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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:



OVERVIEW OF PAY FOR RESULTS (P4R) APPROACHES

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

Advance Market Commitments	Guarantees price or market for a specific product
Prizes	Reward to competitors which may be successful at accomplishing prespecified result
Performance- Based Awards	Arrangements where payment is tied to milestones or agreed upon deliverables
Conditional Cash Transfers	Cash payments made directly to households upon meeting predetermined conditions

RATIONALE FOR USE OF DEVELOPMENT IMPACT BOND

Impact bonds work well for...

Complex problems – but a clear outcome

Innovative (but unproven) interventions needed

Reasonably sized cohorts & costs

Need for external risk capital

...when these conditions are met.

Outcomes are measurable

Reliable and timely data flow (including baseline)

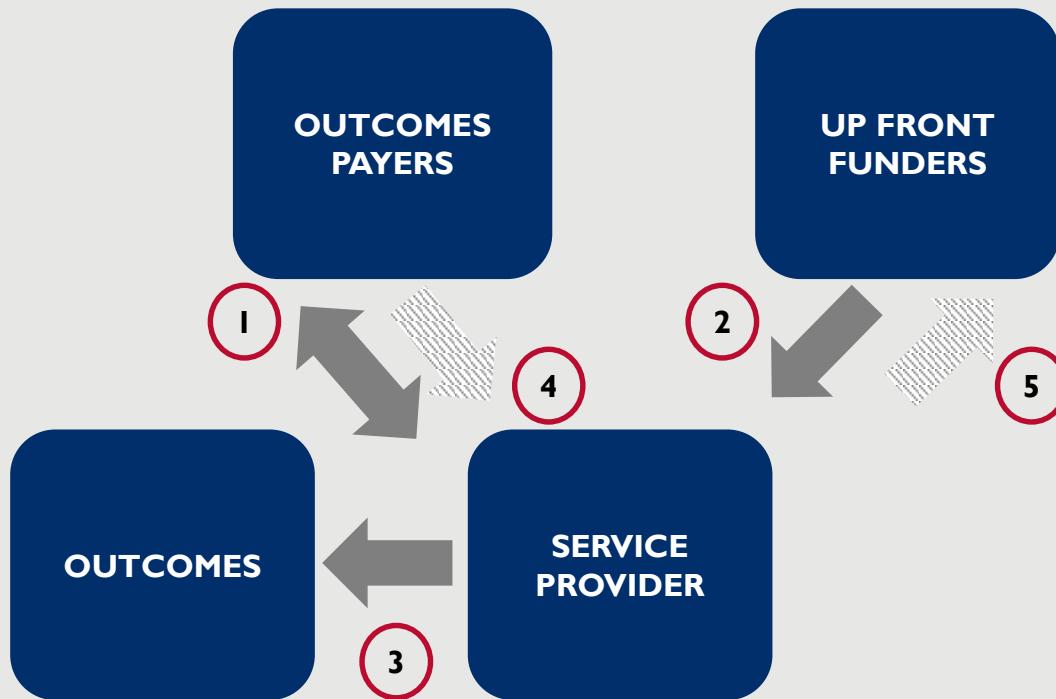
Outcomes are attributable to inputs

On-the-ground delivery & adaptive management capacity

Availability of social investment

Government or donor priority and willingness to pay

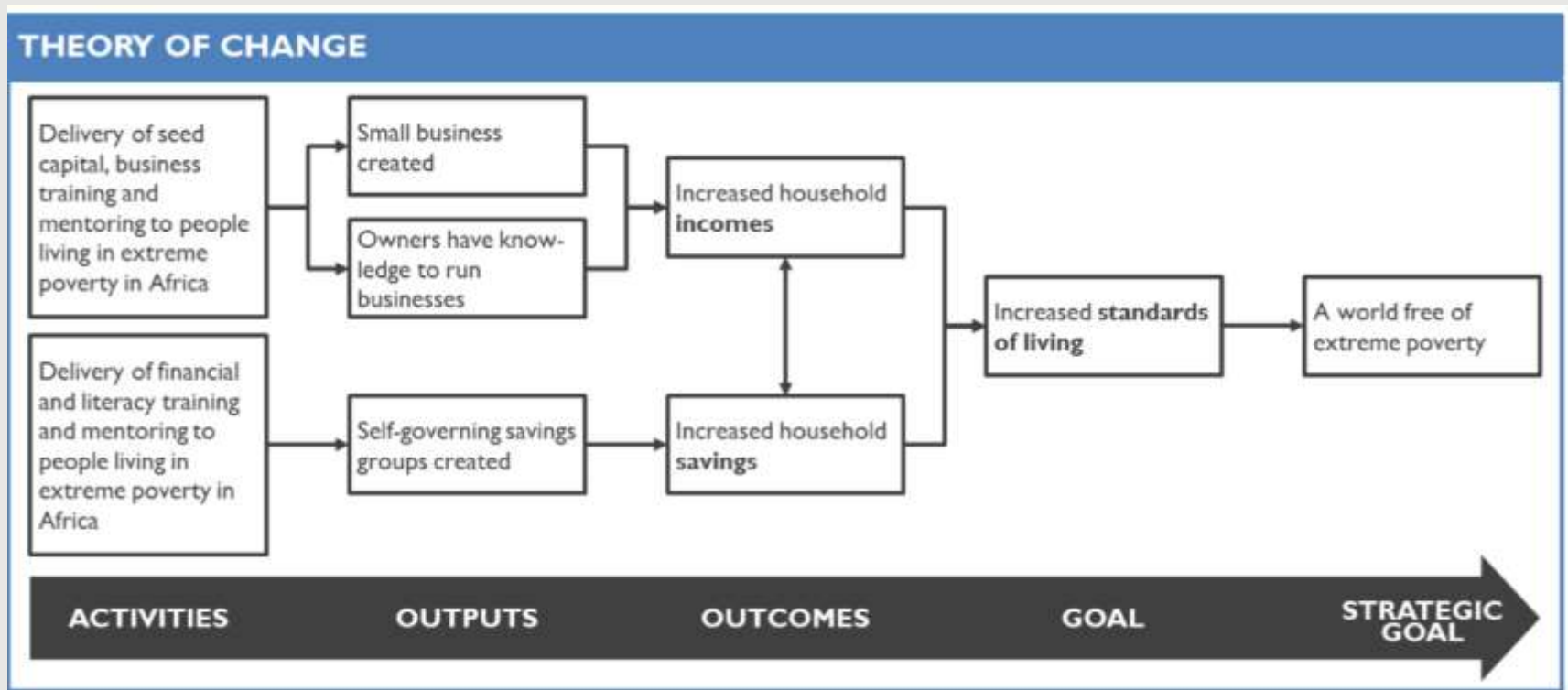
DIB STRUCTURE



- 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)

