



Village Enterprise Development Impact Bond Final Process Review Report

July 2022



Table of Contents

1. Executive summary	3
2. Introduction	4
3. Methodological approach	5
3.1 Objectives of the process review	5
4. The Village Enterprise Development Impact Bond (DIB)	8
4.1. Motivations to create the Development Impact Bond.....	8
4.2 The Development Impact Bond design	8
<i>The intervention</i>	13
<i>Verification methodology</i>	14
<i>Payment structure</i>	15
<i>Adjustments in response to the COVID-19 pandemic</i>	16
5. Effectiveness	17
5.1 Aligned incentives: Focusing stakeholders on clearly defined results	17
5.2 Greater attention to results: Integration and implementing an adaptative management system	17
5.3 Greater flexibility: Village Enterprise program adaptations.....	19
5.4 Increased accountability: Improving feedback loops	20
6. Efficiency	21
6.1. Costs.....	21
6.2. Efficiency of key DIB processes: what worked and areas of improvement	23
<i>Outcome payer engagement and fundraising</i>	23
<i>Service provider selection</i>	24
<i>RBF instrument design</i>	25
<i>Selection of the trustee and the trustee fund management</i>	26
<i>Selection of the outcomes evaluator and impact evaluation design and implementation</i>	27
<i>Service provider-investor relations</i>	29
<i>Governance structure and project management</i>	30
<i>Process review</i>	31
7. Conclusion	33
References	34



I. Executive summary

In 2017¹, the United Kingdom's Department for International Development (now the Foreign, Commonwealth & Development Office), the Development Innovation Ventures at the United States Agency for International Development, an anonymous donor, a set of investors led by the Delta Fund, the nonprofit Village Enterprise, and Instiglio launched the Village Enterprise Development Impact Bond (DIB), the first impact bond with a focus on poverty alleviation. The impact bond incorporated design decisions inspired by outcomes funds meant to streamline processes and reduce costs, as well as incorporated a process review to capture lessons to inform practitioners in the future to innovate on the design of results-based financing instruments.

This process review explores if and how implementing Village Enterprise's graduation out of poverty model through an impact bond rather than through a traditional funding model affected the program's implementation, as well as whether the impact bond design was an efficient use of resources for instrument design and implementation efforts.

Proponents of results-based financing instruments argue that these instruments lead to operational effectiveness due to four main drivers: by aligning financial incentives of all parties involved, by drawing attention to results rather than processes, by offering service providers increased flexibility to improve their programming, and by increasing accountability (Perakis & Savedoff, 2015).

The process review found evidence of the contributions of the four drivers on program effectiveness. First, the DIB agreement aligned stakeholders on the program objectives, desired results, and broad 'rules of the game.' Alignment helped maintain stakeholder commitment to results, even in the face of pressing challenges brought by the COVID-19 pandemic. Second, the DIB increased attention to results, influencing Village Enterprise's results-driven culture and motivating the organization to develop an enhanced adaptive management system. Third, the DIB provided flexibility to Village Enterprise to respond to its performance data and adapt its program as needed. Village Enterprise made significant improvements to its training for entrepreneurs and cash transfer delivery process. Last, the DIB created greater accountability of Village Enterprise to the objectives that matter to end-users rather than to the activities that often matter to donors, such as demonstrating expenses on pre-determined activities and progress reports.

In terms of exploring the use of resources during instrument design and implementation, the process review documents the costs of the program and identifies insights on what went well, tradeoffs, and what could be improved in future outcomes-based contracts. This specific DIB design – in an effort to streamline processes and reduce costs – combined outcome funding in a single trustee account, as well as tasked Village Enterprise with sourcing and managing investors directly, without bringing them into the DIB governance structure. Stakeholders also hired an independent outcomes evaluator and used a randomized trial to determine outcome payments. These design decisions all came with trade-offs.

While Village Enterprise successfully raised capital from investors directly – unburdening the effort to invest in identifying investors from other stakeholders – this meant Village Enterprise had to spend significant time and resources to develop this capacity and manage these relationships. Not involving the investors in the formal governance structure of the DIB may have streamlined decisions early on, but they were brought in as important voices – even if informally – once the pandemic required more hands-on engagement. Hiring a trustee to manage funds reduced the administrative burden for outcome payers, but the trustee also experienced a learning curve to develop expertise to manage results-based contracts. While the rigorous impact evaluation gave confidence that funding was rewarded for real impact, the evaluation was costly and required additional effort from Village Enterprise as compared to non- or quasi-experimental evaluation.

Armed with insights from this process review, practitioners seeking results-based financing models can learn from the tradeoffs, successes, and limitations of the Village Enterprise DIB.

¹ Instrument contracting was completed November 2017, implementation began January 2018, and investment fundraising finished June 2018.



2. Introduction

In 2017, the United Kingdom’s Department for International Development (DFID) (now the Foreign, Commonwealth & Development Office (FCDO)), the Development Innovation Ventures at the United States Agency for International Development (USAID-DIV), an anonymous donor, a set of investors led by the Delta Fund, the nonprofit Village Enterprise, and Instiglio launched the Village Enterprise Development Impact Bond (DIB). As of mid-2022, this is one of the 22 impact bonds implemented in middle- and low-income countries—one of 226 globally—and the first impact bond with a specific focus on poverty alleviation (Brookings, 2022).

From the outset the partners wanted the experience to build knowledge on whether and when it makes sense to design an impact bond, and how to design and implement it efficiently. Instiglio was tasked with conducting this process review to explore if and how implementing this program through a results-based financing (RBF) mechanism had an effect on implementation (“effectiveness of the DIB”) and whether the RBF instrument design and implementation was a worthwhile use of resources (“efficiency of the DIB design”).

Practitioners and researchers of impact bonds and other RBF instruments have noted that the transaction costs of setting up impact bonds are significant, in part due to the need to align expectations across various outcome payers and investors. Gustafsson-Wright & Osborne (2020), for example, note that although most costs related to impact bonds are also present in other forms of financing, the novelty of the mechanism, the complexity of the governance structure, and the need for consensus in decision making can increase the costs of design, structuring and oversight. Additionally, it has often taken approximately one to two years for partners to set up a DIB, implying high opportunity costs (UBS Optimus Foundation, 2018).

Practitioners have sought out ways to attain the benefits of an RBF mechanism while minimizing the costs. One of those ways has been to create “outcomes funds,” financial instruments that pool together the resources of donors interested in paying for specific results. One of the expected benefits of outcomes funds is that they can increase the value of funding by creating efficiencies. The design of this DIB built upon that principle by pooling outcome payer resources. The way investors were brought in and the voice they were given in decision-making processes (the service provider, Village Enterprise, recruited the investors and managed the relationship with them directly) also reflects an attempt to minimize transaction costs.

This impact bond also differs from many past ones in two other ways. First, the intervention that Village Enterprise implemented, the graduation out of poverty approach, had a stronger evidence base than interventions funded by other impact bonds. The graduation approach has been subject to numerous randomized trials, and the version of the approach implemented by Village Enterprise had already been evaluated through a randomized trial (Banerjee, et al., 2015; Sedlmayr, Shah, & Sulaiman, 2019). With few exceptions, these evaluations have found the graduation model to be cost-effective as a poverty alleviation program. Therefore, the risk of the intervention, if implemented properly, not having the desired impact was lower than the case for other impact bonds. Second, while most DIBs use a quasi-experimental methodology to determine payments for outputs and/or outcomes, in this specific case outcome payments were determined by the results of a randomized trial.

