



# Quality Education India Development Impact Bond:

A case study produced as part of the independent evaluation of the Department for International Development's Development Impact Bond Pilot Programme



***“ The DIB will not only drive meaningful improvement in learning outcomes at scale, but also catalyze an outcome-based philanthropic sector where long-term funding is directed towards funding and scaling proven approaches. The long-term objective would be the adoption of proven learning outcome-based delivery models and innovative financing mechanisms by the government. ”***

Representative from MSDF

<b>TIME PERIOD:</b> April 2018 – July 2022	<b>SERVICE PROVIDERS:</b> Gyan Shala Kaivalya Education Foundation (KEF) Society for All Round Development (SARD)
<b>THEMATIC AREA:</b> Education	<b>OUTCOME FUNDERS:</b> Michael & Susan Dell Foundation (MSDF) Comic Relief BT The Mittal Foundation The Ellison Foundation
<b>COUNTRIES:</b> India	<b>OUTCOME CONVENOR:</b> British Asian Trust (BAT) (of all outcome funders except MSDF)
<b>TARGET POPULATION:</b> Primary school-aged children	<b>INVESTOR:</b> UBS Optimus Foundation (UBS – OF)
<b>OUTCOME METRIC:</b> Improvement in numeracy and literacy learning	<b>PERFORMANCE MANAGER:</b> Dalberg Consultants
<b>LOAN VALUE:</b> 11.2 million US Dollars	<b>OUTCOME EVALUATOR:</b> Gray Matters India (GMI)
	<b>TECHNICAL ADVISORS:</b> Educate Girls
	<b>KNOWLEDGE PARTNER</b> Tata Trusts

**This case study report focuses on the model and early successes and lessons learned during the design and set up phase of the Quality Education India Development Impact Bond (QEI DIB). The report is written as part of the independent evaluation of the DIBs pilot programme, commissioned by Department for International Development (DfID). It summarises findings from consultations completed between July - October 2018 with key stakeholders involved in the DIB, including outcome funders, investors, service providers and intermediaries.**

Planned to run from April 2018 – July 2022, the QEI DIB is the world's largest education DIB, funding four interventions by three service providers (Gyan Shala, KEF, SARD), in three districts of India: New Delhi, Ahmedabad and Surat. The total value of the QEI DIB contract is \$11.2 million, of which the total outcomes funding is \$9.2 million, funded collectively by public and private sector organisations in India and the UK. The project is building on the successes of the first DIB in education, Educate Girls, which funded one service provider to achieve outcomes in enrolment and learning in Rajasthan. A full list of consultations is set out at the end of this case study.

UBS-OF is providing the risk investment as upfront working capital, before outcome payments can be made. MSDF is the lead outcome funder, with BAT convening payment from four others (Comic Relief, the Mittal Foundation, BT and the Ellison Foundation). BAT are also coordinating a technical assistance grant from DfID to support the set-up and technical elements of the project, including the outcome assessment and part of the performance management. The performance manager for the project is Dalberg and the outcome evaluator is GMI.

The overarching aim of the QEI DIB is to offer a solution at scale to the learning crises in India. There is concern that, despite evidence of improving enrolment, children in India perform lower than expected in literacy and numeracy due to low quality primary school education. The QEI DIB aims to support this issue by funding a range of high performing service providers to improve grade appropriate learning outcomes for more than 300,000 primary school aged children.

A further important aim of the QEI DIB is to drive focus towards outcomes based contracts in the development sector in India and provide evidence of the benefits of private sector participation in service delivery. The set-up of the QEI DIB has the potential to transform the way education interventions are funded in India. By measuring the cost and effectiveness of a range of education delivery models, it supports the development of a robust body of evidence to inform the allocation of future funding in the sector. Alongside including robust measurements, engaging the Indian government and considering ways to standardise processes and produce templates for future outcome-based contracts are equally key.

## Summary of learning from the set-up phase of the QEI DIB project

### Successes

- The DIB has successfully brought together multiple sector-leading experts to work collaboratively and openly in shared areas of interest in education and impact investing, creating a significant opportunity to support high performing Non-Governmental Organisations (NGOs) to deliver at scale.
- The performance management in the DIB is significant, with a tightly defined shared management framework to help service providers reflect on implementation and adapt to achieve more impact.
- The DIB has successfully leveraged learning from the first DIB in education (delivered by Educate Girls) to improve the design and set-up approach. This includes involving an outcome evaluator earlier in the project, deciding the outcomes to measure, and allowing flexibility within the contracting process.

### Challenges

- There have been additional costs and time in project management due to the size and nascent scope of this project, including: the logistics of engaging multiple outcome funders and service providers, as well as the financial restrictive regulations on financial flows to and from India.
- These challenges have limited the potential efficiencies from re-using templates from the first DIB in education. However, stakeholders felt that many of these additional costs were essential to ensuring that they achieved the aspirations of the project, to compare a portfolio of interventions in terms of their cost and effectiveness, and that there was rigour in the overall design. In the long-term the project has the potential to add value, not just to impact investing, but the education sector in India.
- Despite efforts to keep the technical model simple, the assessment of learning, due to the nature of the intervention and unavailability of standardised data, is complex and elements are difficult to explain to others, including potential outcome funders and the service providers.

### Lessons learnt

- It is important to involve all actors upfront and clearly define the role and responsibilities of each
- Workshops help to support clarity and consistent messaging across the different stakeholder groups
- Including flexible budget lines and not tying outcome funding to only pre-decided outcomes helps to support design adjustments

This section describes the overall structure of the QEI DIB and then the details of the three service providers funded in the model (implementing four interventions).

## DIB model

The total value of the QEI DIB contract is \$11.2 million, of which outcomes funding is \$9.2 million, funded collectively by organisations in India and the UK. It was designed and developed through a partnership between UBSOF, MSDF and BAT. MSDF was the first organisation to commit to the project, providing \$4 million. Then BAT, acting as the outcome convener, raised funds from Comic Relief (\$1.4 million), British Telecom (\$0.4 million), the Mittal Foundation (\$1 million), and the Ellison Foundation (\$1 million). TATA Trusts contributed \$2 million as knowledge partners, and DFID contributed \$1.5 million through a technical assistance grant.

