken to assess *improvement* of learning rather than percentage of students achieving a certain level is more costly but was deemed important to avoid the risk of perverse incentives. It should be noted that these figures do not cover additional service provider resources required to facilitate this approach – for example, VE is required to collect data from both treatment and control sites. Technically, this should be covered under service provider costs.

The Cataract Bond and ICRC approaches involve validated administrative data, and hence costs are lower. The Cataract Bond costs are higher as they involve regular verification, and the verification for the equity target has been resource intensive. On the other hand, ICRC verification costs are only to be done at one point towards the end of the DIB. Selection of verification approach was a key design choice, with QEI and VE evaluations intending to be used to support the building of evidence in the sector. These costs would also be incurred for other ‘high stake assessments’, including PbR.

The extent to which this represents value for money differs across stakeholders. While some outcome funders consider rigorous verification critical to the DIB mechanism and provide funders with the certainty that they are paying on outcomes, others consider that the high costs and limitations to delivery mean it does not provide value for money and that this approach limited flexibility in delivery. It is interesting to note that SIBs in the UK are generally moving away from rigorous evaluation and moving to increased use of validated administrative data (Ronicle et al, forthcoming). However, whilst reducing costs this also limits the ‘pay for success’ concept (as without robust measurement funders are still paying for outcomes that might have been achieved anyway) and limits the evidence base generated.

5.4.3 Investment vehicle

These costs are relatively low during the implementation phase, and relate to financial costs (loans, bank fees, etc.) and legal costs. These costs can be seen as specific to DIBs, though they may also be incurred under PbR contracts, depending on the particular contractual arrangements.

These costs do not directly link to any DIB effect but facilitate the operationalisation and delivery of the DIB. The need for adaptation due to Covid-19 has revealed that stakeholders were generally keen to avoid costly legal fees and any changes to the contract. For example, in the case of the Cataract Bond, one stakeholder noted:

“All parties including investors and outcome funders have made it clear they do not want [changes as a result to Covid-19] to be something that invokes legal clauses and disputes, but rather a process where we come to a reasonable solution by negotiated consensus with all parties.”

Generally, investment vehicle costs can be seen as a necessary cost, but not something that directly contributes to DIB effects. Opportunities to reduce costs here would result in increased efficiency of the DIB mechanism.

5.4.4 Intermediary, governance and performance costs

Governance and performance costs were clearest where these tasks were contracted to an intermediary, in some cases also referred to as the performance manager / project manager. For intermediaries that covered both project management and performance management (such as the intermediary in VE and Cataract Bond), the split between governance and performance management tasks was not always clear as some activities such as outcomes reporting overlap across governance and performance management functions. The role of the VE trustee also overlaps with some of the functions delivered by the intermediary/project manager in the other DIBs. One stakeholder noted that the roles could be better defined, which would improve efficiency, for example, in the contract changes required after Covid-19. The VE trustee has also made good progress in streamlining due diligence processes through using a standard process, and in improving contractual templates, to increase efficiency.

5.4.4.1 Costs

Generally, only governance costs incurred by the convenor/intermediary and the service provider were included in the pro forma, and not for the other stakeholders, such as outcome funders and investors. It was often difficult to split governance costs and performance management costs.

ICRC's additional governance and performance management costs are \$516k, representing 1.8% of the maximum outcome payment, and incurred by the service provider. On the other hand, QEI's additional governance costs are \$135k (1.5%) and performance management costs \$313k (2.6%), incurred by the intermediary and performance manager respectively. VE and Cataract Bond costs are \$197k (4.6%) and \$52k (1.5%) respectively and incurred by the project/bond manager.

Some of the drivers are as follows:

- ICRC costs are relatively low as a proportion of maximum outcome payment, also reflecting the fact that ICRC is by far the largest impact bond. This supports what we found in the first research wave, that there are economies of scale. For example, a significant proportion of ICRC's costs covers the additional Head of the HIB role, which would have been necessary regardless of size of the DIB. Also, ICRC has invested in Efficiency Improvement Measures testing (EIM) to identify how to strengthen its performance management, and these are included under service delivery costs. These are forecast to be approximately USD 660k, or 2.3% of maximum outcome payment.
- QEI has involved two separate providers – an intermediary and performance manager, which further crystallises these costs. QEI costs are likely to appear higher, because costs are 'externalised', instead of being included in service provider budgets. Across the four DIBs, the role of Dalberg in supporting performance management is the most involved.
- The design of VE was purposefully for performance management responsibility to be given to the provider, to support capacity building. As such, intermediary costs cover project management, but additional governance and performance management costs will have been incurred by the provider. VE has funded improvements in its performance management system, not included in the DIB budget, but also reported cost savings as a result of strengthened systems.
- The Cataract Bond costs represent 1.5% of the maximum outcome payment. It is worth noting that technical expertise provided by Aravind is not being funded through the DIB.

It is important to highlight that it is difficult to determine the extent to which these are truly additional costs. As has been found in SIBs, contracting process brings transparency. This means costs in impact bonds are often made more explicit than in traditional grant-making based on inputs, or traditional results-based financing.⁵⁸

5.4.4.2 Governance

In the case of QEI and the Cataract Bond, some outcome funders reported *cost savings*, as resources required to manage delivery were lower than in comparable grants. One QEI outcome funder reported they were more ‘hands-off’. The costs of governance are linked to the contract and governance structure and linked to DIB Effect 4: Greater Collaboration (see 4.6). For example, there seems to be a distinction between ICRC and the Cataract Bond, where there were clear leads (ICRC in the case of the ICRC HIB, and Volta and MICEI in the Cataract Bond), compared to VE and QEI where decision-making was more democratic, bringing both benefits and additional costs. There is mixed opinion about whether additional collaboration and the associated additional costs add value. One VE stakeholder highlighted that during implementation the number of stakeholders involved can take the focus away from the beneficiaries. Another stakeholder noted that it likely depends on the specific skillset provided by the DIB stakeholders. It is difficult to separate out the DIB effects that relate specifically to collaboration, to determine whether these additional costs provide VfM.

Governance costs are also present in other interventions, whether grant or PbR funded. It is likely that some governance and management costs are made more visible by the fact that it is transferred to intermediaries and project managers, with set contracts and budgets. However, the larger number of stakeholders involved in a DIB also increases resources required. One ICRC stakeholder noted an opportunity for reducing costs would be for DIBs to take on more of a pooled fund / outcomes fund approach.

5.4.4.3 Performance management

All DIBs identified additional performance management costs as a result of the DIB. These costs are critical to DIB Effect 2 and 3, the strengthening of performance management systems and the ability to make more informed decisions to adapt and course-correct; arguably the strongest DIB effects identified. Performance management costs are also incurred in grant funded and PbR projects and can be internal and/or external. External performance management and M&E is not uncommon especially for larger projects and PbR funded projects.

Data from the GEC, a FCDO funded PbR programme, shows that the average allocation of M&E expenditure has been 14% across projects, higher than the average of 10% of NGO project costs reported by BOND (2014)⁵⁹. In comparison, if we add verification, other evaluation and performance management costs, these costs in the four DIBs range from 2.7% to 15.3%.

In the GEC, approximately two-thirds of M&E expenditure was for the external evaluation to validate outcome achievement. M&E expenditure as a proportion of total expenditure varies between projects though, with evidence of M&E costs being generally fixed, and as such forming a larger proportion of expenditure for smaller projects.

In our four DIBs, verification costs as a proportion of verification, evaluation and performance management and governance costs are: 71% in the case of VE, 55% in the case of the Cataract Bond, 35% in the case of the QEI, and 7% in the case of ICRC. We also see a similar finding in terms of economies of scale, with the proportions being highest for the smaller impact bonds.

⁵⁸ Ravi, S., Gustafsson-Wright, E., Sharma, P., Boggild-Jones, I. (2019). The Promise of Impact Investing in India. Brookings India Research Paper No. 072019. Available at: <https://www.brookings.edu/wp-content/uploads/2019/07/The-promise-of-impact-investing-in-India.pdf>

⁵⁹ Holden and Patch (2017).

As set out in section 4, stronger performance management is a critical component of increasing the effectiveness and efficiency of delivery. Most stakeholders agreed that additional performance management and intermediary costs were worthwhile, and necessary to contribute to the achievement of outcomes. One outcome funder noted that they considered the role of the intermediary the primary reason for the DIB effects. However, there were also concerns from stakeholders about being ‘overmediated’, and potential negative implications on value for money and sustainability. For example, one VE stakeholder noted that while it was useful at first to have Instiglio as programme manager, the role was less important during routine implementation. However, stakeholders noted the role was more important during Covid-19 when key decisions needed to be made that went back to the *design* of the DIB. There are trade-offs in terms of costs and benefits of the respective roles of the intermediary and service provider, see Section 6.2.1 for further discussion.

5.4.5 Service delivery costs

Where stakeholders did identify additional costs under the Service Delivery category, they were in relation to performance management, governance and monitoring undertaken by the service provider. For example, in the Cataract Bond, costs for monitoring were difficult to parse out from overall service delivery. VE hired additional staff – a DIB coordinator and Saving and Enterprise Lead, which they would not have otherwise, under a non-DIB arrangement.

A key consideration is the comparability of service delivery costs between the DIB funded interventions and non-DIB comparators. For example, VE business mentors reported undertaking additional visits to businesses under the DIB, compared to the non-DIB locations, even though formally the expected visits are the same across both. Resources may be being diverted from non-DIB programmes to the DIB. Due to the outcome-based nature of funding, this additional level of effort is not being reported. VE investment into its performance management systems are currently included in the estimate of additional service delivery costs. QEI service providers reported lower fundraising costs, due to the multi-year secured funding provided by the DIB – this was reported to provide service providers with more time and space to consider performance management issues.

Our DIB Effects speaks to clearer outcomes, greater accountability and a high stakes environment. The contributor to any additional outcomes seen may simply be additional time and resources diverted from non-DIB areas. This would have implications for the sustainability (and desirability) of the DIB effect.

5.4.6 Market Building Costs

Other market building costs, not considered necessary for delivering a DIB, include advocacy and evaluation costs. For example, evaluation costs are incurred in QEI (Brookings learning costs) and VE (Instiglio’s process evaluation). This evaluation (Independent Evaluation of the FCDO DIB Pilot) also represents an additional cost, paid for by FCDO and the Cataract Bond (with funding from Fred Hollows). These DIBs had as core objectives the building of the evidence base for this type of funding mechanism, and as such, these evaluation / learning activities are key to support this ambition. These costs are also routinely incurred in other interventions, though we note these evaluation and learning costs focus primarily on the use of the DIB mechanism.

5.4.7 Comparison to PbR

There is limited data on the additional costs incurred under a PbR scheme. Recent reviews highlight the weaknesses in existing evidence on costs and cost-effectiveness of PbR programmes. We also note the challenges of comparison, as significant variations relate to differences in structuring of the DIB and the number of stakeholders involved, just as PbR projects vary in structure and stakeholders.

Where data is available, primarily on performance management and verification costs, we find the costs incurred under the DIB are not dissimilar to those incurred under PbR.

The other key category of additional costs relates to governance costs. We note that certain PbR projects also include intermediaries and other stakeholders but have not identified any relevant cost comparators from PbR projects.

One additional cost in DIBs compared to PbR is the return to the investor. We note that PbR mechanisms may also involve a cost of capital and risk built into payments to providers. However, in the GEC, the cost of capital seems to have generally been absorbed by the service provider, rather than added to the total value of PbR contracts. Most service providers noted that the financial risk and potential downside was managed through borrowing, other grants and reserves. Only one service provider reported being able to hedge PbR risk across its contracts, with some PbR contracts providing 'margin'.⁶⁰ How the cost of capital compares across DIBs and PbR mechanisms will be further explored in the next RW3, when most DIBs will have been completed, and payments made to investors.

We also note the level of return is linked to the financial risk sharing between stakeholders. In Section 4 we have discussed how the financial risk sharing between stakeholders affects the extent to which incentives are aligned, with implications for the high stakes environment and level of collaboration. The costs and benefits of this will be further explored as part of RW3.

5.5 Learning

In this section, we discuss initial findings on the improvements that can be made to the process of designing and agreeing DIBs to reduce the associated transaction costs.

1. **Additional stakeholders result in additional coordination and communication costs.** There can be value in bringing in external expertise and perspectives, and the DIB can provide the flexibility to enable different stakeholders to provide support in different ways, beyond rigid roles and responsibilities. These costs can be managed by having clarity on what added value different stakeholders are bringing and clarifying roles, responsibilities, level of input and decision-making processes.
2. **To reduce the burden of governance and reporting and minimise associated costs, reporting requirements can be reviewed to ensure this is focused on use and what is necessary to support decision-making.** Some service providers reported being asked by some outcome funders to provide updates on progress and other information, not clearly required in the contract. While the development of strong, flexible relationships was highlighted as a key benefit of the DIB mechanism, the move to focusing on outcomes should also involve reducing the need to report on process and inputs. As outcome funders in the Cataract Bond noted, transitioning to a focus on outcomes and delegating management to the intermediary also required a shift in perspectives.
3. **The role of the intermediary should be carefully considered, to ensure costs and benefits are proportionate.** Across the DIBs, intermediaries have represented a significant proportion of additional costs but were also noted to be key contributors to the DIB effects. At this stage we cannot fully assess whether the cost of the intermediary is VFM. Stakeholders have pointed out that while costs are higher under a DIB, achievements have also been higher – this will be important to consider in cost-effectiveness analysis. It should be noted that direct comparisons are difficult because the use of an intermediary often crystallises tasks and costs that were done internally. There seems to be a balance between bringing in external expertise and building provider capacity. Future DIBs can also consider the approach taken by the Cameroon Kangaroo

⁶⁰ Holden and Patch (2017).