This process review assesses the effectiveness and efficiency of the DIB by exploring the various facets, processes, and applications of the instrument design and implementation, while offering specific reflections on these design characteristics.

The remainder of this report is structured as such: Section 3, describes the methodology used to explore the core questions regarding if and how this impact bond was “effective” and “efficient”. Section 4 describes the Village Enterprise poverty graduation model and DIB structure. Section 5 (Effectiveness) and Section 6 (Efficiency) present the findings of the process review. Concluding remarks are presented in Section 7.



3. Methodological approach

3.1 Objectives of the process review

The objective of the process review is to explore if and how implementing this program through an impact bond rather than through a more traditional funding model affected Village Enterprise's program implementation ("effectiveness"), as well as whether the impact bond design was a worthwhile use of resources ("efficiency").

Table I summarizes the key questions explored through the process review for effectiveness and efficiency.

Effectiveness. Proponents of DIBs—and RBF instruments in general—argue that these instruments lead to operational efficiencies due to four main drivers: by aligning financial incentives of all parties involved, by drawing attention to results rather than processes, by offering service providers increased flexibility to iterate in order to improve their programming, and by increasing accountability (Perakis & Savedoff, 2015). This process review is not meant to provide causal evidence of whether the DIB led to operational effectiveness, but rather explores whether these drivers are present and, if so, how the drivers affected implementation.

Efficiency. The process review explores whether the design and implementation of the DIB represents a worthwhile use of resources. We inform on the financial cost of the DIB (as stated in program budgets), as well as time spent on the DIB (as informed by the DIB stakeholders) and the perceptions of efficiency/inefficiency and lessons learned shared by the stakeholders. The process review assessed efficiencies around these core processes: outcome payer engagement and fundraising of outcome funding commitments; service provider selection; RBF instrument design; selection of the trustee and the trustee fund management; selection of outcomes evaluator and program impact evaluation design and implementation; stakeholder contracting and fund disbursements; service provider-investor relations; project management; and the process review.



Table 1. Summarized objectives of the process review and corresponding research questions

Objectives	Core questions	Components
<p>Effectiveness</p>	<p>Did the DIB drive operational changes and performance improvements for Village Enterprise? How?</p>	<ol style="list-style-type: none"> 1. DIB facilitates greater alignment of financial incentives 2. DIB helps draw greater attention to results 3. DIB provides flexibility to adapt service delivery approaches 4. DIB facilitates greater accountability
<p>Efficiency</p>	<p>(In)Efficiencies of key DIB processes:</p> <p>Were processes helpful to the overall success of designing and implementing the DIB?</p> <p>What worked well for these processes?</p> <p>What learning can inform more efficient DIB design in the future?</p>	<ol style="list-style-type: none"> 1. Outcome payer engagement and fundraising of outcome funding commitments 2. Service provider selection 3. RBF instrument design 4. Selection of the trustee and the trustee fund management 5. Selection of outcomes evaluator and program impact evaluation design and implementation 6. Stakeholder contracting and fund disbursements 7. Service provider – investor relationship 8. Group project management 9. Process review

Instiglio collected data through three key processes:

Document review. Instiglio assessed documents from the design and implementation of the DIB that were relevant to the objectives of the Process Review. Key documents include the Village Enterprise DIB Outcomes Payment Agreement, Village Enterprise six-month progress reports, and notes from quarterly Village Enterprise DIB Working Group meetings.



Semi-structured interviews. Instiglio conducted a total of 19 interviews with all entities involved, including multiple Village Enterprise staff, across offices in the field and at headquarters, to better understand the impact of the DIB on Village Enterprise’s poverty graduation model and organizational operations. Table 2 summarizes the interviews conducted over the course of the process review.

Table 2. Stakeholders interviewed during the process review

Baseline (Q1 2018)	Midline (Q3 2019)	End line (Q4 2021)
FCDO	FCDO	FCDO
USAID-DIV	USAID-DIV	USAID-DIV
Anonymous Donor	Anonymous Donor	Anonymous Donor
Village Enterprise	Village Enterprise	Village Enterprise
GDI	GDI	GDI
IDinsight	IDinsight	IDinsight
Instiglio	Instiglio	Instiglio
		Delta Fund

Surveys. Instiglio conducted a set of surveys at two distinct times over the course of the DIB program: baseline (Q1 2018) and end line (Q4 2021). Surveys were conducted to complement insights from the semi-structured interviews. Survey questions were designed to allow stakeholders to quantify assessment of the main research areas. Results were used to validate and/or compliment learning gathered from the interviews and document reviews. Table 3 summarizes the interviews conducted over the course of the process review.

Table 3. Stakeholders surveyed during the process review

Baseline (Q1 2018)	End line (Q4 2021)
FCDO	FCDO
USAID-DIV	USAID-DIV
Anonymous Donor	Anonymous Donor
Village Enterprise	Village Enterprise
GDI	GDI
IDinsight	IDinsight
Instiglio	Instiglio
	Delta Fund

The qualitative and quantitative data were processed and analyzed to triangulate findings and build a comprehensive understanding of operations and results.



4. The Village Enterprise Development Impact Bond (DIB)

For context of the Process Review, this section presents the motivations that led to the creation of the DIB (section 4.1) and a description of the DIB structure and design (section 4.2).

4.1. Motivations to create the Development Impact Bond

In 2016, when the parties began to explore the design of an RBF instrument to improve poverty outcomes in Sub-Saharan Africa, the graduation approach – a holistic livelihood program targeted at the poorest populations – was emerging as an evidence-backed intervention. A randomized trial in Bangladesh, and a multi-country randomized evaluation in Ethiopia, Ghana, Honduras, India, Pakistan, and Peru, suggested that this approach could lift the world's poorest households out of poverty (Bandiera, et al., 2017; Banerjee, et al., 2015). Nevertheless, results varied across contexts: for example, the gains in per capita consumption were statistically significant in four of the six countries, but not Honduras and Peru, when measured at endline 1 and endline 2 (approximately 28 months and 40 months after intervention start respectively)² (Banerjee, et al., 2015).

While graduation approaches have common components (e.g., a productive asset transfer, technical skills training, consumption support), its design is not a one-size-fits-all approach and is adapted to each specific context. The success of the approach in each context may depend on local characteristics, such as the strength of the local economy and how the local adaptation of the program worked out. Accordingly, a model that facilitates adaptability and flexibility to the local context could help catalyze the maximum performance of graduation approaches.

RBF was seen to provide something that traditional funding could not offer: a guarantee that funds spent on the graduation approach would indeed help participants get out of poverty. Further, RBF would provide the service provider with the flexibility and performance incentives to respond to suboptimal results by pivoting their intervention and contextualize their approach to the local context. As service providers are usually unable to manage the cash flow of not getting paid until results are verified and are unable to bear the risk of non-payment from not achieving the expected results, an impact bond—through which non-payment risk transfers to investors—was considered.

