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An Investment Strategy in the Human Interest

By TINA ROSENBERG

You are a health official in Uganda, and you're watching a crisis unfold. Your people have long suffered from epidemics of sleeping sickness, one of Africa's biggest killers. There is no vaccine and the only treatment is protracted and painful. Sleeping sickness, transmitted by the tsetse fly, is carried by cattle and also kills cattle, destroying the livelihoods of families who keep them.

There are two strains of sleeping sickness that affect humans; one is in West Africa and one in East Africa. Uganda is the only country that has them both. Worryingly, they are moving closer together as their cattle carriers move, and will likely meet in a decade. Once that happens, the disease will become even harder and more expensive to screen for and diagnose.

Their meeting can be prevented, and sleeping sickness can be controlled, by treating cattle and then periodically spraying them with an insecticide. But treating 3.5 million cattle, and then tracking them for smaller campaigns of re-spraying, would cost some $30 million. Uganda doesn't have that money. So it will pay a lot more later — in money, in the lives of animals, and in human health and productivity.

Governments and international aid donors sometimes like to call the work they do to improve people's lives "investing." Uganda's problem is an example. In a figurative sense, treating those cattle is an investment — a very good one. A small amount of money put in now will bring large rewards later. Of course, it's not literally an investment.

But what if it were?

What if this project were treated like a business startup? You'd get people to put up the money. If the "business" doesn't work, the investors are out of luck. But if it succeeds — if the cattle are treated and sprayed, and the gains are maintained — international donors would repay the investors with interest, using part of the money saved by reducing sleeping sickness.

If this idea sounds familiar, it should. The Development Impact Bond is almost exactly the same as the Social Impact Bond, the hottest idea in social-service provision (an oxymoron if ever there was one) of the last few years. One difference is who repays investors if the program succeeds. With a social impact bond, the government does. With a development bond, payment would fall to international donors such as foundations or government agencies such as Britain's Department for International Development or the U.S. Agency for International Development.

There's one more difference — D.I.B.'s don't yet exist. They are just a gleam in the eye of a few creative thinkers — specifically, those who make up the Development Impact Bonds Working Group, which has just published a draft containing feasibility studies for six potential D.I.B.'s, including the sleeping sickness project.

The idea that's furthest along — which is not in the draft — is a bond for treating malaria in Mozambique; a group led by the government, the development consultant group Dalberg, the South Africa-based restaurant chain Nando's and the mining company Anglo American aims to issue a $25 or $30 million bond in early 2014. In an interesting twist, the repayment to investors, if the work is successful, would come partly from mining companies working in Mozambique such as Anglo American and BHP Billiton. Malaria already costs these companies hugely through lowered worker productivity. Paying for effective prevention would not only save lives, it would cost them less than they are paying now.

Social impact bonds do exist— barely. The first one was born less than three years ago in Peterborough, England, a program to keep short-term prisoners from returning to crime. There are now a dozen running in Britain — programs to cut crime, house the homeless, help vulnerable teenagers and even promote adoption. The first one in the United States is at Rikers Island jail in New York City, designed to keep young men from coming back. Many states and cities are preparing S.I.B.'s. Last week, the Harvard Kennedy School's SIBlab and the Rockefeller Foundation announced that 6 states had won out over 22 others to get technical assistance to develop S.I.B.'s. It's a bipartisan group: enthusiastic winners include Colorado's liberal governor, John Hickenlooper, and South Carolina's Tea Party governor, Nikki Haley.

Do S.I.B.'s work? It's too soon to tell. Last week the British government released some interim figures (pdf) from the first S.I.B. Recidivism in Peterborough dropped by just over 6 percent since it began, while at the same time national recidivism rose 16 percent. Encouraging — but since Peterborough's numbers aren't compared to a formal control group (which will be the real measure of success), the figures are not all that meaningful.

Development impact bonds are the product of a convergence of several important trends in foreign aid. One is an increasing emphasis on the private sector. "Ten years ago, the development finance institutions together [which invest in the private sector] were financing about $10 billion in investments in emerging markets," said Elizabeth Littlefield, the chief executive of the U.S. Overseas Private Investment Corporation and a co-chair of the D.I.B. working group. "Today it's $40 billion. Tools to harness private capital for development are going to continue to grow exponentially."