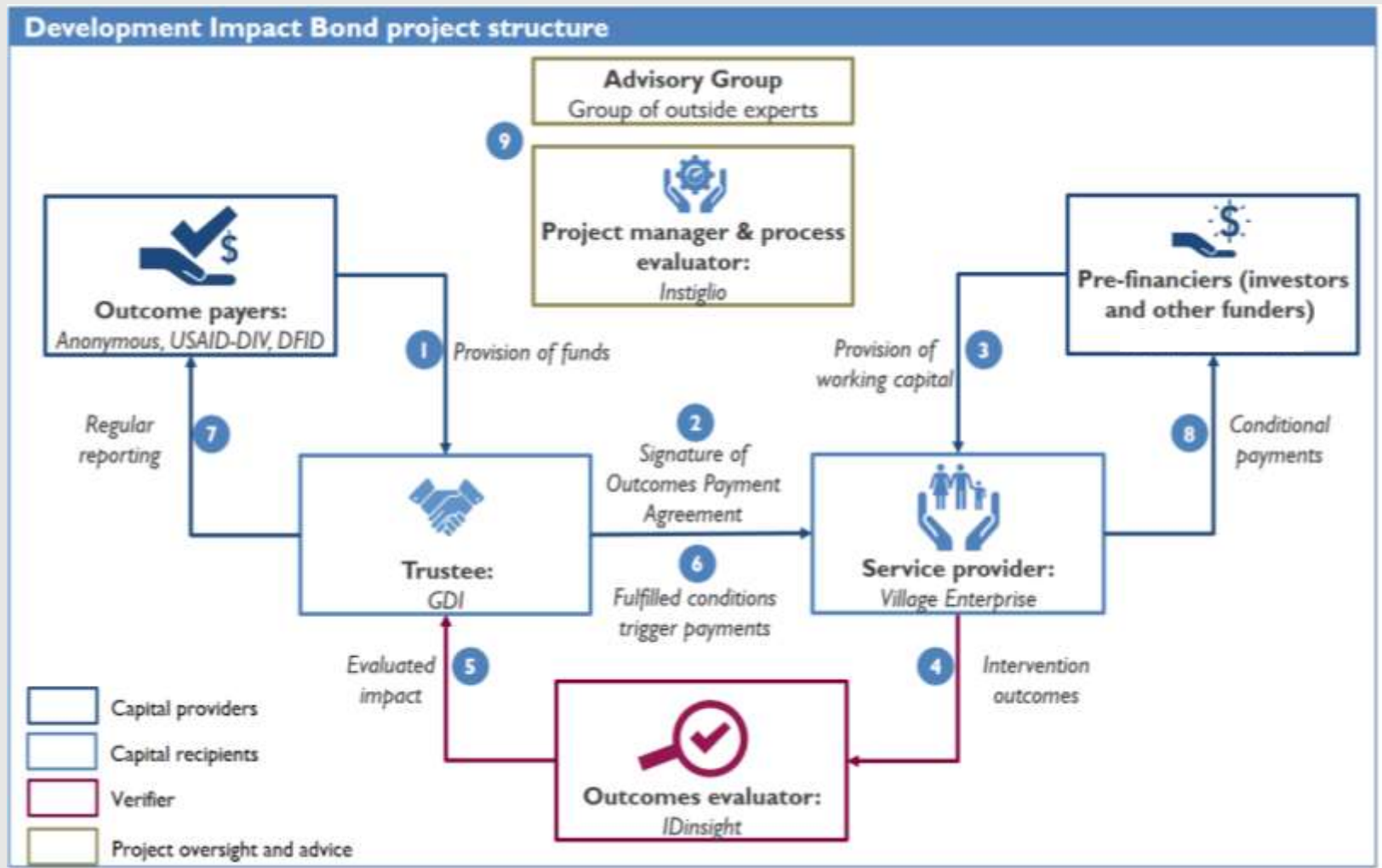
OUTCOMES FRAMEWORK

- 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



Source: Instiglio. (February 2018). "Village Enterprise Development Impact Bond for Poverty Alleviation: Design Memo" Retrieved from https://villageenterprise.org/wp-content/uploads/2018/02/VE-DIB-Design-Memo-Public_14FEB2018.pdf.

