CASE STUDY: VILLAGE ENTERPRISE DEVELOPMENT IMPACT BOND

GSA Innovative Finance Task Order

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EXECUTIVE SUMMARY

The Village Enterprise Development Impact Bond, (DIB), launched in November 2017, was the first DIB for poverty alleviation in sub-Saharan Africa and the first DIB funded by USAID.1 Since then, USAID has provided funding, alongside Merck for Mothers, for the $8 million Utkrisht Impact Bond for maternal and newborn health (March 2018) and acted as sole outcomes payer for the $10 million Cambodia Rural Sanitation DIB (November 2019). The Village Enterprise DIB sought to reduce extreme poverty in Kenya and Uganda through the implementation of Village Enterprise’s “Poverty Graduation” model, which equips groups of three individuals with the capital, business skills, and mentoring they need to start and sustain small businesses.

The following parties were involved in the Village Enterprise DIB:

- **Outcomes payers** included USAID Development Innovation Ventures, the Department for International Development of the United Kingdom (DFID), and an anonymous philanthropic fund.
- The **service provider** was Village Enterprise Fund, Inc., a 501(c)(3) nonprofit organization that works to end extreme poverty in rural Africa through entrepreneurship and innovation;
- **Upfront funders** were a consortium of ten, including Delta Fund, the Hall Family, ImpactAssets, the Laidir Foundation, Bridges Impact Foundation, and several; and several high-net-worth individuals (HNWIs).
- **Ongoing management** of the project is completed by Instiglio Inc., who also led the DIB’s scoping and design, and by Global Development Incubator, Inc. (GDI), who manage the disbursement of funds as the project’s Trustee.
- **IDInsight** act as the DIB’s independent evaluator.

Pay for Results (P4R) approaches comprise models for financing development objectives in which funders make payments when implementers achieve milestones or development results. Funders pay upon accomplishment of results rather than efforts to accomplish results, allowing funders to pay for impact rather than inputs, and fostering accountability based primarily on results achieved.2

It is important to note that while it can be useful to test new innovations in structuring grant funding and contracting, such as P4R, doing so should not be considered an end in itself. Rather, the ultimate focus should be on achieving positive development impact for the intended beneficiaries. New forms of financing should be considered a means of achieving this impact: in other words, form should follow function.

P4R approaches comprise several different types of funding models, including conditional cash transfers, advance market commitments, prizes, fixed amount awards, and development impact bonds (DIBs) or social impact bonds (SIBs) (please see “Rationale for DIB Approach” for more on these different forms of P4R). This document highlights a DIB as one type of P4R structuring approach which may be used to allow funders to pay for impact, not inputs. In the case of Village Enterprise, a DIB was judged to be an appropriate form of P4R to achieve the desired results, however, different types of P4R approaches will have relevance in different contexts. Through research and stakeholder interviews completed for this case study, one interviewee noted that “the default for USAID should remain providing assistance directly
to a service provider when possible unless there are clear advantages that justify using a more complex funding structure like a DIB.”

The purpose of this case study is to provide a reference point for USAID Acquisition and Assistance staff interested in incorporating P4R into their programming. It may be particularly helpful for Agreement Officers and Agreement Officer Representatives. The case study outlines the process taken to go from first concepts to implementation of the Village Enterprise DIB, with a particular focus on practicalities, challenges, and roadblocks faced by USAID staff. While the DIB is still underway and its impact evaluation is not yet complete, this case study also includes some assessment of the anecdotal impact achieved thus far by the DIB structure; consideration of the effect of the ongoing COVID-19 pandemic on the DIB’s operations and evaluation; and guidance around risk management techniques which might be incorporated into future DIBs to support resilience to future shocks.

The Village Enterprise DIB was one of the first DIBs launched worldwide. As an innovation program, it should not be considered a “gold standard” in the space; rather, it provides a useful learning experience to inform future approaches. Through interviews conducted to inform this case study, it was mentioned several times that a key benefit of the DIB was its contribution to learning, both internally within USAID and externally within the international development sector, about P4R approaches and DIBs specifically. This case study has been drafted with this goal in mind and constitutes an objective assessment of the structure of this DIB and the process taken to design, set up, and implement it.

Three previously published documents offer helpful insights into the process and successes thus far of the Village Enterprise DIB: Instiglio, which managed the design of the DIB and act as ongoing project manager, published a design memo and a process evaluation of the DIB’s setup shortly following launch; and Ecorys produced a case study about the DIB as part of their independent evaluation of the UK Department for International Development (DFID)’s DIB Pilot Program. These three documents form the basis for this case study. This has been supplemented with additional insights from interviews with individuals involved in the DIB in order to ensure maximum relevance to USAID staff.

The update to this case study aims to document the challenges and the associated solutions that the Village Enterprise DIB experienced throughout the COVID-19 pandemic and provide insights for other USAID offices considering a DIB. Delivery of DIB-funded interventions was almost complete when COVID-19 related public restrictions came into force, and so it was the contractual outcomes evaluation process, which was most significantly impacted. The pandemic had a significant impact on the timing of the outcome evaluation but overall, the DIB will now finish only approximately six months later than planned, albeit with a significantly revised outcome evaluation and payment structure. The flexibility that the outcomes funders showed and their commitment to the DIB outcomes as a whole, were seen as key factors in the success of discussions to renegotiate key contract terms, to avoid the need to terminate the DIB contract early.
THE SOCIAL CHALLENGE & INTERVENTION

Village Enterprise is a 501(c)(3) nonprofit organization that has been working for more than 30 years to end extreme poverty in rural Africa through entrepreneurship and innovation. The organization employs local leaders who then implement a community-based poverty “Graduation” program that has been adapted for different contexts in Africa. At the time of the DIB launch in November 2017, they had started more than 39,000 businesses, trained more than 156,000 business owners and improved the lives of more than 850,000 women, children and men in Kenya, Uganda, Tanzania, and the Democratic Republic of Congo.

THE GRADUATION PROGRAM

Village Enterprise’s Graduation approach aims to equip people living in poverty with the resources to create sustainable businesses. The program comprises the following steps:

- **Targeting:** Village Enterprise targets individuals who live on under $1.90 per day, have no experience operating a business, and are unable to provide for their family’s wellbeing. To identify individuals who meet these criteria, they target the poorest geographies, and within those areas, they conduct Participatory Wealth Ranking exercises to identify the poorest households. They also verify their data with a Progress Out of Poverty Index survey, as well as an assessment against several locally relevant exclusion and inclusion criteria.

- **Training:** Local mentors deliver a four-month training program to equip participants with the necessary knowledge to run a business. The participants then form groups of three and agree on and plan for a small microenterprise that they will start together. The largest subset of participants choose and launch activities that involve livestock (41%). Other types of business include retail (35.4%), crops (24.3%), and services (2.4%). Business mentors guide each new group in selecting an enterprise that is best positioned to flourish, considering the team’s skill set, local market conditions, risk factors, and profitability. When creating their business plans, some participants will plan for multiple income generating activities (IGAs). This practice helps program participants to ensure income is smooth all year-round and helps hedge against shocks in the case of failure of one IGA.

- **Business Savings Groups (BSGs):** BSGs create the platform through which Village Enterprise carries out the training program, as well as develop trust and respect between the participating community members. BSGs are self-governing councils of ten businesses comprising 30 individuals in total (three individuals per business); each BSG has its own constitution.

- **Seed Funding:** Seed capital is granted to each group of three, to enable them to start their business. In the past Village Enterprise has provided seed capital of $150; this is adapted in the DIB model (see “Outcomes Framework and Payment Mechanism”).

- **Mentoring:** Mentors provide continuous guidance to the participants for one year, coaching them in choosing the focus of their business, as well as how to grow and manage their business and finances, including saving in Business Savings Groups.

Village Enterprise monitors all five of these steps. Staff collect data using Android devices equipped with TaroWorks, a suite of mobile data collection tools built on the Salesforce platform. Use of TaroWorks facilitates remote data collection through offline data entry in areas without mobile or WiFi signal.

In 2017, Village Enterprise completed a large-scale, independent, three-year randomized controlled trial (RCT) with Innovations for Poverty Action (IPA) to evaluate the effectiveness of the Graduation
program. It involved over 5,774 households in 138 villages and five treatment arms. It evaluated the impact of delivering the Village Enterprise Graduation model against that of delivering cash alone and compared each to a control group that received no treatment. For each variant, the RCT evaluated the marginal benefits of additional extensions to the model, which included the savings groups and a short behavioral intervention alongside the cash transfer.

The RCT showed that the Graduation model performed better on both income and consumption than cash only models, and it demonstrated a benefit-cost ratio comparable to the best performing Graduation pilots run by other organizations. These results played an important role in the selection of Village Enterprise for the DIB.
RATIONALE FOR THE DEVELOPMENT IMPACT BOND APPROACH

DIBs are one of several P4R approaches which may be used to allow funders to pay for impact, not inputs, and to try to foster accountability based on results. Other P4R approaches include:

- **Advance Market Commitments**: A pay-for-results approach that guarantees a price or market for a specific product once it is developed.\(^8\) This guarantee is intended to serve as an incentive for the private sector to develop a product that may be risky to develop in terms of unknown research and development (R&D) costs, lacks clarity on end consumers’ ability or willingness to pay, and generally has an uncertain return on investment for the private sector entity.

- **Prizes**: A reward or gift of money for success in competition. Prizes (financial rewards) are awarded, usually through an open and competitive process, to one or more competitors that are successful at accomplishing a prespecified desired result\(^9\). Prizes may be winner-take-all, or a predetermined pool of funds that are split proportionally among winners and may be one-time or regular payouts based on interim achievements.

- **Performance-Based Award**: Often referred to as performance-based contracts, this is perhaps the broadest category of pay-for-results approaches and refers to arrangements between funders and implementers which have some sort of milestone or agreed upon deliverable to which all or part of the payment is tied. In the USAID context, performance-based awards can include contracts, grants, and cooperative agreements, and can be structured so that a portion of the implementing partner’s payment and/or fee is dependent on achieving certain outcomes over the life of a project. Further, the implementing partner can require similar performance from its subgrantees, subcontractors, or partners.