Specifically, stakeholders were interested in the potential of the DIB for the following four reasons, which align with the commonly cited four potential drivers of impact of RBF (Perakis & Savedoff, 2015).

- **Aligning financial incentives.** In an impact bond, an outcomes payment agreement is created to align stakeholders on program objectives, selected results, payment structure to pay for achieved results, and broad 'rules of the game.' The incentivized results are also meant to align with end users (i.e., the population served), as the program results should aim to meet the needs of end users and improve their wellbeing.
- **Incentivizing greater attention to results and performance to achieve those results.** By tying funding to results, the impact bond incentivizes the service provider to track and manage results, generating greater evidence, data, and understanding of program effectiveness and performance.
- **Providing flexibility and creating a conducive environment to adaptation in pursuit of results.** By tying funding to results and avoiding prescribing a path to sustained impact, the impact bond grants the service provider the flexibility to adapt elements of the intervention.
- **Enhancing accountability.** An impact bond requires verifying and publicizing results of the program to determine outcome payments, increasing accountability of what is achieved with development funding.

4.2 The Development Impact Bond design

This section presents details of how the DIB was designed and structured. We begin with the motivations the stakeholders had to innovate in the design of the DIB. Then, we present the high-level operational structure of the DIB, including the key stakeholders involved and their roles. Next, the broad terms and timeline of the DIB agreement

² However, statistically significant increases in *food consumption* were found in Honduras in endline 1 and Peru in endline 2.



are summarized before providing specifics on how the Village Enterprise graduation model works. Last, we detail relevant design components of the DIB: the payment structure and verification methodology, and highlight key changes made to these design components during the COVID-19 pandemic.

An effort at minimizing transaction costs in the design

As one of the widely acknowledged limitations of impact bonds is the transaction costs of putting them together, the DIB stakeholders incorporated innovations and built infrastructure meant to minimize transaction costs. These innovations were:

1. **Building an outcomes fund model that leverages economies of scale.** An outcomes fund model brings together multiple outcome payers that place their funding in a singular, independent structure. In designing this DIB, a trustee role was created, and Global Development Incubator (GDI) was chosen to administer it. The use of a trustee was expected to minimize costs in various ways. At the initial stage, the trustee would implement due diligence and contracting processes with participating stakeholders (e.g., service provider, outcome payers), eliminating the burden of running multiple processes with slightly different characteristics. Then, during implementation, the trustee would oversee the adherence of contracts (i.e., assuring stakeholders fulfilled their respective roles), as well as conducting overall financial management (e.g., cash inflows and outflows), centralizing and standardizing these requirements, again, streamlining various stakeholders' requirements. Lastly, the DIB would have one Outcomes Payment Agreement, streamlining what otherwise would have been three separate contracts.
2. **Streamlining best practices.** The stakeholders were interested in creating tools, templates, and processes that could be used by others in the future to reduce the costs of individual impact bonds and other RBF instruments. For instance, many of the processes and best practices from the trustee function were intended to inform future efforts of how to best shift effort and costs from outcome payers and service providers to this centralized actor.
3. **Uncoupling investor engagement from RBF instrument design processes.** Impact bonds often include outcome payer(s) and investor(s) at the design table from the start to directly negotiate the terms of project design and outcome payment disbursements. In this model, outcome payer(s) and investor(s) directly contract to reflect the agreed financial terms of what result will be paid and at what price, the amount of upfront capital that investor(s) will provide to the service provider, and when and how much the outcome payer(s) will pay the investor(s) upon verification of achieved results. In this specific case, the service provider, Village Enterprise, was tasked with bringing in investors and with managing relationships with them directly, rather than bringing them to the design table with outcome payer(s). This arrangement was expected to reduce transaction costs and complexity for outcome payers engaged in design and negotiation.

The operational structure of the DIB

Stakeholders finalized the Village Enterprise DIB designed over the course of 2017 and finalized contracting in November 2017. As reflected in Figure 1, outcome payers pooled their financial commitments into one account, held and managed by GDI as a trustee. Village Enterprise, as the service provider, independently raised working capital from investors, led by Delta Fund. IDinsight served as the independent evaluator and implemented a randomized trial to identify the impact of the intervention. Based on the results as reported by IDinsight, the trustee, GDI, transferred outcome payments to Village Enterprise. Then, according to financial terms agreed by Village Enterprise with its respective investors, Village Enterprise made repayments to the investors.



Figure 1. Overall structure of the Village Enterprise DIB

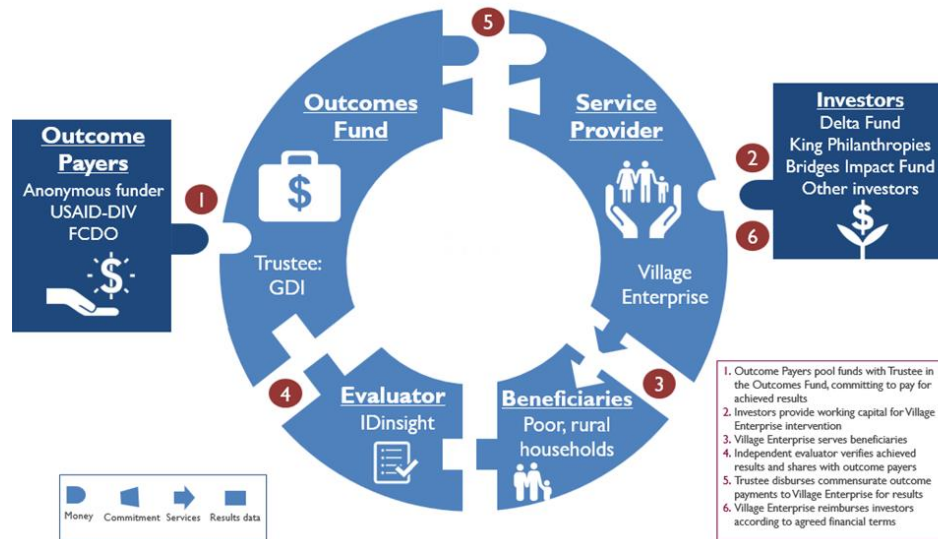


Table 4 further details each stakeholder and their role in the DIB.

