

**Evaluation Report Title:** Findings from the third research wave of the Independent Evaluation of the FCDO Development Impact Bonds Pilot Programme (204722)

### Response to Evaluation Report (overarching narrative)

#### Overview and Summary

In 2023, FCDO concluded its [Programme to Pilot the use of Development Impact Bonds \(DIBs\)](#), which tested their applicability as a tool for funding development interventions. Impact Bonds are payment by results (PbR) contracts which draw in investment from the private sector to finance delivery up front, allowing donors and outcome funders to pay when pre-defined outcomes have been achieved. Impact Bonds can be a valuable tool for financing and achieving development outcomes, but a lack of experience and evidence on their suitability in a development context has limited their uptake. The DIBs pilot programme worked to overcome this barrier by:

- i) establishing a portfolio of DIB projects supported by FCDO;
- ii) gathering initial evidence and learning on the model's suitability and effectiveness in achieving development outcomes; and
- iii) sharing this learning within FCDO and the wider international development community.

#### The Programme-Level Evaluation

The DIBs Pilot Programme commissioned a Programme-level evaluation which took place alongside programme delivery to support in gathering evidence and sharing lessons. The evaluation aimed to make recommendations on the use of DIBs as an instrument for aid delivery. It also focused on understanding the effect of using a DIB to finance the intervention, instead of a grant or other PbR mechanisms, known as the 'DIB effect'.

As the pilot DIBs have completed delivery and the Programme has now come to an end, this report presents the findings of the **third and final research wave of the evaluation**, which will analyse the performance and cost-effectiveness of the model now that the project outcomes are known. It follows on from the [first evaluation report](#) (2019) which focused on the design phase and the [second evaluation report](#) (2021) which focused on understanding how the instrument affects the delivery of development interventions.

#### Objectives

The evaluation seeks to answer two key questions across the entire evaluation:

- 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?

#### Methodology

The methodology uses a combination of process training and contribution analysis to compare the presence of the DIB effects between the DIBs and comparator sites as well as to assess the extent to which any difference could be attributed to the DIB mechanism (relative to other factors).

#### Headline Findings from the third research wave

The report provides valuable insights which can inform FCDO and other funders, investors and service providers of the benefits and challenges of using an Impact Bond, and the conditions in which they might be an appropriate commissioning tool.

Evidence arising from this evaluation suggests that the pilots were broadly successful in achieving their aims - expected positive effects were observed to a good degree, and there was little to no evidence of potential negative effects manifesting.

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The core effect of funding through the DIB model was that donors were more comfortable with potentially riskier projects because they were able to share that risk and risk sharing with investors enabled more service providers to operate in PbR contracts. The combination of PbR, financial risk sharing, and attracting a broader range of stakeholders led to a **stronger focus on outcomes, better performance management**, and in a **high-stakes environment partners were more incentivised to deliver**. Organisations introduced new adaptive management systems and adapted more quickly when challenges arose. There are signs to suggest that this in turn led to improved outcomes. This change in working persisted as the new systems were rolled out in the organisations there was a **cultural shift** towards a **sharper focus on outcomes and adaptation**.

Our research suggests that DIBs may be most appropriate where:

- Performance could be **enhanced** by **focusing on outcomes** which benefit well from **adaptive performance management**;
- The system culture needs an **external ‘disruption’** to bring about change;
- The service providers would not be able to **tolerate high levels of financial risk** within a PbR contract; and
- Providers would benefit from **external expertise and support**.

This is an important finding which helps FCDO and other funders to identify when to consider using a DIB for delivering a development intervention.

The evidence also suggests that a DIB is likely to be more appropriate than other PbR contracts when the context requires smaller organisations to deliver services who may lack the resources or capacity to operate in a PbR contract.

The DIBs were well designed and should be particularly complimented for avoiding the negative effects that can materialise within PbR contracts such as ‘cherry picking’ or reduction in the quality of support. The DIBs were also well designed in terms of ensuring attribution and equitable access. However, in two of the DIBs some stakeholders felt that the single outcome measure used did not fully capture the range of important outcomes.