- **Conditional Cash Transfers**: A pay-for-results approach in which cash payments are made directly to households to stimulate investment in human capital upon meeting predetermined conditions (e.g., ensuring periodic health checks or school attendance).\(^10\)

A DIB is a P4R approach in which private up-front funders (which can include social investors) provide service providers with pre-financing for development programs, and donors pay service providers if, and only if, these programs succeed in delivering development outcomes.\(^11\) Unlike Social Impact Bonds (SIBs), in which governments pay for outcomes, DIBs involve non-governmental donors, which might be donor agencies or charitable foundations, either as full or joint funders of outcomes in lieu of local governments. Because repayment to private up-front funders is contingent upon the achievement of specified outcomes, DIBs are not bonds in the conventional sense.\(^12\)

Over the course of interviews conducted to inform this case study, it was noted several times that participation in DIBs should not be considered an end in itself, but rather, a potential way to ensure that USAID contracting or grant-making is as effective as possible. Decision-making around whether a DIB or other P4R is an appropriate approach by which to fund a USAID activity depends on the specificities of the activity itself, and the incentives and objectives of the different actors involved.

**PAY FOR RESULTS SUITABILITY ASSESSMENT**

The suitability assessment below provides a systematic framework through which to assess whether a DIB or other P4R approach adds value over and above traditional input-based grant-making.\(^13\) It has been completed ex-post as a demonstration case: while the Village Enterprise case met the necessary
criteria, other issue areas or interventions may not, and may not be judged suitable for a P4R or DIB approach.

## ASSESSMENT TOOL

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| 1. There is a clear outcome or set of outcomes that all key stakeholders agree upon for the population of interest. This implies that:  
  - We can clearly articulate problem and population affected by it.  
  - The outcome(s) sought for those people can be clearly defined.  
  - If there is more than one outcome funder, or various interests among parties within the outcome funder, the outcomes they seek for the population of interest are compatible.  
  - The market providers agree on the need to achieve that outcome (and not others). | Criteria met for Village Enterprise Graduation model  
Outcomes payers, upfront funders, and the service provider agreed on the population of interest (those living in extreme poverty in Kenya and Uganda) and the outcomes sought (graduation from poverty, measured in this case by increases in consumption and assets). By tying funding to these verified outcomes, the DIB aims to ensure that the interests of all stakeholders continue to be well aligned and focused on improving the same social outcomes.  
From the perspective of USAID-DIV and other outcomes payers, part of the value of the DIB lies in its attempts to ensure that the service provider is focused on outcomes, rather than inputs. The intention is to drive accountability for results and create conditions more conducive to impact. |
| 2. There is an appropriate degree of uncertainty around the probability of achieving those outcomes with the population of interest. This means that:  
  - We can identify concrete sources of risk which affect the certainty of achieving the desired outcomes with the population of interest.  
  - The level of uncertainty is large enough that the outcome funder is not prepared to contract the services directly, or they see an important opportunity to improve outcomes by contracting for them instead. | Criteria met for Village Enterprise Graduation model  
From 2014 to 2017, a randomized controlled trial (RCT) evaluated the impacts of diverse components and variants of the Village Enterprise program. Results were encouraging, suggesting that Village Enterprise is capable of reducing extreme poverty, with comparable cost-effectiveness to those found across evaluations of a range of ultra-poor Graduation programs. This RCT data provided the evidence base required to persuade third parties to finance the program.  
However, the Village Enterprise DIB involved a significant scaling of its operations, and it is natural that scaling of any model involves risk, uncertainty, and the need to adapt delivery in reaction to changes in circumstance and new challenges which emerge. This uncertainty is an important condition in order for a DIB structure to have maximum impact:  
Uncertainty creates conducive conditions for a flexible contract; this should enable the service provider to innovate and adapt program management in order to try to achieve improved results.  
Uncertainty also means that outcomes payers may benefit from the reduced risk of only paying for results. As donors pay if social outcomes are achieved, the DIB can ensure that the funding disbursed is linked to real impact, providing greater guarantee of value-for-money compared to pay-for-inputs funding.  
If it is clear from the outset how to best achieve strong outcomes, then providing funding on input basis could be a simpler and cheaper option than creating a P4R structure. |

Existing evidence on the achievement of outcomes with the population of interest is sufficient to persuade a third party to finance the provision of a service and assume the risk (upside and downside) associated with the achievement of outcomes.
3. It is possible to improve current outcomes for the population of interest through adaptive management of the service. This means that:
   • The service can be adapted throughout its delivery—there are no regulatory constraints or market dynamics barriers to doing so.
   • The size of the proposed population of interest is sufficient to allow robust learning around what works and what does not in pursuit of the desired outcomes.

Criteria met for Village Enterprise Graduation model
As outcomes funders only pay the service provider when results are achieved, the service provider should be incentivized to not only better track and manage results but also, importantly, should be granted the flexibility to adapt elements of their intervention to achieve better results. Where regulatory or market barriers are in place, this may not be possible.

Village Enterprise face no regulatory or market barriers to adapting their service delivery. The DIB tries to offer flexibility and freedom to Village Enterprise to pursue a range of strategies and adapt the program to maximize impact, and interviewees in this case study repeatedly noted the ability of the DIB to facilitate this.

Village Enterprise also serves a sizable target population. Through the implementation of the Village Enterprise DIB, Village Enterprise aims to create between 4,220-4,610 microenterprises. Between 12,660-13,830 program participants will be trained in business skills, financial literacy, and NRM, and 422-461 business savings groups will be created. This translates to a minimum of 75,000-83,000 lives transformed by the intervention, a significant level of scale which allows for robust and statistically significant learnings to be generated.15

4. The inclusion of a new actor is both possible and necessary to enable a payment by results contract. This means that:
   • The providers are not willing or able to finance the delivery of the service aimed at achieving results and in so doing take on the risk of failure.
   • Outcomes payer and potential providers are willing and able to include a new actor, to provide upfront funding for service delivery.

Criteria met for Village Enterprise Graduation model
The DIB involved a significant scale-up for Village Enterprise’s operations (this was a key part of the appeal of the model for Village Enterprise).16 It allowed Village Enterprise to double the size of the organization in just three years: a significant capital injection was required. It is very unlikely that Village Enterprise would have been able to up-front fund the increase in operations itself.

Outcomes payers were willing and able to include new actors to provide up-front funding, however one of the key innovations of this DIB is that Village Enterprise holds contracts directly with these funders, and there was limited interaction during the design process between outcomes payers and up front funders (see section “Key Learnings for USAID” below).

For an assessment of the fixed costs of the Village Enterprise DIB, please see section below “Comparison of two USAID DIBs: Village Enterprise and Cambodia Rural Sanitation DIB”.

5. The size of a potential payment by results contract justifies the fixed costs (structuring and management) associated with an impact bond.
FUNDING STRUCTURE

PARTIES INVOLVED

The concept of a DIB for poverty alleviation models in sub-Saharan Africa was led by an anonymous philanthropic fund, which ultimately acted as an outcomes payer, and Instiglio. These two parties began conversations about the idea and launched a search for an appropriate service provider in 2014. Once they had identified the service provider, outcomes payer conversations began in 2015.

FIGURE 1: Parties involved in Village Enterprise DIB and relationships

SERVICE PROVIDER

The service provider commits to delivering the services to the target population and to be paid by the outcomes payers on results. In this case, there is a single service provider: Village Enterprise. Instiglio’s search for an appropriate delivery partner identified more than 80 potential service providers. They have noted that as a public Request for Proposals was not published, it is possible that some high-performing service providers were not identified.

OUTCOME PAYERS

The outcome payers are the organizations that commit to pay for results that are achieved. The three outcome payers for this DIB are:

- An anonymous philanthropic fund. This organization funded the initial DIB design and search for appropriate service providers and offered up to $2 million in match funding for outcomes.
• Development Innovation Ventures from the United States Agency for International Development. Instiglio had previously been funded by USAID/DIV to explore the potential for SIBs around teen pregnancy in Medellin, Colombia. Instiglio applied for USAID/DIV funding through DIV’s standard application processes for all external organizations.

• The Department for International Development of the United Kingdom (DFID). The Village Enterprise DIB was one of DFID’s three pilot DIB projects, launched with the intention of testing the model’s efficacy in developing countries. The others are the ICRC Humanitarian Impact Bond for Physical Rehabilitation in Congo, Mali, and Nigeria, and the British Asian Trust’s Quality Education DIB in India. DFID’s intention was to take part in a program with a service provider identified and existing commitments or engagement from other funders. Conversations between Instiglio, DFID, and USAID/DIV occurred concurrently.

Ultimately, USAID, DFID, and the anonymous philanthropic fund committed to contributing $1,004,454, $1,667,720, and $1,608,444, respectively, to pay for outcomes generated through the Village Enterprise DIB (in addition, all three outcomes funders paid for project management costs). A total of approximately $4.28 million in outcomes funding was provided. Outcomes funding agreements were signed in November 2017.

UPFRONT FUNDERS OR INVESTORS

Upfront funders provide funding to Village Enterprise to enable services to be delivered ahead of outcomes payments being made. This pre-funding will be repaid by Village Enterprise if results are achieved, as verified by the outcomes evaluator. If results are not achieved, upfront funders will not receive repayment of their capital.

In this DIB, Village Enterprise holds contracts with the upfront funders directly and was responsible for negotiating the repayment terms. The DIB was designed in this way to reduce the upfront transaction costs for outcomes payers involved with traditional approaches to DIBs (see Key Learnings for USAID, below). According to interviewees, outcomes payers were neutral about the type of funding raised by Village Enterprise; had it been Village Enterprise’s preference, they would have been able to raise grant, debt, and/or equity investment.

Delta Fund is the “lead” upfront funder in the Village Enterprise DIB, investing alongside a total of nine others; Delta Fund is the largest single provider of upfront funding. Not all other upfront funders have been publicly disclosed. Those who have include the Hall Family, ImpactAssets (three private social investors, including Silicon Valley Social Venture Fund (SV2), Jay Friedrich, Brian Lonergan, the Laidir Foundation, Bridges Impact Foundation, and an anonymous philanthropic fund.

Upfront funding is structured as a recoverable grant; all up-front funders provide such a grant on the same terms. There is no minimum guarantee of a return of funds, and upfront funders in this DIB provide a very patient recoverable grant.