Table 4. Participating stakeholders and their role(s) under the Village Enterprise DIB

Stakeholder	Role	Organization(s)
Outcome payer	Outcome payers are organizations that commit to paying for results that are achieved and verified as per the procedure and conditions articulated in the Outcomes Payment Agreement.	The Foreign, Commonwealth & Development Office of the United Kingdom (FCDO) ³
		Development Innovation Ventures from the United States Agency for International Development (USAID-DIV)
		Anonymous donor
Service Provider	The service provider commits to delivering the services to the target population and is paid based on results. In this specific case, the service provider also contributed to the RBF instrument design and was tasked with recruiting investors, entering a financial agreement with them, and managing the relationship with them.	Village Enterprise
Investors	Investors provide upfront working capital to the service provider for program implementation. In this specific case, the investors entered financial agreements directly with the service provider, dictating how the service provider would repay investors pending verified achievement of results as reported by the outcomes evaluator. The service provider held the investor contracts, negotiated investment terms, and managed these financial flows.	Delta Fund (lead investor, 43% of total investments raised by Village Enterprise)
		Bridges Impact Foundation
		King Philanthropies
		Laidir Foundation
		Skees Family Foundation
		Silicon Valley Social Venture Fund (SV2)
		Excelsior Impact Fund
Trustee	Streamline contracting relationships and financial management and flows via responsibilities, such as: <ul style="list-style-type: none"> receiving funds from outcome payers, creating and signing an outcomes payment agreement with Village Enterprise in accordance 	The Halls
		The Friedrichs
		Global Development Incubator (GDI)

³ Initially, a team from the United Kingdom’s Department for International Development (DFID) participated in the program. However, in 2020, DFID merged with the Foreign and Commonwealth Office (FCO) to form the Foreign, Commonwealth, and Development Office (FCDO).



Stakeholder	Role	Organization(s)
	<p>with the DIB design (and as approved by all parties),</p> <ul style="list-style-type: none"> • holding donor funds in escrow during project, • disbursing payments for the achievement of results as reported by the outcomes evaluator, • holding the outcomes evaluation contract with the independent outcomes evaluator, • holding the contract with the project manager and process reviewer, • completing organizational due diligence on downstream partners to ensure their ability to deliver contracted activities and that parties do not represent a fiduciary or reputational risk to outcome payers, and • ensuring the project manager and outcomes evaluator deliver respective work and disbursing payments to those stakeholders according to payment schedules. 	
Outcomes Evaluator	<p>Conduct:</p> <ul style="list-style-type: none"> • Audits to verify the transfers of seed funding from Village Enterprise to beneficiary entrepreneurs (i.e., seed funding to start businesses), and • A rigorous impact evaluation in the form of a randomized controlled trial (RCT) to estimate the effect of the program on household income. <p>These two activities aim to:</p> <ol style="list-style-type: none"> 1. Provide the principal input for calculating the payment based on the success of the program, and 2. Generate relevant evidence of the impact of the program. 	IDinsight
Project Manager	<p>The project manager oversees the RBF instrument design and implementation to help assure the well-functioning of the project throughout its lifecycle. The project manager is responsible for managerial, coordination, and secretarial tasks, as well as serves as the main conduit to bring together stakeholders as needed (e.g., provide project progress updates and coordinate stakeholder group decisions).</p>	Instiglio
Process Reviewer	<p>The process reviewer designs and conducts a learning agenda to evaluate and assess the overall efficiency and effectiveness of the DIB instrument. This is done to gather key lessons and learning to inform the most effective design and implementation of future RBF projects and to inform others in the ecosystem (e.g., donors, investors) that are interested in learning from this experience to expand the use of such financing mechanisms across its programs.</p>	

A “Decision Making Group” comprised of the three outcome payers (FCDO, USAID-DIV, and anonymous donor), Village Enterprise, and Instiglio was created and given the task of making decisions during DIB implementation, such as decisions related to dispute resolution and risk mitigation. Additionally, a “Working Group” was created, comprising the Decision Making Group plus GDI and IDinsight. Investors were not included in the Decision Making Group or in the Working Group. As mentioned, this decision was made with the hypothesis that it would keep transaction costs lower than in past impact bonds.



These two groups were mentioned in the Design Memo (non-contractual document that articulates the DIB details) and in the Outcomes Payment Agreement (the main DIB contract). The Design Memo proposed that the Working Group meet quarterly in 2018 and 2019 and then biannually in 2020 and 2021, while also stating that meetings could be called on an as-needed basis should unexpected issues arise that need group consensus/approval. Proposed objectives and topics for Working Group meetings, for example, were to:

- report on implementation status updates (Village Enterprise),
- report on budget and funds management updates (GDI),
- discuss and approve requests for DIB alterations that may have material impact on outcomes (e.g., changing payment metrics, changing the price of metrics changing the evaluation methodology to verify outcomes),
- update stakeholders on potential risks that could affect program implementation and corresponding mitigation plans, and
- reflect on DIB project management processes and best practices (what works well, what can be improved).

Table 5 summarizes the broad instrument parameters, including overall funding tied to results, payment metrics, and geographies. Figure 2 illustrates the timeline of the project and when cohorts of participants were engaged by the Village Enterprise graduation model intervention.

Table 5. Village Enterprise DIB program characteristics

Program characteristics	
Budget	Total budget committed by outcome-payers: USD 5,321,964 ⁴ Budget to pay Village Enterprise based on results: USD 4,280,618
Program Size	Minimum number of participant households: 12,660 Number of participant households: 14,130
Unit of analysis	Household
Number of cohorts	7
Payment metrics	<ol style="list-style-type: none"> 1. Increase in household income, as proxied by increases in household levels of consumption and assets. 2. Outcome payers pay for every dollar the household gained due to Village Enterprise’s intervention. That is, outcome payers pay \$1 for every \$1 of ‘proxied’ income increase measured after intervention end.
Target area	Western Kenya and Northern Uganda
Intervention duration	Three years, beginning November 2017 and ending December 2020
Overall DIB program duration	Four years, beginning November 2017 and ending in the last quarter of 2021 ⁵

⁴ The total budget includes funding tied to results (outcome payment), and other program-associated costs, including the Randomized Controlled Trial, program technical design, program management, and Process Review.

⁵ Delays in data collection due to COVID-19 restrictions pushed the end of the project to the last quarter of 2021. Initial planning estimated that the impact evaluation would end early- to mid-2021.



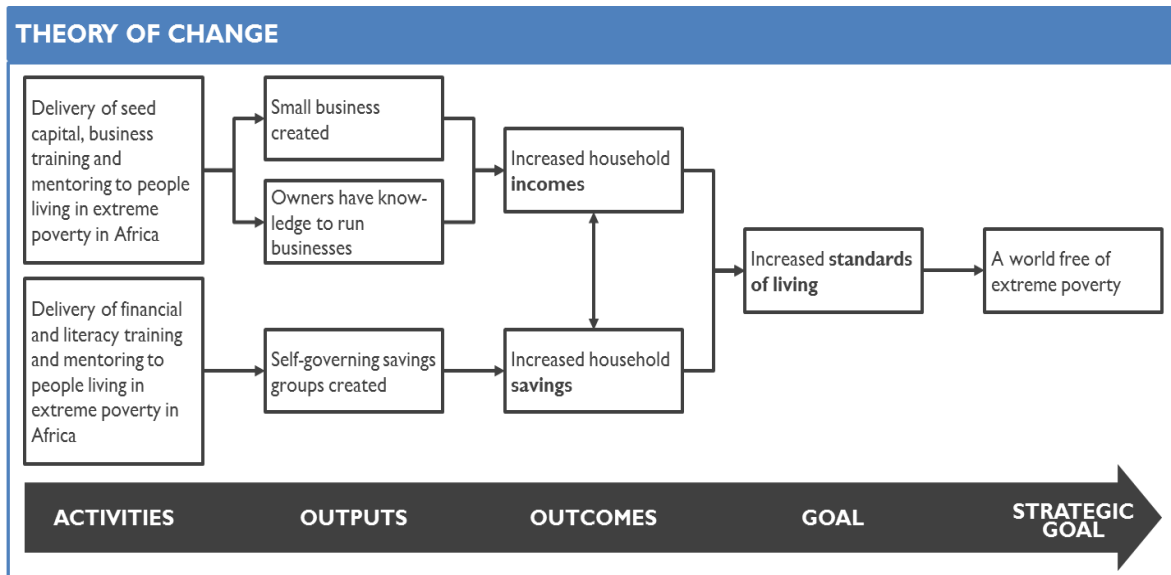
Figure 2. Implementation timeline of the Village Enterprise DIB participants (cohorts)

