CASE STUDY:
VILLAGE ENTERPRISE DEVELOPMENT IMPACT BOND

BRIEFING ON FINDINGS OF CASE STUDY
SEPTEMBER 1, 2020
OCTOBER 15, 2020
INTRODUCTIONS

• Stephanie Fugate, Division Chief, Professional Development and Training Division (PDT)

• Ashlee Tuck, Professional Development and Training Division (PDT), Contracting Officer’s Representative Innovative Finance Task Order

• Louise Savell, implementing partner working with the Professional Development and Training Division

• Olivia Hanrahan Soar, implementing partner working with the Professional Development and Training Division
OBJECTIVES FOR CASE STUDY BRIEFING

1. **Present findings** from the Case Study: Village Enterprise Development Impact Bond (DIB);

2. **Outline the process** to go from first concepts to implementation, with focus on practicalities & challenges faced by USAID staff;

3. **Provide an initial assessment of the anecdotal impact** achieved by the DIB structure;

4. Inform USAID’s Acquisition and Assistance workforce & **help them develop a foundational understanding of pay-for-results approaches**
AGENDA FOR CASE STUDY: VILLAGE ENTERPRISE DEVELOPMENT IMPACT BOND

1. Introductions (2 minutes)
2. Objectives of Briefing (3 minutes)
3. Development Impact Bond (DIB) Overview (15 minutes)
   • Village Enterprise: the Social Challenge & Intervention
   • Overview of Pay-for-Results (P4R) Approaches & Rationale for use of Development Impact Bond (DIB)
   • DIB Structure & Outcomes Framework
   • Parties Involved
4. Key Learnings for USAID (15 minutes)
5. Wrap Up and Next Steps (5 minutes)
6. Q&A (20 minutes)
DEVELOPMENT IMPACT
BOND OVERVIEW
BACKGROUND & METHODOLOGY

This case study was prepared by the Innovative Finance Task Order in June 2020, through desk research and interviews with key informants. We are grateful to the following individuals for their time and contribution to this work:

• Amy McDonough, Portfolio Manager; Duc Tran, Former Senior Portfolio Manager; Michael Cretz, Portfolio Manager; and Paul Hamlin, Program Officer, USAID-DIV
• Caroline Bernadi, Chief Development Officer, and Zach Hoins, Chief Operations Officer, Village Enterprise
• Christy Lazicky, Economist, and Nisha Hariharan, Senior Manager, IDInsight
• Doug Emeott, Manager, Instiglio
• Jonathan Ng, Attorney Advisor, USAID
• Priya Sharma, Investment Officer, Private Sector Engagement Hub, USAID
• Radana Crhova, Development Impact Bonds Adviser at Department for International Development (DFID)
VILLAGE ENTERPRISE: THE SOCIAL CHALLENGE & THE INTERVENTION

- 501(c)(3) nonprofit organization
- Over 30 years’ experience working to end extreme poverty in rural Africa
- Implements community-based poverty “Graduation” program
- Equips participants with resources to create sustainable businesses

Graduation program comprises the following steps:

- Targeting
- Training
- Business Savings Groups
- Seed Funding
- Mentors
OVERVIEW OF PAY FOR RESULTS (P4R) APPROACHES

DIBs are **one of several P4R approaches**. Others include:

<table>
<thead>
<tr>
<th>Approach</th>
<th>Description</th>
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<tbody>
<tr>
<td>Advance Market Commitments</td>
<td>Guarantees price or market for a specific product</td>
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<tr>
<td>Prizes</td>
<td>Reward to competitors which may be successful at accomplishing prespecified result</td>
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<tr>
<td>Performance-Based Awards</td>
<td>Arrangements where payment is tied to milestones or agreed upon deliverables</td>
</tr>
<tr>
<td>Conditional Cash Transfers</td>
<td>Cash payments made directly to households upon meeting predetermined conditions</td>
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# RATIONALE FOR USE OF DEVELOPMENT IMPACT BOND

**Impact bonds work well for...**

<table>
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<tr>
<th>Condition</th>
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<tbody>
<tr>
<td>Complex problems – but a clear outcome</td>
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<td>Innovative (but unproven) interventions needed</td>
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<td>Reasonably sized cohorts &amp; costs</td>
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<td>Need for external risk capital</td>
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...when these conditions are met.