Mothercare Bond, where the intermediary gradually transitioned to a more hands-off role. It remains to be seen whether this is effective, but the expectation is that this would have the dual advantage of supporting sustainability by building the capacity of the service provider while also potentially reducing costs⁶¹.

4. **Legal costs remain high.** These are necessary for the functioning of the DIB, but not directly linked to DIB effects. It is interesting to note that in the response to Covid-19, there seems to be greater flexibility than the contract provides for, and a certain unwillingness to go through legal proceedings. The extent to which all eventualities need to be incorporated into the contract, and the extent to which more informal processes can be used (one DIB noted that minutes of meetings were agreed to be contractual updates) likely depends on the existing relationships and levels of trust between stakeholders.
5. **Service providers noted aspects of the DIB that required more time and resources than expected** (such as setting up the DIB, delivering the DIB to meet RCT requirements and building relationships with investors). To ensure attention is not diverted from other projects, these should be appropriately planned for and costed into budgets.
6. **More needs to be done to consider how the value for money of the DIB mechanism can be established.** Due to the pilot stage of these DIBs, there is great interest in understanding whether this mechanism provides value for money. On the other hand, the move to focusing on outcomes has meant there is less of a focus on reporting and monitoring costs, compared to traditional input-based contracts. The DIBs also varied in terms of whether payments to service providers were based on budgets for delivery or unit costs for outcomes. Given the fact that unit costs analysis remains weak across most sectors, this means it is difficult to ascertain the value for money of the DIB mechanism. There is also indication that there are a number of 'hidden' costs incurred across the range of stakeholders not captured in the unit cost per outcome, which makes it challenging to assessing the true costs and value for money of the DIB mechanism. The fact that many tasks and costs are 'crystallised' through use of an intermediary also makes it difficult to compare with grants. It is useful to note that there is still limited evidence on cost-effectiveness in the PbR and VfM sectors. This is in part due to the challenge of collecting suitable data. For example, the Trailblazer evaluation, which covered nine SIB-funded projects across England, were unable to find 'suitable quantitative data' to compare the costs and benefits of SIB-funded and non-SIB services (Fraser et al., 2018).

⁶¹ Generally, internal day rates will be lower than external day rates. However, an intermediary may be more efficient.

6.0 Analysis and Findings – EQ2



6.0 Analysis and Findings – Increasing the DIB model’s benefits (EQ2)

Summary

Generally, stakeholders consider that DIBs are relevant to the sectors involved in the pilot DIBs. The move to multi-year funding offered by the DIB is very relevant in the India context (QEI) and humanitarian sector. Covid-19 is also generating useful learning on the relevance of DIBs in dealing with shocks and how DIBs can be better structured to support this, though the effects of Covid-19 are not yet clear. What is emerging is that while the DIB is less flexible than grant-funded programmes in terms of target outcomes and contracting, in practice stakeholders have been very flexible. The focus has remained on the achievement of social outcomes. Resolutions have depended more on collaboration and discussion, rather than relying on force majeure clauses or legal action. The rigidity of the bond and the high transaction costs have made some stakeholders question its appropriateness in development contexts.

To increase the benefits of the DIB model, the guiding principle should be to design a DIB with clarity on the target benefits of using the model. The DIB can then be designed with these key objectives in mind, and the core mechanisms and characteristics needed to achieve these objectives. This ensures the model can be designed most effectively and efficiently to meet these objectives. As such, it is difficult to set out general learning, but we set out some emerging learning across the key cost categories and design choices in the DIB:

Role of the intermediary: Most consultees agreed that the intermediary had an important role to play to ensure a structured interaction between stakeholders, distribute documents and updates, disseminate findings, and coordinate a large group with different priorities and needs. At the same time, intermediary costs can be high. For the DIB market to grow, the intermediary role needs to be clearly defined and costed effectively. The precise role of the intermediary should be tailored to the specific DIBs, including the mix of stakeholders and skillsets brought by the other stakeholders.

Role of independent evaluation: The role of a rigorous approach to validating impact was noted to be a key contributor to a number of DIB effects. The use of validated administrative data versus experimental approaches should be guided by the target objectives of the DIB and the geographical / sector context. Potentially, there can be greater consideration of potential synergies between verification and performance management activities.

Performance management systems: All four DIBs involved significant strengthening of performance management systems, and there are promising indications that this is improving the efficiency and effectiveness of delivery. A key learning, especially given the Covid-19 situation, is the need for real time monitoring to support timely course correction.

Role of collaboration and governance; To maximise the benefits of collaboration and governance, key learning has been the need to clearly identify the specific added value of expertise and experience being brought on by DIB stakeholders and clarify roles, responsibilities and decision-making authority and processes across stakeholders.

To maximise spillover effects, there is a need to focus on external communication and improving the sharing of learning between stakeholders.

As we have seen in the UK market, there seems to be some link between the size of the organisation and the intensity of the DIB effect, likely due to the fact that smaller organisations are generally nimbler and find it easier to change systems and processes. This may be a useful consideration when designing DIBs, selecting providers and considering the rationale and expected effects for using the DIB funding mechanism.

There is interest in understanding what the lessons are for scaling and mainstreaming and transitioning to SIBs or other structures involving greater government involvement. There is recognition that transaction costs remain high, and that standardisation and establishment of ‘best practice’ are needed to reduce costs. However, more impact bonds and evaluations are needed to develop context specific learning around the structuring and delivery of DIBs. Stakeholders also agreed on the importance of building service provider capacity in further growing the market.

This section addresses the other components of Evaluation Question 2: *What improvements can be made to the process of designing and agreeing DIBs to increase the model's benefits and reduce the associated transaction costs?*

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

- a. Under what conditions (such as project and stakeholder attributes) are DIBs an appropriate tool for key stakeholders and why?
 - In what circumstances are DIBs relevant in tackling issues in the development context?
 - Are DIBs appropriate in development contexts – is the existence of investors (and possible profits), payment only when results are made and strong expectations around measuring outcomes appropriate for donors such as FCDO?
 - What social issues, target groups, geographies and project scales do DIBs fit best and have the greatest impact?
 - To what extent are DIBs applicable to FCDO's work – are they relevant across most, some or a few of FCDOs priority result areas?
- b. What improvements can be made to the process of designing and agreeing DIBs to increase the model's benefits?

Section 6.1 discusses the relevance of DIBs to different contexts; section 6.2 sets out learning around improvements that can be made to increase the model's benefits and section 6.3 discusses emerging lessons for scaling.

6.1 Relevance of DIBs

The RW1 report discussed preliminary findings in terms of the relevance of DIBs, and the circumstances in which they are relevant. As such, this section focuses on emerging learning from this wave.

Generally, stakeholders consider that DIBs are relevant to the sectors involved in the pilot DIBs. QEI stakeholders considered that the DIB was relevant for the education sector, as education interventions are usually evaluated in quantitative terms. A good DIB evaluation design and the quality-of-service providers are both crucial to ensure that quality education, and not teaching to the test, is at the core of providers' intervention. The Cataract Bond stakeholders considered that eye care and cataract interventions are a good fit with the DIB structure, though some pointed out that the value of the DIB to fund interventions that are already working well under a grant may be limited. The move to multi-year funding offered by the DIB is very relevant in the India context (QEI) and humanitarian sector (ICRC), which tends to be characterised by annual funding cycles, which can be inefficient, more expensive and not conducive to planning⁶². The multi-year funding provided security to providers and meant they could focus on delivery. This 'ring-fencing' of funding has also been shown to be a benefit of impact bonds in the UK.⁶³

6.1.1 Relevance of DIBs in light of Covid-19

Covid-19 is also generating useful learning on the relevance of DIBs in dealing with shocks, though the effects of Covid-19 are not yet clear.

⁶² Willits-King, B et al. (2019). New financing partnerships for humanitarian impact. <https://www.odi.org/sites/odi.org.uk/files/resource-documents/12581.pdf>

⁶³ Fraser et al. (2018). Evaluation of the Social Impact Bond Trailblazers in Health and Social Care: Fine report. Policy and Innovation Research Unit. See: https://s3.eu-west-2.amazonaws.com/golab.prod/documents/SIBS_Evaluation_final_report.pdf

Here, we set out some preliminary findings on how the use of a DIB affects the way projects responded to Covid-19, in comparison to grant-funded projects. An important consideration is that, at the time of research (March-July 2020), stakeholders were still deciding their response to Covid-19 as the effects on delivery were still becoming clear, and negotiations were still ongoing. What is becoming apparent is that there are both advantages and disadvantages to being funded through a DIB in responding to the Covid-19 crisis. Covid-19 has increased our understanding of the DIB effect, as discussed in the earlier sections.

At the time of reporting (September 2020), Covid-19 was expected to affect the service delivery of all DIBs, though it was not yet clear in what way. In QEI, many children had returned to their home villages. Prolonged school closure was expected to result in learning loss, which was expected to affect outcomes in years three and four. In VE, while the VE staff team were able to continue to support businesses remotely, households' incomes were expected to take a hit as a result of Covid-19. In the case of ICRC and Cataract, government priorities were focused on responding to Covid-19, which could affect the ability of the centres to start and continue operations. Additional Covid-19 costs were also expected, both in delivery as well as additional coordination costs between DIB stakeholders.

At the time of reporting, the status of contract discussions was as follows:

- **In the case of ICRC, the increased risk of Covid-19 was considered a risk taken by the social investor.** No change was foreseen to the contract. ICRC considered that force majeure was not applicable, given the fact that there was no force majeure clause and hence no provision for “*any party to walk out of it*”. One stakeholder noted that, “[Covid-19] shows that the transfer of risk from outcome funder to investor is working” and is an in-built component of the funding mechanism. If force majeure can be called or outcome targets adjusted, this would reduce the risk and return profile of the DIB. We note that ICRC is the only DIB in the pilot programme involving commercial investors.
- **In the case of the Cataract Bond, as of June 2020, the hospital was expected to reach its year 3 targets.** Hence DIB stakeholders agreed not to adjust Year 3 targets, but agreed to revisit year 5 targets, depending on the length and severity of the pandemic's impact going forward. The Bond also built flexibility into the contract and targets, to avoid having to renegotiate contracts. 20% and 10% buffers were built into the surgery volume targets. Given the many external factors that could affect the hospital, particularly during the start-up phase, the coalition wanted to put this buffer to help give the implementer some flexibility to accommodate for *external* shocks. On the other hand, the quality targets had no buffer, as this was considered an essential outcome that was within the control of the hospital. With Covid-19, the buffer on surgery volume targets meant DIB stakeholders could focus on how to safely deliver surgeries instead of on contractual negotiations.
- **Across the other two impact bonds, targets were expected to be changed. There was no discussion of changing this to a grant, as all stakeholders were keen to retain the impact bond.** Especially in this pilot stage, a key objective across the DIBs is to test the impact bond mechanism.
 - In the VE DIB, the outcome metric remained the same. Discussions were ongoing regarding adjusting assumptions for calculating the sustainability of the outcome. There was some reluctance to change the contract, as there was concern this would affect the integrity of the impact bond.
 - In the case of QEI, there was an expectation that outcome metrics would be adjusted.
- **In the Cataract Bond, additional funding was also being channelled to support interventions.** In the case of the Cataract Bond, the hospital was still paying salaries for all staff and discussing options for bridge funding during this period to ensure that the hospital was ready to continue operations in full force after the shutdown had ended. Cataract Bond stakeholders noted that while the financing structure also presented different opportunities for flexible financing to keep the hospital afloat during this time, they were seeing that grant-making institutions were also providing a great deal of flexibility.

Stakeholder agreed that the DIB was less flexible than grant funded programmes, in terms of target outcomes and contracting. DIBs emphasise outcomes and timelines, linked to outcome metrics. For example, ICRC noted while it was reviewing its entire programming in light of Covid-19, it did not have the option of dropping the HIB. ICRC noted *“[the HIB] is excluded [from our review of programmes in light of Covid-19], which brings a certain level of safety. However, this also reduces our flexibility to adapt, because we have already committed”*. There is limited provision across contracts to adjust targets. This may mean that ICRC will be required to continue to focus on the HIB, even if more immediate Covid-19 needs are identified.

In practice, it seems that the actual flexibility afforded depends less on the contractual mechanism, but more on the intention of stakeholders involved. The majority of investors are social investors interested in achieving social impact rather than being focused on returns. For example, in the case of QEI, UBS-OF has the power to veto the continuation of the DIB on an annual basis. If driven by returns, it may have pushed to terminate the DIB. However, in practice, even where possible, there was reluctance to trigger force majeure given the success of the DIB to date. The QEI steering committee was gathering information and openly discussing which adjustments could be made to the contract to continue the spirit of the agreement with minimal change, without disadvantaging providers and ensuring the best possible outcomes for children. There also appeared to be a mindset to adapt among many DIB stakeholders that overrode the rigidity of the mechanism. For example, one stakeholder in the Cataract Bond noted, *“All parties including investors and outcome funders have made it clear they do not want this to be something that invokes legal clauses and disputes, but rather a process where we come to a reasonable solution by negotiated consensus with all parties. As noted, everyone has been very flexible given the circumstances, so we are not anticipating having to lean on legal mechanisms to get us through this”*. It is unclear yet though the extent to which agile organisations are selected or self-selected into DIBs, or whether this is a result of the DIB.

The strong governance structure and relationships built during the DIB were noted to be key advantages in responding to Covid-19 in QEI and Cataract. For example, in the case of QEI, stakeholders reported that collaboration between stakeholders had enabled flexibility by widening the spectrum of options, as each stakeholder brought different perspectives and expertise. Collaborative thinking was allowing for the ‘cross-fertilisation’ of ideas that was, according to stakeholders, less likely to occur in a grant simply because there would have been fewer stakeholders involved. Cataract Bond stakeholders noted that the large and diverse group of funders and technical experts was contributing to a high level of technical assistance supporting problem-solving to the situation. The strength of the governance structure was also highlighted as a key contributor to responding to Covid-19 in the case of the Cameroon Kangaroo Mothercare DIB.