The total amount of upfront funding raised was $2.4 million, including $1 million from Delta Fund. The total amount of upfront funding required is less than the total amount of outcomes funding committed ($4.28 million) due to “recycling” of outcomes payments. As outcomes are achieved, outcomes funding accrues to Village Enterprise, who can channel that funding into its ongoing operations to supplement working capital from upfront funders.
The DIB’s target Internal Rate of Return (IRR) was calculated based on the results from Village Enterprise’s previous RCT in Uganda in 2014/2015. Upfront funders receive a maximum of 9.99% IRR from Village Enterprise if all outcomes are achieved. Beyond 7%, Village Enterprise and upfront funders split any additional upside, with funds accruing to Village Enterprise considered a performance bonus.

Notably, Village Enterprise had not raised all its upfront capital prior to signing outcomes funding agreements with USAID/DIV, DFID, and the anonymous philanthropic fund. Outcomes funding agreements were signed in November 2017, at which point $1 million had been confirmed by Delta Fund. Service provision began before the full amount of required upfront funding was raised. This process of capital raising lasted until the following June 2018.

TRUSTEE

Committed funds in this DIB are pooled and managed by the Trustee; a role played by Global Development Incubator, Inc. (GDI). The Trustee holds funding from each outcomes payer and is then responsible for disbursing the funds to Village Enterprise as and when results are achieved. The Trustee also manages the evaluator and the DIB’s governance structure.

The Trustee role was designed to streamline the contracting relationships and financial flows between the outcome payers and the service provider, in hopes of reducing transaction costs and deal complexity, two commonly-cited barriers to the broader use of payment by results by governments and donor agencies. See the below section, Key Learnings for USAID, for more information about the benefits and objectives around the use of the Trustee.

OUTCOMES EVALUATOR

IDinsight is the independent outcomes evaluator for the Village Enterprise DIB and implements the evaluation that forms the basis for outcomes payments to flow from the trustee to the service provider. IDinsight was procured through a competitive bid process. See the below section, Outcomes and Payment Mechanism, for more information about the evaluation methodology.

PROJECT MANAGER

The project manager is responsible for the smooth functioning of the project throughout its lifecycle—managerial, coordination, and secretarial tasks are shifted to the project manager, as well as technical assistance (e.g., addressing technical issues raised by the outcome evaluator, arbitrating disputes brought forward by any party, advising any renegotiation process). Instiglio Inc. (“Instiglio”) act as project manager for the DIB and also led its inception. Alongside the anonymous philanthropic fund which acted as an outcomes payer, Instiglio led the search for an appropriate service provider and provided the technical expertise for the design of the DIB.
Village Enterprise’s **Theory of Change** aims to increase household income and savings through the creation of small businesses, knowledge transfer, and the creation of Business Savings Groups (BSGs). Consequently, the DIB is designed to reward Village Enterprise’s ability to achieve these outcomes, i.e., to increase the income and savings of the households it engages with. To approximate this as closely as possible, the independent evaluator, IDinsight, measures two uses of income at the household level: consumption and assets. Payment is made for every dollar gained; specifically, outcome payers pay $1 for every $1 of increase in household income, whether in assets or consumption. During the design process, it was felt that it would not be appropriate to pay for increases in income alone, due to the complexities of income measurement. For instance, income may be in-kind, irregular or seasonal, and monitoring income over long periods of time to account for these fluctuations is likely to be challenging, especially as it would rely on self-reported metrics alone rather than, for instance, an in-person review of assets.

**Consumption** is defined as the sum of household food and beverage consumption, household recurring consumption, and household infrequent consumption. It is measured based on the widely utilized Consumption and Expenditure (C&E) survey, in which participants are asked, for instance, to list their typical household purchases (food and non-food items).

**Net assets** are defined as net household assets: household savings and tangible household assets, such as livestock, net of any household liabilities, plus net business assets (business-related savings assets, net of any liabilities). Business assets are measured separately since the Village Enterprise Graduation model relies on multi-member businesses. Increases in assets and consumption are assessed through an in-person household survey and measured versus a control group. IDinsight used a cluster-level randomization process for the RCT. Instiglio argues that the amount paid for increases in income is a conservative estimate, because the poverty graduation model’s theory of change also aims to build social capital, increase financial literacy, and build business skills in a way that the monetary gains do not capture.
Village Enterprise’s Graduation Model also involves the transfer of an initial grant to support the launch of multi-member businesses. A typical Village Enterprise grant is $150 per business, but as part of the DIB, Village Enterprise gives 65% of businesses $150 and the remaining 35% of businesses $450, to experiment with a larger than normal seed transfer and observe the impact. The payment mechanism takes account of both the initial transfer of the grant and the eventual impact on household consumption and assets, with the initial grant also repaid by outcomes payers; however, this is not subject to randomized evaluation. The initial grant transfer is simply reported and audited.

The payment mechanism relies on a formula which pays differing amounts depending on whether a participant’s household income has decreased, increased, or remained the same as the result of the intervention (see Appendix for details of the payment formula). The formula itself is reasonably complex; interviewees noted its value in closely approximating impact, which was considered especially useful for convincing colleagues and decision-makers of the value-for-money case inherent in the DIB. They also noted its ability to take account of sustainability, with higher payments tied to impacts occurring further in time form the intervention (thus incentivizing sustainable programming.) However, they also noted that the process of negotiating and developing the payment formula involved lengthy, complex negotiations. Appendix

It is notable that this DIB chooses to price an outcome based on the benefit achieved (outcomes payers pay $1 for every $1 in income generated by beneficiaries.) Other DIBs have relied on estimates of a service provider’s costs in order to price outcomes, which provides a less clear value-for-money case for an outcomes payer. Village Enterprise noted that their efficiency as an organization allowed them to cover their costs while being paid on this basis, but cautioned that for smaller, less efficient providers, this may not be the case. See Appendix for more detail on the Village Enterprise DIB’s payment mechanism.
KEY LEARNINGS FOR USAID

While the DIB is still underway and conclusions cannot be drawn until the DIB’s evaluation is complete, it is still possible to draw learnings at this stage from its setup and implementation. Some of these learnings are practical—such as determining the type of USAID funding mechanism most appropriate for use in a DIB (e.g., a contract versus a grant; a cooperative grant versus a Fixed Amount Award, or FAAs) or the way that the funds are channeled and ringfenced to make most effective use of them. Some are focused on strategic design, such as the value of the DIB instrument versus others to drive the results desired, or methods of insuring future DIBs against contextual shocks. Others concern stakeholder relationships, where learnings can be drawn around ways to simplify and speed up the processes.

The Village Enterprise DIB should not be considered the “gold standard” in any of these areas; rather, as one of the earliest DIBs, while some aspects of its setup and implementation were efficient and productive, others did not proceed as planned. The experiences of this DIB provide a helpful learning lens through which to assess future DIB design approaches and processes.

USAID FUNDING STRUCTURE

USAID-DIV funds innovations in any sector and in any country where USAID operates, and their funding is provided as grants. Interviewees noted that grant funding is typically a more appropriate way of funding innovative programs than contracts for services, given that grant funding provides more flexibility to grantees to adapt during implementation. Similarly, interviewees noted that DIBs and other P4R approaches which prioritize innovation and adaptation have most relevance where grant-making, rather than contracting, is concerned.

USAID-DIV aims for its grants to “test new ideas, take strategic risks, build evidence of what works, and advance the best solutions”. They offer four types of funding awards:26

- Stage 1: Proof of Concept (Up to $200,000)
- Stage 2: Testing and Positioning for Scale (Up to $1,500,000)
- Stage 3: Scaling (Up to $5,000,000)
- Evidence grants (Up to $1,500,000)

The DIB was funded by USAID/DIV as a Stage 2 award to Instiglio for testing and positioning for scale. This award was approximately $1.3 million, of which approximately $1 million is allocated directly for outcomes. The model was subject to USAID/DIV’s core criteria: rigorous evidence base, cost effectiveness, and pathways to scale. The appeal of the DIB was a combination of the well-evidenced and scalable Village Enterprise Graduation Model, and the cost-effectiveness and value for money offered by the DIB structure.

USAID/DIV’s approach to grantmaking typically makes almost exclusive use of FAAs; this was the award structure chosen to fund the DIB. FAAs are a grant type whereby the grantee is paid upon completion and approval of pre-agreed milestones.27 A milestone is defined as a verifiable product, task, deliverable, or goal of the recipient.28 Several interviewees noted the value of using FAAs relative to both more complex and less well-understood outcomes funding agreements and traditional grant awards. ADS
Chapter 303 notes that “a fixed amount award provides several advantages for both USAID and the recipient. It focuses on outputs and results, limits risk for both parties, and requires only limited financial and management capacity.” Further, with an FAA, USAID does not base payment upon the actual costs incurred by the recipient, but instead focuses on milestones or results.

From a design and value perspective, an FAA (whether used as part of a DIB structure or alone) plays an important role in:

- Fostering accountability based primarily on performance and driving results.
- Enabling value-for-money as the Agency does not pay for milestones which are not achieved.
- Increasing service provider operational flexibility by setting milestones rather than activities, enabling them to adapt their operations to changing circumstances to maximize the chances that delivery seeds results.
- Allowing service provider financial flexibility through avoiding cost principles, which would prevent a service provider from being able to adjust delivery as needed.

From a practical perspective, this type of award:

- Reduces some of the administrative burden requirements for all involved versus traditional grant-making, which requires that cost principles be applied.
- Reduces the ongoing costs of monitoring the grant.

Fixed Amount Awards have been used since for the Cambodia Rural Sanitation DIB (outcomes funded by USAID alongside service provider iDE and up-front funder the Stone Family Foundation). However, despite the frequency with which USAID/DIV makes use of FAAs, interviewees also noted that FAAs are used infrequently across other parts of USAID.

**FLOW OF USAID FUNDS**

Rather than disburse outcomes funding as and when outcomes are achieved, USAID/DIV’s funds are pooled up-front and held by the Trustee, a role fulfilled by GDI. This pooling of outcomes funds allows outcomes payers to:

- Ringfence funds for future payment: this may be particularly useful in a scenario where the availability of future funds may be uncertain.
- Ensure that allocated funds will eventually be used for the desired outcomes and mitigate the risk of failing to make use of allocated funds to achieve outcomes, resulting in underspend.
- Streamline funding from multiple outcomes payers with different disbursal requirements.

