



Independent Evaluation of the UK Department for International Development's Development Impact Bonds (DIBs) Pilot programme – Summary Report

Evaluation Report

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Acknowledgements and disclaimer

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Full Evaluation Report

The full Evaluation Report of this First Research Wave (RW1), and with the Evaluation Inception and Design Report, are published at: <https://devtracker.dfid.gov.uk/projects/GB-1-204722/documents>

Independent Evaluation of the Development Impact Bonds (DIBs) Pilot programme - Summary

Overview

This is a summary of the Evaluation Report of the first research wave (RW1) of the Independent Evaluation of DFID's Development Impact Bonds (DIBs) pilot programme. The programme runs from June 2017 to March 2023. DFID has allocated GBP 6.3 million for three projects under the DFID supported DIBS pilot programme, comprising the ICRC Humanitarian Impact Bond for Physical Rehabilitation; the Village Enterprise Micro-Enterprise Poverty Graduation Impact Bond and support to the British Asian Trust to design impact bonds for education and other outcomes in South Asia. The programme aims to test whether DIBs are a suitable tool for DFID, and to generate understanding of how and when DIBs can add value in DFID programming and support DFID's commissioning, management, and effectiveness in delivering programmes on a 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 DFID's funding arrangements, assurance and financial management.

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

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

Objectives and scope of the evaluation

A DIB is a mechanism for drawing external finance into PbR projects. In a standard PbR project, a service provider commits deliver specific results, and a donor commits to paying for these results if and when they are achieved. A DIB brings in third party "investors" who provide the service provider with the working capital needed to deliver activities designed to achieve the results. Under the DIB model, the investor takes on an agreed amount of financial risk associated with failing to deliver the outcomes. There is substantial variation in the DIBs to date in terms of the stakeholders involved, the interventions funded, their scale, the structure and repayment terms.

Impact bonds bring financing from investors, and enables outcome funders to pay on success. Hypothesised benefits include the transfer of financial risk from the outcome funder and service provider to the investor and the drawing in additional financing from investors, which enables the funding of projects that might not have been funded otherwise. The focus on outcomes, and involvement of investors, is hypothesised to lead to more careful and rigorous

design of interventions, more innovative services, greater accountability, and improved performance management, which, in turn, will result in more, and better quality outcomes.

The **objective** of this evaluation is to use the DIBs pilot programme to generate learnings and recommendations on whether DIBs are an effective instrument for aid delivery. The evaluation will help DFID and pilot project partners evaluate whether the tools they are developing are useful, scalable and replicable and inform future DFID policy-making in this area.

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

- **International Committee of the Red Cross** Humanitarian Impact Bond for Physical Rehabilitation (ICRC HIB)
- **Village Enterprise** micro-enterprise poverty graduation Impact Bond (VE DIB)
- Support to the British Asian Trust to design impact bonds for education and other outcomes in South Asia, including the **Quality Education India** development impact bond (QEI 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 DFID-funded pilot, but has been added to the evaluation to increase the number of DIBs in the evaluation. Having a variety of DIBs in the evaluation will provide evidence on how DIBs work in different circumstances and in turn strengthens the comparative analysis and findings.

The table below provides details of the four DIBs:

Component	ICRC	QEI	Village Enterprise	Cataract Bond
Activities	<ul style="list-style-type: none"> • Build three new physical rehabilitation centres in counties with significant unmet need. • Train local staff to deliver high quality physical rehabilitation services in these centres. • Pilot and rigorously assess pilot efficiency improvement measures and build a digital Centre Management System • Operationalise the three new centres using improved operational protocols. 	Delivery of education programmes. Activities include workshops, trainings and e-resources as well as meetings with community groups.	<ul style="list-style-type: none"> • Identification of individuals who live on less than USD 1.90 per day • Creation of Business Savings Groups • Local mentors deliver a four-month training program, and then guidance for one year • Seed capital is granted to each group of three participants, to enable them to start their business 	Funding of cataract-related equipment and consumables and activities, involving provision of a comprehensive intervention programme, including outreach/awareness, diagnosis, transport, treatment and follow up care.
Timescale	July 2017 – June 2022	January 2019 - March 2022	November 2017- November 2020	January 2018 - 2023
Geographical Coverage	New centres in Mali, Nigeria, Democratic Republic of Congo	Gujarat and Delhi	Regions in Uganda and Kenya	MICEI hospital to serve population of Cameroon and broader Central Africa region