However, a limitation is that the larger number of stakeholders involved, compared to a grant, can make the response slower and more unwieldy. For example, one Cataract Bond outcome funder noted that when grants are bilateral, it is easier to make decisions more quickly. One VE stakeholder noted that in terms of the response to Covid-19 this resulted in *“[a temporary] impasse, [as] while they have a collective goal to deliver a positive impact to beneficiaries – [DIB stakeholders] approach that goal from different angles and do not always easily align on the means to get there”*.

There is indication that the DIB provides increased flexibility for service providers to adapt to Covid-19. VE staff members noted that they undertook a shock market assessment to understand issues being faced by businesses, and how they could better support businesses. One stakeholder noted, *“This wouldn’t have happened with normal funding [due to] the structure of normal funding”*, as normal funding is more focused on inputs and activities and does not afford as much flexibility in terms of adapting activities. Funders have generally been very flexible even in grants during Covid-19, however, in normal contexts, obtaining approval for changes to budgets and activities can be quite time-consuming. Stakeholders also noted that the DIB effects of strengthened performance management and adaptation were key to enabling programme activities to continue even in lockdown. One VE stakeholder noted, *“Had we not had [the] DIB it would not have been possible to adapt to the changes that came because of Covid-19”*. As a result of the DIB, VE had the flexibility to tailor its activities based

on shock market assessments and performance management dashboards. The Cataract Bond stakeholders also noted that the monitoring data from the DIB meant they were able to more quickly identify issues, which meant they were able to adapt and amend protocols to stay open faster.

The strong monitoring and evaluation systems developed under the DIB also provide information that may be useful to support adaptation. In the case of QEI, CGI were assessing learning losses which would inform the resetting of learning targets. Where evaluations have not been possible, proxy results were being used (e.g. in the case of Gyan Shala in QEI whose endlines could not be completed due to nationwide lockdown in place). Stakeholders in the Village Enterprise DIB identified the importance of real time monitoring tools to maximise the impact of their performance management systems. The use of real time performance dashboards meant information could immediately be fed into implementation. This also meant business mentors were able to make more informed decisions based on data on the health of businesses and support needed. The increased use of technology and data also enabled VE to respond quickly during Covid-19. This was also seen in the case of the South Africa ECD Bond. The intermediary noted that the adaptation seen by the provider under the Covid-19 would not have been possible before the Bond. The ability to adapt was made possible by the digital data collection system and strong use of data developed under the DIB.

As the original contracts do not provide for the option to adjust targets and payment metrics, DIB stakeholders were required to renegotiate contracts and/or outcome metrics, either formally or informally. For example, the QEI contract includes risk mitigation covering macro-economic changes and internal migration, but the possibility that schools would close was not envisaged. On the other hand, the Cataract Bond does not include explicit force majeure clauses. The intermediary thought that this was because the investor's approach is *“to trigger a negotiated discussion when such unanticipated events happen, so that they can work out a solution together with the borrower rather than triggering immediate, definite actions automatically”*.

Stakeholders have commented that these contracts are meant to be fixed. After high transaction costs and legal costs, there is limited appetite across all DIB stakeholders to change the contract and incur additional costs. One outcome funder noted, *“you don't want to incur more costs with more contracts. You need to build these things into contracts.”* Some of the DIBs are exploring how contracts can be developed to better support adaptation. Recent papers published by Brookings and GO Lab⁶⁴ both suggest that impact bond contracts could better establish contingencies in the event of shock, covering both governance arrangements, adjustment of outcomes or timeframes and provision of extra funding to support service providers. There is also a suggestion that a 'quicker and dirtier' version of contracts could support a speedier response.⁶⁵ There are trade-offs between costs, flexibility, clarity and speediness of response.

Additionally, a learning from the QEI DIB was that some of the risks and delays that have occurred during DIB execution could have been better considered and reflected into the DIB structure and action plan. Stakeholders believe that these risks and difficulties could have been discussed more extensively at design stage and reflected into targets and timelines. According to stakeholders, other challenges encountered at execution stage, such as how to deal with providers' underperformance, how to distribute costs resulting from the involvement of a new service provider and how to address attribution problems resulting from the fact that some government schools involved other providers to deliver in DIB schools, could have been reflected upon more thoroughly and incorporated in contracts. The approach adopted by the DIB consortium in response to Covid-19, using different scenarios and working hypotheses to plan next steps in a systematic manner, might offer a way forward. One stakeholder from the Cameroon Kangaroo Bond similarly noted that triggers to switch the impact bond to fee for services should be built into future contracts, which would be much more useful than force majeure clauses. However, it should be noted that this will affect the level of risk transferred to investors and may not be in line with the rationale for funding the project.

⁶⁴ Hameed, T. Adapting social services to COVID-19 in lower and middle income countries – Can impact bonds help? <https://golab.bsg.ox.ac.uk/community/covid-19-resource-hub/adapting-social-services-covid-19-lower-and-middle-income-countries-can-impact-bonds-help/>; Gustafsson-Wright, E (2020). What happens in an outcome-based financing model when a major crisis hits? <https://www.brookings.edu/research/what-happens-in-an-outcome-based-financing-model-when-a-major-crisis-hits/>

⁶⁵ Hameed and FitzGerald. (2020).

The rigidity of the bond and the high transaction costs have made some stakeholders question its appropriateness in development contexts. One QEI outcome funder has questioned whether DIBs are a good tool in light of Covid-19, given its operational complexity and transaction costs. An outcome funder in the Cataract Bond raised questions around the value for money of the tool, noting, “*The risk of an economic and societal shock disturbing a project, the opportunity cost is higher if the programme fails... the additional cost might not be worth it if you need to pivot it.*”

The DIB has had mixed effects on the four projects’ response to Covid-19. It has helped us to better understand the DIB mechanism – that it is flexible in on-the-ground delivery but inflexible when it comes to substantial changes. However, it can strengthen collaboration and performance management which can help projects respond better in times of crisis.

6.2 Increasing the model’s benefits

In this section, we discuss emerging learning on how the benefits of the DIB model can be increased. We split this based on the key DIB cost components discussed in section 5 – covering the roles of the intermediary (Section 6.2.1), independent evaluation (Section 6.2.2), performance management systems (Section 6.2.3) and collaboration and governance (Section 6.2.4). We then discuss emerging lessons on how to maximise spillovers (Section 6.2.5), as well as lessons on the importance of careful design of outcome metrics (Section 6.2.6) and fitting the DIB into the wider organisation (Section 6.2.7).

As set out in section 4, it is worth bearing in mind that DIBs are often set up for different objectives and the four DIBs are structured very differently, making it difficult to draw general learning. A learning emerging from the PbR literature⁶⁶ that is also relevant to impact bonds is that the guiding principle should be to design a DIB with clarity on the target benefits of using the model. The DIB can then be designed with these key objectives in mind, and the core inputs and outputs needed to achieve these objectives (see section 4). Costs relating to other DIB characteristics and inputs not directly linked to the target objectives can be reduced where possible. This ensures the model can be designed most effectively and efficiently to meet these objectives. There are clear cost-benefit trade-offs across different design choices, which are discussed further below.

6.2.1 Role of the intermediary

In this section, we use the term ‘intermediary’ to cover the range of roles included in the DIBs, including performance manager, project manager, bond manager and technical advisor and intermediary. The roles of intermediaries vary across DIBs, with common roles largely falling into the category of convening/facilitating; reporting; and capacity building (covering performance management and adaptive management and/or financial and commercial management, such as budgeting and financial forecasting). This echoes the literature on PbR projects and the three primary responsibilities of the intermediary role as coordinator, project manager, performance manager and fiscal agent⁶⁷.

In the DIBs where there was an intermediary or multiple intermediaries (QEI, VE and Cataract), most consultees agreed that the intermediary had an important role to play to ensure a structured interaction between stakeholders, distribute documents and updates, disseminate findings, and coordinate a large group with different priorities and needs. In the VE DIB, a number of stakeholders highlighted the crucial role Instiglio has played in fostering collaboration. Having a dedicated programme manager ensures all stakeholders in the Steering Group speak the same language and that decisions are directed to achieve the greatest impact. One outcome funder pointed out that in the context of the pandemic, a strong intermediary is fundamental to the

⁶⁶ Russell Webster. (2016). Payments by Results: lessons from the Literature. Available at: <http://russellwebster.com/PbRlitreview.pdf>.

⁶⁷ Nonprofit Finance Fund. (2019). Pay for Success: The First 25. A Comparative Analysis of the First 25 Pay for Success Projects in the United States. Available at: <https://nff.org/report/pay-success-first-25>.

successful functioning of the impact bond. QEI stakeholders believe that having an intermediary such as BAT has been important to ensure effective information sharing, especially given the number of stakeholders involved in the DIB, and their different priorities and level of engagement. Similarly, Cataract Bond stakeholders have valued the role Volta has played in convening stakeholders and supporting performance management.

On the other hand, there were some concerns that the requirement for communications between outcome funders and the service provider to flow between the intermediary was not always effective, and more proactive intermediary involvement, especially during Covid-19 discussions, would have been helpful.

At the same time, intermediary costs represent a significant proportion of the additional DIB costs (see section 5). **For the DIB market to grow, the intermediary role needs to be clearly defined and costed effectively.** This includes conducting some benchmarking about which services can be better done in-house (e.g. communication strategy) or needs to be outsourced, and how to avoid over-intermediation, which is a risk affecting early market building and raising costs unnecessarily.

There can also be a potential tension between drawing in external expertise and building the capacity of providers. A review of SIBs in Canada, the UK and the US found that there was a growing belief that the intermediary model creates a dependence on advisors which prevents commissioners from building capacity internally to design and execute future SIBs. One commissioner interviewed reported that the additional costs associated with intermediaries and the impetus to build internal capacity was a key driver for working directly with investors and by-passing an intermediary.⁶⁸ However, on the other hand, in other evaluations, we have found that there have been challenges in SIBs without intermediaries, which have resulted in stakeholders deciding not to continue in any future SIBs. It should also be noted that SIBs are in a different phase of the market to DIBs, and the capacity of other stakeholders and role of intermediaries in early stage and later DIBs is likely to be different.

One approach to capitalise on both external expertise and the building of capacity was by using a phased approach. The role of the intermediary in the Cameroon Kangaroo Mothercare DIB has been focused on capacity building on financial forecasting and adaptive management. A phased approach was taken, whereby more support was provided in the first year, a 'check and challenge, mentoring role' in the second year, transitioning to a more hands-off approach.

The precise role of the intermediary should be tailored to the specific DIBs, including the mix of stakeholders and skillsets brought by the other stakeholders, something that is also echoed in the literature. The intermediaries play slightly different roles in the four DIBs:

- In the QEI DIB, BAT leads on convening stakeholders. As such, as *performance manager*, Dalberg focuses on supporting service providers to use data and deliver adaptive management, and to build the capacity of the service providers.
- In the VE DIB, design documents highlight the design choice of supporting VE to take a lead across design and delivery. This echoes learning from the Cameroon Kangaroo DIB, of the importance of ensuring the service provider leads conversations with key stakeholders, with intermediaries facilitating. Hence, Instiglio takes a supporting role, as *project manager*, to ensure the sustainability of the DIB. As the VE DIB is technically an outcomes fund, the trustee holds the main relationship between stakeholders, and hence fulfils key due diligence and report requirements.
- In the case of the Cataract Bond, Volta is the *bond manager and technical advisor*. As Aravind brings the technical expertise, Volta brings more generalist skills around commercial management.

⁶⁸ Nonprofit Finance Fund. (2019). Pay for Success: The First 25. A Comparative Analysis of the First 25 Pay for Success Projects in the United States. Available at: <https://nff.org/report/pay-success-first-25>.

- In the ICRC HIB, as a strong multilateral with established processes and systems, ICRC plays many of these core functions, drawing in external expertise as required on a contractual basis, to deliver the EIM and DCMS.

Consideration of respective roles is key to delivering effective and efficient governance. Due to the role of Volta, the SteerCo was designed to have a much lighter role. VE found that there was some confusion about roles and responsibilities, the process for decision-making and when stakeholder approval is required. Some stakeholders appreciated being involved in all decisions, whereas others would prefer to take a more hands-off approach. Also, the respective roles of the trustee and donors is unclear to stakeholders (in the VE DIB, outcome funders are in a contract with the trustee, and the trustee in a contract with the service provider). One outcome funder suggested that functions such as due diligence, safeguarding and transparency could be taken on by the trustee. Careful discussion during the design phase of the objectives and preferences of stakeholders can be used to set out clear expectations and alignment of roles and responsibilities, to drive greater efficiency.

A number of stakeholders pointed to the intermediaries' critical role in supporting performance management in the DIBs. It is interesting that in the SIB market, there has been a slight shift away from the 'intermediated' model in which an external performance manager oversees the projects and contracts^{69,70}; there is growing belief that the intermediary model creates a dependence on advisors, with the impetus to build internal capacity and reduce costs as key drivers to work directly with investors and by-pass intermediaries.⁷¹ The wider SIB literature finds that the specific role of the intermediary depends on the involvement of other stakeholders, in particular that of the investor, and the state of the market.⁷²

6.2.2 Independent evaluation

Table 6-1: Input # 5 – validation of impact

Input # 5: Validation of impact	
ICRC	Payment based on validated administrative data.
QEI	Payment based on quasi-experimental methods
VE	Payment based on experimental methods
Cataract	Payment based on validated administrative data.