Before outcome payments can be made in the DIB, there is a gap in funding for the service providers in the first year. In a straight payment-by-results contract service providers would be expected to cover these costs; in DIBs, though, this upfront working capital is covered by a private investor. The UBS-OF is the investor and manages the payments to the service providers. Outcome funders will then make a payment to UBS-OF at the end of each year, which enables the working capital to be recycled once an independent assessment is made and it is decided if the outcomes have been met. UBS-OF have raised almost \$2.5 million client donations to the QEI DIB.

However, there is no capital protection for the investment. This means that if the service providers underperform against their targets, UBS-OF is at risk of losing the money. If service providers achieve above a base case, UBS-OF will receive a return on their investment. However, there is a cap on this return: if service providers achieve above 120 per cent of their targets, the maximum return the investor will receive is 8 per cent. However, because UBS-OF is a Swiss Foundation, any returns will be re-invested into other development projects as the foundation cannot return funds to donors. Service providers are also incentivised to overachieve on their targets in the DIB, as the contract includes a bonus payment in the final year if they achieve over 100 per cent of their targets.

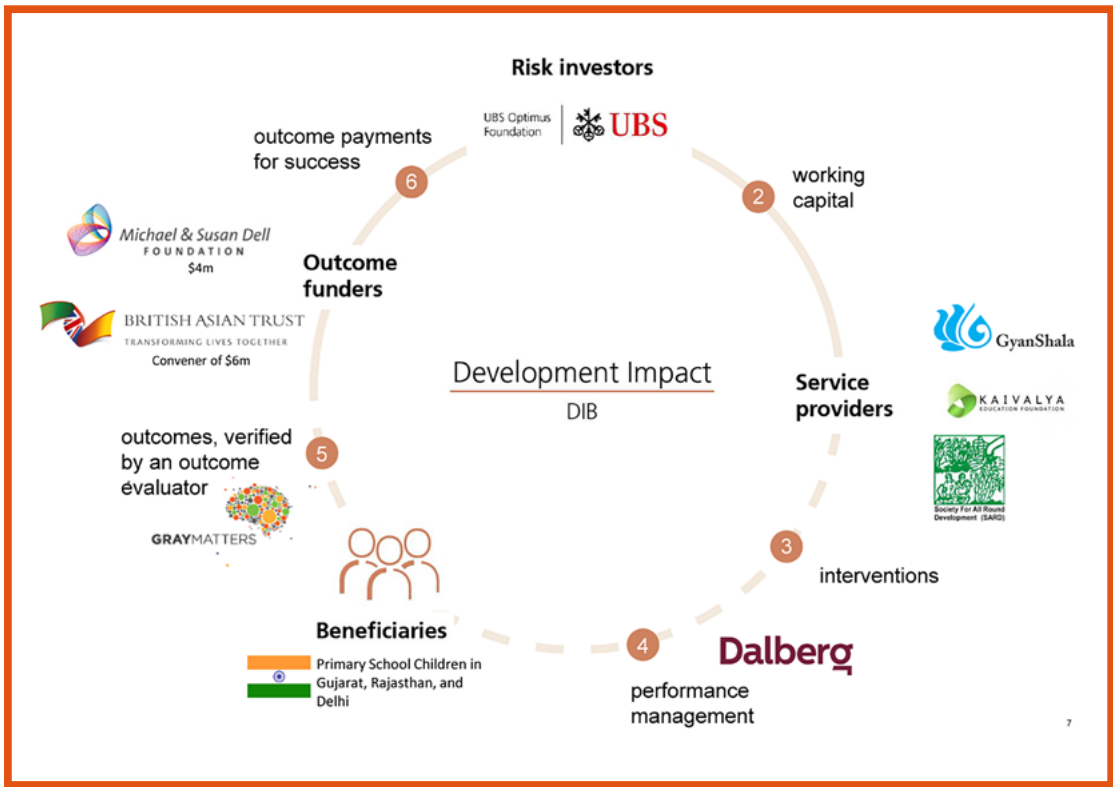
Dalberg is the performance manager for the QEI DIB, who will oversee the service providers and their delivery on behalf of UBS-OF. Dalberg has worked with the service providers to develop a shared performance management framework that reflects their theories of changes and objectives. Dalberg will use data from this framework to manage risks and help service providers adapt their implementation during the contract, to maximise their chance of achieving outcomes. Dalberg will also provide quarterly reports to the steering group with updates on the performance of the project.

GMI is the independent outcome evaluator in the QEI DIB, who is responsible for verifying student learning outcomes on behalf of the outcome funders. GMI have been responsible for setting the targets for the DIB and selecting comparison schools. They will also produce annual reports for the outcome funders and investors comparing the performance of beneficiaries with those from a comparison group.

Finally, DfID are supporting the QEI DIB via a Technical Assistance Grant (£1.5 million) paid to BAT. In this grant, £1 million is available to support the launch of the new DIB in education, and the remaining £0.5 million is available to support learning on the effectiveness of DIBs and to develop tools, resources and partnerships to help replicate DIBs (in South Asia and globally). The DFID grant will also pay for the outcome evaluator and part of the performance management (also part funded by UBS-OF) in the QEI DIB.

Figure 1, summarises the QEI DIB and the main stakeholders involved.

**Figure 1: Key stakeholders in the QEI DIB**



Source: Adapted from a PowerPoint presentation delivered jointly by BAT and UBS-OF (AVPN June 2018)

**Three service providers**

The QEI DIB plans to fund three services providers for four years: KEF, GyanShala, and SARD. These service providers represent the well-established market of high-performing NGOs in India. All have over 10 years’ experience providing education interventions, experience operating at scale and have engaged in independent evaluations to measure their effectiveness. The service providers were selected in a competitive process from over 70 NGOs in India. The process of selecting the service providers is described on p.11.

