The British Asian Trust, Michael & Susan Dell Foundation, UBS Optimus Foundation and Tata Trusts are supporting a US$11m Development Impact Bond (DIB) to improve education in India. It is the largest impact bond, globally, for education.

This new, innovative social finance tool aims to improve education for more than 300,000 children in India and transform the way education in the country is funded. Such models offer the potential to unlock vast new sums from governments, private investors and foundations (approximately US$2 trillion) to help achieve the ambitious Sustainable Development Goals (SDGs) set by the United Nations (UN).

The challenge

Driven by previous Development Goals, India has successfully achieved a 99% rate of school access. Attention has now turned to improving the quality of education – in particular improving literacy and numeracy levels.

Outcome-based funding models, including DIBs, which require a focus on data measurements and improving outcomes, are ideally suited to driving quality in education. In addition, they enable greater accountability, and communities benefit in a demonstrable and credible way.

Ensuring maximum impact

Traditionally, money has been spent focusing on activities rather than the results that an investment delivers. But public money can make a far greater impact through a focus on pre-defined measurable outcomes, and through working cross-sectorally with public and private organisations.

Crucially, although the market for this kind of social finance is relatively new, this DIB could generate learnings that would enable the market to mature and become mainstream.

What are Development Impact Bonds (DIBs)?

1. DIBs are results-based finance mechanisms whereby funders only pay for successful results.

2. Working capital from private investors enables organisations to deliver programmes on the ground. The investors can earn a return if the programme is successful.

3. Measurable outcomes are agreed at the outset and independently verified. If the outcomes are met, the funders pay and the risk-investor funding is reinvested for social good.

<50%  $11m

By the age of 10 (grade 5), fewer than 50% of Indian primary school pupils have reached the reading level of a 7-year-old (grade 2).

US$11m over four years will provide quality interventions to improve literacy and numeracy for 300,000 children.
How this DIB will work and who’s involved

This DIB consists of a coalition of public and private sector partners, including UBS Optimus Foundation as the investor, Michael & Susan Dell Foundation as the anchor outcome funder and the British Asian Trust as a convener of a group of other critical outcome funders, including Tata Trusts, Comic Relief, the Mittal Foundation and BT. The UK Government’s Department for International Development is providing the funding for technical assistance, and high-performing local NGOs are the service-delivery partners.

The risk investor provides upfront working capital to the NGOs implementing the education programmes, and the DIB’s funders repay this investment if pre-determined performance indicators are met. A credible third-party assessment firm, Gray Matters India, will be conducting annual performance checks against which funders will make payments to the investor. Leading legal firms, Reed Smith, Hogan Lovells and J. Sagar Associates, have supported the legal structures underpinning the DIB.

This is an evolving model that will incorporate the learnings from the successful Educate Girls pilot DIB. The pilot achieved 160% of the final learning target, demonstrating the potential of this type of DIB and of outcome-based funding.

What does success look like?

- Improved literacy and numeracy outcomes for more than 300,000 children.
- Being able to document what works and what doesn’t, and scaling up successful interventions.
- The creation of an education rate card, setting out the costs of delivering specific outcomes, that can be used by government and funders to make informed policy and spending decisions.
- Learning the most effective ways to deploy funding, so as to inform future outcome-based models of financing.

- Grantmaking bodies and the philanthropic sector move towards outcome-based funding – potentially unlocking vast new sums from governments as well as private investors to help achieve the UN SDGs.
- Creation of a sustainable model of development funding (eg Social Impact Bonds) for adoption by national governments.

The future

Now that we have successfully achieved the first US$11m close, our intention is to double the size of this DIB after the first-year results are known.

Stakeholders

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