The role of a rigorous approach to validating impact was noted to be a key contributor to a number of DIB effects (see section 4.8.3). Across the four DIBs, the approach to validating impact can be broadly split into two categories. Cataract and ICRC are using validated administrative data, and VE and QEI are using experimental/quasi-experimental approaches, requiring the use of a treatment and control group. Important

considerations in selecting approaches includes the specific objectives of the evaluation, the costs of the approach as well as the flexibility it allows. Additionally, if a model is already tried and tested, with a strong evidence base behind it, then the value-add of a RCT would be lower. We discuss emerging lessons against these considerations below.

The use of validated administrative data in the case of the Cataract Bond and ICRC HIB seems appropriate. Given the nature of the target outcomes (eyesight restored and physical mobility regained), validation of administrative data provides a good approach, which can be done in a relatively cost-effective manner with little to no constraints the delivery. There have been some challenges with administering the equity questionnaire in the Cataract Bond. Since the first quarter of 2020, there has been a change to the sampling approach and the

⁶⁹ Ronicle, J et al (2019). Commissioning Better Outcomes Fund Evaluation: 2nd Update Report. The National Lottery Community Fund. See: https://www.tnlcommunityfund.org.uk/media/CBO-2nd-Update-Report_FINAL_FINAL.pdf?mtime=20191018112839&focal=none

⁷⁰ Williams J. W. (2019). From visions of promise to signs of struggle: Exploring Social Impact Bonds and the Funding of Social Services in Canada, the US, and UK. Final Research Report. Available at: <https://golab.bsg.ox.ac.uk/knowledge-bank/resources/visions-promise-signs-struggle-social-impact-bonds-canada-us-and-uk/>.

⁷¹ Ibid.

⁷² Joynes, C. (2019). An overview of innovative financing mechanisms for education in development contexts. K4D Helpdesk Report. Brighton, UK: Institute of Development Studies; Ravi et al., 2019; Agusti-Strid and Ronicle, 2020.

external provider (IRESCO) is now responsible for administering the questionnaire, rather than hospital staff, as there had been some issues with the way the questionnaire was administered.

The VE and QEI DIBs are aiming to improve livelihood, consumption and assets, and education outcomes respectively. Given the fact that there are a myriad number of factors contributing to these outcomes, a more robust approach is needed. Additionally, both DIBs have as a core objective the contribution to the evidence base on graduation and testing models, and the advocacy to donors and governments on these approaches. One outcome funder noted that the evaluations were key to providing assurance as to the outcomes achieved. The requirement for these additional costs also echoes what is seen in other Bonds. In the case of the South Africa ECD Bond, the research team noted that they did not need a comparison group as the baseline was built into the learning metric, which resulted in cheaper delivery. However, this was found to be imperfect, as comparators had stronger socio-economic backgrounds. Concerns with the outcome metrics also meant only a small proportion of funding was linked to the learning outcome, which stakeholders consider to be the only true outcome among the payment metrics used.

The quasi-experimental approach in the QEI DIB was also reported to hamper flexibility, which may limit some of the positive DIB effects around increased process innovation and course correction. As the objective of the evaluation was to verify outcomes but also build an evidence base for the different models being delivered against a common framework, there were limitations on the extent to which providers could deviate from the tested models. Providers were also constrained from collaborating with other NGOs, to avoid attribution issues. One provider was concerned that *“The limited collaboration with other organisations risks jeopardising children’s development, as children lose the opportunity to benefit from additional interventions”*. One service provider manager also noted that the rigid timing of endline assessment negatively affected programme’s activities, as team members had to wait until endline was over to start one of the programme’s activities that could have otherwise started earlier and lasted longer.

The VE DIB RCT has resulted in some challenges to delivery. A lesson learned in the VE DIB was that sufficient resources need to be allocated for targeting and implementation. Stakeholders noted that the requirement to engage with both treatment and control villages slowed down the pace at which they were able to provide support to target stakeholders. The VE stakeholders noted that the use of RCT has not constrained its flexibility to adapt, but that this is because the question being asked of the RCT was slightly different to that of QEI DIB, as different learning models were not being compared.

One investor noted two other limitations with using a RCT to determine outcome payments. Firstly, RCTs tend to happen on a periodic basis and take a significant period to deliver – measures that can provide information in ‘real-time’ would benefit both service providers and outcome funders. Secondly, linking payment to an RCT means the investor’s financial risk is not only linked to performance, but also whether the RCT will happen. This is outside investors’ control, as they do not contract the evaluator and do not have mitigation strategies. For example, Covid-19 has put on hold planned verification activities in both QEI and VE. The investor highlighted that this risk may deter investment in similar projects in the future.

There is, therefore, a trade off, between using an evaluation approach that is rigorous but expensive and (to some degree) inhibiting, or one that is simple and less intrusive, but provides less assurance around attribution. Stakeholders entering the DIB need to think about their priorities and design the DIB accordingly.

With the exception of QEI, where verification data is being used to refine performance management approaches, across the other DIBs, the verification seems to be primarily for the purposes of calculating payments. VE stakeholders noted that the verification reports were less useful than the reports provided by the service provider. In the Cameroon Kangaroo Mothercare DIB, verification has enabled adaptive management as it provided regular data that hospitals could use to interrogate what to do, providing use of data in real time to adapt how they were delivering and allocating resources. Similarly, in the Educate Girls DIB, IDinsight delivered

frequent data collection and evaluation. Through frequent assessment, IDInsight was able to help the implementer track progress toward targets, identify areas for improvement, and check its internal assessments against IDInsight's data. Similarly, collecting data beyond learning scores—such as gender, caste, and absenteeism—enabled the evaluator to support Educate Girls to make targeted adjustments.⁷³ There may be potential to further explore the extent to which verification and performance activities can be synergised, to reduce costs and maximise the benefits of these activities.

There is also indication from the SIB market that, with time and increased familiarity with SIBs, a more pragmatic attitude is being taken with measurement. In the early SIBs, measurement was done in a precise but complex way involving large databases and a carefully matched control group. Greater recognition and value are now placed on simpler indicators as measures of attribution.⁷⁴ There is some evidence that this may also be the case in DIBs. According to IDInsight, as impact bonds get larger, the relative cost of evaluation will decrease. For example, IDInsight's evaluation of the Village Enterprise DIB is a fifth of the cost of the Educate Girls DIB evaluation, as a percentage of the overall cost of the DIB. To bring down the evaluation costs, IDInsight kept the core elements for a rigorous evaluation while being extremely discriminate in adding activities that were not absolutely necessary for estimating impact on the DIB metrics.⁷⁵ This approach is also being advocated by MSDP to bring down costs in the India education context.

6.2.3 Performance management systems

All four DIBs involved significant strengthening of performance management systems, and there are promising indications that this is improving the efficiency and effectiveness of delivery. These are funded quite differently, with ICRC HIB improvements funded by the DIB and contracted externally by ICRC; VE self-funding its improvements and support; to QEI and Cataract provided through Dalberg and Volta respectively. This is the main component of the DIB that is sustainable after the end of the DIB, and accounts for the main source of spillovers at the wider service provider level.

6.2.4 Role of collaboration and governance

As set out in section 5.4.4, increased collaboration comes at an additional cost, even though these are not always clearly articulated. To maximise the benefits of collaboration and governance, key learning has been the need to clearly identify the specific added value of expertise and experience being brought on by DIB stakeholders and clarify roles, responsibilities and decision-making authority and processes across stakeholders. Across QEI and VE, there have been learnings about the need to streamline processes and in the case of QEI to reduce the need to go through BAT for information. This echoes learning from the broader SIB literature, on the importance of clarifying roles and developing collaborative infrastructure, such as the co-locating and shared use of data.⁷⁶

⁷³ Sturla, K., Shah, N. B., and McManus, J. (2014). The Great DIB-ate: Measurement for Development Impact Bonds. Stanford Social Innovation review. https://ssir.org/articles/entry/the_great_dib_ate_measurement_for_development_impact_bonds#

⁷⁴ REACH. (2017). 'Can Impact Bonds deliver better results, faster and cheaper? Panel Discussion on Social and Development Impact Bonds as a Results Based Financing (RBF) Approach in Education.' Results-based financing in education, Note 5. New York: World Bank.

⁷⁵ For example, IDInsight eliminated baseline data collection since it was not strictly necessary for estimating impact; by randomly assigning a large sample of villages to treatment vs. control groups, they could be sufficiently confident that the treatment and control groups would be statistically equivalent on average, and any differences at the end could be attributed to the program. IDInsight reduced data collection costs by training enumerators to use digital data collection tools. Finally, where possible IDInsight relied on existing administrative data, such as Village Enterprises' data on transfer receipts, and conducted targeted spot checks to validate that data, rather than re-collect the same indicators.

⁷⁶ 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>; Blundell, J., Rosenbach, F., Hameed, T. and FitzGerald, C. (2019). Are we Rallying Together? Collaboration and public sector reform. March 2019. GOLab. <https://golab.bsg.ox.ac.uk/knowledge-bank/resources/are-we-rallying-together-collaboration-and-public-sector-reform/>

6.2.5 Maximising spillover effects

This section discusses emerging learning on how spillover effects can be maximised, in terms of communication and sharing learning.

6.2.5.1 Communication

Delivery of a DIB requires both external and internal communication. Stakeholders noted that a lot of public relations work was required both externally and internally in order to get the necessary buy-in and manage reputational risks, and that these costs were not always budgeted for, for example in the case of the ICRC HIB.

In the case of the QEI DIB, a key learning has been the need to improve external communication in order to realise the ‘spillover’ objectives of the DIB, namely building of the wider outcome-based financing sector and the value of using more rigorous testing approaches. The communication strategy has also evolved with BAT taking on the responsibility for communication in-house. The DIB had planned to bring a public affair partner on board in January 2020, to capitalise on the new education law in India that increases the chances of scaling up outcome-based funding. DIB stakeholders are also starting conversations about how to attract new funding into the DIB, supported by advocacy work. These actions are expected to support some of the sector building ambitions of the DIB.

6.2.5.2 Sharing learning

The QEI and VE DIBs both have ambitions to capture and share lessons learned from the DIB experience to grow the outcome-based market – as such, learning is a key priority for stakeholders. A lesson identified in both the QEI and VE DIB is that consortium members prefer the ability to access data and updates directly, without having to go through the intermediary. Some stakeholders are also keen to learn more and reflect on how challenges can be overcome. QEI stakeholders suggested facilitating more lessons and information sharing between service providers, for them to learn about each other's practices and how they are responding to DIB requirements. A key learning has also been the need for a simple and straightforward communications strategy. To this aim, one provider suggested the creation of a larger community of practice involving all providers that are currently operating in DIBs around the world, especially education-related ones. Similarly, some VE stakeholders noted it would be useful to share lessons more frequently and have an annual session dedicated to learning, to enable VE stakeholders to better support VE to act on challenges identified during implementation.

6.2.6 Designing outcome metrics

Cataract Bond stakeholders have reflected on how the selection of outcomes has affected performance management systems and implementation, generating lessons about ensuring outcomes are complementary and aligned with the objectives of the Bond. There have been some challenges with balancing the financial sustainability and equity targets in the Cataract Bond. The inclusion of four targets – covering the dimensions of financial sustainability, number of surgeries, quality of surgeries and equity – was considered a strong approach, to avoid perverse incentives and tunnel vision. However, the inclusion of both financial sustainability and equity targets was proving to be a challenging balance, though stakeholders noted this is common across the healthcare sector. Due to challenges with data and targets, the Bond was not on track to reach its equity target. The hospital had increased its efforts in outreach, but this may have implications for the financial sustainability of the hospital's business model. At the time of reporting, the Steering Committee was still considering the best approach, to ensure the target is fair based on available data while responding to concerns that removing the possibility of failure would reduce the value of using the DIB. This has raised the importance of carefully considering targets and metrics during the design phase and reflecting on how this will affect incentives and implementation.

6.2.7 Fit of the DIB in the wider organisation

A learning noted in the ICRC and Cataract Bond is that ‘the DIB needs to fit into the wider organisation’. This is particularly relevant for these two DIBs as the impact bond funding forms a small component in ICRC’s wider PRP programme and the wider Cataract hospital respectively. In the Cataract Bond, it was noted that, “*The coming of the DIB fitted into the vision of the hospital, but it needed adjustments to allow space to fulfil this vision*”. The service provider noted that “[*the DIB was*] *hard to carve out from the normal running of the hospital*”. A learning from the ICRC HIB was that what is funded under the impact bond should be carefully considered, to ensure this is necessary and sufficient for the achievement of the target outcomes. The inclusion of the DCMS in the HIB funding envelope, necessary for the HIB but also for the wider PRP, has led to some challenges with securing additional funding to complete the DCMS. Bypassing some of these processes has raised challenges for ICRC in terms of now finding additional funding. Especially in larger organisations, it is useful to consider how the HIB fits into the wider organisational processes and systems.

As we have seen in the UK SIBs market, there seems to be some correlation between the size of the organisation and the intensity of the DIB effect, likely due to the fact that smaller organisations are generally nimbler and find it easier to change systems and processes. For example, in the case of VE and the QEI service providers, the DIB has contributed to significant organisational changes. This may be a useful consideration when designing DIBs, selecting providers and considering the rationale and expected effects for using the DIB funding mechanism. However, it should be noted that larger organisations may be better able to absorb transaction costs and take on financial risks, both key enablers to using a DIB.

6.3 Lessons for scaling

There is interest in understanding what the lessons are for scaling and mainstreaming and transitioning to SIBs or other structures involving greater government involvement. This is linked to some of the key objectives for using the DIB mechanism, to generate learning for the wider sector. We are limited by what we can say here as the DIBs are still in the middle of delivery and because many of the lessons learned are very specific to the context and structuring of the DIBs, and the specific nature of these pilot DIBs.

