Box 2.4 An Example of a Development Impact Bond (DIB): Educate Girls, India, 2015

Despite substantial commitments to education, India still has the largest illiterate population in the world. Nationally, an estimated 3.7 million girls are out of school and in Rajasthan, 40 percent of girls drop out before reaching fifth grade. For those who remain, learning quality is low. Uneducated girls in India are also three times more likely to contract HIV, earn 10 percent less income, and marry three years earlier than educated ones. To address this challenge, Educate Girls, a local implementer, identifies champions for girls' education at the village level who can identify out-of-school girls and work with the community to enroll and teach them in the classroom.

As part of the Educate Girls DIB, the UBS Optimus Foundation (the investor) was incentivized to invest in enrollment, retention, and learning and help Educate Girls (the service provider) improve the impact of its program for marginalized girls and boys in Rajasthan. This impact bond also involved the Children's Investment Fund Foundation (CIFF) as the results funder.

As part of the DIB agreement, the UBS Optimus Foundation provided upfront capital to Educate Girls. Upon verification of the achievement of predefined enrollment and learning results, CIFF would pay back the UBS Optimus Foundation their initial investment plus a return, depending on Educate Girls' performance. UBS also shares a portion of the results payment with Educate Girls, thus providing Educate Girls a financial return dependent on the success of their program.

As of June 2017, year two results have been positive: enrollment targets had been exceeded (with 87.7 percent of the three-year enrollment targets achieved) and learning gains continued (with 50.3 percent of the three-year learning target attained). Observers have suggested that the flexibility generated by this DIB had improved results for girls who are hardest to reach.

Sources: Instiglio 2017; Instiglio 2015; UBS Optimus Foundation and CIFF 2016.