In the DIB, the three service providers are delivering four interventions with a mix of direct and indirect education model types. KEF is delivering an indirect, whole school management programme that focuses on school leader training. GyanShala is delivering a direct classrooms for children in urban slums. SARD is implementing two interventions, one direct model (remedial education) and one in-direct (teacher training). Educate Girls (the service provider in the first DIB in education) was originally included as a fourth service provider in the DIB. However, the timing of this project meant that it coincided with the final year of their first DIB, which limited their organisational capacity to be involved. They continue to remain engaged in a technical advisory capacity.

**Table 1: Four interventions in the QEI DIB**

ORGANISATION	KAIVALYA EDUCATION FOUNDATION (KEF)	GYANSHALA	SOCIETY FOR ALL ROUND DEVELOPMENT (SARD)	
BACKGROUND	KEF has been working in India for 10 years with experience implementing the programme in 5 states and 1400 schools	GyanShala was set up by IRMA. The programme has been independently assessed since 2004.	SARD is a non-profit organisation with over 20 years' experience implementing education interventions. SARD aims to increase the participation of minority and disadvantaged communities.	
SERVICE MODEL	School leader training	Directly operating classroom	Teacher training	Remedial education
MODEL TYPE	In-direct	Direct	In-direct	Direct
DESCRIPTION	A change management programme that aims to improve student learning levels by providing leadership training to school principals and teachers. Kaivalya Gandhi Fellows train school leaders and teachers through executive coaching, group workshops and self-learning materials	A programme implementing grade 1 – 3 education through low cost private schools for children in urban slums who do not attend any other school	SARD is implementing a model where the trainers go to schools to train teachers	Organise and run remedial centres in the school. Focused on literacy and numeracy learning outcomes
TARGET NUMBER OF BENEFICIARIES	68,866	19,244	210,000	21,000
DISTRICT OF OPERATION	Ahmedabad	Ahmedabad and Surat	North Delhi Municipal Corporation	
IRMA = IIM, Ahmedabad and Institute of Rural Management, Anand				

## Outcomes and metrics

The primary outcome in the QEI DIB is improvement in learning outcomes (namely grade appropriate numeracy and literacy skills). This is different from the Educate Girls DIB, which included both enrolment and learning (basic numeracy and literacy skills) as outcomes<sup>1</sup>.

Improvement in learning is defined as the difference between a baseline<sup>2</sup> and endline score on a standardised test, at the start and end of each school year. Measuring distance travelled for each individual, rather than achieving a certain level of a test (i.e. a binary outcome<sup>3</sup>), was to ensure the service providers were properly incentivised to focus on achieving improvement in learning, and with all young people, rather than cherry picking<sup>4</sup> those who were high performing at the start of the school year. To support attribution<sup>5</sup> of effectiveness, the performance of the students receiving the intervention is then compared to the performance of students from a comparison group of schools.

The assessment of learning used in the DIB is based on a robust, standardised test of grade level skills in numeracy and literacy. This is different from ASER, which assesses learning at a comparably basic level. Using a different test requires the DIB to conduct baseline and endline assessments in both the intervention and comparison schools. It may also require additional work to engage the different stakeholders in the assessment methods used in the DIB.

**“ It’s important to have quality markers that are based on grade level learning outcomes as that puts a focus on the academic progression of the students and not just on the attainment of basic skills. ”** Representative from MSDF

Although only learning outcomes are linked to payment in the DIB, the monitoring framework devised by Dalberg comprises a wider range of metrics, which aim to provide evidence on the quality of the interventions. At the demand of outcome funders, this includes feedback from the beneficiaries on the experience of the service, as well as monitoring of enrolment and attendance.

- 1 Enrolment is not part of the independent outcome assessment by GMI; however, the financial model that links the outcomes to payments is a composite metric which is enrolment numbers x learning gains (numeracy and literacy).
- 2 The state before the intervention, against which progress can be assessed or comparisons made. Baseline data is collected before a programme or policy is implemented to assess the before state. The availability of baseline data is important to document balance in pre-programme characteristics between treatment and comparison groups.
- 3 A binary outcome is a type of hard outcome that has only two states, either an outcome is achieved or it is not. For outcomes based contracts, they are used where it is deemed unacceptable for the public sector to pay for outcomes that include negative events.
- 4 This is 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.
- 5 The extent to which changes in the relevant outcomes can be attributed to a particular intervention



## Payment structure and targets

The payment structure reflects the education models in the DIB: a higher payment is attached to models that work directly with students (e.g. implementing class teaching/directly operating classrooms); and a lower payment is attached to in-direct models (e.g. teacher or school leader training). The difference between the models reflects the delivery costs and targets, which are higher for the direct models. The targets are expressed as the difference from the comparison group performance in standard deviation (standard points of variation around the mean).

GMI, the independent outcome evaluator, developed the targets for each of the models based on existing literature and data available on different interventions, including evidence of each of the service provider's own track record and costs in previous delivery.

The outcome pricing structure, outlined in Table 2, comprises a fixed price per beneficiary for reaching the improvement target and the standard deviation target for the different models.

**Table 2: Outcome pricing framework**

OPERATIONAL MODEL / BENCHMARKS	DIRECTLY OPERATING CLASSROOMS (I.E. IN CLASS TEACHING)	REMEDIAL PROGRAMMES	TEACHER/PRINCIPAL TRAINING
PROPOSED TARGET COST PER BENEFICIARY (US DOLLARS, PER ANNUM)	\$71	\$16.2	\$5
PROPOSED TARGET OUTCOMES IMPROVEMENT (STANDARD DEVIATION, PER ANNUM)	0.4	0.23	0.18/0.17

## Governance

The section describes the governance arrangements for the QEI DIB. These arrangements have been set up to align the interest of the different groups, but also to ensure there is efficiency in the decision making processes given the number of stakeholders involved in the model.

The main governance for the project is the responsibility of the steering committee. Key features of the QEI DIB steering committee are summarised in Figure 2.