Component	ICRC	QEI	Village Enterprise	Cataract Bond
Total value	CHF 26.1 million (USD 26.5m as at Jan 2019)	Up to USD 11.2 million, of which USD 9.2 million relates to outcome payments	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
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 (linked to bonus payment to service provider only)

The two **evaluation questions** are:

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

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

This report presents the evaluation's initial findings against these questions. Because the interventions funded by the DIBs are in an early stage of implementation, our findings are focused on the design and set up phase. This includes the following stages and activities:

- Identifying the **intervention to be funded** through a DIB;
- Identifying **metrics and structuring payments**;
- Identifying and selecting **stakeholders**;
- Structuring the **vehicle** and developing the **operating model**; and
- Designing the **impact measurement** system.

The focus of the evaluation report is the extent to which the effects hypothesised to occur in the design and set up phase have materialised in the four DIBs. Future research waves will explore how DIBs affects the delivery and performance of the interventions. Furthermore, it is important to note that DIBs are still in a pilot phase. The findings draw upon a small number of 'test cases' and that findings will continue to develop based on evidence accumulated over the remainder of the evaluation.

Structure

In this summary, we first set out the **methodology and evidence base**. We then present our **findings** against the two evaluation questions. **EQ1** discusses our findings in terms of how

the DIB model has affected the set up, design and delivery of interventions. **EQ2** discusses the **costs** incurred, the **necessary conditions** for DIBs and **lessons learned** to date. The summary finishes with **recommendations** based on the emerging findings.

Methodology and evidence base

The focus of the evaluation is the DIBs funding mechanism and understanding the effect of using a DIB instead of a grant or other PbR mechanism, that is, the ‘**DIB effect**’. A key challenge is trying to disentangle the DIB effect from other factors influencing outcomes, and from the PbR effect. In an ideal situation, we would be able to compare two identical projects, one funded through a DIB, and one funded through an alternative financing modality. In reality, this is not possible. Hence, we use a combination of process tracing and comparative analysis to understand the DIB effect, drawing on both qualitative and quantitative data. For the next research waves, we will also focus on attempting to isolate the DIB effect from the PbR effect.

To understand the DIB effect, we developed an evaluation framework that builds on a range of hypothesised DIB effects and indicators, which drew on our literature review delivered as part of the inception phase.

The **evidence base** for this research wave derives from key consultations and a comprehensive 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 stakeholders¹ • Programme design documents • Internal project level M&E data • Project reporting • Data from comparable projects and previous phases • Cost data • Evaluations and learning activities 	<ul style="list-style-type: none"> • Interviews with DFID 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

Findings

We present our findings against the two evaluation questions:

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

In the set up and delivery phase, we identified four categories of DIB effect, related to:

¹ Including designers, service providers, other outcome funders, outcome verification agents, project/performance manager, project evaluators/learning partners and investors.

- the **transfer of risk**, from outcome funder and service provider to investor, and the emergence of some new risks;
- **partnerships** leading to greater collaboration and coordination between stakeholders;
- changes to the quantity and nature **of financing and funding**;
- the **design** process, in terms of level of innovation, rigour and complexity.

We discuss each category of DIB effect below, and set out our findings for the effects that are related to the design and set up phase of a DIB. For each DIB, we have set out a column for whether the DIB effect was anticipated, and whether it emerged. We note that DIBs are designed with different objectives in mind, and that the DIB effects anticipated vary across the four DIBs. The RAG rating indicates the extent to which these effects emerged, with *Green* signalling *Yes*, *Amber* signalling *To some degree*, and *Red* signalling *No*.

Transfer of risk effects

Whilst the DIB mechanism has reduced some **(financial) risks** for outcome funders and service providers, it has increased others, for example, **reputational risk**. There were quite strong concerns amongst both outcome funders and service providers around using a new funding mechanism, due to the uncertainties of using a new model, alongside the heightened attention that the mechanism brings to the projects, increasing unwanted exposure should the results not materialise.

Service providers noted that it was unlikely they would have participated in the project if they had been required to provide the upfront capital to deliver the intervention. However, there remain barriers to service providers entering a PbR contract. We saw that investors work repeatedly with trusted organisations that have strong and credible management teams, and that entering into an impact bond requires a degree of capability and capacity that a large number of service providers do not have.