6.3.1 Standardising to reduce transaction costs

There is recognition that transaction costs remain high, and that standardisation and establishment of ‘best practice’ are needed to reduce costs. REACH’s assessment of impact bonds⁷⁷ and Loder et al. (2013) point towards a number of enabling trends that are making SIBs and similar payment-by-results contracts simpler to deliver in practice. There is an expectation that costs will also reduce in DIBs over time. Management costs are expected to shrink as contracts are streamlined.⁷⁸

However, an emerging finding is that the current DIBs are varied in terms of objectives and structuring. A number of stakeholders considered there would be a limit to the extent to which one can simplify and reduce costs. Oroxom et. al (2018) highlight the importance of not underestimating the resources needed to launch an impact bond.⁷⁹ This remains a challenge in the SIBs market, in terms of balancing the need of standardisation without losing the nuance required to achieve results. As more DIBs and SIBs are being structured,

⁷⁷ REACH. (2017). ‘Can Impact Bonds deliver better results, faster and cheaper? Panel Discussion on Social and Development Impact Bonds as a Results Based Financing (RBF) Approach in Education.’ Results-based financing in education, Note 5. New York: World Bank.

⁷⁸ Belinsky, M. (2014) Development Impact Bonds: Success Depends on a Supportive Network. The Guardian. Available at: <http://www.theguardian.com/global-development-professionals-network/2014/jan/02/developmentimpact-bonds-success-network>; Ravi et al., 2019.

⁷⁹ 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>

the ambition is to work to a ‘situation-specific set of best practices’ to increase the efficiency of setting up and delivering DIBs.⁸⁰

Additionally, scaling and bringing in additional stakeholders becomes time consuming and potentially ‘messy’. In the QEI DIB, there were some initial challenges with communications. For example, separate providers were having one-to-one conversations with other DIB stakeholders that was not communicated more widely. An important lesson learned was the importance of streamlining communication and implementing structured ways of engagement. Transition to an outcomes fund or a pooled fund model with clarity of objectives and more hands-off management can also be a way to streamline decision making and increase efficiency⁸¹. For example, the Poverty Alleviation Outcomes Fund (for which VE is intended to serve as a pilot for) and Education Outcomes Fund are both working to support replication. In the case of the Education Outcomes Fund, performance managers are in place to support scaling and replication.

6.3.2 Service provider capacity

All service providers in the four DIBs are fairly strong and have tested models, Similarly, across SIBs and PbR there has also been a clear preference for more experienced service providers, which could exclude smaller and less established providers. This has been the case for the PbR and SIB sector.⁸² The preference for experienced service providers is perhaps unsurprising, as investors are unlikely to want to fund completely untested programs. On the other hand, part of the anticipated value-added of the model is the opportunity for service providers to improve, and there is evidence that the model encourages service providers to adapt.⁸³

To understand the extent to which it will be possible to scale the DIB model bringing in other providers with weaker capacity, it would be useful to assess the success of other impact bonds that have drawn in service providers with an explicit aim of capacity building, for example, the South Africa ECD DIB and the Cameroon Kangaroo Mother Care Bond. In the South Africa ECD Bond, a grassroots service provider with limited resources was selected, in part due to a condition put in by the government. While investors were not assured that the service provider had sufficient capacity, strong intermediaries provided assurance on the technical support, and investors were willing to take on additional risk.

The issue of service provider capacity is a particular concern across both SIBs and DIBs, an important consideration when considering how to develop the market. In the US, few providers are seen to possess the necessary capacity, expertise, data and performance management systems to meaningfully engage in SIB deals.⁸⁴ This has also been found in the DIBs market.

- QEI noted that one of the main challenges encountered by the DIB involves the selection of service providers ready to work against outcomes. In the QEI DIB the service providers were identified over a five-stage selection process from an initial list of over 200 providers, based on criteria including their ability to scale, existing track record, and relationships with government, and shortlisted based on their openness to adapting their interventions in response to evidence, and for external monitoring and evaluation. This exercise underscored that a relatively limited pool of service provider organizations in the education sector are ready to engage in outcome-based financing. Outcome funders and the investor agreed that generally the not-for-profit sector is not ready to work against outcomes. A few of the QEI stakeholders are working on an outcome-ready framework toolkit.

⁸⁰ Doolittle, L. (2017). Standardize the Work, Don't Lose the Nuance: Can The New 'Pay for Success' Models Replicate Into Functional Utility?. Available at: <https://medium.com/s3idf/standardize-the-work-dont-lose-the-nuance-can-the-new-pay-for-success-models-replicate-into-338c2ef45c07>

⁸¹ Ravi et al. (2019).

⁸² Nonprofit Finance. (2019); Edmiston and Nicholls. (2017).

⁸³ ICF. (2019).

⁸⁴ Nonprofit Finance. (2019).

- The VE process evaluation identified that the VE's size, level of experience and maturity meant it was difficult for them to create and manage new financial instruments and required significant pro-bono support. A key learning was that future DIBs should *“consider how to support organisations in key areas of the service provider-investor process where capacity is limited, like understanding of legal and financial implications of different grant types and SPVs”*.

Finally, it is important to note that scaling does not only involve the use of additional DIBs or SIBs and will depend on the specific contexts and stakeholders involved. QEI stakeholders noted that the objective was not necessarily to do more DIBs, but to use the QEI DIB to validate a model and testing approach, which can be used to advocate for a more outcomes-based approach at the state and national government levels. Similarly, in the Cameroon Kangaroo Mother Care Bond, stakeholders noted that the Ministry have been satisfied with the Bond performance to date, and the capacity building of the providers. The Ministry wants to roll this out with some changes and continue a strong focus on results to ensure efficient use of resources – but the impact bond model may not be used.

7.0 Conclusions



7.0 Conclusions

7.1 Findings and Lessons

This second research wave for the DFID DIBs evaluation focuses on how the DIB mechanism affects project implementation in four DIBs that are part-way through their delivery. It also includes emerging lessons on how the use of DIBs can be agreed to increase the model's benefits and reduce costs during delivery. While it is too early for a full assessment of the 'DIB effect', this conclusion draws upon the analysis described in the preceding chapters to answer the evaluation questions. This wave focuses primarily on delivery and, as such, DIB effects linked to the set up and design phase and covered in the first research wave – for example, drawing in additional finances to the development sector and enabling more providers to get involved in PbR projects – are not discussed here.

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

The first highlight is the apparent **dissonance** within this report. Assessing the impact of the DIB relies on qualitative methods – to identify changes in, for example, partnership working, and to assess the extent to which these changes are attributable to the DIB mechanisms. This is strengthened using comparator sites and the process tracing approach, which scrutinises how the DIB project is operating and how it compares (qualitatively and quantitatively) with similar interventions. The evaluation draws on the experiences and perceptions of diverse stakeholders, with different views on whether and how the DIB had influenced projects. This report captures this cacophony of varied and sometimes divergent views in all its nuance. But the variation is so high it can be difficult to draw firm conclusions on the 'DIB effect'.

This divergence is compounded by the fact that each project across the sample of four DIBs is quite distinct. They differ in their goals and objectives, in the sectors in which they operate, the types of stakeholders and roles they play, and the operational set up of each project. These differences challenge attempts to compare and contrast projects or to describe a singular 'DIB effect'. That said, some common themes *have* emerged across the evaluation which we outline below.

One of the main themes to emerge from the evaluation is that the DIB can be an **effective change management tool**. In all of these DIBs, we have seen a greater focus on outcomes. In particular, in QEI and VE, the DIB encouraged a stronger outcomes-focused culture within both the service providers and funders. It provided the impetus to increase monitoring and evaluation activities, thereby improving the capacity to adapt and improve service delivery and manage projects towards outcomes that matter most. Stakeholders believe that this attribute is enhancing their ability to deliver **more outcomes than would be possible without a DIB**. Early results from VE and QEI suggest elevated outcomes performance in the DIB sites compared to previous delivery, and this will be further investigated in the next research wave.

The DIB effect described above also includes **wide spillover effects**. Service providers and funders alike have strengthened their outcomes focus and data-driven adaptive management in other parts of their organisations. For example, Village Enterprise quickly rolled out the adaptive management techniques developed in its DIB to its non-DIB delivery because these practices proved to be so effective. Funders in the Cataract Bond have started implementing learning from this DIB in other projects, to monitor the *quality* of surgeries and simplify outcome targets and performance management. The ICRC Humanitarian Impact Bond has inspired interest in impact bonds

and innovative finance in humanitarian and fragile settings by a range of stakeholders (see [IBWG Pipeline Report⁸⁵](#)).

So, if these are part of the ‘DIB effect’, what are the elements of the DIB that are driving these effects – what is the ‘secret sauce’? Our analysis suggests the **DIB ‘secret sauce’ consists of four ingredients:**

- **Stronger focus on outcomes:** Tying payments to outcomes leads to a clearer articulation of the specific results the project is trying to achieve. Everyone is made aware of priority outcomes and how the project is expected to achieve them.
- **Heightened performance management:** Stronger measurement helps to monitor a projects’ progress against its stated outcomes. Regular scrutiny of performance allows the projects to quickly identify areas of under-performance and respond accordingly. An external performance manager often provides additional expertise, support and pressure.
- **External perspectives and expertise:** Multi-stakeholder partnerships facilitated by impact bonds bring in new perspectives and expertise to support project implementation. The participation of these new partners, such as investors and external technical advisors, can help to strengthen project design, help with problem solving, provide management support and advice, and introduce new tools and methodologies.
- **High-stakes environment:** Attaching payments to outcomes creates financial risk for investors and sometimes for service providers. Increased accountability and heightened attention paid to DIBs can increase reputational risks for all parties. Both elevated financial and reputational risks can prompt rapid responses to challenges when project performance is under great scrutiny, particularly when everyone’s attention is focused on the outcomes that matter most.

We set out the lessons of potential wider relevance for the delivery of development impact bonds below.

LESSONS

1. **The DIB effect varies across DIBs depending on the stakeholders involved, their motivations for using the DIB, and the structure of the DIB.** It is useful to carefully consider the objectives of using a DIB and ensure that the DIB is structured to support this. Section 4 of this report sets out emerging evidence for how DIB inputs, aligned to design choices, can affect the DIB outputs and DIB effects observed. For example, in DIBs where service providers are responsible for leading on performance management is where we have seen the strongest evidence and plans for rolling out improved systems across the service providers’ programming. If strengthening performance management systems is a key target objective of the DIB, DIB designers may want to consider this when deciding between having an internal or external lead on performance management. Stakeholders’ motivations of using a DIB, and the DIB effects targeted, should be used to judge the success of a DIB, while noting that what success means may change over the lifetime of the DIB, especially in this early phase of the market.
2. **A DIB can be an effective change management tool.** In these pilot DIBs, the funding mechanism has been a catalyst and driver for change and better use of data to inform delivery.
3. **In many ways, the DIB effects seen are not dissimilar to what has been observed in the PbR market. A key additionality of the DIB is the coalition of outcome funders, investors and intermediaries.** Opinions varied as to whether the achievements might have been possible without this external input, but stakeholders generally agreed that these additional skills added value to and strengthened delivery. A DIB can provide the flexibility to enable different stakeholders to provide support in different ways, beyond rigid roles and responsibilities.

EQ2: What improvements can be made to the process of designing and agreeing on DIBs to increase the model’s benefits and reduce the associated transaction costs?

⁸⁵ Impact Bonds Working Group. (2020). Project Pipeline. <http://ib-wg.com/pdfs/london/The%20Project%20Pipeline%20Report.pdf>

Similarly, it is difficult to draw general findings on how to improve the structuring of DIBs to maximise the benefits and reduce transaction costs, given the large diversity and small number of DIBs to date. Nonetheless, there are a few emerging findings. We set out the lessons of potential wider relevance for the delivery of development impact bonds below. We find that there is still significant variation across existing DIBs and the evaluation sample (and overall number of DIBs) remains small. This should be borne in mind when taking stock of the lessons learned to date.

LESSONS

1. **Additional stakeholders do result in greater coordination and communication costs.** These costs can be managed by having clarity on what added value different stakeholders are bringing and clarifying roles, responsibilities, level of input and decision-making processes.
2. **Transitioning to an outcome-based contracting model requires a shift in perspectives, on the part of both providers and outcome funders.** Funders accustomed to input-based contracts and monitoring inputs and processes are finding the need to adapt to a more hands-off approach. To maximise the benefits of moving to an outcome based contracting model, and to reduce provider costs, reporting requirements can be reviewed to ensure this is focused on use and what is necessary to support decision-making.
3. **Delivery of a DIB requires strong internal and external communication.** The increased senior management focus on a DIB and direction of additional resources to a DIB can cause tensions internally. For example, departments and teams that are not delivering the DIB will require careful managing. DIBs are complex by nature. All stakeholders also noted the potential reputational risk of investors who make a profit in this sector and the need for strong public relations to manage this. To grow the market, learning needs to be proactively and transparently shared.
4. **There have been some teething problems during these pilot DIBs, as service providers noted aspects of the DIB that required more time and resources than expected and budgeted for.** For example, this included setting up the DIB, delivering the DIB to meet RCT requirements and building relationships with investors. To ensure attention is not diverted from other projects, these should be appropriately planned for and costed into budgets.
5. **The role of the intermediary should be carefully considered, to ensure costs and benefits are proportionate.** Across the DIBs, intermediaries have represented a significant proportion of additional costs but were also broadly noted (although not always) to be key contributors to the DIB effects. There is a balance between bringing in external expertise and building the capacity of providers and funders to take on some of these tasks. The Kangaroo Bond has sought to balance this by taking a phased approach, with the intermediary handing over responsibility to the provider over the life of the Bond. It is also interesting to note that in the SIB market the additional costs associated with intermediaries and the desire to build internal capacity has been a key driver for working directly with investors.
6. **Validation costs can be high – there is a trade-off between rigour and cost.** It is also possible to build synergies between verification and performance activities, to reduce costs and maximise the benefits of these activities. For example, verification information can be used to test performance management data and to support course correction and adaptation.
7. **As for the PbR and SIB sectors, measuring cost-effectiveness is extremely challenging.** Full costs, including in-kind contributions, are not being captured. Some stakeholders note that financial reporting requirements to funders is also lower, due to the move to a focus on outcomes. This makes it difficult to assess value for money.
8. **Legal costs remain high and the DIBs have seen a general willingness to work more flexibly outside formal contractual provisions.** In the response to Covid-19, there seems to be greater flexibility than the contract formally provides for, and a certain unwillingness to go through legal proceedings. The extent to which all eventualities need to be incorporated into the contract, and the extent to which more informal processes can be used, depends on the existing relationships and levels of trust between stakeholders.

