IDB Multilateral Investment Fund to Test Social Impact Bonds in Latin America

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The Multilateral Investment Fund (MIF) of the Inter-American Development Bank is launching a new $5.3 million facility to support Social Impact Bonds in Latin America and the Caribbean, making it the first development finance institution to commit resources to implementing SIBs.

This is fantastic news for everyone who's been waiting with interest to see when the SIB concept – which has taken off in the UK and the US – will be tested in low and middle countries – something CGD has been exploring in our work on Development Impact Bonds.

What will the new facility do?

1) *Invest in SIBs:* $3 million will be used as investment capital to facilitate up to three pilot Social Impact Bonds in Latin America. As an investor, MIF will provide the financing that providers, mainly NGOs, need to deliver services to poor people. The results of any SIB-funded programs will be closely monitored and independently verified and, only if pre-determined outcomes are achieved, governments of pilot countries will repay investors with a return that's proportional to progress achieved. So MIF expects to get this money back if projects are successful – but governments are off the hook if they are not. With SIBs, investors take the risk.

2) *Support the SIB ecosystem:* The countries that MIF works with are not likely to have experience in outcomes-based contracting. $2.3 million in grant funding will be used to support governments and local actors who want to develop SIBs. This will include raising awareness and growing demand for a SIB market; identifying promising SIB pilots; assessing SIB feasibility – including determining outcome metrics and data collection methods, and analyzing intervention models for proposed pilots; providing training and advisory support to public authorities as well as NGOs that don't yet have the capacity to participate in SIB transactions; and knowledge management and communications.

The MIF SIB pilot facility takes into consideration several of the recommendations from the CGD-Social Finance Development Impact Bond Working Group report that we consider critical to moving the idea of SIBs in developing countries from concept to practice. In particular:

1) *Early adopters are needed to invest in DIBs:* Any socially motivated investors, including development finance institutions like MIF, foundations, or individuals, can be the trailblazers in choosing to invest in this new approach. Investment funds could provide ready pools of capital to invest in SIBs/DIBs and help to stimulate the market. It's exciting to see MIF stepping up to the challenge of testing this innovative tool in development finance, by committing investment capital.

2) *There are one-off costs to building a market and introducing a new tool:* In this early stage, SIBs/DIBs will involve

high transaction costs and therefore catalytic funding - separate from the funds needed to invest or pay for outcomes - should be made available to support governments, service providers, or intermediaries who want to test this approach, and to share learning as pilots are developed. MIF's new facility acknowledges that this is not just about making transactions to fund projects, but building a market for a new way of doing business in the social sectors.

3) *Funders should support the broader adoption of SIBs in developing countries:* DIBs and SIBs are based on the same concepts and are looking to answer the same questions: Can programs be delivered more effectively if public funding is used to pay for outcomes, rather than inputs and processes? And can governments and service providers successfully transfer risk to private investors, whose drive for social and (modest) financial returns will give them the incentives to manage performance better and ensure that programs deliver results? The difference is that DIBs would involve a third party, typically an aid agency, as the outcome funder, whereas as with SIBs, outcomes funding comes from the government of the country (modeled on the first-ever SIB in Peterborough, in the UK).

As governments in low and middle income countries have growing pools of domestic resources to fund social programs, donors, foundations or development finance institutions could support those governments in exploring SIBs as a way to use funds most effectively. MIF has built into its new facility the idea that the SIB model provides the financial structure needed to implement social programs in a way that is flexible, data driven, and responsive to people's needs on the ground. (See Owen Barder's blog post on DIBs as a new business model for development.)

MIF's announcement is not just good for Latin America, but for the growing number of governments, development banks, donor agencies, foundations, private investors, intermediaries, and NGO and private service providers who are exploring SIBs - in high, middle and low income countries. These groups will have a lot to learn from one another as the market for SIBs and DIBs gradually develops, and openness and knowledge-sharing among them will only help to accelerate learning and build a higher quality market. Since MIF will be one of the first to test the SIB approach in emerging economies, I hope that knowledge-sharing will remain a strong component of its support to the "SIB ecosystem", within Latin America and with SIB actors in other countries.

As the new MIF fund shows, it's not only rich country governments who are thinking about how they can maximize the efficiency of public spending, create opportunities for more experimentation and innovation in social service delivery, and make decisions about social programs based on evidence. Governments of Latin America will now have the opportunity to test SIBs – a new financing approach that makes this possible – thanks to the support and leadership of MIF on SIBs. We look forward to seeing where these first pilots will happen!

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