DIB Effect	ICRC HIB		Quality Education India DIB		Village Enterprise DIB		Cataract Bond	
	Anticipated	Emerged	Anticipated	Emerged	Anticipated	Emerged	Anticipated	Emerged
Transfer of financial risk from outcome funder to investor	Yes	Some financial risk transferred (40% of investors' capital is at risk; 60% capital guarantee, shared between the outcome funders and service provider).	Yes	100% transfer of financial risk	Yes	100% transfer of financial risk	Yes	Some financial risk transferred (0% of investors' capital at risk; 4% of interest at risk; capital guarantee split between outcome funder (76.5%) and service provider (23.5%))
Reputational risks resulting from the use of the DIB	Yes	Yes	Yes	Yes	Yes	Yes	No	No

DIB Effect	ICRC HIB		Quality Education India DIB		Village Enterprise DIB		Cataract Bond	
	Anticipated	Emerged	Anticipated	Emerged	Anticipated	Emerged	Anticipated	Emerged
More service providers entering the PbR market due to pre-financing and transfer of risk	Yes	Yes	Yes	Yes	Yes	Yes	No	No, could likely have been involved if no transfer of risk

Partnerships

This is primarily due to the new partnerships created between governments, donors, delivery partners and (to a degree) the private sector, in which the financial risk is shared between these groups. The DIB has fostered new working relationships between stakeholders and has led to greater levels of collaboration than is normally seen, primarily because the DIB aligns all stakeholders' interests but also because the intensive design stage necessitates closer partnership working.

The extent to which the DIB fostered greater collaboration differed between the four DIBs. Collaboration was noted as stronger in cases where there were more multilateral discussions. However, it was also noted that this made the negotiation process less efficient.

DIB Effect	ICRC HIB		Quality Education India DIB		Village Enterprise DIB		Cataract Bond	
	Anticipated	Emerged	Anticipated	Emerged	Anticipated	Emerged	Anticipated	Emerged
Greater collaboration and/or coordination between stakeholders as there is an alignment of interests	Yes	Yes – though there were comments that collaboration and transparency could have been improved.	Yes	Yes	Yes	Yes	Yes	Yes - though there were comments that collaboration and transparency could have been improved.

Financing and funding

The DIB mechanism has made it possible to implement Payment by Results (PbR) contracts in contexts where, previously, this would not have been possible because the projects were too risky or too large, hence **funding projects which would not have been funded otherwise, or at least not in the same guise**. Although PbR projects have been funded in the majority of countries involved in the four DIBs, a number of outcome

funders across all four DIBs said it was unlikely they would have funded the intervention had it been financed through a traditional input-based model.

Two of the most significant landmarks in these projects is that they have demonstrated that private investors are willing to take on sizeable risk in impact bonds, and it is possible to launch impact bonds at a larger scale (i.e. the QEI DIB, which builds on the Educate Girls DIB). There is evidence of the impact bonds drawing in **additional financing to the development sector**, as well as **longer term funding**.

DIB Effect	ICRC HIB		Quality Education India DIB		Village Enterprise DIB		Cataract Bond	
	Anticipated	Emerged	Anticipated	Emerged	Anticipated	Emerged	Anticipated	Emerged
Funding projects which would not have been funded otherwise, or not in the same guise	Yes	Yes	Yes	Yes	Yes	Yes	No	No, likely project could have been funded without DIB
Additional financing to the development sector	Yes	Yes.	Yes	No. Raised external finance but most of this philanthropic funding that would have gone into the sector anyway	Yes	No. Raised external finance but most of this philanthropic funding that would have gone into the sector anyway	Yes	Mixed – finance would have gone into development sector, but not eye health or Cameroon
Longer term funding	Yes	Yes	No	To some extent	No	No	No	No

Design

The reputational risk of involvement in these pilot DIBs has created a level of risk aversion, which we believe has limited the level of innovation in the interventions – all four DIBs are funding service providers with some track record and interventions with some evidence bases, with **innovation** being incremental, rather than radical.

A large amount of work has been done in all four DIBs in terms of the **design of the M&E**, to build a stronger performance management infrastructure, including investing in new monitoring systems and working closely with the service providers to embed adaptive management

systems. There is less evidence that the DIB supported more careful and rigorous design of the interventions themselves. The majority of stakeholders noted that the DIBs have been **complex to design and expensive to set up**.