**RINGFENCING OF FUNDS FOR FUTURE PAYMENT**

In the first instance, USAID/DIV awarded the FAA to Instiglio, who managed the DIB’s design and acts as the ongoing Project Manager. Funds received by Instiglio then flow to GDI, the program’s Trustee, where they are combined with outcomes and evaluation funding from other outcome payers; ultimately, the FAA will be used to pay Village Enterprise on the basis on outcomes.
As indicated in Figure 3 above, the initial step is the FAA, which flows from USAID to Instiglio in the first instance. According to USAID/DIV’s contract with Instiglio, of the $1.3 million allocated under the FAA, approximately $1.21 million are nominally allocated for disbursement according to Instiglio’s completion of activities, such as the development of a project implementation plan and KPI dashboard, the successful raising of investment capital, the identification of an evaluation partner, and midline reports documenting lessons learned from implementing the Graduation Model. A further $90,000 of the FAA is nominally allocated for payments based on Village Enterprise’s outcome milestones: the demonstration of growth in assets and consumption on households exceeding the initial size of the household grant transfer.32

However, this should not be interpreted as implying that only $90,000 of USAID/DIV funding accrues to Village Enterprise on the basis of outcomes. As indicated in step 4 in Figure 3, USAID/DIV funds received by Instiglio for the completion of activities flow on to GDI, where they are combined with outcomes and evaluation funding from other outcome payers. GDI holds funds in escrow during the life of the project and holds a direct contract with Village Enterprise based on the outcomes payment mechanism. GDI disburses funds to Village Enterprise as and when outcomes are achieved. As a result, $1 million of USAID/DIV funding is earmarked to pay Village Enterprise based on outcomes, and will eventually be disbursed to Village Enterprise as and when these outcomes are achieved.33 Despite the multi-stakeholder arrangement and the relative complexity of this flow of funds, USAID/DIV’s funding is ultimately tied to Village Enterprise’s achievement of outcomes and only disbursed when those outcomes are achieved.

This FAA structure allows a large portion of the FAA to be disbursed at the launch of the program, rather than on confirmation of the achievement of outcomes. As above, this allows the FAA to be
ringfenced. These funds could have been disbursed directly to GDI, but; however, as an existing grantee of the Agency, disbursement via Instiglio allowed for a reduction of the administrative burden of onboarding a new grant recipient. Equally, Instiglio submitted the initial application for a USAID/DIV award early on in the process of outcomes payer negotiations. Had it been necessary to disburse funding to GDI, GDI would have needed to submit an application independently.

ENSURING THAT ALLOCATED FUNDS WILL EVENTUALLY BE USED FOR THE DESIRED OUTCOMES

The pooling of donor funds, held by the Trustee, was likened to an “Outcomes Fund” by some interviewees. While terminology within the P4R space is evolving, and while some actors define an Outcomes Fund by dint of the number of outcomes contracts commissioned over a series of procurement rounds, Outcomes Funds can also serve the function of pooling funding for outcomes funders.34 The objective of this structure is to ensure ongoing productive use of funds, overcoming the potential budgetary implications of underspend in P4R programs. If service providers fail to achieve outcomes, the funds are not returned to the outcomes payer: instead, they return to the Fund to be channeled towards outcomes achieved through another means.

The pooling of funds in the Village Enterprise DIB creates, in effect, an Outcomes Fund. In a scenario where outcomes are not achieved, USAID funds already held by GDI (approximately $1 million) could, pending approval by the program’s governance structure, be reallocated to other service providers, rather than being returned to USAID/DIV. In this instance, a joint agreement between USAID/DIV, Instiglio, GDI, and Village Enterprise was created to direct the alternative use of funds and confirm that if outcomes are not achieved by Village Enterprise, the group of stakeholders would consider rechanneling the funds elsewhere. Depending on the amount of unused funds, they could be used for additional market-building and dissemination activities, and/or finding new donors and service providers for another DIB, to deliver the desired outcomes for beneficiaries. This ensures that even if Village Enterprise failed to deliver outcomes, allocated funds would continue to be used for their intended purpose: validated increases in income and self-reliance among households in Kenya and Uganda. Payment milestones directly linked to the Village Enterprise’s achievement of outcomes ($90,000), however, would not be met; this risk is somewhat mitigated by this portion being the minority of the FAA funds. It should be noted that DFID has a separate arrangement with GDI where any unused funds would be returned to them.

It should be noted that the value of this pooling structure is still being determined and has become more pertinent since the COVID-19 crisis has meant that evaluation, and hence disbursal of outcomes funding, has been paused (see Resilience to Contextual Shocks below.)

STREAMLINING OF FUNDING FROM MULTIPLE OUTCOMES PAYER WITH DIFFERENT REQUIREMENTS

The up-front pooling of capital, held by the Trustee, also allows the DIB to streamline the receipt of outcomes payer funds in a scenario where payers have different needs and preferences for the disbursal of funds. The other two outcomes payers in the Village Enterprise DIB, DFID and the anonymous philanthropic fund, hold contracts directly with GDI. The anonymous philanthropic fund’s funds are held in escrow by GDI, like the majority of USAID/DIV’s funds. DFID’s approach to the Trustee differed from the other outcomes payers. DFID’s funds are paid quarterly on the basis of outcomes in order to
more closely demonstrate the value-for-money case of P4R approaches; DFID’s regulations also prevent them from placing outcomes funds in such an “escrow” account.

In the absence of a Trustee mechanism, outcomes payers would have needed to hold individual contracts with Village Enterprise to meet their different needs, which would have greatly increased the administrative burden of disbursement and reporting on all sides. Interviewees noted that one of the aims of the DIB was to test the Trustee’s capability to act on outcomes payers’ behalf, managing the full delivery chain, and that it has been considered successful thus far. As well as funding outcomes, USAID/DIV pays project management costs to Instiglio, and all outcomes payers pay Trustee fees and RCT costs. These Trustee fees and RCT costs are channeled through GDI, who acts as a single partner managing all disbursements of capital. It should be noted that while the Trustee and Project Management roles increase costs, they also support the streamlining of outcomes funder activity, and drive increased efficiency.

**PROVIDER SOURCING OF UPFRONT FUNDING**

The Village Enterprise DIB was designed to reduce touchpoints between outcomes payers and up-front funders (or social investors). Typically, SIBs and DIBs involve direct negotiations between these two parties ahead of contracting and, often, a contract is held between them, with funding flows passing directly from outcomes payer to upfront funder as and when successful outcomes are achieved. Funders have noted previously that interest in Impact Bonds has been held back by the time-consuming nature of the setup process, with Instiglio noting the limits of the “consensus-on-all-things-by-all-parties” approach. Instiglio hypothesizes that “if donors come together to credibly commit significant outcome funds and specify clear and realistic conditions for a provider to earn payments, capable providers can more confidently build capabilities to mobilize the necessary working capital and negotiate terms with investors.”

Interviewees tended to agree with this hypothesis, noting that the lack of negotiations between the outcomes payers and up-front funders prior to the launch of the DIB avoided potentially time-consuming design processes, agreement of terms, and due diligence. Upfront funder diligence on the part of outcomes payers was largely unnecessary; however, DFID was required to complete due diligence on up-front funders. However, while direct negotiations were unnecessary, outcomes payers required that some investment capital be identified by Village Enterprise ahead of commitment of the FAA (Village Enterprise had raised approximately $1 million of the target $2.4 million prior to the commitment of the FAA.)

As Village Enterprise did not have investment-raising capacity in-house, the transfer of responsibility for securing upfront delivery funding to Village Enterprise created a financial, administrative, and learning burden for the provider. From Village Enterprise’s perspective, one of the most challenging parts of the DIB was engaging upfront funders: for instance, they felt that fully understanding the legal frameworks and challenges was time-consuming. It was necessary to create a Special Purpose Vehicle (SPV), a special-purpose investment platform (called VECC) to create legal distance between the entity contracting with up-front funders for the Village Enterprise DIB and the entity contracting with other funders for their wider business. For transparency, and to ensure protection for other grant funding, Village Enterprise preferred not to take recoverable finance onto the same books.
Village Enterprise relied on their existing donor base, including several HNWIs and foundations with whom they had been in previous funding discussions, to provide very patient recoverable grants. They also relied on a well-connected board to provide pro-bono legal and accounting support (for instance, with the registration of the new SPV entity, VECC; total pro-bono legal support was estimated at approximately $150,000.) While Village Enterprise has now built significant capacity in-house for capital raising, interviewees questioned the applicability of such an approach for other organizations. To facilitate a smoother, more scalable transaction in future, it may be preferable to assess the service provider’s ability to source the up-front funding they require and, where possible, work with service providers who have stronger capacity for capital raising. This may be facilitated, as the P4R market matures, by the creation of specialist outcomes investment funds like the one currently being designed by UBS with Bridges Outcomes Partnerships.

It is important to note that care was taken by USAID in the design of this DIB to ensure that it is not actually, nor could be perceived to be, creating profit for the up-front funders. The independent contract held between Village Enterprise and upfront funders made this more straightforward than a scenario where USAID/DIV had been required to hold a direct contract with up-front funders (this is an alternative structure for DIBs and SIBs). If USAID wishes to participate in future structures where this is not possible, partnership with other outcomes payers could be used as a mechanism for mitigating this concern.

VALUE OF INSTRUMENT TO DRIVE BETTER OUTCOMES

The program evaluation for the Village Enterprise DIB has not yet been completed, and hence the full impact of the DIB on Village Enterprise’s ability to achieve outcomes is not yet clear. Anecdotally, however, interviewees noted the improvements they believe the structure has brought to Village Enterprise’s operations, as a result of improved performance management and aligned incentives. For instance, one interviewee from Village Enterprise noted that “[the DIB structure…] drove us to produce outcomes in a structural way that hadn’t existed before… having the story focused on the outcomes truly pushed change.” This echoes the experience of other service providers involved in DIB delivery, like Educate Girls in India. Their Executive Director, Safeena Husain, said of their DIB experience in India: “It’s been a journey of self-discovery for Educate Girls. The [DIB] funding enabled us to innovate and apply tailored solutions to enroll the hardest to reach girls in school and significantly improve the learning levels of a large number of marginalized first-generation learners.”

Village Enterprise also benefits from the operational flexibility of their contract, which does not designate any specified activities; as a result, adaptive management is thought to have played a large role in improving program performance. For instance, it was noted that Village Enterprise has redesigned their training materials; each business mentor tailors the frequency/type of training offered to the needs of the business owners; and that Village Enterprise have updated their performance management dashboards and data processes, allowing them to understand how well different businesses are doing and what type of support individual businesses may need with a RAG rating. This has streamlined their operations, increased the efficiency of field workers, and allowed Village Enterprise to analyze and adapt their performance in real time. Interviewees noted that Village Enterprise was chosen as the service provider for the DIB, at least in part, due to its strong track record and focus on adaptive management. Interviewees also reflected on the value of a DIB structure, which allows the following:

• **Creates management efficiencies:** The involvement of upfront funders creates efficiencies. Motivated by the potential return of capital as well as social impact, upfront funders take on the majority of the adaptive management responsibility in a DIB, reducing the burden on outcomes payers to drive and incentivize adaptation to improve results.