A second trend is toward a different way to look at accountability. Traditionally, measurement and evaluation of social programs seeks to ensure that money is used for what it is supposed to be used for: we gave you a grant to build schools, so show us how many. The new kind of accountability measures outcomes: not "Are we building schools?" but "Are we actually educating more kids?" This kind of accountability asks: "Are we solving the problem?"

Related is a third shift, toward the idea of paying only for success — disbursing money when targets are met. The World Bank and various international aid agencies have a large portfolio of such Output-Based Aid projects. The Washington think tank the Center for Global Development has pioneered an idea it calls Cash on Delivery (I wrote about it here.) Britain's Department for International Development and Ethiopia are testing this — DFID will give a payment to Ethiopia for each additional girl who graduates from secondary school. How Ethiopia gets there — build schools? Roads? Hire teachers? Bribe parents? — is not Britain's business.

Paying for successful outcomes is a popular idea. The catch is that getting there takes money. "But then how do you fund it in the intervening period?" asks Toby Eccles, the founder of Britain's Social Finance organization and a co-chair of the D.I.B. working group. "Before you know it, you end up with Development Impact Bonds."

D.I.B.'s have the potential to make development work more successful. As with social impact bonds, they would make prevention programs possible by raising the money from third-party investors.

And they would make these programs smarter. Normally, people who run social programs can't plan ahead — they never know if their funders will go away or if budgets will be cut. But these bonds would assure programs of the needed money up-front.

They would also bring market discipline — investors are unlikely to back strategies that don't have ample evidence of success. And they would encourage social service organizations to take on the hardest cases. Too often, organizations cherry-pick the easy cases to make their numbers look good. But the Peterborough S.I.B. is being judged on the recidivism rate of the entire group of men released from prison — whether they are clients of the program or not. That gives the program incentive to work with the men who are most likely to re-offend.

We don't yet know if the Peterborough S.I.B. will succeed. But it is already an upgrade from business-as-usual, as it is free to attack a problem by any means necessary. For instance, a year into the program, caseworkers were finding that more than a quarter of the clients needed mental health treatment — a far larger number than organizers had predicted. So the program put more money into getting the men mental health assessments, connecting them to treatment and providing support. "With a normal contract it would be, 'sorry, I'm not here to do that,'" said Eccles. But an S.I.B. can respond as the situation requires. "It's really a way to ensure that programs are accountable and flexible," he said.

These advantages may be even more crucial with poor-country development programs. "We see it with bed nets, fertilizer, vaccination — the difficulty is the delivery part," said Owen Barder, a senior fellow at the Center for Global Development and co-chair of the D.I.B. working group. "Eradication of polio is not a scientific problem. It's supply chains, incentivizing people. It's about education and power."

Traditional development locks in your initial choices, but here flexibility is even more important than when you work at home. “You have localized challenges and you need local intelligence,” said Eccles. “Your initial plan is likely to be wrong.”

By providing a pot of money for a holistic approach, a D.I.B. would allow you to change that plan. “For sleeping sickness, you take a group of farmers and ask ‘what do we need to do here to get the cows injected?’ ” Barder said. “We don’t have vehicles? Right — somebody go and buy that thing. Farmers don’t believe us? Let’s provide education or reach out to local politicians.”

D.I.B.’s have another potential advantage. They could open up a new source of funding for programs such as these: impact investors — people looking for both a social and financial return on their money. “D.I.B.’s can bring impact investing dollars in a significant way to the development field,” said Kippy Joseph, associate director for innovation at the Rockefeller Foundation, which has been the major American funder of work to turn the idea into real programs. “This money is completely unavailable to the kinds of services and needs that are out there. “

As with S.I.B.’s, the buzz around D.I.B.’s isn’t necessarily a good thing. Plenty of problems could arise: they could add yet another expensive middleman to a process that doesn’t need more bureaucracy. They could become a substitute for, instead of an addition to, other effective programs. They could end up financing interventions that simply don’t work. “We’ve seen a rush to market by eager investors, with the potential for hasty deals,” said Joseph. This is dangerous — an early failure could kill the whole concept and set back private investment in development. “We’re not saying the D.I.B. is the one,” said Joseph. “This could just grease the tracks for another kind of vehicle that would bring private money to bear.”

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