PARTIES INVOLVED



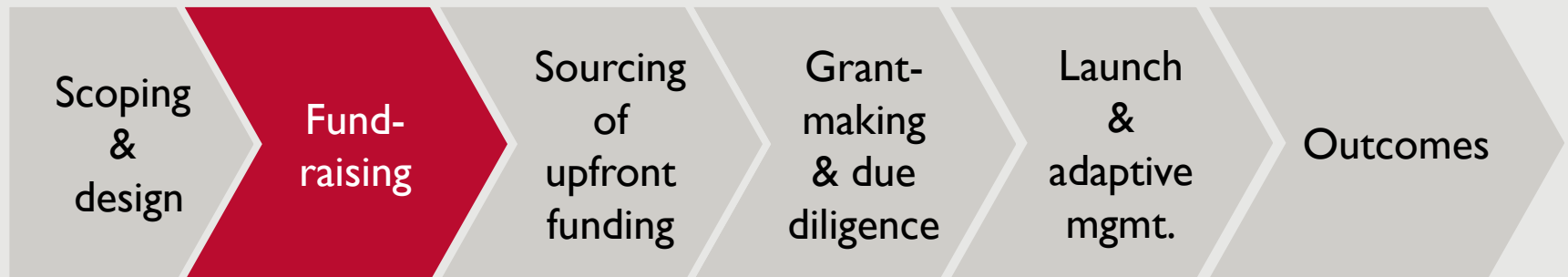
Source: Instiglio. (February 2018). "Village Enterprise Development Impact Bond for Poverty Alleviation: Design Memo" Retrieved from https://villageenterprise.org/wp-content/uploads/2018/02/VE-DIB-Design-Memo-Public_14FEB2018.pdf.