Cohort		Program start	Program end	2018				2019				2020			
Pre-COVID-19 Pandemic	1	Jan 2018	Dec 2018	■	■	■	■								
	2	April 2018	March 2019		■	■	■	■	■	■	■				
	3	July 2018	June 2019			■	■	■	■	■	■				
	4	Jan 2019	Dec 2019					■	■	■	■	■	■	■	■
During COVID-19 Pandemic	5	April 2019	March 2020						■	■	■	■	■	■	■
	6	July 2019	June 2020							■	■	■	■	■	■
	7	Jan 2020	Dec 2020									■	■	■	■

The intervention

The Village Enterprise graduation model aims to equip households living in extreme poverty with resources to overcome the multidimensional problems of poverty. It does so, as can be seen in the simplified theory of change in Figure 3, through two main activities: 1) delivery of seed capital, business training, and mentoring, and 2) delivery of financial and literacy training and mentoring. The expectation is that these two activities combined will lead to households starting a small business (if they did not already have one), having the skills to run the small business, and the skills and the channels to generate savings, and that as a result, they would have higher income and higher savings, and therefore an improved standard of living.

Figure 3. Simplified Theory of Change





The intervention has five main components:

1. **Targeting:** Village Enterprise identifies individuals to participate in the program. In this specific case, Village Enterprise targeted individuals in Kenya and Uganda who live on under USD 1.90 per day, have limited experience operating a business, and are unable to provide for their family’s wellbeing. Village Enterprise uses a multi-step targeting process to identify individuals who meet these criteria. First, it targets the poorest geographies based on poverty data. Then, within those areas, it conducts Participatory Wealth Ranking exercises to identify the poorest households. Finally, it verifies the results of the exercise using the Poverty Probability Index, as well as an assessment against several locally relevant exclusion and inclusion criteria.
2. **Business savings group:** Village Enterprise works with program participants to create business savings groups, self-governing councils of 10 businesses comprising 30 individuals. Business savings groups provide a platform through which Village Enterprise conducts the training program, as well as develop trust and respect between participating community members.
3. **Training:** Local business mentors deliver a four-month training program to equip participants with the necessary knowledge to run a business.
4. **Seed funding:** Seed capital is granted to start businesses of three participants each. Approximately 65% of businesses received seed funding consisting of USD 150 seed while the remaining 35% received seed funding consisting of USD 450.⁶
5. **Mentoring:** Business mentors provide continuous guidance to the participants for one year.

Village Enterprise used a layered staffing structure to implement the program, as demonstrated in Table 6.

Table 6. Village Enterprise field team composition

Designation	Role
Business Mentors	Provide frontline support to business owners and business savings groups including training and mentorship
Field Associate (coordinator)	Manage and guide all Business Mentors in a region
Regional Manager	Provides oversight and management of the Field Associates in a region

Further elaborating the high-level summary of the results-based financing instrument structure and design, below are details of how the verification mechanism was structured and how the instrument payment structure specifically tied payments to results. Last, we note key updates made to the initial payment structure and verification methodology designs in response to challenges faced during the COVID-19 pandemic.

Verification methodology

A verification process was set up to confirm that entrepreneurs (and, therefore, households) received seed funding, to identify the causal impact of the intervention to determine payments, and to contribute to learning on implementation of graduation approach programs.

To confirm seed funding distribution, the selected verifier, IDinsight, conducted a four-step process to confirm the number and amount of grants disbursed, including reviewing enumerator records, financial audit, mobile money financial audit, and phone follow-ups.⁷

⁶ Some business groups in Kenya received a larger grant size. The independent evaluation assessed the effect of the grant size on outcomes.



To determine the impact of the program, IDinsight implemented a cluster randomized controlled trial (RCT). The Village Enterprise program was randomized across 241 treatment villages and 241 control villages in western Kenya and eastern Uganda and rolled out to cohorts of treatment households from January 2018 to December 2020. IDinsight surveyed 9,888 households from all study villages from May to August 2021, which was 6 months to 2.5 years after treatment households completed the one-year program. All analyses were pre-specified and registered on the American Economic Association’s RCT registry and the results were made [publicly available](#) (IDinsight, 2022).

Payment structure

The payment structure comprises the payment formula, which defines the payment that would be made to Village Enterprise for achieving the pre-agreed results, and the definition of payment milestones (e.g., who pays whom, when are payments made, at what ceiling are payments capped).

The payment formula specified two distinct types of possible payments dispersed separately to Village Enterprise⁸:

Type I: reimbursement of seed capital. As part of its graduation intervention model, Village Enterprise provided seed capital to participating entrepreneurs to start their business. Village Enterprise was reimbursed for these payments once the disbursement of the payment was verified by the independent evaluator.

Type II: outcome payments. The independent evaluator determined the program's impact by surveying participants and the control group 6 months to 2.5 years after the intervention took place, and comparing their household levels of consumption and assets.⁹ The payment formula was designed to reward Village Enterprise for the benefits that accrued to participating households to date, as well as benefits projected to accrue in the future based on initial trends (i.e., assets held today are assumed to perpetuate benefits into the future, though at a discounted rate). Three theoretical scenarios were created, each with an accompanying payment formula that translates the measured consumption and assets in a “household income increase,” which determines the total amount of Type II payment. The three scenarios follow:

1. *Pessimistic scenario:* Assets transferred have been consumed, so there is no expectation that the household will benefit from the intervention in the future. Thus, the Type II payment made in this scenario rewards only the measured increase in consumption achieved to date (i.e., moment of evaluation).

⁷ *Enumerator records:* an IDinsight enumerator witnessed each disbursement for each cycle and recorded information, such as business group names, number of business group members, and the amount received. For any groups which received their grant after the primary disbursement event, Village Enterprise staff photographed the group with their cash envelope and photographed each group’s receipt. Photos were reviewed to confirm the number of group members and the amount they received.

Financial audit: Village Enterprise disbursement schedule forms were cross-referenced with bank statements and cash retirement documents to ensure the money allotted for disbursement was indeed withdrawn from the Village Enterprise account and to assess whether any grants were distributed after the main disbursement event.

Mobile money financial audit: Village Enterprise disbursement schedule forms were cross referenced with bank statements, M-Pesa statements, and cash retirement (journal entry) documents to ensure that money allotted for disbursement was indeed withdrawn from the Village Enterprise account and transferred through M-Pesa. For disbursements transferred via M-Pesa, IDinsight verified that all transactions were successful and that no transfers were returned after 24 hours.