• **Focuses donor funding on ultimate outcomes:** Interviewees noted that for practicality, FAAs typically tie milestones to outputs, while a DIB allows payment to be tied to RCT results; in the case of Village Enterprise, it allows outcomes payers to disburse funds based on the end impact on poverty alleviation.

• **Enables pooling of funding from multiple donors:** A DIB allows outcomes payers to fully align their funding and objectives, working and funding together to maximize the impact of their capital. DIBs might ultimately “graduate” from donor agency or foundation funding to local government funding, with the donor-funded stage playing a key role in demonstrating the ability of the structure to drive impact.

• **Removes restrictions to P4R participation by smaller service providers:** Utilizing a DIB structure and involving external up-front funders may allow outcomes payers to work with smaller organizations who could not otherwise self-fund. Where organizations self-fund, there is often little room for innovation, owing to the financial risk placed on service providers facing the uncertainty of results-based payments. 42

**REFLECTIONS ON DESIGN, DUE DILIGENCE, AND GRANT-MAKING**

The design and grant-making stages of the DIB were prolonged due to a number of challenges:

**DESIGN PHASE**

• USAID/DIV and DFID were brought into design conversations after Instiglio, Village Enterprise, and the anonymous philanthropic fund had begun them.

• Instiglio, Village Enterprise, and the anonymous philanthropic fund engaged USAID/DIV and DFID independently of each other, after which it was necessary to engage as a group. Interviewees noted that this meant prolonged design conversations, as repetitive conversations were necessary; side conversations meant ongoing “changing goalposts;” and there was a lack of clarity around the process for reaching consensus.43 It may be preferable in future to engage potential outcome payers as a group from the start, with clear protocols for decision-making to ensure all views are included.

• For some outcomes payers, the design process felt overly complex: in particular, understanding the payment mechanism, which was based on both projections and past calculations from a recent RCT (a thorough 200-question survey.) While outcomes payers valued the ability of the payment mechanism to closely approximate impact, it was felt that a scaled approach to poverty graduation would benefit from a simpler approach. See Appendix for further detail on the payment mechanism.

**GRANT-MAKING AND DUE DILIGENCE**

• Due to the decision to have Village Enterprise raise upfront funding themselves, the burden of due diligence fell largely on Instiglio and GDI. This structure was a direct benefit for USAID/DIV. However, Village Enterprise and GDI had to rely on limited internal resource to complete due diligence on a large number of other institutions, which limits the scalability of this approach unless service providers/Trustees have better-developed internal investment capacity.
For DFID, there was a higher level of due diligence required for this DIB than for traditional grant funded mechanisms, and they needed to conduct due diligence on Village Enterprise, GDI, and all up-front funders irrespective of the trustee role.44

**ROLE OF TRUSTEE AND EVALUATOR**

- There was a lack of alignment around the role of the Trustee among stakeholders, which led to inefficiencies in conversations with potential Trustees and some miscommunication with one organization which believed they had been chosen to play the role.45
- Evaluation costs were significantly higher than anticipated, which led to delays as outcomes payers needed to reevaluate budgets. The fact that an evaluation advisor was not involved in the design process may have been an oversight, as they may have been able to provide valuable feedback around methods of reducing evaluation costs up front.46 The model of separating out the functions of Evaluation Advisor (during the design phase) and Program Evaluator (competitively procured during the implementation phase) has been used to good effect in other Impact Bonds.

**RESILIENCE TO SIGNIFICANT CONTEXTUAL SHOCKS, INCLUDING COVID-19**

The Village Enterprise DIB, like many ongoing programs, has been disrupted by the COVID-19 pandemic. The impact of the pandemic is twofold:

**Operational impact:** This includes the impact on the service provider’s ability to deliver outcomes, and the need to pause or extend the contract depending on its payment structure.

**Contractual impact:** This includes the potential need to negotiate an alternative basis for payment if outcomes evaluation becomes impossible (for instance, fee for service) or to agree amend or reweight payment triggers to enable outcomes-based payment to continue.

Stakeholders have, so far, seen the following impacts on the program in Kenya and Uganda:

**Operational impact:**

- Meetings of groups of individuals have been banned, with clear programmatic implications for operations including the training, Business Savings Groups, and mentoring elements of the DIB. A recent Brookings study on the impact of Covid-19 on the DIB notes that “Village Enterprise has […] suspended regular in-person field operations (training and mentoring of business groups, as well as savings group gatherings) until government restrictions are lifted and has shifted to remote working and remote mentoring of business owners.”47 Village Enterprise’s field staff have made calls to over 4,000 business owners and 465 business savings group leaders (in a two-week period) to understand their challenges and provide remote mentoring, as well as pivoting to provide vital health information. They are also working on upgrading their technological capabilities in order to do so.48
- Local markets have been closed, impacting participants’ ability to generate income and increase consumption.
- The lack of local transport—including restrictions on the number of people allowed in a single vehicle—impacts business owners’ ability to travel to make sales, particularly since the poor rely disproportionately on public transport. It also impacts the ability of trainers and mentors to interact with business-owners face-to-face.
Supply chain disruptions have meant that some business owners have struggled to access supplies required for their businesses, however, others have shifted business model, with some switching to produce facemasks for instance.

Competing financial demands are likely to have an impact of decisions made by business owners to continue to invest in their businesses. According to Caroline Bernadi, Chief Development Officer: “As a result of the pandemic, rural communities are facing food shortages, lack of information on the virus, hygiene, sanitation, and health care.”

Contractual impact:

- Evaluation of the program, which was due to begin in April 2020 (see Figure 4, below), has been delayed as face-to-face interviews are not currently possible. Phone interviews were considered but determined inappropriate due to the high number of questions and the fact that phone coverage is not universal.

- Reliability of data gathering may be also be impacted by the pandemic. Assuming evaluation is delayed, data collection in different seasons may also have an impact on the results achieved (for instance, asset stocks are likely to be larger in harvest season and may be lower during rainy season as income-generating activities (IGAs) become harder to perform). Furthermore, attribution of outcomes to Village Enterprise’s intervention is more challenging when evaluation is completed on a longer timeline.

**Figure 4: Planned timeline for operations and evaluation of Village Enterprise DIB**

The impact of the crisis is particularly interesting to consider since, unlike traditional grant-funded programs which fund inputs, potential delays to P4R approaches can have significant effects on both
provider cashflows and the availability of outcomes payer funding. Outcomes payer funding is typically committed several years in advance and it may thus be more challenging to delay disbursement. As a result, careful thought has gone into different ways to pivot the Village Enterprise DIB, and conversations continue as the situation evolves.

The value of using an RCT was noted as an important mitigation against the potentially disruptive effects of the pandemic on the ability to collect meaningful data. Comparing the results of the treatment group with a control group, equally impacted by the pandemic, is likely to still yield valuable data. In the absence of a control group the impact of the Village Enterprise Graduation model would be much more challenging to assess during a time where overall economic activity is significantly decreased, and hence household resilience may be more important than increasing household income. However, RCTs increase program resilience only against the operational impact of a crisis; if outcomes evaluation is impossible before the required deadline, it may be necessary to negotiate an alternative basis for payment (for instance, fee for service), or in a worst-case-scenario, end the grant agreement altogether.

The situation may provide a helpful test case for the value of the pooling mechanism, where the Trustee acts an “Outcomes Fund” in this model. It may be found that the Trustee plays a helpful role in smoothing decision making among outcomes payers, reallocating funds it is holding, and quickly adapting to support Village Enterprise. On the other hand, should it not be possible to reallocate the funds, the viability and risk of up-front pooling funds prior to the achievement of outcomes may be brought into question.

Finally, Village Enterprise has noted that the flexibility provided by the DIB has made it simpler for them to pivot their model in response to COVID-19, compared to a scenario where they are held to input-based grant agreements. Their ability to switch to remote mentoring, help business owners to switch business models, and provide ongoing health advice to beneficiaries would have been significantly more complex under a traditional grant agreement.

Interviewees noted the following additional learnings:

- P4R agreements need to specify risks and mitigations around delays to evaluation. While Village Enterprise has benefited significantly from flexibility in program operations, the outcomes payment structure is relatively inflexible, relying on the results of the RCT alone.

- Such risks should be considered in a systemic content: interviewees noted that a thorough risk assessment was completed at the launch of the DIB, including drought, famine, fraud, and insurgency, but given the geographic dispersal of Village Enterprise businesses, it assumed risk would be unevenly spread and unlikely to affect the entire portfolio of Village Enterprise businesses at the same time.
CONCLUSION

A DIB is simply one form of P4R which could be used by USAID to pay for impact itself rather than paying for inputs. It should not be considered the only method of doing this and this case study does not advocate specifically for the future use of DIBs; however, in the right circumstances, a DIB may be able to add significant value, leveraging USAID’s capital to drive accountability and improve results.

Even in the absence of an independent evaluation, a number of key learnings emerge from the process taken to set up and implement this DIB: for instance, USAID/DIV’s common practice of using an FAA to finance USAID’s contribution to this DIB structure was efficient, reducing the administrative burden associated with traditional grant-making. The upfront pooling of outcomes funds, held by the Trustee, allowed them to be ringfenced, ensuring they will eventually be used for their desired outcomes. Further anecdotal evidence points to the value of the DIB structure, even beyond that of other P4R instruments: in particular, it is worth noting the role of upfront funders in driving increased accountability for the service provider in enabling better adaptive management.