### Figure 2: Key stakeholders in the QEI DIB

- The QEI DIB steering committee comprises strategic representation from UBS-OF, MSDF, and BAT, who meet on a quarterly basis to discuss progress, challenges, and emerging knowledge. Tata Trusts has also joined this steering committee as a knowledge partner for the DIB. This meeting is organised by the performance manager, Dalberg.
- BAT represents the interests of the other outcome funders in its convening role for the DIB, This includes Comic Relief, BT, the Mittal Foundation and the Ellison Foundation. BAT also reports to DfID on decisions made by the committee. This representation and engagement is to ensure that outcome funders and DfID are engaged in the decision making process for the DIB, and that their contributions are streamlined to keep the committee meetings focused.
- Although not present at the meetings, the outcome funders that are convened by BAT have final say in decisions made by the other steering committee members, pertaining to issues which may alter the initial design of the DIB. This may include changing the outcomes, pricing or targets, terminating or adding a service provider, geography (e.g. for political reasons), reallocation of unused funds, issues with data collection or outcome evaluator results.
- Force majeure events are included as events which may require project termination. This includes natural disasters, political risks/policy changes that directly affect the intervention, and events such as riots/violence. In India the main risk to the project relates to political changes.
- UBS-OF has the power of veto on the continuation of the DIB. 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.

Supporting the steering committee is an advisory committee. The advisory committee comprises sector experts (innovative finance, education, representatives from the Indian Government, not for profit) who provide advice and oversight of the programme.

This section will describe the history of developing the DIB. First it will describe the rationale, then it will describe key design considerations in the development process.

## Rationale of the QEI DIB

There were four principal factors underlying the rationale of the QEI DIB:

### To galvanise the market of high performing NGOs in India to support the learning crisis.

Despite promising evidence of increased enrolment at school, there is ongoing concern that children in India perform lower than expected in their literacy and numeracy skills due to low quality primary school education. While there is an established market of service providers in India, and a number of high performing NGOs with viable solutions, they are often limited by the availability in capital, inadequate performance management systems and poor coordination between stakeholders. The flexible outcomes-focused financing mechanism in the DIB model offers the opportunity to test a range of proven models, at scale, with the opportunity to compare their performance within a shared framework of monitoring and evaluation.

### To engage the government and explore the potential transition from DIBs to social impact bonds (SIBs) in India.

Many of the stakeholders in the DIB reported that it was a priority to engage the government in the DIB from early on to ensure success of the project. In particular, GMI and the service providers needed to engage the local governments to be able to select suitable comparison schools. However, a wider aim of this engagement is to provide evidence to the government on the benefit of private sector participation in service delivery and driving a shift towards outcomes based approaches that can help deliver a more consistent and greater impact. There is interesting in transitioning into SIBs, where the Indian Government would act as outcome funders and take ownership of the interventions that are being delivered.

### To scale the learning and successes of the Educate Girls DIB.

UBS-OF, who was the risk investor in the first DIB in education, and Dalberg, who was the process evaluator, believed that this project was proof of concept for DIBs in the education context. Both were motivated to test the model on a larger scale to explore the opportunities to reduce transactions costs in DIBs. Others, like BAT and MSDF, were aware of the success of the first education DIB and motivated to understand the potential of DIBs within the development context.

### To test the applicability of a rate card<sup>6</sup> with a standard pricing framework of potential outcomes, as used in SIBs.

By including a range of interventions, rather than just one, the model is able to compare outcome performance for different education models within the same assessment framework. This will help to test how the outcome-focused approach works for different education models. It will also generate helpful data to inform government decisions about the costs of delivering the different outcomes.

<sup>6</sup> 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

## Designing the model

From inception, the QEI DIB took two years to design and launch. The main design phase lasted six months, involving UBS-OF, Dalberg, BAT and MSDF. The stakeholders agreed that it was important to include sector leading experts in the design phase of a project with this scope, to ensure maximum credibility and impact of the DIB. UBS-OF also explained that engaging organisations with strong local connections was part of the project's objective to support a transition to procuring SIBs.

**“ In the journey towards the SIB, it was important to work with outcome funders that have a strong local knowledge and understanding that are very important funders in the Indian context...we felt that local ownership was important in the transition towards a SIB.**

Representative from UBS-OF

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This section describes the main considerations in the design, relating to outcomes, metrics, payment, service provider selection, performance management, engagement of the government and contracting.

### Outcomes, metrics and payment

Designing the outcomes, metrics and payment structure was the most significant element of the DIB development process. MSDF led the work initially and then drew on expertise from GMI to create the outcome targets. MSDF reported that it was important that an independent organisation developed the benchmarks for the outcomes to ensure there was external validity in the model.

It was MSDF who ensured that the model included an assessment of grade level learning outcomes, rather than basic numeracy and literacy; whereas for others, like BAT and UBS-OF, the main consideration was to ensure the model was attractive and understandable to investors and outcome funders. From MSDF's perspective attainment of just basic literacy and numeracy skills was not sufficient for the project objectives and would not make a significant change in the life outcomes of the students. Therefore it was essential that the assessment in the DIB included a more rigorous assessment and measure the grade appropriate learning outcomes.

Including a new standardised assessment of learning carried some additional risk for the service providers. While all were familiar with being evaluated, a couple of the service providers were not familiar with the assessment and therefore their performance in this context is unknown. Those that were familiar with this type of assessment were new to using it as the basis for payment and the added focus this created on performance. However, because all the service providers were confident in their interventions, and believed that the targets make sense and could be achieved, they were comfortable taking on the potential reputational risks.

Some of the outcome funders, such as Comic Relief, raised concerns about a model that focused only on attainment, rather than including wider outcomes associated with high quality education or representing the service user experience. However, stakeholders agreed to include only one outcome linked to payment to keep the model simple. Other qualitative measures, including service user experience, are still captured in the DIB – in the performance monitoring metrics and quarterly updates – but the data is not linked to payments.

Several other compromises were reached to keep the model simple without affecting the overall integrity of the design. This included representing the targets as average learning gains on a standardised scale, in addition to standard deviation, to make it easier to explain to those not familiar with statistical methods. Similarly, beneficiaries are counted discretely, which means each individual is counted in the contract; rather than using a weighted discrete method, which counts each individual but also accounts for the number of years that the individual has received the intervention. The latter would reflect level of engagement with the intervention; however, it is harder to explain and stakeholders felt it was important when engaging others in the project to be able to clearly communicate the target number of beneficiaries in the project (300,000 total).