Phone follow-up: one randomly sampled program participant with a working phone and SIM card from each village was contacted to confirm that the disbursement did occur in their village.

⁸ Calculations for and disbursements of Type I payments were made to Village Enterprise upon completion of seed funding disbursements from Village Enterprise to participating entrepreneurs. These were made approximately between May 2018 and January 2021 for all seven cohorts. The calculation of Type II payment subtracted the calculation of Type I payments so as not to double count / duplicate pay for Type I payments.

⁹ Assets were defined as net household assets (i.e., household savings and tangible household assets, net of household liabilities) plus net business assets (i.e., business savings and tangible business assets, net of business liabilities), accounting for business ownership by the household.

Consumption was defined as the sum of household food and beverage consumption, household recurring consumption, and household infrequent consumption.



2. *Medium scenario:* Some of the assets transferred have been consumed while some remain. This scenario rewards the implementing organization for assets, as well as for consumption. However, it is expected that the assets will eventually be consumed and that the household will, eventually, no longer benefit from the intervention.
3. *Optimistic scenario:* The household has been able to grow its assets since receiving the original asset transfer. The household is expected to continue to benefit from having participated in the program (although, at a discounted rate).¹⁰

Payments were capped in three ways. First, the total outcome payments could not exceed the total outcomes funding committed (USD \$4,280,618). Furthermore, Type I and Type II payment caps were established.

Type I payment caps. Village Enterprise could receive reimbursements for seed capital transfers up to USD \$1,200,000. Further, a cap of USD \$150 per household limited the amount Village Enterprise could be reimbursed per household. Any amount not reimbursed as Type I payments could be paid as Type II payments.

Type II payment caps and floor. Village Enterprise could receive a payment of up to USD \$265 per household (excluding the Type I payment). The payment floor was set at USD \$0.

Adjustments in response to the COVID-19 pandemic

The COVID-19 pandemic required adapting data collection related to verification. The pre-specified impact evaluation design planned for two rounds of endline data collection: cohorts 1-4 (April to May 2020) and cohorts 5-7 (April to May 2021). In response to the pandemic, IDinsight developed protocols to decide if in-person surveys could be safely conducted, and specific biosecurity protocols to prevent the spread of COVID-19 during data collection. FCDO provided additional funding to cover the costs of adjusting to the pandemic, such as the purchase of personal protective equipment. To prevent the spread of COVID-19, and in compliance with local movement restrictions, no data collection took place in 2020, and the two rounds of data collection were consolidated into one round, which took place between May and August 2021. The impact evaluation was completed in November 2021.

The parties agreed to modify the payment formula as a response to the pandemic. In 2020, stakeholders became concerned that pandemic-related challenges would negatively affect the implementation of the DIB. First, delays in data collection meant that payments would also be delayed, creating an unplanned financial risk for Village Enterprise and investors. Second, restrictions related to the pandemic may have meant that households would consume their savings, which—in a way—would demonstrate that the intervention succeeded at creating a safety net, but would also negatively impact the results of the impact evaluation, which was tracking assets rather than wellbeing during an economic shock. Third, protracted delays in data collection increased the risk that the impact evaluation would not capture the impact of the program as intended via the initially established payment formula and evaluation design,¹¹ as with time households would be less likely to have assets left over.

Through a series of meetings, stakeholders agreed to adjust the DIB payment formula. First, stakeholders recognized that households would likely rely on their existing assets to maintain consumption and wellbeing during the pandemic (i.e., economic shock). And, further, that such a use of assets should not be interpreted as an indication that future income effects will not sustain, as might otherwise be predicted in non-pandemic times (i.e., no economic shock). Accordingly, the “medium scenario” was removed from the payment structure and the “optimistic scenario” was adjusted to include all scenarios where assets were positive. Second, the payment agreement was modified to make a payment to Village Enterprise and its investors of 60% of the costs incurred for program implementation of the first four cohorts, which was subtracted from the total possible pool of outcome payments available for achievement of final results.¹²

¹⁰ The project used a 10% annual social discount rate.

¹¹ For instance, the evaluation design was initially set to report results for cohorts 1-4 in mid-2020, which was adjusted to report results for all cohorts 1-7 by late-2021.

¹² This was reflected as payment Type I.5, complementing the initially planned payment Type I and Type II.



5. Effectiveness

The process review explored whether the DIB contributed to operational efficiencies that may not have existed had the program been funded through a business-as-usual funding mechanism. Proponents of DIBs argue that these instruments lead to operational efficiencies due to four main drivers: by aligning incentives of parties involved, by drawing attention to results rather than processes, by offering service providers increased flexibility to improve their programming, and by increasing accountability (Perakis & Savedoff, 2015). This section explores whether the four “drivers of impact” were present and, if so, how the drivers affected implementation.

5.1 Aligned incentives: Focusing stakeholders on clearly defined results

The DIB created a single Outcomes Payment Agreement and accompanying governance structure and contracts that aligned stakeholders around the program objectives, desired results, payment structure and price to pay for the achievement of results, and broad ‘rules of the game.’ This alignment was further solidified via the structure of this project, which pooled outcomes funds upfront, committing them to be disbursed only upon the verified achievement of pre-agreed results.

Traditional funding models may often pull the service provider in various directions. For instance, donors may surface many different activities and indicators to track or expected outcomes to achieve, yet with varying degrees of interests and importance. This makes it challenging for the service provider to prioritize and focus on the truly important elements that lead to the desired results. On the other hand, the impact bond design aligns stakeholders in their search for results. This leaves the decisions of which activities or inputs best drive results to the expertise of the implementing service provider.

The stakeholder’s alignment helped keep them committed to completing the project and achieving results in the face of complex challenges. The COVID-19 pandemic brought uncertainty to social programming in general. Many projects paused operations and some donors shifted priorities to respond to the health necessities of the pandemic (EAPN, 2021). During the pandemic, DIB stakeholders met multiple times to adjust the parameters of the DIB to the new reality. The experience of implementing this DIB during the pandemic resonates with other DIBs and social impact bonds implemented around the world. According to a survey of those involved in social and development impact bonds in low- and middle-income countries during the pandemic published in December 2021, all projects but one (11 out of 12) remained operational during the pandemic, suggesting these instruments were resilient to this shock (Gustafsson-Wright, Osborne, & Crane, 2021).

5.2 Greater attention to results: Integration and implementing an adaptive management system

Village Enterprise CEO Dianne Calvi has noted that “before the DIB, we thought we were focused on results and innovation, but not enough to achieve our ambitious mission of ending extreme poverty in rural Africa. The DIB helped us foster a results-driven culture, drove digital innovations, and contributed significantly to increasing our impact at scale.”

Specifically, during the implementation of the DIB, Village Enterprise integrated an adaptive management system and put it into practice, illustrating this greater attention to results.