DIB Effect	ICRC HIB		Quality Education India DIB		Village Enterprise DIB		Cataract Bond	
	Anticipated	Emerged	Anticipated	Emerged	Anticipated	Emerged	Anticipated	Emerged
Enables innovation	Yes	Yes (incremental innovation).	Yes	Yes (incremental innovation)	No	Yes (incremental innovation)	No	Yes (incremental innovation)
More careful and rigorous design of interventions	Yes	Mixed. Yes in terms of rigorous design of M&E, but no impact on design of intervention	Yes	Mixed. Yes in terms of rigorous design of M&E (but similar rigour in PbR), but no impact on design of intervention	Yes	Yes, though mixed opinion on whether this can be attributed to the DIB	Yes	Yes
Complex to design and expensive to set up	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Summary

Some of the DIB effects seem to be closely intertwined with other effects. For example, some are more ‘novelty effects’ - that is they exist because these are the first set of DIBs, and will likely diminish over time. This seems to be the case for the increased reputational risk and the costs associated with the set up and design of the DIBs. It is possible (though not certain) that these will reduce in future DIBs. Furthermore, because of the increased rigour in the outcomes measurement is a consequence of attaching payments to outcomes, increased rigour of M&E systems was also seen in some of the PbR comparator sites, and is therefore more of a ‘PbR effect’ than a DIB effect per se. Finally, a significant motivation across all DIBs was to test the efficacy of the financing modality. This core objective may affect the way the DIBs were structured and designed.

The findings from these four DIBs in relation to the DIB effect broadly mirror the findings from the wider literature. This is promising - the evidence of the DIB/SIB effect is currently weak, and so this evaluation provides further validation and gives a stronger understanding around how impact bonds affect the design and set-up of projects.

Finally, with these benefits have come additional complexities and costs. All four DIBs were complex to design and launch, which resulted in large development costs. It is too early to conclude whether the benefits outweigh these costs. Stakeholders were confident that lessons could be learned from the DIBs that would reduce the complexity and cost of future DIBs, as we explore under EQ2.

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?

We first discuss the types of costs incurred during the design and set up of the DIBs. We then discuss emerging findings on the necessary conditions for the DIB model to be suitable, and lessons learned and improvements that can be made to increase the model's benefits and reduce the associated transaction costs

Costs

All stakeholders confirmed there had been additional costs, including actual, in kind and pro bono, for designing and setting up the DIBs. These costs tended to be incurred by outcome funders and service providers. The table below summarises the costs reported across the main cost categories. A key finding was the costs (with the exception of returns to investors) did not seem to be proportional to the size of the DIBs, and that there seemed to be a certain level of 'fixed costs' which will have implications for the optimal size of the DIB. Stakeholders expected some of the DIBs costs would reduce for future DIBs.

Cost categories	Costs (including actual, budgeted, in-kind and pro-bono)	Paid for by
Design and set up		
Staff time set up	Where estimated, this ranged from USD 150,000 to USD 490,000. Otherwise, stakeholders described the significant time commitment e.g. staff time over two years.	Generally funded by organisations (investors, outcome funders, service providers) providing staff time 'in-kind', as well as advisors and intermediaries providing pro-bono time. In some cases funded by a separate grant, e.g. ICRC received a grant for the set up phase from the Government of Netherlands.
External advice on contract design	Three out of the four DIBs estimated to be just over USD 250,000, while one DIB estimated this to be USD 687,000.	Paid for by the outcome funder or funded by a separate grant except for QEI where Investor funded these costs.
Legal and financial advice	Not all these costs were included in budgets. Where costs had been captured, these ranged from USD 50,000 to USD 120,000. However, in most cases this underestimated the full cost as not all the pro-bono hours had been recorded.	In general, these were <i>pro bono</i> . Where services were procured rather than provided pro bono, the costs were funded by the outcome funder or funded by a separate grant.
Implementation		
Contract management costs	These costs were reflected in budgets and ranged from between USD 52,500 to USD 670,000	Paid for by the outcome funder or funded by a separate grant. In one case performance management costs are (QEI) co-funded by investor.
Verification	These tended to be contracts with third parties but varied in size with two DIBs using validated administration data having lower verification costs e.g. around USD 50k and two with larger costs around	Paid for by the outcome funder or funded by a separate grant.