— KEY LEARNINGS FOR USAID



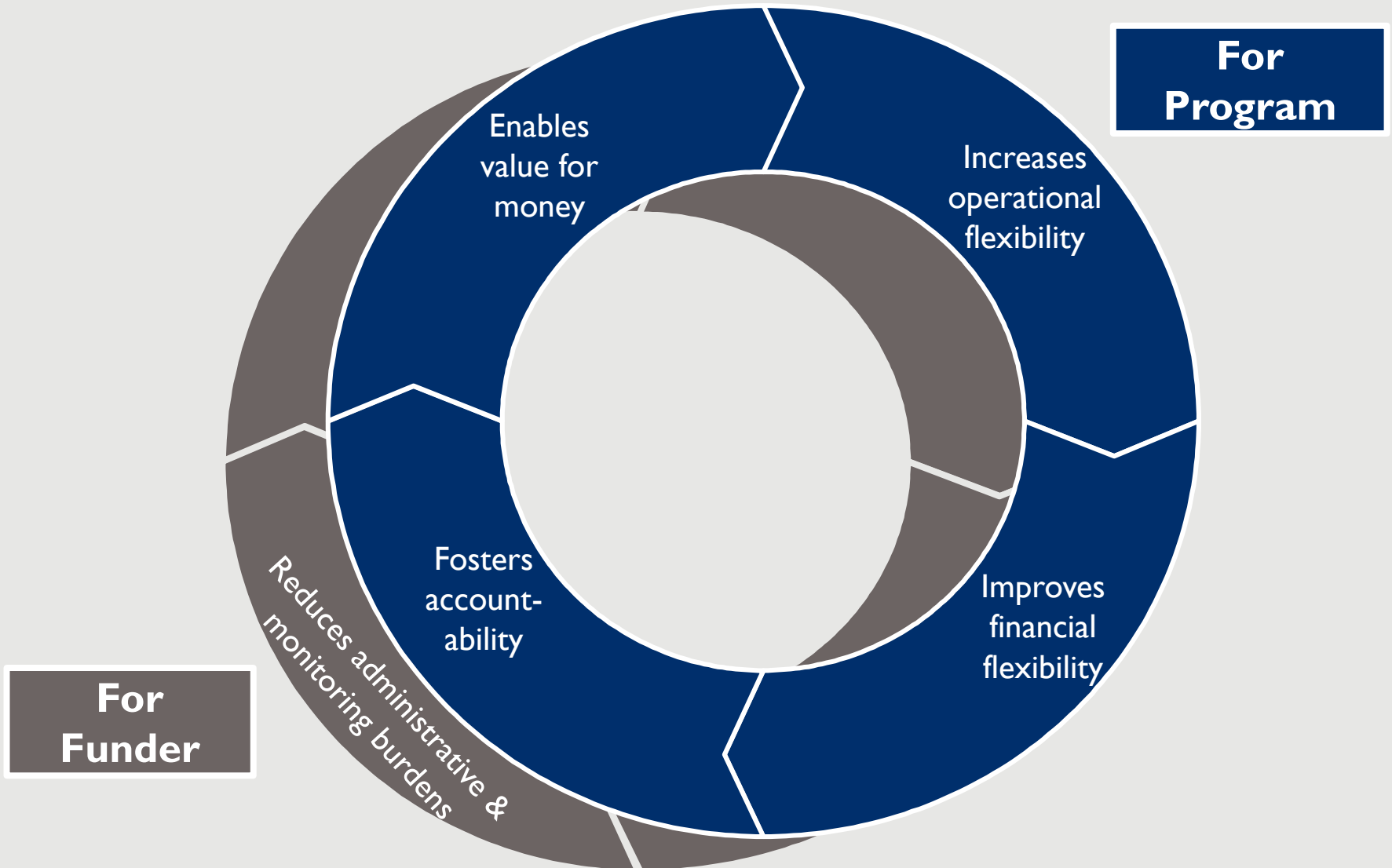
FUNDING STRUCTURE

Impact Bond Implementation Process



- 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



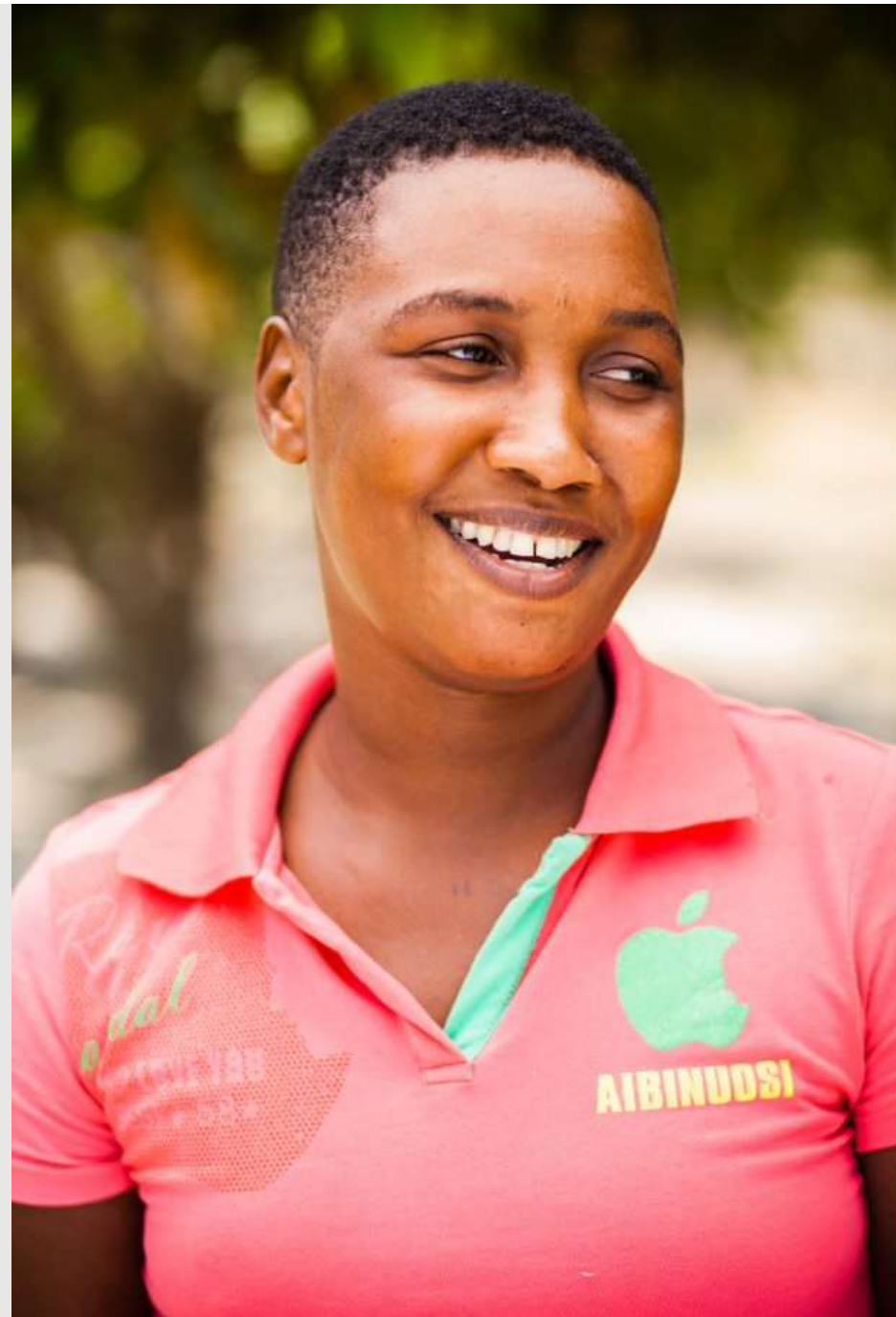