Interviewees noted that internal learning resources of this type would better enable them to pursue future DIBs or other P4Rs. They observed that it has been challenging to share learnings across USAID teams since DIBs have historically been implemented by different parts of the Agency and there are limited means for sharing of best practice across teams.51

In order to increase the familiarity and uptake of more P4R approaches within USAID, some next steps could be:

1. Inter-team collaboration to combine and share learnings from the three completed DIBs, as well as other direct P4R activities that were less complicated to design but still achieved the intended development impact.
2. Early and recurring consultation with GC/RLO, and AOs/AORs to understand informational needs and concerns around P4Rs approaches more broadly.
3. A standardization of P4R agreement language, and where possible, template documents for use across USAID.
4. Practical how-to guides for some of the more complex parts of the P4R design and procurement process, for instance around assigning pricing to outcomes, or designing a cost-effective outcomes monitoring and evaluation mechanism.
5. Engagement between USAID/Washington and Mission staff to identify and support potential interest in developing P4R approaches.
UPDATE: UNDERSTANDING THE IMPACT OF COVID-19

INTRODUCTION

This case study update aims to document the challenges and the associated solutions that the Village Enterprise DIB experienced throughout the COVID-19 pandemic and provide insights for other USAID offices considering a DIB. The COVID-19 pandemic spread across the world from March 2020 when the Village Enterprise DIB was in its final stages of implementation. The associated public health restrictions in Kenya and Uganda significantly impacted the operations and particularly the outcomes evaluation of the Village Enterprise DIB. While it seems likely that, as of writing this paper, enough progress has been made with the data collection for the final outcomes evaluation that this DIB will complete according to its revised timelines, COVID-19 remains a dynamic factor in the operating environment, and it is still possible that unexpected issues arise that affect completion.

In Kenya, the first COVID-19 case was identified in March 2020, quickly followed by the closure of schools, restricted international travel, and a ban on public meetings among various other restrictions. Further restrictions on the movement of people between the major metropolitan areas were introduced in April 2020. First introduced in March 2020, night-time curfews have been regularly extended and as of August 2021, remain in place between 10pm and 4am. At the beginning of the pandemic, the Kenyan government announced various measures to support low-income households and small businesses. However, these are largely only applicable to Kenyans in the formal labor market and tax system and so are unlikely to impact the participants of the Village Enterprise program, who are targeted because they live below the poverty line.

In Uganda, public restrictions were imposed ahead of the first COVID-19 case being identified on 21st March 2020. Public gatherings were banned and the use of public transport, causing severe disruption to travel for lower income households. The initial lockdown eased from May 5th, 2020, but many close-contact businesses could not reopen until July 27th, 2020, leaving many households to rely on savings, government food support or support from relatives. In June 2021, Uganda re-entered a partial lockdown for 42 days which banned travel between districts, restricted gatherings, and suspended schools. While these restrictions were gradually lifted from the end of July, a curfew remains in place as of August 2021.

Delivery of DIB-funded interventions was almost complete when these restrictions came into force, and so it was the contractual outcomes evaluation process, which was most significantly impacted. The planned randomized control trial (RCT) to verify DIB outcomes requires an extensive in-person survey to measure the DIB’s impact on household income. Public restrictions on the movement and gathering of people called into question the timelines and even the very possibility of verifying outcomes. This uncertainty necessitated significant renegotiation of the DIB’s outcomes agreements and resulted in contractual changes. As of August 2021, this is the only USAID DIB, of three, where contractual amendments to the outcomes agreement held between the outcome funders (in this case via the trustee) and service provider have been required due to the COVID-19 pandemic.

OPERATIONAL IMPACT
In total, the Village Enterprise DIB has supported the creation of over 4,700 small businesses with more than 14,100 first time entrepreneurs. With the intervention for the final cohorts (5-7) running until the end of 2020, adaptations to service delivery were necessary to accommodate COVID-19 restrictions. These adaptations included supporting participants remotely – providing mentoring support through phone discussions, switching the delivery of seed funding from cash to mobile money transfers to minimize human contact, and extending mentoring support for cohorts 5 and 6 to the end of 2020.

Whilst Village Enterprise kept the Working Group informed of the changes made to service delivery, generally Working Group approval was not explicitly sought or needed, given the outcomes-based nature of the agreements. Changing the seed funding transfer delivery method necessitated agreement on how these would be verified, such as IDInsight verifying mPesa transfer records and calling individuals to confirm receipt, but this agreement was straightforward to reach.

Village Enterprise noted that the total cost to deliver the program was higher than the amount initially raised from upfront funders, given the necessary adaptations. The lack of flexibility in the upfront funder agreements with the implementing partner meant that it was not possible for them to easily increase funding, so Village Enterprise had to cover the difference from their own unrestricted funds. It was fortunate for the continuity of the DIB that Village Enterprise was able to do that, as not all implementing partners have the same flexibility of funds. Ensuring that upfront funder contracts have sufficient flexibility to enable additional funding to be made available to the implementing partner if needed, may be important for the resilience of future programs.

The adaptive management approach deployed by Village Enterprise from the beginning of the DIB, was a strength that was the subject of many stakeholders’ comments. For Village Enterprise, the pandemic necessitated closer scrutiny of their own staff’s activities to ensure that new approaches were being delivered correctly, and, if not effective, to allow the approach to be changed. Some adaptations were piloted and rejected. For example, initially much public discourse suggested that low-income households needed a cash boost and Village Enterprise trialed increased cash stimuli with households they were working with outside the DIB program. They found that this cash infusion made no difference to consumption, and so the change was not introduced into the DIB, despite securing provisional agreement from the Working Group.

**OUTCOME EVALUATION AND PAYMENT TRIGGER**

Contractual payments for results within the Village Enterprise DIB were designed to be based on a randomized control trial using an extensive in-person survey of assets and consumption. The original evaluation plan included one round of data collection for cohorts 1-4 in April-May 2020 with the remaining cohorts 5-7 to be evaluated in April 2021. When COVID-19 restrictions were first put in place, preparations for the first outcome measurement round were already well-underway. Outcome measurement was initially postponed, then as the pandemic continued, it became clear that more extensive changes were necessary, both to the timelines and to the survey instrument content.

**TIMELINE AND OPERATIONAL CHANGES TO EVALUATION**

COVID-19 restrictions meant that rather than running two separate verification rounds in successive years, verification for all seven cohorts was carried out at the same time with data collection being...
completed in July 2021 in Kenya and largely completed in Uganda by the end of August 2021. From an evaluation perspective, the most significant concern with compressing the verification is that for cohorts 1-4, the intervention will have finished well over a year before data on impact is collected compared to the few months initially envisaged and in the intervening time, the impact on the DIB households may have changed relative to the control group. Such changes could be positive (i.e. the impact on program households could have grown during the period of the delay) or negative (i.e. the resilience of program and control households converged over the course of the pandemic). Uncertainty around such counterfactual risk necessitated changes to the payment structure discussed in the next section.

To comply with government guidelines to minimize face-to-face contact, the survey instrument was shortened from a 90-120 minute interview to 60 minutes on average, by removing the least common categories of consumption and assets and rescaling the consumption and assets values to account for these unmeasured categories. The working group discussed the possibility of using a phone survey, but this was deemed inappropriate given the complexity of the topic under discussion and the paucity of participants who own mobile phones. Over time, parties to the DIB accepted a mindset shift from assuming that in-person verification was not possible in any circumstances towards a stance of agreeing on how to do it to keep respondents and communities safe. Significant contingency planning was completed by IDinsight to ensure that fieldwork could continue safely as the pandemic continued in 2021. The total value of the outcomes evaluation contract, funded by FCDO, was increased by a maximum of just over USD 90,000. This allowed for increased direct costs associated with conducting the evaluation in a COVID-19 secure manner, such as staff using socially distanced transport, staying in separate accommodation, using personal protective equipment during interviews, and undergoing additional COVID-19 training. Approximately half the increased funds were for a contingency and would be triggered when any staff member tested positive for COVID-19, requiring that evaluator self-isolate and be replaced. To prepare for this contingency, more evaluation agents than normal were prepared and trained to conduct the evaluations. IDinsight also enlisted additional staff from a local evaluation agency in Uganda.

**PAYMENT STRUCTURE CHANGES**

The structure of outcome payments needed to be revised to account for the changes and delays to the outcome evaluation approach.

Firstly, for cohorts 1-4, where it was less certain that impact would still be apparent after the time lag since implementation, 60% of the original outcome payment was switched to a fee-for-service arrangement based on cost reimbursement, rather than dependent on outcomes. This agreement was reached by working group members, including outcome funders, after rigorous discussion. This enabled a payment to be made in 2020, ensuring cashflow for the implementing partner and reducing the increased risk that the implementing partner and upfront funders would not be reimbursed for impact that DIB-funded interventions had generated. Secondly, the payment formula for the outcomes payments was altered to reflect the changing context where the program’s original theory of change was no longer appropriate. Originally, there were three different scenarios for calculating the lifetime impact

1 This is also known as counterfactual risk. See the paper, “Evaluating Impact Bonds – Balancing Evidence an Risk” for more information. Available at https://www.socialfinance.org.uk/resources/publications/evaluating-impact-bonds-%E2%80%93-balancing-evidence-and-risk
of the program on asset stock, under the assumption that a build-up of asset stock could be used to predict increases in income. During the pandemic, resilient households could draw down their savings to maintain consumption levels, however under the original payment formula, this would not show as a success but a poor outcome as assets were being depleted. The payment formula was therefore changed from having three scenarios to only two, a pessimistic scenario where assets are depleted and the increase compared to the control group is negative, and an optimistic scenario where assets are at least unchanged if not positive and so greater than the control group.

Reflecting on the design of the verification process, it was generally felt that the evaluation provided a robust assessment of impact. Even during the pandemic, having a control group gives considerable confidence that if outcomes are achieved and measured, then these can be attributed to the DIB-funded program. This would not necessarily be the case if a historical baseline had been used as a comparator, instead of a control group. However, the verification design was also fairly rigid, which necessitated changes to the outcomes agreements when it became clear that the original plans could not be implemented. Further, the fact that outcomes evaluation only took place at the end of implementation limited the extent to which IDInsight could act as a learning partner for Village Enterprise, to provide real time information and inform delivery innovation.

Given that there is now only one point of measurement, which is taking place after program completion, there is no scope for operational adaptation based on the results of the evaluation. Some stakeholders felt that in other circumstances, the nature of the payment metrics - how they are measured and what can be learned from their measurement – would be more valuable with a less rigid evaluation design, more frequent evaluation points and greater use of service provider collected data, measuring outputs which are causally related to the final outcome. A number of stakeholders were also keen to identify robust remote verification approaches that might be more resilient as the basis for future results-based approaches to poverty graduation programs, although precise measures were yet to be identified.