## Service provider selection

The three service providers included in the QEI DIB were selected following a competitive process and an in-depth due diligence<sup>7</sup> process during the design phase. UBS-OF, Dalberg, MSDF and BAT reviewed applications from over 70 NGOs in India considering a range of criteria in the decision making, including:

- Track record of running interventions supporting learning outcomes
- Focusing on primary education for low incomes populations
- Ability to scale
- Service costs
- In-house monitoring and evaluation capabilities; and
- Government relationships at the local level.

UBS-OF reported that it was essential to include service providers who were open to innovation, could be flexible in their implementation and had a track record delivering the outcomes. This was to ensure that the service provider was able to adapt and respond to the demands of the DIB, particularly in the set-up phase and the on-going performance management structure. In addition it was essential that the service providers had strong links with the government in the relevant districts to be able to help GMI identify the appropriate comparison schools.

All of the service providers of the QEI DIB are well-established organisations with a known track record in education. They were all able to commit to the DIB requirements without needing to make substantial organisational changes. Although the focus on performance management and the focus on outcome-based targets is new for all, representatives from the organisations reported that they are familiar with being evaluated, and all were open to learning and supportive of this different way of working.

## Performance Management

A key part of the QEI DIB is the performance management framework. Dalberg is leading this element of the project and worked closely with the representatives from each of the selected service providers during the design phase to understand the theory of change of each of their interventions, as well as the potential risks in the DIB and their existing monitoring and evaluation systems. This work built on the due diligence conducted during the selection phase (described above) and aimed to ensure that the organisations were able to respond and deliver on the requirements of the DIB.

As well as supporting delivery and impact in the DIB, the performance management support represents an important capacity building element of the project. Using the new processes and reports, service providers will be able to take the processes forward beyond the DIB to improve their overall monitoring capabilities. Dalberg described positive feedback from the service providers regarding this process of developing the frameworks, citing that it is already changing the way the teachers reflect and monitor their practice.

<sup>7</sup> The process whereby an organisation or company's strengths and weaknesses are assessed in detail by a potential investor with a view to investment

## Engaging the government

To support the engagement with the government, key stakeholders were selected into the project partly on the basis of their existing relationships and connections. As suggested above, service providers were also partly selected on the basis of their links with the government. This was to help identify a suitable comparison group and to conduct the assessment within the evaluation design.

## Contracting

The legal contracting process for the DIB took six months (January to June 2018). This was noted by several stakeholders as an improvement on the experience in the Educate Girls DIB, which took two years to contract. This supports the idea that with each DIB project some of the time and costs associated with the routine transactions can be reduced.

UBS-OF's initial preference was to have a single contract for all the stakeholders involved in the DIB, as this would keep the governance arrangements simple. However, it was challenging to align the interests of the range of stakeholders within one framework. It was made harder because the outcome funders had concerns about signing a contract that directly associated them with the service providers, who they had not selected and whose operations they were not overseeing. This concern arose following the high profile scandals involving Oxfam in 2017. UBS-OF were not able to offer indemnity clauses in the contract to cover this, which left too much risk for the outcome funders. As a solution, UBS-OF has signed separate contracts with the outcome funders and with the service providers. The contract arrangements for the stakeholders in the QEI DIB are described in Figure 2.

### Figure 2: Key stakeholders in the QEI DIB

- Outcome Payment Agreements: One between BAT and UBS-OF, and another between MSDf and UBS-OF.
- Implementation Agreement: Between the Service Providers, Dalberg, UBS-OF and GMI.
- Side letter with DfID and Dalberg and Performance Management Agreement with Dalberg: The arrangements cover the costs and delivery of the performance management activity being funded by DfID and UBS-OF.
- Outcome Evaluation Agreement: Between BAT and GMI. This covers the costs of outcome evaluation activity being funded by DfID.
- Grant Funding Agreements: Bilateral agreements between BAT and each of the outcome funders (Comic Relief, Mittal Foundation, the Ellison Foundation, and BT).
- Technical Assistance Grant: Between BAT and DfID. This covers the technical assessment to ensure due diligence on the DIB, which in part is used to pay the costs of GMI and Dalberg.

This section describes the enablers and challenges in setting up the QEI DIB.

## Enablers

There were a number of enablers which facilitated the setting up of the DIB. These are set out below. We have structured these around the LOUD framework<sup>8</sup>, which identified the critical success factors to launching a SIB in the UK (collective leadership; clear outcomes; shared understanding; and data), as well as a few specific to this project.

### 1 Collective Leadership

Given the range of different interests represented in the QEI DIB, strong collective leadership at a strategic level, both within and across organisations, was integral to the successful development and mobilisation of the contract. UBS-OF also reflected that it had been a priority for them to involve stakeholders from organisations that were like-minded in their commitment to achieving social impact, and with a high level of expertise, in order to support the complex design phase of the project. In choosing the right partners they were able to navigate through the difficult decisions and agree a model for the DIB.

**“ We were able to get consensus on those pieces [outcome assessment] relatively easily...I think that has to do with the fact that we selected like-minded partners.”**

Representative from UBS OF

BAT also commented that the high level of openness to share organisational and technical knowledge was an asset to the project, and was different to other types of collaboration in grant making, particularly in the international development sector. BAT reported that it was refreshing to work on a project where all of the stakeholders, particularly those from sector leading organisations, like MSDF and UBS-OF, were motivated to share their resources and apply their skill-sets in a way to optimise the final design.

**“ The joint awareness and wealth of foundation knowledge that came into play on this, you can’t underestimate you know... part of the beauty of this piece in international development...it’s about the data that’s sitting within foundations, especially deep technical foundations like MSDF...to share and be open minded, and move a bit.... And to say right we’re willing to put that out there to be tested.”** Representative from British Asian Trust

<sup>8</sup> <https://gobab.bsg.ox.ac.uk/knowledge/resources/loud-sib-model-four-factors-determine-whether-social-impact-bond-launched/>

At an organisational level there has also been positive feedback on the support provided by UBS-OF and Dalberg to the service providers. Service providers described the development phase as a collaborative one, with Dalberg making the effort to learn the details of their different interventions to inform the design of the monitoring system.