Areas for consideration

In addition, there are some themes and questions where there is not enough evidence yet to draw conclusions at this stage of the evaluation but are important contributions to the wider DIB debate. These will also be important questions to continue considering in the next research wave, and for other researchers in this space to focus on:

1. **Is a DIB necessary to achieve the DIB effects described in this document, or could similar effects be achieved through a well-designed grant or PbR project?** Some stakeholders think that the changes implemented through the DIB could have been achieved regardless of the DIB structure. For ICRC, one of the most important benefits achieved in the ICRC HIB was the ability to secure long-term funding towards a specific project. The impact bond enabled this, but stakeholders consider it could have been possible without investor involvement. The Cataract Bond in particular, raises some interesting findings in this area. Firstly, the DIB mechanism has primarily increased the hospital's focus on equity. The equity target is linked to a small performance bonus. The bonus is small, but the hospital is investing significant resources into its outreach programme in order to meet this target. It seems that the *size* of the incentive is less important than the presence itself, as well as the focus and accountability that investors and funders build into the mechanism. Furthermore, many of the elements seen in the Cataract Bond – stronger focus on equity, improvements in the hospital – were also achieved in the grant-funded comparator site. Intriguingly, the high-performing, grant-funded comparator site also received support from the same technical advisor. All of these points would suggest that *in some instances the same DIB effects could be achieved through a grant/contract that has more dedicated funding for performance monitoring and access to technical expertise for project design and implementation*. Having said that, these elements are not always prioritised in conventional projects. Consequently, the DIB – and its high-stakes environment around the outcomes that matter most – seems to be the *catalyst for change* that is driving improved performance. This is starting to shed some light on when a DIB is most applicable. It would suggest a DIB may be most appropriate where:
 - performance could be enhanced through a stronger focus on outcomes buttressed by performance management;
 - the system / culture needs an external 'disruption' to bring about change;
 - service providers would not be able to tolerate high levels of financial risk; and
 - where providers would benefit from external expertise and support.
2. **To what degree can a DIB be rolled out to the wider landscape of service providers?** In trying to tease out the influence of the DIB, we examined what alternative factors might also explain the outcomes focus and adaptive management that characterise DIBs. What emerged was that these DIBs had pre-conditions that helped incubate the DIB effect: service providers included in the study already had a results culture and were pre-disposed to adopting an enhanced performance management system, and interventions had a historical track record of achieving results. As a consequence, the DIB most likely *drew out behaviours that were already present, rather than introduced completely new behaviours*. This might have implications for when the DIB approach is scaled or applied more broadly – will it be as effective with organisations where these characteristics do not already exist?
3. **Does the idea of a DIB as a change management tool mean it is only needed once in an organisation?** If a DIB shifts the focus and behaviour of a whole organisation, can another add value after the first is completed? Is a DIB a 'one-time pivot'? It is interesting here to note that there have been instances of providers choosing not to engage in a second impact bond because they felt they had already benefited from the mechanism in the first impact bond which made the high transaction costs of getting involved less appealing. We do not know the answer to this question yet because we do not know a) how far reaching the spillover effects have been, b) how sustainable they are, or c) how this view might change if transaction costs go down over time. This requires further research.
4. **How appropriate is a DIB in development contexts?** The impacts of Covid-19 are unprecedented, yet large scale shocks are not uncommon in development contexts. Therefore, the ways that DIBs responded to

Covid-19 provides a 'litmus test' for the efficacy of the model in development contexts. At the time of the research, Covid-19 had just become a pandemic and we do not fully know its long to medium term effects on the projects. What we do know, though, is that the DIB appears to have both helped and hindered the projects' response to Covid-19. For example, external expertise and data quality have helped the projects to respond and prioritise in the face of this challenges. But the multiple parties and contractual complexities involved have led to impasses and slower responses in terms of making amendments to the contract and targets. It is vital that stakeholders learn from the lessons of Covid-19 to ensure that DIBs can adapt quickly to national shocks and help stakeholders to better respond, recover and become resilient in the face of future shocks and disruptions.

5. **Does a DIB displace other delivery?** There were some suggestions in the research that a DIB project diverts skilled staff, expertise and resources away from other parts of the organisation. One thing that is worth exploring in further research is, therefore, the *opportunity costs* and the optimal allocation of resources associated with a DIB. Is the DIB itself more effective, or is elevated performance simply the function of more resources and skills? And what happens to other projects/parts of the organisation that those resources and skills have been funnelled away from? Would better budgeting and planning for the DIB solve this challenge?
6. **Is performance management most effective when provided through a third party?** The DIB effect seemed particularly potent when projects had access to additional resources and technical expertise, which is provided by external third parties. On the other hand, one of the major sources of additional costs of DIBs during the implementation phase were the additional monitoring and evaluation costs. This begs several important questions for further exploration. For example, would this performance management expertise be more cost effective as well as more sustainable if it were embedded directly into the provider organisations or does the presence of a third party provide that independent perspective that is part of the 'secret sauce'? Are there other ways to automate the collection and analysis of performance and outcome data that could reduce associated costs without sacrificing required rigour?

As with any evaluation, this research wave has thrown up as many questions as it has answers. It has helped plot aspects of the DIB effect map – as seen in our charts depicting how the DIB is driving different behaviours – and has planted signposts for other research to follow. Our third and final wave, due in 2022 when the DIBs are either completed or close to completion, will hopefully plot this map further, and heighten our understanding of the effectiveness of development impact bonds. The final research wave will seek to answer the questions above. Also, the majority of DIBs will have completed by the third research wave. This will be an opportune moment to draw on outcomes data to assess effectiveness and cost-effectiveness where possible, and to gather indications of how sustainable these outcomes are likely to be.

7.2 Recommendations

7.2.1 Recommendations to FCDO

1. **FCDO can support the wider market in collecting more robust cost data.** The evaluation has found it challenging to gather consistent cost data across the four DIBs, and more could be done to routinely collect costs so support assessing the value for money of DIBs. This will likely require a combination of support to stakeholders, creating consistency between different approaches, building in requirements into contracts and providing reassurance that the objective is not to identify cheaper or more expensive providers, but to build learning for the wider sector. This presents an opportunity for FCDO to collaborate with other donors and outcomes funders interested in this space.
2. **FCDO should consider how it can apply DIBs where most appropriate to its portfolio, based on the parameters set above.** In designing future DIBs after the pilot programme, FCDO should set out the problems that using the DIB will address – that is, the target objectives of using the DIB. It can then draw on the evidence base on how best to structure the DIB to maximise these targeted benefits. Section 4 of this report provides

some emerging evidence of how DIB inputs (aligned to key design choices, for example in terms of the level of risk sharing between stakeholders, the type of contract, and the governance structure) lead to DIB outputs and DIB effects.

3. **FCDO should consider following up with DIBs after the end of delivery (building this into contracts as needed) to test the sustainability of outcomes and spillover effects.**

7.2.2 Recommendations to the wider DIB sector

4. **Clarify roles and responsibilities upfront.** The many stakeholders involved in a DIB can drain resources and time. To ensure stakeholders are adding value to delivery, roles and responsibilities should be clearly defined and linked to the specific experience and expertise stakeholders are bringing.
5. **Build in flexibilities into the contract to respond to changing situations without having to substantially change contracts.** Setting up and changing legal contracts is expensive. It will likely be impossible to incorporate all eventualities into a contract; therefore, building in flexibilities and agreed steps for approving changes will help the DIB mechanism remain relevant in crisis situations. The more that DIB contracts can be made public and learnings captured may help accelerate learnings in this area.
6. **Be transparent and share lessons learned and key successes and challenges to support the strengthening of the market.** There is a very high level of scrutiny and focus on these early DIBs. It can be difficult to openly share 'failures'. However, these challenges, such as the removal of underperforming service providers, can be seen as a success of these pilots in generating learning. A broader understanding of what 'success' looks like, for instance, including generating learning of what does not work, especially during this pilot phase, will be important for building the wider market.

Annex A: Acronyms and glossary

Acronyms

Acronym	Definition
AEF	Africa Eye Foundation
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 Effectiveness Analysis
CGI	ConveGenius Insights
CIFF	Children's Investment Fund Foundation
DAC	Development Assistance Committee of the OECD
DCMS	Department for Digital, Culture, Media and Sport (UK)
DCMS	Digital Centre Management System
DFAT	Department for Foreign Affairs and Trade (Australia)
DFC	US International Development Finance Corporation
DFID	Department for International Development
DIB	Development Impact Bond
DRC	Democratic Republic of Congo
EIM	Efficiency Improvement Measures
EI-PIF	Educational Initiatives and Pratham Infotech Foundation
EMT	Evaluation Management Team
EQUALS	Evaluation Quality Assurance and Learning Services
ESRC	Economic and Social Research Council
FCAS	Fragile and Conflict Affected Situations
FCDO	Foreign, Commonwealth & Development Office
GAVI	Global Vaccine Alliance
GDI	Global Support Development Initiative
GEC	Girls Education Challenge
GEFA	Global Evaluation Framework Agreement
GMI	Gray Matters India
GO Lab	Government Outcomes Lab
GSRU	Government Social Research Unit
HIB	Humanitarian Impact Bond
HRTIF	Health Results Innovation Trust Fund
HSE	Health and Safety Executive
ICRC	International Committee of the Red Cross
IDB	Inter-American Development Bank
IFI	Intergovernmental Financial Institutions
KiT	Keeping in Touch
KEF	Kaivalya Education Foundation
KPI	Key Performance Indicator
LLC	Limited Liability Company
M&E	Monitoring and Evaluation
MICEI	Magrabi ICO Cameroon Eye Institute
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
PRP	Physical Rehabilitation Programme

Acronym	Definition
PSD	Private Sector Department
RBA	Results 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
SPV	Special Purpose Vehicle
SRA	Social Research Association
ToC	Theory of Change
ToR	Terms of Reference
UBS-OF	UBS Optimus Foundation
USAID	United States Agency for International Development
VE	Village Enterprise
VfM	Value for Money
WASH	Water, Sanitation and Hygiene

Glossary

Below we list definitions of terms used within the report. The sources for these definitions are noted below, and the source is listed at the end of each definition:

- National Audit Office⁸⁶
- GO Lab⁸⁷
- Own definition

Term	Definition
Attribution	The extent to which changes in the relevant outcomes can be attributed to an intervention or investment (GOLab).
Baseline	The level of performance measured before the intervention begins, against which the intervention's impact can be assessed (NAO).
Bond	A fixed income instrument that represents a loan made by an investor to a borrower. A bond has an end date (when the principal of the loan is due to be paid to the bond owner) and it usually includes the terms for variable or fixed interest payments that will be made by the borrower (GOLab).
Cherry picking	A perverse incentive whereby providers, investors or intermediaries select beneficiaries that are more likely to achieve the expected outcomes and leave outside the cohort the most challenging cases (GOLab).
Cost benefit analysis	A method to estimate the total expected benefits of a programme, compared with its total expected costs (GOLab).
DIB	An impact bond that is implemented in low- and middle-income countries where a donor agency, multilateral institution, or a foundation pays for the desired outcomes as opposed to the government (although some combination of government with third party is also possible) (Adapted from GOLab).
Escrow	An escrow is a financial arrangement where a third party holds and regulates payment of the funds required for two parties involved in a given transaction (Own definition).
HIB	A variation of a DIB used in a conflict, post-conflict or emergency setting (Adapted from GOLab).
Impact bond	Outcome-based contracts that incorporate the use of private funding from investors to cover the upfront capital required for a provider to set up and deliver a service (GOLab).

⁸⁶ National Audit Office. (2015). Outcome-based payment schemes: government's use of payment by results. See: <https://www.nao.org.uk/wp-content/uploads/2015/06/Outcome-based-payment-schemes-governments-use-of-payment-by-results.pdf>

⁸⁷ See GOLab glossary: <https://golab.bsg.ox.ac.uk/knowledge-bank/glossary/>

Term	Definition
Implementer	The entity responsible for delivering an intervention or service to participants (Adapted from GOLab).
Intermediary	A third-party individual or organization that provides specific advice in the development and implementation of an impact bond (Own definition).
Outcome	The desired effect for an individual as the result of a service or intervention (GOLab).
Outcomes-based contracting	A mechanism whereby service providers are contracted based on the achievement of outcomes. This can entail tying outcomes into the contract and/or linking payments to the achievement of outcomes (GOLab).
Outcome fund	Outcome funds pool capital from one or more funders to pay for a set of pre-defined outcomes. They allow the commissioning of multiple impact bonds under one structure (Adapted from GOLab).
Outcome measure	An outcome measure is the specific way the commissioner chooses to determine whether that outcome can be achieved (GOLab).
Outcome payer	The organisation that pays for the outcomes in an impact bond (GOLab).
Output	The services that are delivered directly by an intervention. The use of outputs by participants contributes to changes which lead to outcomes (Adapted from GOLab).
Payment-by-results	The practice of paying providers for delivering public services based wholly or partly on the results that are achieved (GOLab).
Perverse incentive	An incentive to act in manner that goes against the desired outcome or aims of a service or programme (GOLab).
Primary outcome	In an impact bond the primary outcome is the most important outcome in the contract, the one that the outcome payer most wants to see positively impacted (GOLab).
Procurement	Acquisition of goods and services from third party suppliers under legally binding contractual terms (GOLab).
Rate card	In the context of payment-by-results, a rate card is a schedule of payments for specific outcomes a commissioner (outcome payer) is willing to make for each participant, cohort or specified improvement that verifiably achieves each outcome (GOLab).
Rate of return	The profit on an investment, normally expressed as an annual percentage (GOLab).
Results-based finance	A term used in some countries, in particular in the USA, that refers to payment-by-results schemes (GOLab).
Secondary outcome	After the primary outcomes (the most important) the secondary outcomes are the other important outcomes that the commissioner wishes to see improved. They may capture different dimension of the programme or reinforce the primary outcome (GOLab).
SIB	A type of outcome-based contract that incorporates the use of private funding from social investors to cover the upfront capital required for a provider to set up and deliver a service (GOLab).
Theory of change	It describes the causal logic of how and why an intervention will reach its intended outcomes. A theory of change is a key underpinning of any impact evaluation, given the cause-and-effect focus of the research (GOLab).