Integrating an adaptive management system. Village Enterprise had considered launching an adaptive management system¹³ before engaging in the DIB. As implementing a DIB requires that the implementing organization continuously track performance and iterate, participating in the DIB accelerated the design and eventual company-wide roll-out of the system in 2019. The adaptive management system aims to support Village Enterprise to proactively manage outcomes through tracking results during implementation and inform rapid adjustments to the program using data-driven decision-making. The system includes dashboards that are streamed directly to staff (e.g.,

¹³ Village Enterprise uses the term adaptive management as leadership believes the term ‘performance’ has punitive connotations and is likely to foster fear and anxiety rather than foster active use of the system for problem solving.



Business Mentors’ tablets) and widgets to visualize data, such as business health, business savings group health, and the number of training sessions attended and missed (Figure 4).

Once implemented, the adaptive management system allowed the field staff to use data to proactively diagnose entrepreneur performance and progress, as well as to better assess which activities were having the expected results and which were not. A Field Associate interviewed during the Process Review, for example, described being able to easily identify top-performing Business Mentors and ‘tap into’ their abilities to support underperforming Business Mentors in areas where improvement was needed. Business Mentors also suggested changing their work plans and timetables based on the feedback provided by the dashboards. Village Enterprise’s Vice President of Africa Operations noted, “Using the results-based approach instead of delivering set activities, our field team worked closely with business owners to set savings and business health targets. We trained teams to use powerful adaptive management tools and dashboards to track the entrepreneurs’ progress and problem-solve in real-time to ensure their businesses were profitable and they achieved their saving goals”.

Not all Business Mentors found the new dashboard immediately useful, though. During midline data collection, some Business Mentors—especially those with longer tenure at Village Enterprise—suggested that the data was telling them information they already knew from interactions with Business Owners. Shifting mindsets and achieving the uptake of new technology and systems may take more time with more experienced staff. The utility of these instruments may also be greater for newer staff members than for those with more experience.

Figure 4. Snapshot of the Village Enterprise Adaptive Management Dashboard showing the Business Mentor view and Field Associate view including widgets (business health, business savings group health, and the number of training sessions attended and missed)



Putting the adaptive management system into practice. Though Village Enterprise was a data-driven organization before the DIB, constraints in data collection and management prevented staff (particularly field staff) from using data to make decisions. For example, Business Mentors collected attendance using manual data sheets, which were then handed over to field associates who would input them into a computer system for the Monitoring, Evaluation, and Learning teams to analyze. A lack of real time data analysis created delays and meant that by the time the data was analyzed it was sometimes too late to implement a corrective action. Challenges like these created long feedback loops, which created inefficiencies in the process.

In response to these constraints, Village Enterprise implemented three sets of corrective actions:

- a. *Tablets.* Business Mentors were given tablets and were asked to transition from manual rollcall sheets to digital collection forms, starting with cohort 3. This reduced the time needed to conduct training,



improved managers' ability to review attendance figures, alleviated Field Associates' data entry burden, and led to quicker feedback loops.

- b. *Collecting the right amount of data.* Before the DIB, Village Enterprise collected substantial data on business health. The analysis and interpretation of the data was not a straight-forward process, and it was not clear to the field teams how they were supposed to use the data to assess business health. During the DIB, Village Enterprise updated systems to narrow its focus to a set of five relevant business health indicators: the proportion of grant size invested in the business, the business value as a function of grant size, profits as a function of grant size, business membership retention, and up-to-date record keeping.
- c. *Setting up dashboards:* The five indicators above were assigned scores for each business – red, yellow, and green – and the overall business was rated based on the worst scoring indicator. For instance, if a business had a red rating in one indicator and a green rating in the other four indicators, the business would receive an overall rating of red. This information was shared on adaptive management system dashboards that aggregate data at the business, business mentor, field associate, country, and organizational levels, which enables staff at every organizational level to access data based on their function and make data-driven decisions. This automated analysis process helped ease the interpretation of data and made learning feedback loops quicker.
- d. *Improved Data collection.* Village Enterprise launched pilots to test alternative survey processes and improve the overall quality of data collected. These pilots included:
 - *Monthly savings and business success data collection.* Before the DIB, Village Enterprise collected savings data twice: during a Business Savings Groups spot-check and at an exit survey. During the DIB, Village Enterprise tested an increase of savings data collection frequency (increasing to monthly collection), having Business Mentors collect the data during regular savings group mentoring sessions. However, Village Enterprise found that the quality of the data was not high. Thus, the organization settled on a middle ground solution, collecting data at three points and doing so with specialized staff: enumerators who implemented three progress surveys. Separately, Village Enterprise also tested having Business Mentors collect business success data, and eventually decided to pass this responsibility to enumerators as well to improve data quality across all indicators.
 - *Monitoring training quality.* Halfway through DIB implementation, Village Enterprise tested the Stallings Classroom Observation, an instrument that produces quantitative data about interactions between teachers and students in classrooms (World Bank, 2017). This instrument generated data on how well Business Mentors delivered trainings and interacted with entrepreneurs. Insights from this instrument have helped Village Enterprise support Business Mentors improve their training delivery to ensure consistency in the quality of training across the program.

5.3 Greater flexibility: Village Enterprise program adaptations

DIBs do not prescribe a specific intervention model, and instead allow implementing partners to adapt the program on-the-go, responding to incoming performance data. Village Enterprise took advantage of this programmatic freedom to implement two adaptations to its program.

- ***An updated curriculum.*** Village Enterprise updated its training manual to make it more suitable for adult learners and reduce the number of modules to create sufficient time for additional mentoring schemes. Village Enterprise reduced its 190-page training manual to 40 pages, redesigning it to introduce pictorials and improved learning material and reducing the number of training modules per cohort from 15 to 9. The updated training manual helped Business Owners engage with more practical content and learn by doing, rather than through lectures. Village Enterprise expects this update to increase retention with visuals shown to function as a memory aid and encourage learners to make associations between pieces of information and absorb information quickly (Edutopia, 2018). Village Enterprise staff noted that the updated training manual has led to increased interaction during training sessions and has freed the time of Business Mentors, allowing them to offer two mentoring visits before the Business Owners receive grants.



- **Cash transfer process improvements.** Initially, Village Enterprise transferred seed funding to participants in cash. To do this, Village Enterprise called together participants, had cash withdrawn from banks in advance and prepared in envelopes, and took photos to verify cash was given to intended recipients. As the DIB required verification of these cash transfers, IDinsight enumerators attended these events in person and reviewed bank statements and business journal entry documents. In 2019, Village Enterprise made the investment to move to digital transfers. Mobile disbursements reduced the workload for Village Enterprise and for program participants, allowed for more efficient tracking and verification of disbursements, and reduced safety risk faced by Village Enterprise staff that previously handled large amounts of cash in the field that could be subject to robbery.

5.4 Increased accountability: Improving feedback loops

The DIB aligned stakeholders on the desired program impact: what is believed to matter most to the end users that Village Enterprise worked with. Thus, the DIB created greater accountability of Village Enterprise to the objectives that matter to end-users rather than to the activities that often matter to donors, such as demonstrating expenses on pre-determined activities and progress reports. In terms of outcome payers, the results-based arrangement also enhanced their accountability to their stakeholders. The bilateral outcome payers, USAID-DIV and FCDO – beholden to standards of effective use of taxpayer money – were able to demonstrate how their funding led directly to improved livelihoods, as independently verified.