**“ We have been given the opportunity to talk about our work...the collaboration, it has been remarkable from the UBS-OF and Dalberg. They have been really engaging with us and have developed the right monitoring and evaluation mechanism in place. ”** Representative from service provider

Finally, it was essential that Dalberg and the senior stakeholders at the three service providers worked together to engage with stakeholders at all levels of the service provider organisation. This was to ensure that there was full buy-in to the new way of working and commitment to the requirements of the project.

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

UBS-OF stakeholders reported that for a number of reasons it is reasonably straightforward to create a DIB financial model comprising education outcomes. Firstly, there is justification to assess outcomes within a reasonably short timeframe, assessing student performance at the start and end of the school year. Secondly, it is possible to directly measure the outcome of interest, student learning, rather than relying on proxy measures, an indirect measure strongly correlated to the desired outcomes, as is often needed in healthcare DIBs. Therefore in education there is opportunity to develop a payment model that suits the interests of both the investors, who want to receive their repayments within a reasonable timeframe, and the outcome funders, who want reliable evidence that the intervention had impact as intended. While at a high-level including education outcomes suits an outcome-based contract, there were challenges in defining the outcomes in this DIB and implementing an appropriate outcome-payment framework. These challenges are discussed on the next page.

## 3 Shared understanding of the policy ‘problem’ and sufficient evidence for the intervention so that it is credible or knowledge-based

All of the main stakeholders are bringing a high level of knowledge of the issues facing the education system in India as well as from their respective sectors. This broader expertise includes evaluation (MSDF and GMI) and networks of grant-making organisations (MSDF and BAT). Many of the stakeholders have also been able to take forward knowledge from the Educate Girls DIB, which has helped them to be efficient in decision making around the different issues, as well as building confidence in the effectiveness of the new DIB model. UBS-OF commented that because of the high-level of expertise within the team, little additional consultancy was needed to develop the DIB, beyond legal and financial advice.

## 4 Data to build up a business case, including data on the eligible cohort and outcomes likely to be achieved

It was possible to set the learning outcome targets for the DIB because MSDF could supply the data necessary to GMI to create the benchmarks for the targets.

The targets for the DIB have been purposively set at the cusp of achievable, but still aspirational level for the service providers, with lower targets in the first year, allowing for set up, and variation in targets for the model types (i.e. lower targets for indirect model and higher targets for direct models). Part of the reason for setting these targets is to balance the risk to the service provider in using the robust measurement but still push them to be efficient and vigilant in delivery. All of the service providers reported that they were confident about achieving the outcomes in the DIB. A few expressed concern about assessing learning using the new test, but were reasonably confident about taking on the risks in the DIB model.



## 5 The nascent and high profile nature of the project

Many of the organisations partly engaged on the basis that they would be involved in a high profile project in the impact investing space. The outcome funders in particular were all keen to understand how this nascent model of impact investing works. They could see the benefits to their own organisations of learning from direct experience. The reputation of the main stakeholders, including MSDF, BAT and UBS-OF, also gave the project credibility and the service providers were also well known in India for their programmes. For the service providers, there was also potential to increase their reputational standing if their intervention is a success in the DIB; this stems partly from media exposure through the DIB but also in improving their track record through the rigorous evaluation in the DIB.

## 6 Technical assistance grant from DfID

Stakeholders reported that the grant available from DfID has significantly supported the set-up process, as it covers the costs of the outcome evaluator and performance manager, and the legal costs, which would otherwise have had to be absorbed by the consortium or by another funder. UBS-OF reported that the benefit of having this grant is reflected in their overall experience in the QEI DIB, which has been more straightforward than others. Furthermore, when DfID were approached, several of the outcome funders had not joined the consortium and there was a considerable funding gap. DfID were told that the grant was essential to attract the other outcome funders and make the deal attractive to them as well as viable. BAT reported that the involvement of DfID also gave the project international credibility, which helped with the fundraising for the project.

## Challenges

This section describes the main challenges that were experienced in the set-up of this QEI DIB. These reflect the scope of the project, which required a significant commitment from outcome funders, but also the priority placed on a robust assessment of learning and a rigorous evaluation of impact.

### Considerable time and resource needed to engage the outcome funders.

After MSDF confirmed their contribution of \$4 million, BAT needed to engage with contacts in their networks to raise the remaining \$6 million. For BAT this process was resource intensive, and for others, including UBS-OF, it caused delays in the development process. The process of engagement was resource intensive, as BAT needed to adopt a tailored, personal approach, rather than a generic one with their whole network. The engagement process was also made harder because BAT needed to explain some of the basic principles of outcome-based contracts and investment terminology, as the potential outcome funders were new to the area and had limited understanding of the differences in what their role would be. Specifically BAT needed to be clear that:

- Outcome funders would have less of a direct role in managing the service providers they were funding. They would receive updates on progress and engage in decision making through the steering committee; however, Dalberg and UBS-OF would be responsible for direct management and feedback.
- Outcome funders would also have less of a role in designing the model, including selecting the outcomes, the type of assessment or the service providers. This was due the timing of the engagement, which followed the main design phase. Again this differs from typical grant making, where the funder is involved from the beginning and has the main responsibility for setting up the project.

While the process in engaging outcome funders contributed to the set-up time and costs, on reflection BAT stakeholders felt that the organisations that engaged are well suited to the project in terms of their interests and skills in education and impact investing, as well the mix in terms of public and private funding and the involvement of both UK and Indian organisations. Together, this puts the project in a strong position to achieve the longer-term aim of reforming education interventions and funding in India and to support the wider adoption of outcome-based contracts in the country.