FLOW OF FUNDS

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

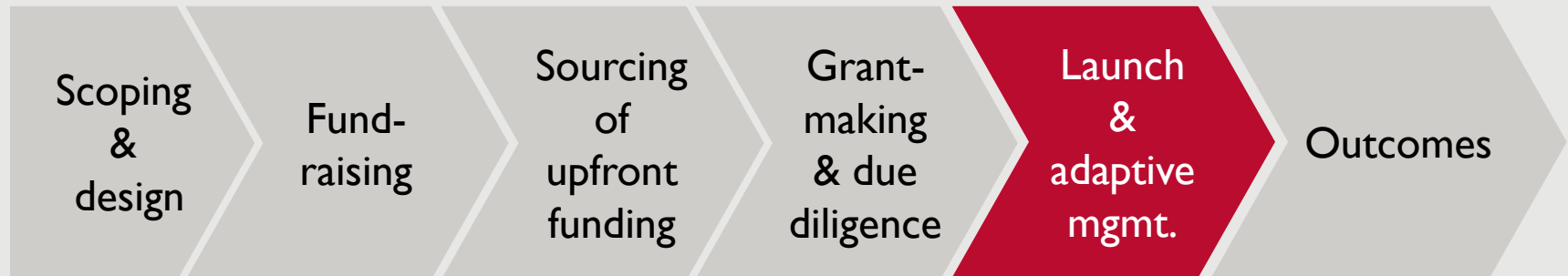


- Minimize bilateral conversations
- Ensure clarity around decision-making
- Engage an evaluation advisor at the design stage