**CONTRACTUAL IMPACT**

The process for agreeing on the necessary contractual amendments for this DIB was a time and labor-intensive process, lasting approximately nine months. Once it was clear that the original outcome evaluation plans could not proceed as planned, it was accepted that the agreements would need to change and what those changes were depended on the exact definition of success for the DIB and the appropriate level of risk for each party to assume. Each party had their own interpretation of these factors based on the original contract but once re-aligned, discussions could move forward on the detailed changes needed to the agreements.

As the project manager, Instiglio played a key role throughout this period by convening and facilitating the working group discussions, which at points increased in frequency from quarterly to weekly discussions. They also worked bilaterally with contractual stakeholders to explore and prepare the various options in advance and held discussions with each party to ensure that the group discussions were productive and could reach agreement. Following agreement in the working group discussions, GDI, as trustee, followed-up with individual parties to discuss the specific terms of their agreements.

**OUTCOMES PAYMENT AGREEMENT**
The flexibility that the outcomes funders showed and their commitment to the DIB outcomes as a whole, were seen as key factors in the success of discussions to renegotiate key contract terms, to avoid the need to terminate the DIB contract early due to force majeure. Significant time was devoted to discussing the impact of COVID on the DIB structure and underlying agreements, and the operations of both the implementing partner and evaluation agent, in order to avoid triggering the force majeure clause that would have triggered repayments on the basis of costs incurred to date. Some stakeholders felt that the rational outcome might have been to terminate the contract early. All stakeholders noted the protracted and burdensome nature of renegotiation discussions in relation to the payment mechanism and outcome evaluation process.

While USAID was part of all discussions relating to the changed outcomes agreement, USAID’s Fixed Amount Award agreement was held with Instiglio the program manager and not directly with the trustee, so ultimately did not require significant changes. A No Cost Extension was agreed and an additional $25k was made available to cover unexpected administrative costs related to Covid. As USAID was one step back from the contracts between the Trustee and implementing partner, changes to the overall outcomes agreement did not impact the milestones within the USAID-Instiglio grant agreement.

Commitment to maintain the outcomes-based nature of the agreement was a strong theme throughout discussions, particularly from FCDO and USAID. This stood in contrast to the accepted need to find a way to repay some of the upfront funding on a cost reimbursement basis, given the changes to the timelines of the evaluation. The anonymous donor’s flexibility allowed a change to their agreement to provide some cost-based funding to Village Enterprise in 2020 and, as a result, maintain the pure focus on results from the other outcomes funders. This arrangement was agreed through discussions between all outcome funders, Village Enterprise and Instiglio, to balance the desire of FCDO and USAID to maintain the outcomes focus of the DIB whilst providing cashflow and acknowledging the additional risk to upfront funders as a result of COVID-19.

In both the original outcomes payment agreement and the outcomes evaluation agreement, there were some detailed clauses which simply did not exist, as the circumstances were not foreseen and were added during the amendment process. This included the provision in the outcomes payment agreement that if the evaluation could not be completed at all by a certain date, then this would trigger termination of the agreement with reimbursement of program costs by outcome funders.

OUTCOMES EVALUATION AGREEMENT

Once the outcomes payment agreement was agreed in principle then discussion of the outcomes evaluation agreement could progress in a smaller group of FCDO (funding the evaluation), IDinsight, GDI and Instiglio. The changes included the provision of a 1st October 2021 cut-off date for all outcomes data collection to be completed and the report submitted two months later, so that the contractual arrangement had a defined end date and agreement of how costs would be reimbursed in this eventuality. Once the detail and language of the outcomes evaluation contract was agreed in the smaller group, this also had to be agreed by outcome funders and Village Enterprise, and through them the upfront funders, to ensure that they were satisfied with the way their efforts were being evaluated.

UPFRONT FUNDER AGREEMENTS
In contrast to the outcomes payment and evaluation agreements, there were no changes made to the agreements between the upfront funders and Village Enterprise during the pandemic. Upfront funding to Village Enterprise was structured as convertible grants from nine investors in such a way that it was hard for them to increase their funding commitment despite the program incurring higher costs than foreseen. As in most pay-for-results structures, there was a cap on the maximum outcome payments in this DIB. In unforeseen circumstances, where increased cashflow is needed, this can also limit the appetite of the upfront funders to provide more funding.

The delays in outcome evaluation affected the reimbursement of upfront funders and the burden of communication fell on Village Enterprise, who stakeholders felt managed this role very well. However, Village Enterprise sometimes felt they were in a difficult position, particularly if the interests of the upfront funders stood in opposition to their own interests of ensuring that the DIB program was successful. As it is the upfront funders’ capital at risk, they have an interest in minimising program risk, whilst also ensuring that the capital is put to best use to achieve the outcomes of the DIB and so trigger outcome payment.

**DIB STRUCTURE**

All stakeholders agreed that the number of parties involved, and the structure of this DIB made the process of agreeing contractual modifications in the face of COVID-19 particularly complex. Significant efforts were made to align the parties’ different interests, including among the outcomes funders during the discussions. There was limited upfront funder representation in these working group discussions, apart from Bridges Impact Foundation and Delta Fund as occasional observers, as upfront funders had no direct contractual relationship with outcome funders. Therefore, it was Village Enterprise’s responsibility to represent the upfront funders’ views to other stakeholders, leading to what they felt as a power imbalance in the working group.

The presence of the trustee added another dimension to this DIB, which many others do not have. Responsible for holding the contracts, performing due diligence, and managing the funds, GDI was ultimately responsible to the outcomes funders and acting on their behalf. The trustee role benefitted the outcomes funders, particularly FCDO, by holding funds (such as the seed capital reimbursement) before it was disbursed to Village Enterprise, thus smoothing the outcomes funders’ payment schedule in spite of evaluation delays. The value of having a separate trustee was not universally agreed upon, and some felt it added an unnecessary layer of complexity, although it was generally agreed that having an independent intermediary leading the re-contracting was an advantage.

The specific difference in the flow of USAID funds was that they hold their agreement with Instiglio, who had applied to DIV for the original funds, and not GDI. While USAID was contractually one step removed, it was involved in COVID-related discussion alongside other outcome funders. Before COVID-19 hit, Instiglio could more easily convey USAID’s interests.

**CONCLUSIONS**

The COVID-19 pandemic tested the resilience of the Village Enterprise DIB and holds broader lessons for other such arrangements around the world. The pandemic had a significant impact on the timing of the outcome evaluation but overall, the DIB will now finish only approximately six months later than
planned, albeit with a significantly revised outcome evaluation and payment structure. The direct implementation costs also increased and were covered by the flexibility and commitment of the implementing partner, Village Enterprise, in relation to intervention delivery and FCDO in relation to ensuring a COVID-safe outcome evaluation. The indirect costs also increased for all parties to the DIB, although this cost was primarily a burden on staff resources and their time rather than a direct financial cost.

The most significant challenge was in adapting the RCT outcome evaluation design to the new context. There was general agreement that while the robust attribution afforded by the evaluation design was positive, this was outweighed by its inflexibility in the circumstances. Most stakeholders felt that in future, more consideration could be given to a wider variety of data sources and, where possible, a greater reliance on administrative or service provider collected data. This does not mean that the role of an independent verifier would become redundant, but it may enable program evaluation to become more of a data audit than a field-based evaluation, which would reduce costs, improve resilience to external shocks, and enable evaluation data to become available earlier thus informing operational delivery.

Operationally, the DIB structure allowed for flexibility and collaboration among partners, but the number of parties involved in this DIB made reaching consensus around change a time and labor-intensive process. It is difficult to know whether the right balance was struck between comprehensively considering different amendment options and being efficient in moving forward with decision making. In designing other DIBs in future, careful consideration needs to be given to the resilience of contractual, evaluation, and governance processes to substantial contextual change to enable the primary focus to be on supporting operational adaptation to deliver better outcomes for vulnerable groups.
APPENDIX 1: COMPARISON OF TWO USAID DIBS: VILLAGE ENTERPRISE AND CAMBODIA RURAL SANITATION

There has historically been some reticence among some donors around involvement in DIBs, due to what are perceived to be the high transaction costs involved in the design and setup of the structure.\textsuperscript{59} As Figure 5 shows, the process to set up the Village Enterprise DIB was lengthy, and outcomes payer engagement spanned a period of more than two years.

**Figure 5: Timeline for implementation of Village Enterprise DIB\textsuperscript{60}**

However, it should be noted that the Village Enterprise DIB was the first in which USAID was involved and one of the first DIBs launched worldwide. As outcomes-based contracts become more widely used, and organizations become more familiar with the processes required for implementation, it is likely that these transaction costs will decrease.

As an example, the recent Cambodia Rural Sanitation DIB, where USAID acted as sole outcomes payer alongside the service provider iDE and upfront funder Stone Family Foundation, saw a significantly more streamlined process from the opening discussions to implementation. While it is never possible to provide a like-for-like comparison of costs for different DIBs—for instance, in this case, the Cambodia DIB had only one up-front funder; many fewer stakeholders overall; benefited from having been pre-designed by the up-front funder, SFF; and did not require an RCT for evaluation— the Cambodia case provides a counterpoint-- an example of an alternative approach taken to a DIB in different circumstances.