## Striking a balance between a robust, technical model and one that is attractive to investors and outcomes funders

UBS-OF stressed the importance of keeping the financial model in the DIB simple, to ensure that it was attractive to investors and easy to implement. However, it was a priority for MSDF to ensure the model of assessment was robust and credible. A number of stakeholders, including BAT and the outcome funders, also raised concerns about implementing an overly technical framework, and one so narrowly focused on learning outcomes. It was a stipulation from Comic Relief to include service user voices and experience as part of the monitoring framework. Including this type of measure of quality, as well as monitoring the enrolment and attendance of students and teachers, was also essential for DfID.

A range of stakeholders discussed the need to ensure the model was straightforward to communicate to others. During the fundraising phase, it was important that BAT was able to explain the model to secure commitment from potential donors. It was also important that service providers understood the assessment and their targets, as well as the Indian government, who stakeholders wanted to engage through the project.

A number of compromises were made to keep the model simple; however, service providers reported that they do not have complete understanding of the outcome-payment framework, as the approach is very different to the standard fee-for service contracts that they are used to. Despite this, service providers were generally open to working in this way and learning from the approach in practice.

**“ We are not very clear about the logarithmic scale measure that we going to use, so to be honest we don't really understand...other than the fact that the performance is going to be compared...then payment will be made. But we take a somewhat relaxed attitude towards it...and we are confident that we will meet the requirements. ”**

Representative from Service Provider

### Time and resource spent identifying a suitable comparison group

A third challenge has been the process for identifying a comparison group, which has been both complex and resource intensive in the DIB set-up. The service providers needed to engage the local government for permission to access other government schools, identify suitable schools to serve as comparison schools, engage them in the assessment by GMI and then explain the monitoring requirements of the DIB. This has been a demanding task for all service providers, in particular, GyanShala, because the government did not grant permission in the areas where it operates. GyanShala therefore needed to spend additional time recruiting enough alternative schools, delaying the process of piloting and baseline data collection.

### Resolving financial challenges

A further challenge during the set-up phase related to the financial implications of a contract comprising organisations from multiple countries and the forex risk - the difference in the exchange rate between the currencies in the DIB (US Dollars, British Pounds and Indian Rupees)<sup>9</sup>. Following external financial advice to BAT, partners have agreed to take on the risk, with the exception of those convened by BAT (i.e. Comic Relief, Mittal Foundation, the Ellison Foundation and BT), who will only pay the amount in their respective currencies. If the value of the Indian rupee appreciates against the US Dollar, BAT will be liable to cover the funding gap. The overall contracting of the DIB has been set in Indian Rupees since contracts with service providers are in Indian Rupees.

<sup>9</sup> Although there is a relatively consistent correlation between GBP/USD and GBP/INR, one does not exist between GBP/USD and USD/INR, which creates exposure for the stakeholders in the DIB.

This section describes a number of the lessons learned, described by stakeholders from their experiences of designing and launching the QEI DIB.

- 1** **Involve all actors upfront and clearly define their role within the DIB.**

BAT reported that it would be more efficient to engage all actors prior to designing the details of the DIB model, reflecting on their challenges in the current project engaging outcome funders. This would mean that those funding the model would have the opportunity to shape the DIB design and selection of service providers.
- 2** **Clearly define the roles and responsibilities within the DIB.**

BAT emphasised the importance of communicating the details of the model, including the sharing of risks, the level of investor returns, and the scope of the intermediary role. This is to ensure that there is clear understanding from all parties of their roles and responsibilities during implementation. In the current project a lot of stakeholders needed support to understand the terminology and structure of the DIB.
- 3** **Workshops with the different stakeholders work well to keep messaging consistent about project objectives and solve challenging issues.**

UBS-OF reported that organising workshop events to discuss the model and the requirements of the project helped considerably, given the scale of the project and the number of stakeholders involved. This includes the meetings with outcome funders, but in particular, those with the service providers, engaging them in their role and ensure there is buy in to the requirements of the DIB. While challenging to organise with stakeholders in different places, providing all stakeholders with the same information at the same time reduced the risk of misunderstanding and miscommunication.
- 4** **Templates and standardised processes have helped, but more is needed.**

There was evidence in this DIB that learning has been taken forwards from the Educate Girls DIB to improve design and increase efficiency in transactions, for example, in the legal processes. However, the development process overall was still long and complex, particularly as the DIB framework includes multiple outcome funders and multiple service providers. Developing templates to standardise processes will help with efficiency but will also help maintain organisational knowledge on a project. For example, there is only a narrow group of stakeholders at UBS-OF who were involved in developing the financial model in full, so if it was replicated elsewhere it would still take time to set-up. UBS-OF stakeholders reflected that with templates for the routine processes, DIBs should become easier to share and adapt. BAT also reflected that where DIBs include 'new' elements, time should be allowed in the process. In this project it was important to allow enough time to support the complex contracting to enable a multi-party, global transaction.
- 5** **Potential benefits of including a special purpose vehicle<sup>10</sup> (SPV).**

In the current model, UBS-OF manages all the financial flows from outcome funders and to the service providers. However, on reflection its would had preferred a SPV to separate out the finances. This would have allowed a more arms-length approach to management and the possibility to engage with commercial investors. However, it is not straightforward to set up an SPV as UBS-OF is part of UBS.

<sup>10</sup> A legal entity (usually a limited company) that is created solely for a particular financial transaction or to fulfil a specific contractual objective

This section describes the advantages and disadvantages of using the DIB described by stakeholders based on their experiences of the set-up phase of the QEI DIB.

## Advantages

- **The DIB brought together sector-leading experts to work collaboratively to support initiatives in shared areas of interest.**

This relates to a commitment to support the learning crisis in India, but also to engage the Indian Government and to explore the potential transition from DIBs to SIBs. Although some of the organisations in the DIB had worked together previously, stakeholders reported that the level of collaboration was different in the DIB compared to other types of grant making, and stakeholders were motivated to work openly and share their resources and skill-sets. Through their open collaboration, stakeholders were able to offer greater access and more insight into the workings of the different sectors, which then contributed to the quality and credibility of the outcome framework and assessment in the final model. This strong collaborative element is also evidence in the clearly defined roles and responsibilities within the steering group committee, who will work collaboratively to oversee the DIB implementation.