- 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

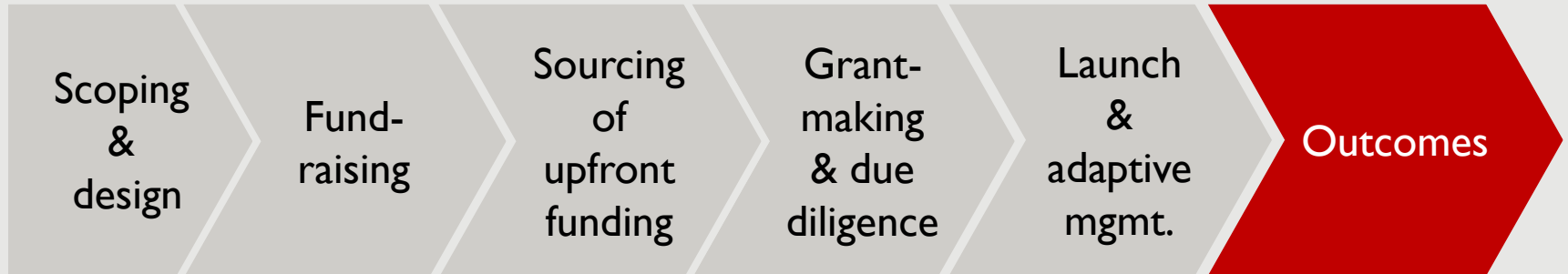
Mitigations

- RCT: important mitigation against potentially disruptive events
- Contract flexibility: simpler pivot model