Cost categories	Costs (including actual, budgeted, in-kind and pro-bono)	Paid for by
	USD 500-600k (involving experimental/quasi-experimental approaches).	
Investment vehicle related costs e.g. Escrow and legal fees	They types of costs under this category varied between DIBs depending on how they have been set up. Total costs under this category range from USD 30k to USD 105k.	Paid for by the outcome funder or funded by a separate grant.
Maximum payments to investors		
Maximum payments	These ranged from USD 650k to USD 6.4m	Paid for by the outcome funder.

Stakeholders identified that some of the design and set-up costs, were unique to DIBs (e.g. contracts requiring legal and financial consultancy), but that others are commonly seen in other similar programmes, particularly with a PbR or output-based contract (such as ongoing costs of performance management, project management and verification). The table below provides a brief discussion of the types of costs, and the extent to which these would be expected in a PbR contract.

Activities linked to additional DIB costs	Comparison between DIBs and PbR
Design and Set Up Phase	
Staff time	Additional range and number of stakeholders involved in DIBs means that more costs are expected in the set up of a DIB.
External advice on contract design	The complexity of DIBs and lack of standard templates mean that this is more of a feature within DIBs.
Legal Costs	
Implementation Phase	
Performance and project management	Expected additional costs linked to both DIBs and PbR projects. However, external performance and project management costs are more common features of DIBs, which are expected to increase costs in this area.
Reporting	Expected that this will be a feature in both DIBs and PbR funded projects, though reporting in DIBs is likely to be more extensive, given the range of stakeholders involved.
Verification	Expected costs to be similar across PbR and impact bond. However, impact bonds feature additional stakeholders, such as investors, which are interested and tend to feed into the selection of the verification approach.
Return to investors	Not a PbR cost.

Cost drivers were identified by stakeholders to help understand which elements of the DIB are the most time-intensive or expensive. There was a large degree of overlap across the DIBs. All the DIBs identified legal and financial advice a major cost driver taking significant staff time and expertise. Engaging outcome funders and raising finance from investors were also identified by three out of the four DIBs. Other areas of overlap included the number of organisations that are involved and the negotiations, particularly being the first time, as being

time-intensive. One DIB identified the service provider selection process as being time intensive. The table below provides a summary of the cost drivers reported per DIB.

Cost drivers	Legal, governance	Engaging outcome funders	Number of organisations to coordinate	Negotiation of agreements	Raising finance	Service provider selection process
ICRC HIB	✓	✓	✓	✓		
QEI DIB	✓	✓	✓		✓	✓
VE DIB	✓	✓		✓	✓	✓
Cataract DIB	✓				✓	

Necessary conditions for the DIB model to be suitable

It is too early to state whether DIBs are most appropriate in certain sectors or regions. There are also only a small number of DIBs launched to date. However, what is clear is that there are certain ‘conditions’ that increase the likelihood that the DIB will be launched, and/or launched efficiently (in a shorter timeframe and/or with lower transaction costs). What is particularly interesting is that many of these conditions have been identified as necessary within SIBs in high-income countries, suggesting that a lot of the learning within impact bonds is transferable to different outcome funders (donors) and regions (middle-income and developing countries).

Across the four DIBs as well as our interviews with sector stakeholders, necessary conditions were noted in terms of the intervention and evidence base, the organisations involved and the wider environment. These are discussed further below:

Intervention

Certain sectors appear to be particularly suitable for DIBs, in terms of those having clear outcomes and measurable outcomes, a shared understanding of the policy problem, target outcomes and appropriate approaches and sufficient data from previous interventions to develop targets and price risk. The outcomes also need to be achievable within a timeframe acceptable to both outcome funders and investors. The strength of the evidence base and the level of external risk needs to be acceptable to both outcome funders and investors. Finally, sectors with strong service providers are particularly suited to the DIB model.

For example, certain markets such as eye care and education have a strong evaluation and research history, as well as a strong market of service providers. It is too early to say in which contexts, problems, target groups, geographies and projects DIBs fit best and have the greatest impact, and this will continue to be explored in the following research waves.