- **The DIB was a significant opportunity to support high performing NGOs with a proven track record in delivering education outcomes to deliver at scale.**

Although each of the service providers were used to delivering contracts at scale, the opportunity to pool resources from multiple funders in the DIB offered created a shared framework to fund a range of education models at scale, with a view to collectively achieve larger impact with the beneficiaries. Using BAT in the role of an outcome convener, it was possible to engage a range of partners to raise funding for this collective project.

- **The outcome-focused structure in DIBs creates an opportunity to directly compare different education interventions, as well a chance to standardise measurement and assessment of learning.**

These benefits have the potential to improve assessment methodologies in the education sector more widely and was an integral motivation for high profile stakeholders like MSDF to engage in this project. Including a range of interventions also supports the ambition to transition to SIBs in India and to reduce transaction costs in DIBs as stakeholders will be able to compare performance across the interventions and see where this type of model works most appropriately.

- **The set-up phase the outcome-focused and rigorous approach to performance management in this DIB is also significant.**

The role of Dalberg working closely with each service provider, on behalf of UBS-OF, has the potential to build capacity amongst the service providers and reform their approach to internal programme monitoring. Dalberg will support the service providers to reflect on their performance to quickly detect risks and inefficiencies, and improve operations. A key learning point from Educate Girls was that this outcomes-focused approach contributed directly to the strong performance of the DIB in the final year. A representative from Educate Girls explained that the support and data from the performance manager and UBS-OF during implementation helped them to make different decisions in their recruitment, training and operations, which then contributed to the outcomes they achieved, particularly in the final year. Educate Girls now plans to scale the organisational changes they made during the DIB to achieve a similar volume of outcomes in other parts of their service.

## Disadvantages

- **The main disadvantage of the DIB was the transaction costs and the additional time required to engage in the project management and meetings.**

Even with the efficiency in some processes by taking forward learning from the Educate Girls DIB, and a shorter time to complete the legal contracting, the overall negotiations in the QEI DIB still took two years. The scope of the project, and involvement of 20-25 stakeholders, meant that the negotiations in the DIB were significant, and it was resource intensive to resolve the differences. In comparison, in a comparable payment by results contract in education, there was complexity and high cost (accounting for around 20 per cent of the project), involved in defining the outcomes, the metrics and the comparison group; however, the main contracting process between the funders and the service providers was relatively straightforward.

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**Although some of the expense is supported by the technical assistance grant from DfID, stakeholders reported that the some of the costs were either unexpected or under-anticipated.**

For example, the forex risk was an unexpected cost for BAT. Service providers also reported that they had engaged in more meetings for the DIB than they had expected, both to develop the model but also in their engagement with the media for communication on the DIB. The time spent in meetings was a business cost for them and was very different from the standard contracting in other elements of their service. Overall though, stakeholders felt that many of these additional costs were essential to ensuring that they achieved the aspirations of the project, to compare a portfolio of interventions in terms of their cost and effectiveness, and there was rigour in the overall design. In the long-term the project has the potential to add value, not just to impact investing, but also the education sector in India.

## This section provides some final concluding remarks on the set-up and design phase of the QEI DIB.

The main achievement in this DIB has been the bringing together a number of sector-leading organisations that operate within the same areas of international development to focus on a prominent issue in India. The end result is a model that is impressive in scale, implementing multiple interventions, but also comprises a high level of integrity in its design and in the evaluation assessment. In particular, the inclusion of a robust assessment tool means that the evidence from the project has the potential to provide important learning about the effectiveness of different types of education models as well as the suitability of the DIB model in different contexts, and the potential to develop a rate card.

The level of collaboration underlying the achievements in the design and set-up phase illustrate the potential for DIBs to offer collective solutions to important global issues, at scale and to restructure existing ways of funding and systems thinking. The governance arrangements in the DIB will support the ongoing benefits of collaboration during the implementation. This will hopefully maximise the role of the performance manager, working on behalf of the UBS-OF, to support impact from the services providers. This is essential given the learning from the first education DIB that adaptive service management, with a focus on outcomes rather than activity, contributed to their significant success, particularly in the final year.

However, the challenges in the QEI DIB have also arisen from the ambitious scope of the project. The scale of the project, in terms of the size of the contract, the involvement of multiple outcome funders and different service providers created challenges in the complexity of the engagement in the project. This is also complicated by the restrictions set on funding in India. Stakeholders have been able to use templates to support the transaction, but additional time has been needed to resolve some of these specific issues. As a result, it has not been possible to realise some of the objectives to reduce the time and cost for stakeholders in setting up the second DIB in education.

While the development phase has required significant time and cost, there is confidence that the learning from this project will be taken forwards to support the development of the DIBs market. Many of the stakeholders cited their motivation to be involved in future projects and enthusiasm for understanding how outcomes-based contracts can be used in the development context through this project. In addition, the Technical Assistance Grant from DfID includes wider objectives, which aims to support learning and the replication of DIBs where relevant in the South Asian context and globally. Therefore, it seems there is interest in the sector to take forward key lessons.

### Stakeholders Consulted

- UBS Optimus Foundation
- Dalberg
- British Asian Trust
- Michael and Susan Dell Foundation
- Comic Relief
- Tata Trust
- Gray Matters India
- GyanShala
- Kaivalya Education Foundation
- Society for All Round Development
- Educate Girls
- UK Department for International Development

**This in-depth review is a series being produced as part of the DFID DIBs pilot programme evaluation, commissioned by the Department for International Development and undertaken by Ecorys UK.**

Catie Erskine, Senior Research Manager at Ecorys, wrote the report.

The report is based on a review of documents provided by stakeholders and consultations with key stakeholders involved in the DIB. Consultation took place during 2018, during the second year of implementation for the Quality Education India Development Impact Bond. The report will be updated in subsequent years to provide an account of the DIB's progress.

In total, the evaluation will produce in-depth reviews of three DIBs funded or supported by DFID. More information about the DFID DIBs pilot programme evaluation, including other in-depth reviews, can be found at: <https://devtracker.dfid.gov.uk/projects/GB-1-204722/documents>

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