Whilst stakeholders were broadly positive about the DIB effects, launching the DIBs – and to some degree implementing them – was challenging. Stakeholders thought the additional costs of delivering a DIB were better value for money compared to other delivery models and thought these costs could be reduced in the future by benefitting from replication. Specifically, if stakeholders focused on how the model could be streamlined to reduce costs and complexity, such as reducing the number of stakeholders or reducing the proportion of PbR by running DIBs at a larger scale, as marginal costs didn’t appear to rise in proportion to the size of the DIB.

### Evaluation Quality

Overall, the report met FCDO expectations: it was produced to a good standard, delivered within budget and was rated as **Good** by EQUALS, the quality assurance provider.

### Evaluation Recommendations

The report helps to share the lessons and experience of how these first impact bonds affect the delivery of development interventions with other donors and funders and helps ensure FCDO drives value for money when using these tools in future.

The recommendations from the evaluation focus on how FCDO can support the future of outcomes-based financing. FCDO accepts these recommendations, and the section below sets out how FCDO will take forward these recommendations in its future use of Impact Bonds.

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

Recommendations: FCDO	Accepted / Rejected	If “Accepted”, Action plan for Implementation or if “Rejected”, Reason for Rejection
<p><b>Recommendation 1: FCDO can support the wider sector in collecting more robust cost data.</b> The evaluation has found it challenging to gather consistent cost data across the three 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 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 evaluation has supported the progress of this endeavour by working with the DIBs to create a standardised cost reporting approach. We would encourage FCDO to collaborate with other donors and outcomes funders to roll out the cost template.</p>	Accepted	<p>FCDO is committed to transparency and is keen to ensure that consistent cost data is gathered and published in order to inform future outcomes contracts. FCDO will continue to recommend that transparency requirements are built into future contracts where possible, without prejudicing competition and achievement of value for money in the longer term. We have already begun to lead by example, embedding expectations on budget transparency and delivery data into our new outcomes agreements. We will prioritise discussions on transparency when engaging with international partners, including through the IBWG forum.</p>
<p><b>Recommendation 2: FCDO should consider designing thematic outcomes funds, using a ‘model agnostic’ approach to the particular outcomes-based contract.</b> We are aware that this has already been done in the education space through supporting the Education Outcomes Fund. However, this evaluation has also demonstrated the ability to use impact bonds in poverty graduation and humanitarian-development settings. FCDO could explore supporting the launch of outcomes funds in these areas, as well as experimenting with their use in other policy landscapes.<sup>112</sup> The ‘model agnostic’ approach outlined in Section 7.1.2.4 could be an option for applying outcomes-based contracting within FCDO’s portfolio.</p>	Accepted	<p>In addition to the Education Outcomes Fund (Sierra Leone and Ghana) under the Pioneer Outcomes Fund, FCDO has partnered with UBS Philanthropy Foundation and SECO to support the launch of the first Outcomes Accelerator, a technical assistance facility driven by Levoca to catalyse the market’s capacity to deploy outcomes funding at scale. The Accelerator will offer flexible funding, targeted expertise and networking to successful applicants to support them in bringing their early- and late-stage outcomes-based projects to launch. 81 EOIs were received in the first round.</p> <p>In addition, FCDO is in the final stages of negotiating a role as outcome funder for a demining impact bond in Cambodia.</p>
<p><b>Recommendation 3: Continue to experiment with alternative outcomes-based contracting models.</b> This evaluation has highlighted that the DIB model can be effective, but that there is scope to improve and streamline the model. Alternative approaches are emerging that are attempting to do this, such as the Social Impact Guarantee. More</p>	Accepted	<p>FCDO has partnered with a range of stakeholders through the DIBs follow-on project, the Pioneer Outcomes Funds programme. We have ensured that, with these partners, any new PbR contracts linked to a DIB model will have flexibilities built into their design which will allow for experimentations.</p>