Organisations

There are a number of conditions on the stakeholders involved and consortium as a whole. DIBs can be unwieldy, bringing together multiple actors who may not have worked together before. Across the consortium, strong and committed leadership is required, as well as sufficient capacity and skills, including financial, legal and performance monitoring. A balance between the size of the consortium and breadth of experience is needed. Particularly for the

service providers, it is important that there is a culture of innovation and interest in adapting and learning. Furthermore, in this early stage of the market, stakeholders with strong reputation and track records were cited as particularly important to lend credibility to the DIBs.

In terms of the efficient and effective coordination of the consortium, clearly defined roles for its members and clear processes in all eventualities is important. A balance between bilateral and collaborative negotiations is key and careful timing of when stakeholders are brought in, as there is a tension between efficiency and the building of a shared understanding of the objectives and purpose of the DIB.

Environment

Additionally, during this early stage of the market, organisations and legislative frameworks often find it difficult to accommodate the DIB. Within certain outcome funders, it can be challenging to commit long-term to undefined and uncertain expenses. Organisational requirements on procurement procedures and due diligence can add to the complexity of the DIB, especially when organisations are working with actors that they would not traditionally work with (for example, NGOs and investment banks). In terms of legislative frameworks, a number of DIBs cited challenges in navigating the legislative frameworks that allows public funds to fund private sector profits, and managing the tax implications of the impact bond. For DIBs to be feasible in these contexts and meet these conditions, it can be necessary to set up special purpose vehicles (SPVs) or 'work arounds' in the terms of the contracts that can deviate from what a 'standard DIB' looks like.

Lessons learned and improvements that can be made to increase the model's benefits and reduce the associated transaction costs

Firstly, the **process of designing and agreeing DIBs will need to be structured differently**, depending on the **aims of the DIB**. An emerging finding is that impact bonds have to be adapted with the objectives and contexts in mind. The evaluation found innovations in terms of how the four impact bonds under study sought to reduce transaction costs and improve the benefits of the model. Stakeholders use DIBs for different reasons, and prioritise the DIB effects differently. It is important to ensure that the DIB structure is adapted to DIB objectives. The contexts in which DIBs are being delivered also vary significantly. Context specificity is also important, with different design features working best with different combinations of actors, and in different contexts.

Secondly, **transaction costs need to be put into the perspective of the stage of the market**. One investor noted that in the financial industry, a new instrument is always complex to design and expensive to set up. However, the initial investment can be leveraged thereafter by launching others. Stakeholders noted that they expected certain transaction costs to reduce with future DIBs. There is some emerging evidence for this, with the QEI DIB able to build on the learning from the Educate Girls DIB, with the added benefit that some actors were involved in both DIBs.

Nonetheless, there is a **tension between reducing transaction costs and increasing the model's benefits**. A balance is needed between reducing transaction costs that do not directly

link to the DIB effects, and focusing resources on those components that are expected to lead to the targeted DIB effects.

Below we set out the lessons of potential wider relevance for the design and set up phase of development impact bonds. These are split out against the different stages of designing and setting up DIBs.

It is difficult to generalise lessons learned for all DIBs. It must be noted that there is not yet a predominant design for DIBs, and it is perhaps more helpful to understand DIBs as a funding class within which there is great variation. The structure and nature of the DIBs, the stakeholders involved and their objectives for the DIB and the organisational and regulatory requirements in place varied significantly, with implications for the process of the design and set up phase.

These findings are also limited by the fact that we are still in an early stage of the market, with a very small number of DIBs that are operating in very different contexts. This must be borne in mind when taking stock of the lessons learned to date.

Identifying appropriate interventions

1	Transaction costs are lower if the DIB design is able to draw on existing evidence, reducing some of the costs associated with designing outcome metrics and the evidence base required to determine pricing. However, the requirement for a strong evidence base may limit the expansion of the DIB into new and innovative sectors.
2	The benefits of using the DIB model are the strongest when there is a value proposition to the use of the DIB, whereby they resolve a specific challenge that cannot be addressed by other funding mechanisms. Many of the benefits of using the DIB model are similar to the benefits of using PbR. However, there are some benefits unique to the DIB model, such as enabling service providers to participate in PbR without upfront capital, and the tendency for the DIB model to draw in a wide range of stakeholders and both require and support collaboration.