Annex B: Detail on the DIBs

B.1 Stakeholders involved in the DIBs

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

Stakeholder	ICRC	QEI	VE	Cataract Bond
Designer	ICRC and KOIS	British Asian Trust, Michael & Susan Dell Foundation, UBS Optimus Foundation, Dalberg.	Instiglio and the Anonymous Donor	The Cataract Bond Design Coalition, which is formed of The Fred Hollows Foundation, the Conrad N. Hilton Foundation, Sightsavers, the African Eye Foundation and Volta Capital
Service Provider	ICRC	Educational Initiatives and Pratham Infotech Foundation (EI-PIF), Gyan Shala, Kaivalya Education Foundation, SARD (Society for All Round Development)	Village Enterprise.	Africa Eye Foundation (AEF), the not-for-profit arm of the Magrabi ICO Cameroon Eye Institute (MICEI)
Service Users	Users of new ICRC centres, and the 8 pilot centres.	200,000 primary school children in Delhi, Mumbai, Uttar Pradesh and Gujarat	A minimum of 12,660 households in Kenya and Uganda	18,000 low-income patients and middle-income patients with cataracts in urban and rural areas in Cameroon
Governments	Local governments in Mali, DRC, and Nigeria	National and district governments	Local government representatives in Kenya and Uganda	
Outcome Funders	Governments of Switzerland, Belgium, UK and Italy, and La Caixa Foundation.	Michael & Susan Dell Foundation, BT, Comic Relief, Mittal Foundation.	FCDO, USAID DIV and an anonymous donor	The Fred Hollows Foundation, Conrad N. Hilton Foundation, Sightsavers
Investors	Munich Re, Lombard Odier pension fund, charitable foundations and others	UBS Optimus Foundation leads an investment pool of multiple private investors.	Nine impact investors, including Delta Fund	US International Development Finance Corporation (DFC), formerly Overseas Private Investment Corporation (OPIC), Netri Foundation
Outcome Verifier	Philanthropy Advisors	ConveGenius Insights (CGI), formerly GMI	IDinsight	AEDES
Intermediary / Advisors	None	Intermediary: British Asian Trust Performance manager: Dalberg	Project manager: Instiglio Trustee: Global Development Incubator	Bond manager / technical advisor: Volta Capital
Learning Partner	None	Brookings Institution, Government Outcomes Lab (GO LAB)	Instiglio	None

B.2 Rationale for using a DIB

The table below sets out the rationale for using a DIB. These are split out where rationales differed across stakeholder category.

DIB	Rationale
ICRC HIB	<ul style="list-style-type: none"> • Service provider: test a new funding mechanism and build capacities to access innovative financing. Building relationships with the private sector and building the market for investment into fragile and conflict affected situations. Additional benefit of accessing long-term funding. • Outcome funders: testing new funding mechanism and approach to closing of the humanitarian financing gap, supporting ICRC to build stronger relationships with the private sector. Opportunity to fund investments into efficiency with reduced risk – with the majority of payment only made where these measures do increase efficiency, and ultimately, outcomes. • Investors: testing and building a new market
QEI DIB	<ol style="list-style-type: none"> 1. To galvanise the market of high performing NGOs in India to deliver at scale and support the learning crisis. 2. To engage the government and explore the potential transition from DIB to SIBs in India, and support the transition to more rigorous assessment approaches 3. To scale the learning and successes of the Educate Girls DIB and test the model on a larger scale to explore the opportunities to reduce transaction costs 4. To test the applicability of a rate card⁸⁸ with a standard pricing framework of potential outcomes, as used in social impact bonds (SIBs). This also enables the comparison of performance for different education models within the same assessment framework and generates useful data to inform government decisions about the costs of delivering different outcomes.
VE DIB	<ol style="list-style-type: none"> 1. Developing a market for outcomes in poverty alleviation and contributing to the evidence base of poverty graduation interventions. 2. Testing how the graduation model can be implemented at scale. 3. Opportunity to prove effectiveness of the approach (income graduation models and financing mechanism), attract more funding for services, scale intervention while maintaining impact and contribute to learning in the sector (service provider). 4. Increase visibility of VE and generate additional funding streams (service provider) 5. Testing how the graduation model could be implemented in a way that moderates transaction costs, shifting the focus of funders from monitoring outputs to outcomes, and incentivising and affording service providers to track and manage results and adapt accordingly (Intermediary - Instiglio and anonymous donor). 6. Paying only on outcomes (outcome funders). 7. Bring government attention to the poverty graduation model (noted by one investor).
Cataract Bond	<ul style="list-style-type: none"> • Outcome funders: crowding in additional investment to prevent avoidable blindness and supporting the expansion of innovative financing in the eye care sector. Testing the DIB model to generate public goods. • Service provider (AEF): the international recognition that came from working together with the outcome funders and the potential to receive upfront financing with more favourable terms than a commercial loan, while sharing the risk of its operations with the outcome funders.

⁸⁸ In the context of payment-by-results, a rate card is a schedule of payments for specific outcomes a commissioner is willing to make for each beneficiary/ service user that verifiably achieves each outcome

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Annex D: Consultees and Documents Reviewed

D.1 Consultees

Stakeholder category	Institution / title
ICRC HIB	
Outcome funder	FCDO – Impact investing team leader
Outcome funder	FCDO - Senior Policy Advisor
Outcome Funder	La Caixa
Outcome Funder	Permanent Mission of Belgium – Minister Counsellor
Investors	Munich Re
Service provider	ICRC - Head of the HIB
Service provider	ICRC - Head of the PRP
Service provider	ICRC - Head of innovative financing
Service provider	ICRC - PRP manager
VE DIB	
Programme manager	Instiglio – VE project manager
Service provider	VE – Chief Development Officer
Service provider	VE - Vice President, Impact
Service provider	VE – Vice President of Africa Operations
Service provider	VE – Kenya Country Director
Service provider	VE – Uganda Country Director
Service provider	VE – Kenya DIB field coordinator
Service provider	VE – Kenya enterprise and savings lead
Service provider	VE – Uganda regional manager
Service provider	VE – Uganda enterprise and savings lead
Service provider	VE – MEL manager
Service provider	VE – Field associates (4)
Service provider	VE – Business mentors (6)
Outcome funder	FCDO – Impact investing team leader
Outcome funder	FCDO - Senior Policy Advisor
Investor	Bridges Fund Management: Investment Manager, Social Sector Funds
Investor	Delta Fund: Co-Founder and Managing Trustee of Delta Fund
QEI DIB	
Intermediary	British Asian Trust – Executive Director, Social Finance
Intermediary	British Asian Trust – Manager, Social Finance
Investor	UBS Optimus Foundation – Director, Innovative Financing
Investor	UBS Optimus Foundation – Head, Social Finance and India Head
Performance manager	Dalberg – Senior Consultant

Stakeholder category	Institution / title
Outcome funder	Michael and Susan Dell Foundation – Programme Manager, India
Outcome funder	Michael and Susan Dell Foundation – Director, India
Outcome funder	Larry Ellison Foundation – Associate Director
Technical grant provider	FCDO – Impact investing team leader
Technical grant provider	FCDO - Senior Policy Advisor
Independent evaluator	CGI – Chief Executive Officer
Independent evaluator	CGI – Vice President
Independent evaluator	CGI – Advisor
Service provider	Kaivalya Education Foundation – Manager; Core Team Manager; 2 Programme Managers; 3 Senior Programme Managers, 3 Programme leaders; 6 Fellows, 1 Core Team Member
Service provider	Gyan Shala – Chief Executive Officer; Deputy Chief Executive Officer; Deputy Chief Executive Officer; 10 design team members; 8 Field Officers and senior Supervisors; 50 Supervisors and teachers.
Service provider	Pratham Infotech Foundation – Co-Founder and Chief Executive Officer
Service provider	Pratham Infotech Foundation – Development Associate
Service provider	SARD – Chief Executive Officer
Service provider	SARD - Manager
Cataract Bond	
Administrative Director	MICEI (the hospital)
Finance Manager	MICEI (the hospital)
Marketing and Development Manager	MICEI (the hospital)
Outcome funder	Conrad Hilton Foundation
Outcome funder	Conrad Hilton Foundation
Outcome funder	Sightsavers
Outcome funder	Sightsavers
Outcome funder	FHF
Outcome funder	FHF
Investor	International Development Finance Corporation (DFC), formerly OPIC
Investor	Netri Foundation
Liaison agent between the Magrabi Board, MICEI and the DIB	Ethica partners
Intermediary	Volta
Intermediary	Volta
Management of grant for comparator hospital	Aravind Eye Care Systems
Comparator	Hospital in Kenya
Other DIBs	
Intermediary	Cameroon Kangaroo Mothercare DIB
Intermediary / bond manager	South Africa ECD Bond

D.2 Documents reviewed

DIB	Documents reviewed
ICRC	7 th , 8 th , 9 th , 10 th , 11 th , 12 th PHII Quarterly Status Update
VE	Village Enterprise Development Impact Bond: 4th Interim Report, Village Enterprise, September 2019
	Village Enterprise DIB Process Review: Midline deliverable, Instiglio, September 2019
	DIB Logframe, 2020
QEI	QEI DIB Target setting approach
	QEI DIB Year 2 Results Webinar Pre-Read; QEI DIB Year 2 Results webinar deck; QEI DIB Results webinar notes and next steps
	Paying for outcomes at scale in India (Brookings)
	Recommendation tracker KEF Mumbai; Gandhi Fellows curriculum; KEF Journey App User Manual
	Government of India New Education Policy
Cataract Bond	CCBP Annual verification report 190609
	Q1, Q2, Q3, Q4 2019 Cataract Bond Summary Report

Annex E: Methodology

This section supplements the methodology section in the main report (Section 2) as follows:

- Section E1 sets out the DIB effect indicators
- Section E2 discusses the harmonisation of approaches
- Section E3 sets out our approach to ethics and safeguarding
- Section E4 sets out the involvement of stakeholders
- Section E5 sets out details on management
- Section E6 sets out contextual risks and mitigations
- Section E7 sets out the use and influence plan.

E1. DIB Effect indicators

The table below provides a breakdown of the potential ‘DIB effect’, and the indicators we used within the DIBs and comparator sites to identify the extent to which these effects are present. The potential ‘DIB effect’ is drawn from:

- Programme Theory of Change
- FCDO DIB Business Case
- Advantages and disadvantages identified during the literature review
- Advantages and disadvantages (perceived or experienced) identified during inception phase consultations

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

Table F. 1: DIB effects and indicators

Claimed DIB effect	Indicator to measure presence of ‘DIB effect’ in DIBs and comparator sites	RW1	RW2	RW3
Claimed advantages				
Transfer of financial risk from outcome funder to investor	<ul style="list-style-type: none"> • Extent to which investment capital is at risk 	x		
Funding projects which would not have been funded otherwise, or not in the same guise (including scale)	<ul style="list-style-type: none"> • Extent to which outcome funders would have either funded the project at all, or in its current form, if it were funded through a different mechanism 	x		
Crowd-in private, additional, upfront, long-term, stable and secured financing , which brings in additional finances to the development sector	<ul style="list-style-type: none"> • Scale and source of funding (including whether private financing), and where this funding would have been directed if it had not funded this project • Duration and ‘security’ of funding • Mobilization ratio: for every USD 1 of ODA mobilized USD x in private financing • Extent that supplier pre-financing was required for PbR contract • Opportunity cost of using own funds – i.e. has DIB financing allowed the organization to invest in other things 	x		
Shift focus to outcomes	Set up	x	x	x