Learnings

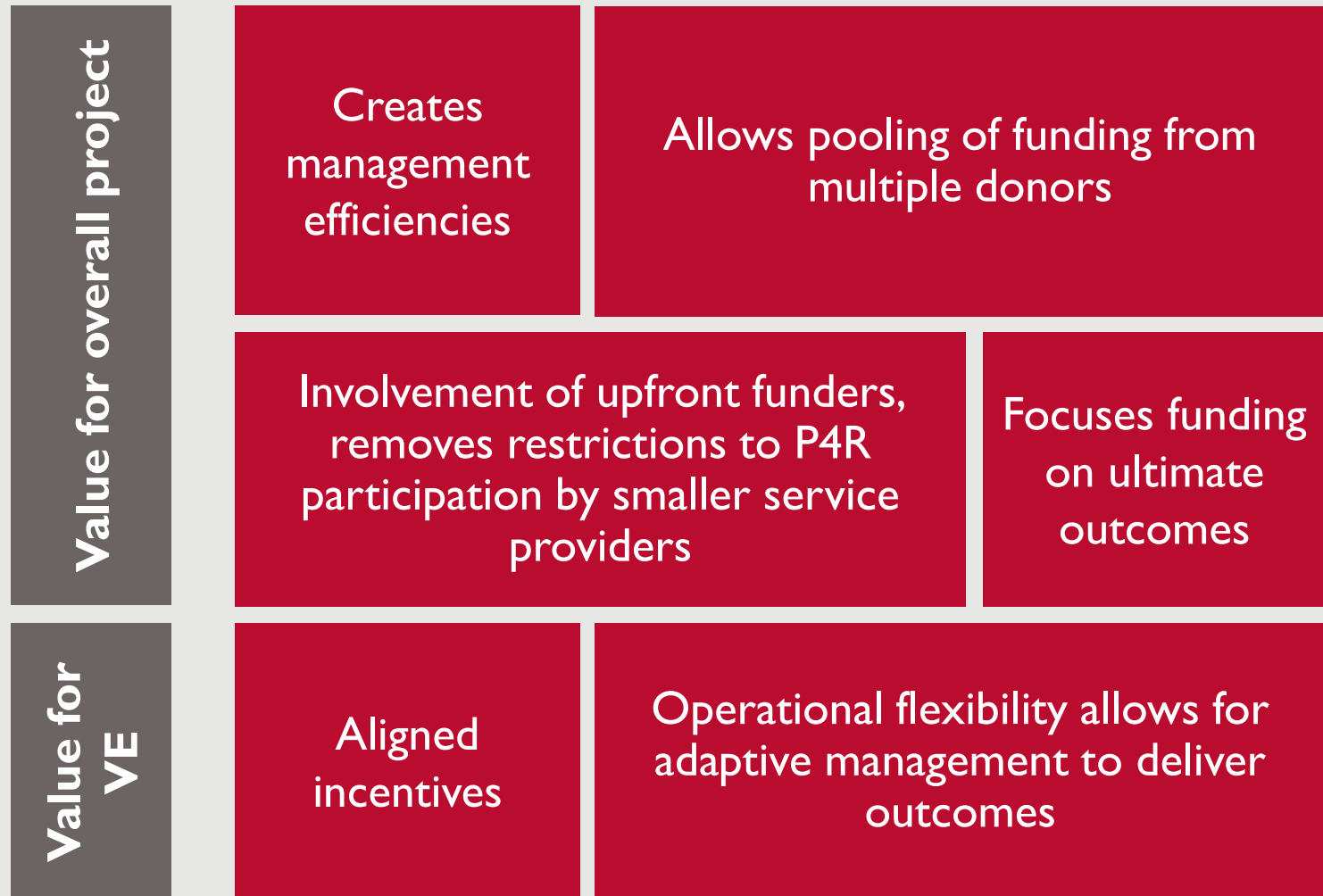
Specify risks/ mitigations around delays to evaluation, & consider risks systemically

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



— 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



QUESTION & ANSWER



PROFESSIONAL DEVELOPMENT AND
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