Identifying metrics and structuring payments

3	Building a database of impact bond returns, outcome metrics and rate cards and drawing on private sector expertise on pricing risk would facilitate the growing of the DIBs market. However, context specificity may limit the usefulness of standardisation and caution is also advised in terms of developing rate cards, due to the early stage of the market and limited data available.
4	Outcome metrics and targets work best when returns to investors and outcome funders, and respective incentives, are aligned. Developing outcome metrics and rate cards that are understood by all stakeholders and linked to other metrics within the sector/country can increase the value of the learning generated, and facilitate the broader DIB market and/or potential transition to a SIB. It is noted that there can be a tension between using a robust model and using a less robust model that is aligned with measures used by others in the sector.

Measuring impact

5	The validation process should be designed to meet the needs of stakeholders. Different considerations may apply to different contexts. We note that there can be an automatic preference to use experimental approaches or quasi-experimental approaches.
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However, where an intervention or certain causal links are sufficiently backed by evidence, there may be less value in using experimental or quasi-experimental methods compared to validated administrative data.

Identifying and selecting stakeholders and managing relationships

6 Across three of the DIBs, it was challenging to engage outcome funders. There is a benefit to identifying outcome funders interested in using outcome based contracting, and the types of interventions they are interested in earlier on, and recognising that outcome funders need to be involved in the design of the DIB. Identifying outcome funders first could also enable a competitive process for selecting service providers. On the other hand, outcome funders are concerned about the risks of getting involved with a new funding mechanism, and it can be easier for outcome funders to get involved at a later stage, when the other stakeholders have been identified and the terms are more developed.

7 Transaction costs for the design and set up stage can be reduced when there is strong collaboration across stakeholders, drawing on each other's expertise and strengths; when roles are clearly defined from the start; when stakeholders are identified and brought in efficiently; and when there is the right balance between undertaking negotiations bilaterally and collaboratively.

8 Different types of investors and outcome funders bring different types of benefits. For example, commercial investors are able to bring in more experience with testing and implementing financing modalities, while philanthropic investors may be able to bring experience and expertise within the sector. As a result, careful consideration of the objectives of using the impact bond should be taken into account when identifying outcome funders and investors.

Structuring and developing the operating model

9 The larger number of stakeholders involved in the DIBs to date, and the often diverse legislative frameworks, increase the transaction costs of this stage of the DIB development, due to the larger number of 'work-arounds' and negotiations required. Furthermore, contracting with different currencies introduces foreign exchange risk. The optimal solution would be to amend the legislative frameworks to accommodate DIBs. Where this is not possible, other potential solutions include limiting the number of stakeholders involved, considering other pooled financing or funding structures, using other ways to minimise the number of contracts involved, or standardising deals.

Recommendations

Recommendations to all DIB stakeholders

- Be transparent and share lessons learned and key successes and failures (including DIBs that failed to launch) to facilitate dissemination of learning across the sector;
- Make contracts, payment terms, feasibility studies, investor documents and learning documents publicly available;
- Building a database on interest rates, outcome metrics and rate cards and drawing on private sector expertise on pricing risk would facilitate the growing of the DIBs market;

- Prioritise the documentation of lessons learned and evaluation, in order to facilitate the development of a more finely grained understanding of what works, in what contexts.

Recommendations to DIB designers

- Clearly agree upfront the roles and responsibilities of all involved parties, including how these responsibilities may change depending on circumstances;
- When structuring the DIB, ensure that the contracts and governance arrangements have provisions for a range of potential eventualities;
- Be clear about the objectives of using the DIB, and how the DIB is expected to resolve a policy problem. Then, structure the DIB so it focuses on delivering the targeted DIB effects, and seek to reduce transaction costs that do not contribute to the targeted effects of using the DIB. Be clear what is needed from stakeholders, including investors, outcome funders and advisors. This can affect whether hands-on or hands-off stakeholders are more appropriate.
- Consider carefully the number and types of stakeholders involved, as, in this early stage of the market, complexity increases with the number of stakeholders. Consider solutions to reduce this complexity, such as limiting the number of stakeholders involved or using contractual arrangements that simplify the processes required.
- Develop outcome metrics and rate cards that are understood by all stakeholders and linked to other metrics used in the sector / country, to increase the value of the learning generated, minimise the costs of data collection and facilitate the broader DIB market and/or potential transition to a SIB.
- Collaboration is important to reducing transaction costs. Seek to draw on the expertise and experience of stakeholders within the DIB.