<table>
<thead>
<tr>
<th>Condition</th>
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<tbody>
<tr>
<td>Outcomes are measurable</td>
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<td>Reliable and timely data flow (including baseline)</td>
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<td>Outcomes are attributable to inputs</td>
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<tr>
<td>On-the-ground delivery &amp; adaptive management capacity</td>
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<td>Availability of social investment</td>
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<td>Government or donor priority and willingness to pay</td>
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DIB STRUCTURE

1. OUTCOMES PAYER AND SERVICE PROVIDER AGREE CONTRACT TO PAY FOR OUTCOMES
2. UP FRONT FUNDERS PROVIDE CAPITAL TO FUND SERVICE DELIVERY
3. SERVICES ARE TAILORED TOWARDS NEEDS OF POPULATION
4. IMPACT (OUTCOMES) OF SERVICES IS INDEPENDENTLY EVALUATED; OUTCOMES PAYER PAYS SERVICE PROVIDER IF OUTCOMES ARE ACHIEVED
5. SERVICE PROVIDER REPAYS UP FRONT FUNDER IF OUTCOMES ARE ACHIEVED (PRINCIPAL + RATE OF RETURN)
OUTCOMES FRAMEWORK

- Shaped around Village Enterprise’s Theory of Change
- Measures household income: consumption & net assets
- Outcome payments calculated at $1 for every $1 of increase in household income

PARTIES INVOLVED

FUNDING STRUCTURE

Impact Bond Implementation Process

- Scoping & design
- Fund-raising
- Sourcing of upfront funding
- Grant-making & due diligence
- Launch & adaptive mgmt.
- Outcomes

• USAID-DIV was one of three outcomes funders, providing approximately $1.3m with $1m earmarked for achievement of outcomes

• Grant structured as a **Fixed Amount Award (FAA)** – where the grantee is paid upon completion of pre-agreed milestones
ADVANTAGES OF USING A FIXED AMOUNT AWARD

For Program

- Increases operational flexibility
- Improves financial flexibility
- Enables value for money
- Fosters accountability
- Reduces administrative & monitoring burdens

For Funder
FLOW OF FUNDS

USAID/DIV’s funds are pooled upfront and held by the Trustee. This allows outcomes payers to:

- Ringfence funds for future payment
- Ensure allocated funds will eventually be used for the desired outcomes
- Streamline funding
 PROVIDER SOURCING OF UPFRONT FUNDING

- Village Enterprise was responsible for securing upfront funding
- Helped reduce touchpoints between outcome payers and upfront funders
- Noted as challenging for Village Enterprise
- Ensured USAID was not actually, nor could be perceived to be, creating profit for upfront funders
KEY DESIGN AND GRANT-MAKING LEARNINGS

- Minimize bilateral conversations
- Ensure clarity around decision-making
- Engage an evaluation advisor at the design stage

- Service provider responsibility for capital raising reduces administrative burden on outcomes funders
RESILIENCE TO CONTEXTUAL SHOCKS, INCLUDING COVID-19

- Impact on DIB
  - Operational impact: ability to deliver outcomes
  - Contractual impact: need to negotiate alternative basis for payment
- Mitigations
  - RCT: important mitigation against potentially disruptive events
  - Contract flexibility: simpler pivot model
- Learnings
  - Specify risks/ mitigations around delays to evaluation, & consider risks systemically
RELEVANCE OF INSTRUMENT TO DRIVE BETTER OUTCOMES

• DIB is still underway & full impact of instrument is not yet clear;
• However it is possible to provide an initial assessment of the anecdotal impact achieved thus far
RELEVANCE OF INSTRUMENT TO DRIVE BETTER OUTCOMES

Value for overall project

- Creates management efficiencies
- Involvement of upfront funders, removes restrictions to P4R participation by smaller service providers
- Aligned incentives
- Operational flexibility allows for adaptive management to deliver outcomes
- Allows pooling of funding from multiple donors
- Focuses funding on ultimate outcomes

Value for VE
WRAPUP AND NEXT STEPS
CONCLUSIONS

• A DIB is one form of P4R which could be used by USAID to pay for impact rather than inputs.

• It should not be considered the only method of doing this; however, in the right circumstances it can add significant value.

• May become particularly relevant in contexts of uncertainty.

• A/CO's do not have authority to sign Development Impact Bonds
PROFESSIONAL DEVELOPMENT AND
TRAINING (PDT), OFFICE OF
ACQUISITION & ASSISTANCE

ASHLEE TUCK, CONTRACTING
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