Claimed DIB effect	Indicator to measure presence of 'DIB effect' in DIBs and comparator sites	RW1	RW2	RW3
More innovative services (or larger-scale innovative services) because: <ul style="list-style-type: none"> providers have more flexibility and autonomy to deliver what they feel will achieve outcomes Risk transfer from government/outcome funder partly to service provider but mainly to investor, who have higher appetite for risk 	<ul style="list-style-type: none"> Perceptions on rigour of design stage Level of 'innovation' / risk in project delivery, in terms of: <ul style="list-style-type: none"> new type of intervention altogether (radical innovation); an established intervention that has been adapted (incremental innovation); or an established intervention that has been applied to a new context, e.g. location, policy area, target population Scale of project, in terms of delivery cost and number of beneficiaries Extent and quality of external expertise 	X		
Drives performance management	<ul style="list-style-type: none"> Extent to which delivery decisions are made to maximise outcomes 		X	X
Greater accountability , as impact bond builds leads to culture of monitoring and evaluation	<ul style="list-style-type: none"> Extent to which a service provider feels more incentivised to offer user-specific supports (the human touch element) Level of flexibility found within the project to alter project delivery 		X	X
More careful and rigorous design of programme interventions	<ul style="list-style-type: none"> Extent to which service provider feels it can take risks and innovate Extent to which service provider feels it has autonomy over delivery Level of responsiveness and agility of partners to deal with bottlenecks, issues and challenges Extent and quality of external expertise 		X	X
	<p>Monitoring</p> <ul style="list-style-type: none"> Rigour of monitoring and evaluation systems developed, including verification of outcomes and duration of outcomes tracking Transparency of outcomes – i.e. frequency and quality of reporting internally and externally Strength of performance management and measurement systems Use of real time performance information to inform ongoing delivery 			
	<p>Sustained impact</p> <ul style="list-style-type: none"> Extent to which systems and practices implemented as part of project are embedded across the wider organisation and/or sustained once the DIB ends 			
All of the above factors leading to more beneficiaries supported, and more outcomes achieved, ultimately leading to more effective and efficient services	<ul style="list-style-type: none"> Number of beneficiaries supported per GBP / FTE Number of outcomes achieved per GBP / FTE 		X	X
More service providers entering the PbR market due to transfer of risk	<ul style="list-style-type: none"> Number and type of providers participating in PbR contracts, and their historic experience with PbR contracts Level of unrestricted funding as % of overall value of PbR contract 	X	X	X
Greater collaboration and/or coordination between stakeholders as there is an alignment of interests	<ul style="list-style-type: none"> Self-reported strength of relationship of partners involved and levels of collaboration and/or coordination 	X	X	X
Claimed disadvantages				
Complex to design	<ul style="list-style-type: none"> Extent to which stakeholders believe the design to be complex Demands of project design in terms of time and need for external expertise 	X		

Claimed DIB effect	Indicator to measure presence of 'DIB effect' in DIBs and comparator sites	RW1	RW2	RW3
	<ul style="list-style-type: none"> Length of time it took to design and launch the project 			
Expensive to set up and implement	<ul style="list-style-type: none"> Set up costs Cost per outcome / beneficiary Proportion of total cost of project going to front line delivery against proportion going to project development and administration (including research and data verification, and project and funding coordination and management) 	x	x	x
Impact bonds create perverse incentives	<ul style="list-style-type: none"> Profile of beneficiaries and evidence of 'cherry picking' Level, quality, range and duration of support, and extent to which decisions around these have been affected by the contracting model (e.g. leading to parking) 		x	x
Performance management culture lowers staff morale and increases staff turnover	<ul style="list-style-type: none"> Levels of morale amongst staff Levels of staff turnover 		x	x
' Tunnel vision ': Focus on primary outcomes comes at the expense of secondary outcomes; opportunities for project co-benefits are missed	<ul style="list-style-type: none"> Range and level of secondary outcomes achieved 		x	x
DIB creates additional social and reputational risks , diminishing some of the claimed advantages (such as innovation)	<ul style="list-style-type: none"> Extent to which stakeholders perceive the project to hold reputational and social risks 	x	x	x

E2. Harmonisation of approaches

The evaluation has sought to support the harmonisation of approaches used in the DIB/SIB sector. The evaluation has drawn on the following frameworks and approaches, in order to better support the synthesis of evaluation findings and learning across the sector:

- The evaluation is taking a harmonised approach by using the same evaluation approach, and synthesising findings for the 3 DIBs under FCDO's pilot programme, as well as the Cameroon Cataract Bond;
- The evaluation team is undertaking a range of sector level consultations and attending sector events, such as conferences and working groups, in order to keep abreast of emerging learning and findings;
- The DIB effect model builds on FCDO's PbR evaluation framework, to facilitate consolidation of learning;
- Our findings have been aligned broadly with the Brookings Institutes' issue areas as set out in Gustafsson-Wright et al's (2017) early findings report and builds on their findings;
- The framework for categorising DIBs builds on the work undertaken by GOLab at Oxford, and other key efforts to categorise DIBs;
- The process tracing approach builds on a tested approach used by Ecorys for other SIBs evaluations, which enables cross-sector learning;
- Our costs template builds on the one being developed by the GOLab at Oxford, and
- For the DIBs under the scope of the evaluation, we have drawn on relevant and existing studies, such as BOND's report on lessons learned from the Girls Education Challenge⁸⁹ and the CGD paper on lessons from the Cameroon Cataract Bond.

⁸⁹ Bond. (2017). Does 'skin in the game' improve the level of play. <https://www.bond.org.uk/resources/does-skin-in-the-game-improve-the-level-of-play>

E3. Ethics and safeguarding

Due to the fact that data collection was remote, DIB stakeholders advised that it would be unfeasible to conduct interviews with final beneficiaries. Rather, we spoke to DIB stakeholders, including service providers and field practitioners, such as teachers in the QEI DIB and business mentors in the VE DIB, who were not included in the RW1 consultations. Due to the coverage of participants, there were no particular concerns around human rights, gender, age, ethnicity, disability, caste, religion, geographic location, ability, socio-economic status and hard to reach groups. The evaluation did not involve data collection from vulnerable individuals or groups. As such, it was deemed unnecessary to obtain approval from the Ecorys's ethics board.

There was no reward or compensation structure for participants or risk of participant burden – interviews were fairly short (within an hour) and undertaken during business hours, with stakeholders employed by the different DIB stakeholder organisations.

Our approach adhered to international best practice and standards of ethical conduct in evaluation in sufficient detail, and draws on relevant aspects of FCDO's Ethical Guidance for Research, Evaluation and Monitoring Activities. Our approach is set out against FCDO's ethical standards below:

Table E. 2: FCDO's ethics standards

FCDO's ethics standards	Our approach
Research, evaluation and monitoring is useful and necessary.	The scope of the evaluation is as per the TOR. The design of the approach and interview guides were based on what was necessary to address the questions set out in the evaluation framework.
Design and conduct of research, evaluation and monitoring work is sensitive to cultural, socio-economic, environmental and political context.	There was equitable participation of participants. Interviews were delivered sensitively and professionally. Data collection instruments (interview guides) were designed to ensure they were culturally sensitive and did not pose ethical problems.
People's rights and dignity are respected and there is equitable participation.	
Harms to individuals and communities are minimised and benefits maximised, risks are identified, and mitigating actions are taken.	The evaluation took a 'do no harm' approach. In designing the approach and interview guides, the risk of harm to individuals was considered. Due to the nature of interviews, the topics of discussion and the stakeholders consulted, the main risk was identified as potential loss of identify and confidentiality, which may affect relationships and positions within organisations.
Identity and confidentiality is protected and data are secure. Participation is based on informed consent.	Identity and confidentiality were protected. All data in the report is anonymised, and identifiers removed where possible. Security and privacy concerns have been taken into account in storing, using and reporting this information. Data has been stored in a secured folder on Ecorys's drive, which is only accessible to members of the research team. No sensitive or confidential information has been shared via email. The purpose of the evaluation and interviews was clearly set out. Participants were informed about how the information would be used and that they have the right to request for the data to be deleted at any point. All participants explicitly consented to take part in the evaluation. The Analytical Lead quality assured all data and findings, to ensure data integrity was maintained and data practices appropriate.
Findings are disseminated to intended beneficiaries and used appropriately.	Anonymised findings are being shared with participants for validation. All quotes/ data are anonymised (names removed etc).

E4. Involvement of stakeholders

The evaluation has been designed and managed to meet the information and decision-making needs of the intended users. Discussions were carried out with FCDO and stakeholders of the pilot DIBs in order to inform the approach and needs of stakeholders, as part of the Inception and Keeping in Touch phases. Stakeholders were and will be provided with opportunities to comment on the draft findings, recommendations and lessons. DIB stakeholders commented on the summary tables on the DIB effect, the case studies and on the emerging findings during the internal learning workshop. Stakeholders will also have the opportunity to comment on this evaluation report in full. We have reflected comments and perceptions in the report. The main disagreements have been about the extent to which the DIB effect can be attributable to the DIB, and the relative weight of non-DIB mechanisms. We have clearly set out the range of perceptions in the report where relevant.

In line with the Paris Declaration, the evaluation is aiming to avoid duplicating data collection and learning activities by leveraging data and learning outputs. As such, the evaluation relies on data collected by the service providers. We have updated our initial assessment of this data in the Data Quality Assessments prepared in Research Wave 1. Furthermore, the evaluation team is committed to building evaluation capacity within partner countries. The evaluation team includes experts from the countries where the DIBs are in operation. Due to the fact that in-country fieldwork was not undertaken in this research wave, the experts provided limited, but valuable, context and input into the evaluation. Further input is expected for RW3.

E5. Management

Independence

It is important that the evaluation remains independent and credible. In reviewing available data, we investigated how the data was collected and verified to assess quality. This involved providing advice, guidance and a QA role to ensure the evidence is sufficiently reliable.

Whilst the evaluation team includes external technical experts, it is also important that the final conclusions are reached independently by the evaluation team. The role of the external experts has been to act in an advisory capacity, but the report and its findings have been written by the evaluation team.

Differences of opinions

Differences of opinions arising from the consultations are set out in the Analysis and Findings sections in sections 4, 5 and 6. The internal learning workshop offered a further opportunity openly to discuss and verify emerging findings, so as to complement any information missing and incorporate stakeholders' opinions and feedback. There were no significant differences of opinion within the evaluation team.

Conflicts of interest and other limitations

No conflicts of interest were identified, and the evaluation team were able to work freely and without interference. Each consultation was conducted by a lead analyst who was then responsible for the analysis and the reporting of the information gathered through interviews and document review. All key informant interviews were conducted under conditions of confidentiality.

The impact bond space is a small one, and undoubtedly information sources and their contributions are not completely independent of other parties with an interest in the evaluation. We have sought to address this by triangulating findings between different respondents and other sources of information, and by disaggregating findings by type of respondent, and role in the DIB.

Roles and responsibilities

The Project Director oversaw delivery. The Analytical Lead was responsible for providing technical input and quality assuring all data and deliverables. Each DIB lead led data collection on analysis on one lead. The VfM expert led analysis on VfM. The DIB expert provided expertise across the design, analysis and reporting phases. Country experts provided some (but limited) input into process tracing, with additional input expected during fieldwork in RW3.

E6. Risks and mitigations

The contextual risks and challenges, and mitigation strategies, are discussed below as well as unanticipated issues.

There were two key unanticipated issues:

- Firstly, due to Covid-19, we were unable to deliver in-country fieldwork. A change in approach was required, and if approved, RW3 will involve additional fieldwork to compensate.
- Secondly, there remained some challenges to obtaining financial information for the costs template from stakeholders. During RW2, we learned that some stakeholders managed the DIB finances quite differently to that of a normal grant. As there was no longer requirement to report on DIB expenditure, funds were being managed more akin to unrestricted funding. This raised some challenges for the data collection, see section 5.

Table E. 3: Risk

Risk	Impact	Likelihood	Mitigations and Updates
Research findings do not reach full audience	H	L	Based on feedback from RW1, we propose using some of the cost savings identified by not delivering in-country fieldwork for ICRC on additional knowledge and dissemination products and events. We have planned for additional time for the creation of blog posts and an additional webinar.
Findings are not delivered in a timely way and are unable to feed into decision-making.	H	L	The current workplan provides for a finalised report by the middle of October. Emerging findings in July were used to feed into the annual report
Duplication of DIB project activity	M	M	We have mapped existing DIB projects MEL and set out where we can add value. We continued to work closely with the DIBs to ensure we minimise duplication. Particular areas of potential duplication included Instiglio's work for VE, and Brookings work for QEI. We remained engaged with both stakeholders to discuss how to minimise duplication.
Inability to maintain an effective relationship with DIB projects	H	M	We prioritised developing and sustaining a strong working relationship with DIB stakeholders. Strong relationships have been developed and maintained with the key DIB stakeholders.

E7. Use and Influence plan

In the inception report, we undertook a stakeholder analysis, which categorised stakeholders into primary users (FCDO), secondary users (stakeholders involved in the pilot DIBs) and tertiary users (those involved in other DIBs or SIBs or considering implementation of DIBs or SIBs). On this basis, we developed a communications plan, including reporting and dissemination activities. Key deliverables include DIB specific case studies, internal and external workshops, this report and learning briefings. The learning briefs proposed in the proposal for this research wave are 'Best practice and learning in contract management for outcome funders' and 'Top tips for service providers working within a DIB mechanism'. Further details of the communications strategy, including the types of communications outputs envisaged, are included in the Inception Report as well as in Section 2: Methodology.

In reflecting on RW1, two of the DIBs highlighted the utility of creating more sharable and easily understandable pieces of work from our research, which can be disseminated easily and more widely. Additional investment in the

communication element was highlighted as key to support learning. The main learning from RW1 was also the importance of building on momentum during publication of the report, to publish research briefs and undertake dissemination at the same time, so that more digestible outputs are available straight away.

We will produce an external facing version of the report, similar to the summary report produced for RW1, and also producing blogposts and an additional webinar, to support uptake of learning. We have also reviewed the workplan and propose working to a launch date of the report and associated products, and hosting a webinar shortly after, to capitalise on the momentum. We would be open to discussing other suggestions.

We will work with FCDO to continue to monitor how the evaluation outputs have been used and to monitor the impact of evaluation findings. A survey is sent to stakeholders following each research wave to inform our KPIs. We will work with FCDO to consider whether it may be possible to add a question regarding how the evaluation outputs have been used. The report will also be published on DevTracker and the GOLab site – we will work with the GOLab teams to better understand readership. We will build on learning from this wave to improve usability and uptake of evaluation outputs in RW3.

Annexes published separately:

- **Annex F** sets out the case study reports agreed with DIB stakeholders
- **Annex G** contains the Terms of Reference for the evaluation
- **Annex H** sets out the detailed analysis of the DIB effect across the four DIBs.



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Albert House
Quay Place
92-93 Edward St.
Birmingham
B1 2RA

T: +44 845 313 7455
E: birmingham@ecorys.com

ecorys.com