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<p>research is needed to robustly compare the advantages and disadvantages of different outcomes-based contracts. If future outcomes funds were launched, we would encourage experiments to be included within their designs, to enable robust testing of different OBC approaches.</p>		<p>Due to FCDO's restrained budget, we are unable to commit future funding at scale. However, through the Outcomes Accelerator we aim to catalyse the market's capacity to deploy outcomes-based approaches and we will consider how best to explore and compare different OBC approaches within the ability of our existing programmes.</p>
<p><b>Recommendations: Wider Market</b></p>	<p><b>Accepted / Rejected</b></p>	<p><b>If "Accepted", Action plan for Implementation or if "Rejected", Reason for Rejection</b></p>
<p><b>Recommendation 4: Clarify roles and responsibilities upfront.</b> The comparatively high number of stakeholders involved in a DIB can drain resources and time during both the set-up and delivery phases. However, the pilots included in this evaluation highlighted that the 'right' mix of stakeholders can offer significant value add with regard to capacity-building for the service provider(s). 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. One option for streamlining this process and reducing additional costs associated with the DIB model may be to select service providers first and determine which additional stakeholders to add to the DIBs based on their organisational capacity and needs.</p>	<p>Accepted</p>	<p>When using impact bonds in its own programming, FCDO brings together multi-disciplinary teams to support the design process (i.e., experts in the policy issue, PbR, and in results measurement). Before involvement in new DIBs, FCDO ensures that stakeholders are clear on roles (e.g., through convening meetings of all DIB partners and agreeing roles and responsibilities, or more formally through outlining responsibilities in outcome payment agreements). FCDO is also pioneering the use of Outcomes Funds for financing education interventions in Lower- and Middle-Income Countries to test the notion that pooling outcome funding under a single outcome payment arrangement rather than several back-to-back agreements can help streamline the structure and reduce inefficiencies between stakeholders.</p>
<p><b>Recommendation 5: Build flexibilities into the contract to respond to changing situations without having to substantially change contracts.</b> 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 and learnings captured can be made public may help accelerate learnings in this area.</p>	<p>Accepted</p>	<p>FCDO is keen to increase experience and understanding across the wider market in how to best structure outcomes-based contracts. FCDO publishes its own outcomes agreements on DevTracker and has participated in multiple surveys to provide transparent information on how contracts and agreements have been adapted as a result of the pandemic.</p> <p>The partners on our follow-on Pioneer Outcomes Funds programme who have designed new contracts have already taken on board these recommendations in the design of new contracts. FCDO will explore with them how to best share key clauses with the wider market. Additionally, when sharing the learnings amongst the sector we will encourage contracts to have flexibilities built in to easily adapt to changing situations.</p>
<p><b>Recommendation 6: Create opportunities for peer learning within</b></p>	<p>Partially</p>	<p>FCDO is disseminating the findings and sharing learnings of the DIBs Pilot</p>

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<p><b>impact bond programmes:</b> Across multiple evaluations service providers have fed back to us that it can be challenging to deliver outcomes-based contracts when the organisation is inexperienced with them. When opportunities have been provided to share lessons learnt between service providers these have been valued (such as in the Commissioning Better Outcomes programme), but when these have not been present service providers have expressed the wish to have them in place (such as in this evaluation, and in the Youth Engagement Fund). We received similar feedback in this evaluation from donors, who would have appreciated more opportunities to interact with each other and share lessons learnt (though the Impact Bond Working Group did exist during the period of the programme). We would encourage future programmes to build in peer learning opportunities for both service providers and donors.</p>	<p>Accepted</p>	<p>in internal and external events amongst the sector. Additionally, The Outcomes Accelerator, under the follow-on Pioneer Outcomes Fund programme, will offer flexible funding, targeted expertise and networking to successful applicants to support them in bringing their early- and late-stage outcomes-based projects to launch. However, due to FCDO's restrained budget, we cannot commit to funding impact bond programmes with peer learning opportunities built within them.</p>
<p><b>Recommendation 7: Be transparent and share lessons learned and key successes and challenges to support the strengthening of the sector.</b> There is a very high level of scrutiny and focus on these early DIBs. It can be difficult to openly share 'failures'. 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 sector.</p>	<p>Accepted</p>	<p>FCDO is committed to sharing the results of the DIBs pilot widely to improve understanding of the model. The purpose of the pilot is to generate learning on the advantages and disadvantages of the mechanism, and to understand the contexts in which using a DIB can be most effective and additional. Where interventions have underperformed or outcomes have not been achieved, FCDO will welcome any lessons forthcoming on what could be improved, cultivating a better understanding of when DIBs may or may not be an appropriate funding mechanism.</p> <p>Along with the report and case studies, Ecorys have produced infographics and have taken part in webinars alongside FCDO to disseminate the findings of the programme. FCDO staff are actively engaging in internal events to share the experience of using Impact Bonds throughout FCDO and has participated in external events to share learnings from FCDO's perspective.</p>