It should be noted than an analysis of the value of the impact created has not been completed for Village Enterprise or for the Cambodia DIB. A comparison of the two DIBs is shown in the table on the following page.
<table>
<thead>
<tr>
<th><strong>COMPARISON OF VILLAGE ENTERPRISE AND CAMBODIA RURAL SANITATION DIB</strong></th>
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<tbody>
<tr>
<td><strong>VILLAGE ENTERPRISE DIB</strong></td>
</tr>
<tr>
<td><strong>Outcomes payer(s)</strong></td>
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<tr>
<td><strong>Upfront Funder(s)</strong></td>
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<td><strong>Service Provider</strong></td>
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<td><strong>Intermediary</strong></td>
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<td><strong>Duration of DIB</strong></td>
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<td><strong>Total Up-front Funding Committed (excluding recycling)</strong></td>
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<td><strong>Total Funding Committed by Outcomes Payers</strong></td>
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<tr>
<td>(some additional funds cover program management, evaluation, or upfront design, for instance)</td>
</tr>
<tr>
<td><strong>Maximum Funding Available for Outcomes Payments</strong></td>
</tr>
<tr>
<td><strong>Design &amp; Setup Costs</strong></td>
</tr>
<tr>
<td>Includes direct design and contracting costs paid to Instiglio by outcomes payers; &amp; Village Enterprise legal, capital raise, and contracting costs, whether internal, outsourced, or pro-bono</td>
</tr>
<tr>
<td>Does not include staff time spent on design, contracting, or due diligence for outcomes payers or up-front funders</td>
</tr>
<tr>
<td>Does not include pre-design feasibility study, costs for identifying service provider or engagement of outcomes payers. Given this period of time lasted approximately three years, we anticipate these costs would have been significant.</td>
</tr>
<tr>
<td><strong>Implementation Costs</strong></td>
</tr>
<tr>
<td>Includes GDI’s Trustee and contract management costs, Instiglio’s process evaluation and other project management and reporting costs, and IDinsight’s independent evaluation costs</td>
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<td>Evaluation Costs</td>
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<td>Management and Transaction Costs as Total of Outcomes Funding Budget</td>
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<tr>
<td>Time from Project Inception to Implementation</td>
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APPENDIX 2: VILLAGE ENTERPRISE DIB PAYMENT MECHANISM

Source: Instiglio, Village Enterprise Development Impact Bond for Poverty Alleviation: Design Memo, February 2018

The DIB’s payment metrics aim to approximate the income generated by the household during and after the intervention, the idea is to pay for every dollar the household gained due to Village Enterprise’s intervention. To be more precise, the payment formula proposes for outcome payers to pay $1 for every $1 of ‘proxied’ income increase (as specified by the payment formula presented below.)

There are two types of payments, defined as Type I: Reimbursement of seed capital and Type II: Outcome payments, described further below:

FIGURE 6: Variables Definition for Payment Mechanism

- $P_1$: payment type I: reimbursement of seed capital per household for cohort $c$
- $P_{S_c}$: scenarios (i.e. A, B or C) for payment type 2: outcome payment per household
- $l$: impact estimation for cohorts 1, 2, 3, 4 (i.e. impact estimation) or for the 7 cohorts (i.e. impact estimation 2)
- $P_2$: payment type 2: outcome payment per household considering impact estimation $l$
- $P_{total}$: total outcome payments considering impact estimation $l$
- $P_{max}$: maximum payment type 2 per household defined at $265$
- $m_i$: weighted average of number of months from seed transfer to data collection, accounting for the size of transfer and timeline of transfers made, for impact estimation $l$
- $a_0$: seed transfer made to each household (i.e. $50$ or $150$)
- $a_{avg}$: weighted average seed capital size made to each household under impact estimation $l$
- $a_{avg}$: average increase in assets (i.e., ATE in assets) in month $m_i$ calculated with impact estimation $l$
- $a_{avg}$: average increase in consumption (i.e., ATE in consumption) in month $m_i$ calculated with impact estimation $l$
- $r$: interest rate
- $s$: annual discount rate of 10%, monthly $≈ 0.8%$
- $d_i$: monthly depreciation rate, calculated based on $a_{avg}$ and $a_{avg}$

TYPE I: REIMBURSEMENT OF SEED CAPITAL

An initial payment will be made to Village Enterprise once they transfer the seed capital to the groups of 3 households to start the business. There is no uncertainty around this initial income increase. Based on this, the initial payment per treated household is as follows: $P_1 = a_0$ Here, $a_0$ is the immediate effect of the program on tangible net assets per household upon program initiation. Payment $P_1$ is made immediately after Village Enterprise disburses $a_0$ and it is audited and verified by the outcome evaluator.

Payment type I will be discounted from the payment type II. For this, the average ($\tilde{a_0}$) should be considered.

\[
\tilde{a_0} = \frac{\# \text{of households that receive } 50 + \# \text{of households that receive } 150}{\# \text{of households treated}}
\]

TYPE II: OUTCOME PAYMENTS
Following this payment, trends in outcomes (i.e. consumption and assets, as previously described) are monitored to establish if Village Enterprise generates sustained benefits to the households that warrant additional payments. In month $m$, an additional payment $P_n$ is made to account for the benefits that may have accrued to date, as well as ones projected to accrue in the future, based on initial trends. There are three variants of this payment corresponding to scenarios A, B, and C above: $P_{2A}$, $P_{2B}$ and $P_{2C}$. Their selection depends on the success of the program to produce increases in assets.

Scenarios

The three scenarios related to the value of assets are:

A. Pessimistic scenario: The increase in assets, compared to the control group, is negative ($ami \leq 0$).

B. Medium scenario: The increase in assets, compared to the control group, is positive, but smaller than the initial transfer ($\bar{a}_0 > ami > 0$).

C. Optimistic scenario: The increase in assets, compared to the control group, is positive and greater than the initial transfer ($ami \geq \bar{a}_0$).

Pessimistic scenario: $ami \leq 0$

In this case, the tangible assets revert to the original levels by month $m$ (i.e. no effect on tangible assets persists). In other words, if $ami$ is the household-level effect of the program on the stock of tangible net assets in month $mi$, then $ami \leq 0$ in this scenario. This implies that the asset that is critical to the theory of change has been consumed and, therefore, does not warrant the expectation that a further stream of benefits will continue to accrue beyond month $mi$. However, it is possible that up to the current date, the flow of benefits has exceeded the value of the asset. At minimum, $P_2$ should account for these benefits. For this case, the variant of the payment, $P_{2A}$, is therefore:

$$P_{2A} = \sum cn(1 + r)^{m-n} - \bar{a}_0(1 + r)^{mi}$$

Here, the first term is the accumulated household-level consumption effect $c$ over the course of the $m$ months, adjusted to present value using discount rate $r$. The second term is the present value of the program’s initial impact on household asset stock, which was already compensated through payment $P_0$ and must therefore be subtracted.

Given the assumption explained before, the formula simplifies as follows:

$$P_{2A} = \sum cn \bar{a}_0 mi$$

A proposed assumption is that all monthly consumption effects $cmi$ that have accumulated to date are adequately represented by the measured monthly consumption effect $cmi$. This simplifies the above to

$$P_{2A} = cmimi \bar{a}_0$$

Hopefully, Village Enterprise can demonstrate that it has achieved a degree of sustainability that warrants a payment in excess of $P_{2A}$. As the theory of change holds that tangible assets are necessary enablers of sustained change, the assumption of sustainability can only be warranted if $ami \geq 0$.

Medium scenario: $a_0 \equiv > ami > 0$
In this case, by month $m$, assets have neither fully persisted nor fallen to zero, but have fallen somewhat. In this case, it is neither reasonable to expect that the stream of benefits has disappeared completely, nor that it will remain constant. Following this theory of change, the assumption is made that past trends in asset growth or depreciation are indicative of future consumption trends. We assume that future consumption will continue to diminish at a rate that is equal to the periodic depreciation rate observed in assets to date, i.e., $d_i = 1 - (ami \bar{a}_0) \bar{m}_i$, which is a positive number.

Note that a perpetuity starts depreciates at rate $d$ and is discounted at rate $s$ can be summarized as follows:

$$\sum (1 - di \bar{1} + s) i = 1 - di s + di \approx n=1$$

Therefore, in scenario B, an amended perpetuity must be added to the benefits that were quantified in Scenario A. Therefore, if $a0 > am > 0$, then the variant of the payment, $P_mB$, will be:

$$P2B = P2A + cmi \bar{1} - di s + di$$

**Optimistic scenario: $ami \geq a0$**

Assets in month $m$ have grown, compared to the control group and to the initial transfer (i.e. $ami \geq \bar{a}_0$). Based on our assumptions, if this is the case, it is reasonable to expect that benefits will persist on time, which means it is reasonable to expect that benefits will persist, or that the average monthly consumption will remain at least constant.

In this case, the variant of the payment, $P2c$, will be:

$$P2c = P2A + cmi \bar{1}/s$$

Here, $1/s$ is a multiplier of a value that lasts into perpetuity. Note that a distinction between discount rates $r$ and $s$ is drawn deliberately: the former only accounts for the time value of money while the latter also accounts for substantial risk inherent in a projection.

**Total payments**

Given that there will be two payments type II calculated with the Average Treatment Effects, the following formulas detail the way of calculating the payments.

$$P21 \text{ total} = P21$$

* #of households treated in cohorts 1, 2, 3 & 4

$$P22 \text{ total} = P22$$

* #of households treated in cohorts 5, 6 & 7
ENDNOTES


6 Ibid.


9 Ibid.

10 Ibid.

11 In some cases, donors may repay up-front funders their principal plus a return directly; in others, including the Village Enterprise DIB, donors repay service providers, who manage their own social investment streams.


13 Social Finance has developed this P4R and Impact Bond Suitability Framework (Social Finance copyright, in press). It helps to answer the questions: “Why use a P4R approach? Will moving towards a P4R approach increase the impact that can be created in this issue area?” After assessing all 4 modules of the suitability framework, if: All boxes in 1, 2 & 3 are ticked, a results-based approach is appropriate; if all boxes in 1, 2, 3 & 4 are ticked, an impact bond is appropriate.


15 Ibid.

16 Ibid.

17 Ibid.


20 Also evaluated by Ecorys in case studies produced as part of the independent evaluation of the Department for International Development’s Development Impact Bond Pilot Programme, 2018


24 Ibid.

25 Ibid.


29 Ibid.


Interview with Village Enterprise.


Clist, Paul. (2018). “Payment by results in international development: Evidence from the first decade.” Retrieved from https://ueaeprints.uea.ac.uk/id/eprint/68470/1/Clist_18_PbR_preprint.pdf. “A current overview of the evidence is that […] recipient NGOs have been highly motivated by the monetary incentive. However, this generally hasn’t led to greater innovation, but instead a safety-first approach, as risk-averse NGOs seek to limit the chances of failure” (p. 8).


Ibid.


Ibid.

Ibid.

For instance, the Utkrisht DIB, launched in 2018, was funded by USAID India and managed by a team in DC; Cambodia Rural Sanitation DIB launched in 2019 was funded and managed by USAID Cambodia, while the Village Enterprise DIB was funded and managed from DC.


Evaluation of outcomes achieved through this DIB are triangulated from two sources: 1) iDE data on sanitation coverage, 2) ODF official village claims to the Government. As a result, both parties mutually agreed that an external evaluator was not necessary in this case. The risk of this approach has been mitigated in three ways: 1) both SFF and USAID have agreed they will partake in spot checks and visits, 2) USAID acts as final decision-maker in the event of any disagreement; 3) outcomes achieved will be supported by evidence from the iDE database and Government ODF claims.