Village Enterprise used the flexibility of funding delivered through the DIB to create a stronger feedback loop between the participants and the organization. Village Enterprise implemented training sessions for staff and for the communities they served on what level of service Business Savings Groups should expect from Village Enterprise, and on boundaries that are not to be crossed in staff and entrepreneur interactions. The organization also set up a safeguard policy that articulates the steps staff and/or entrepreneurs can take in the event of safeguarding violations. Village Enterprise set up a safeguarding hotline and distributed stickers to entrepreneurs with the information on the safeguarding hotline.



6. Efficiency

This section explores the main lessons learned from different DIB design and implementation processes over the complete lifecycle of the DIB. The assessment of efficiency aimed to understand transaction costs (e.g., effort, time, and financial and non-financial resources) associated with the design and implementation of the DIB, as well as to identify efficiencies and inefficiencies, as noted by stakeholders, of the DIB design and implementation.

The presented reflections and lessons learned aim to inform development practitioners that may consider using RBF instruments and approaches in the future.

6.1. Costs

Below, Table 7 presents the costs budgeted for each project component/process of the DIB and the respective funding provided by each of the DIB outcome payers.

Table 7. Total Village Enterprise DIB budget

Total Funding/ Costs in USD					
Component		FCDO	USAID-DIV	Anonymous donor	Total cost
Outcome payments	Type I payment: seed funding reimbursement I (to Village Enterprise).	306,613	-	480,387	787,000
	Type I payment: seed funding reimbursement II (to Village Enterprise)	153,307	79,414	160,779	393,500
	Type II payment: outcome payment (to Village Enterprise)	1,207,800	925,040	967,278	3,100,118
	Total outcome payments	1,667,720	1,004,454	1,608,444	4,280,618
DIB costs	DIB design and stakeholder engagement	-	95,552	95,552	191,104
	Trustee	42,185	-	63,115	105,300
	Impact evaluation (RCT)	236,171	53,083	188,908	478,162
	RCT COVID-19 direct costs	45,000	-	-	45,000
	RCT COVID-19 exposure contingency fund	24,480	-	-	24,480
	Process evaluation	30,000	26,150	14,765	70,915
	Final reports and dissemination (communication)	11,986	11,986	11,986	35,958
	Grant management	-	41,322	-	41,322
	Project management	32,576	68,778	17,231	118,585
	Total DIB implementation cost	422,398	296,871	391,557	1,110,826
Total funding/ costs		2,090,118	1,301,326	2,000,001	5,391,444



The tables below present an estimate of the hours spent by stakeholders during the pre-implementation (2016-2017) and implementation (2018-2021) phases. Time spent serves as a proxy of how costly each phase and process was. While time spent does not directly represent monetary costs, the relative time intensity of different moments can be compared.

Table 8. Estimated time spent by stakeholders during DIB pre-implementation (2016-2017)¹⁴

Stakeholders	Hours
FCDO (DFID)	1,048
USAID-DIV	1,544
Anonymous donor	968
Village Enterprise ¹⁵	6,648
GDI	520
IDinsight	504
Instiglio	4,484
Total	15,716

Qualitative input from stakeholders indicates that the most time-intensive activities during the pre-implementation phase were the development of the RBF instrument and investor engagement. These activities required extensive multiparty negotiations to reach a consensus. Additionally, they required capacity building so stakeholders could engage with RBF concepts and to build the necessary skills and the infrastructure to secure capital from new sources. This phase also involved resolving major open questions regarding who to engage and how to best engage them to generate interest in the DIB. Resolving these questions involved significant learning-by-doing and ineffective approaches lengthened processes, particularly in the case of outcome payer engagement.

¹⁴ Pre-implementation (2016-2017) includes service provider selection, outcome payer engagement, RBF technical design, trustee selection, stakeholder contracting, fund management, evaluator selection, impact evaluation design, and raising working capital (investor engagement and relations).

¹⁵ Hours reported for Village Enterprise are for US-based senior management staff time spent on the project and does not include field delivery and senior staff time outside of the United States.



Table 9. Estimated time spent by stakeholders during DIB implementation (2018-2021)

Stakeholders	Processes (hours spent)					Total
	Trustee process	Verification process	Project management	Service provider-investor	Process review	
FCDO (DFID)	116	156	239	-	13	524
USAID-DIV	-	3	292	-	2	297
Anonymous donor	10	7	25	-	4	46
Village Enterprise	40	180	1,985	1,230	25	3,460
GDI	1,158	8	101	-	8	895
IDinsight	80	7,406	522	-	13	8,021
Instiglio	93	231	715	10	360	1,409
Total	1,497	7,991	3,879	1,240	425	15,032
Percentage per process	10%	53%	26%	8%	3%	100%

The most intensive processes during implementation (2018-2021) were verification (53.17%) and project management (25.81%). Both were particularly time intensive due to the need to respond to the challenges brought by the COVID-19 pandemic (2020-2021). The verification component was one of the most demanding processes during implementation and involved regular cash transfer audits and the final results verification. Additionally, some verification processes were relatively new to most stakeholders, resulting in learning-by-doing. For instance, IDinsight had to develop a new cash transfer verification audit process. The project management process implied recurrent meetings and troubleshooting. These time costs were also exacerbated by challenges brought on by the COVID-19 pandemic (e.g., increased stakeholder meetings to negotiate project adjustments to the payment formula and data collection protocols for the verification, for example).

The pre-implementation phase was relatively more time-intensive than the implementation phase. While pre-implementation and implementation phases represent 49% and 51% of the total time investment respectively, the *average monthly* time investment across stakeholders was more than double during pre-implementation compared to the implementation phase (655 hours vs. 307 hours). This suggests that the upfront time investment made during the pre-implementation phase set the stage for a relatively more hands-off implementation experience.

The following section highlights key strengths and challenges experienced in each of the key DIB processes. These insights provide context and potential driving factors behind the overall time spent per process, and may also inform future practitioners of what to emulate and what to avoid to most efficiently design and launch of future RBF instruments.

6.2. Efficiency of key DIB processes: what worked and areas of improvement

Outcome payer engagement and fundraising

The anonymous donor positioned its outcome funding commitment as matching funds, setting the task for the project manager to identify other contributing outcome payers. Initially, Instiglio and the anonymous donor focused on attracting private foundations, with the belief that they were most likely and able—when compared to bi- and multilateral donor agencies—to quickly commit funding to an innovative financing instrument. This approach, though, did not secure funding commitments due to various reasons: (i) several foundations had concerns around delegating traditional programmatic support roles to the DIB, (ii) engagement did not align with some of the foundation’s financial planning cycles, (iii) some foundations’ innovative financing units saw their mandate as promoting impact



investing and not paying for outcomes, and (iv) the nature of the DIB project fell outside several foundations' funding programs. Thus, the first lesson learned was that engaging private foundations for DIB funding commitments was not necessarily easier than engaging potential bi- and multilateral donor agencies, even with the upfront commitment of the anonymous donor as an outcome payer.

Following challenges to secure funding from foundations, Instiglio and the anonymous donor decided to instead identify a concrete funding opportunity with a specific service provider (see next heading), and then approach potential donors with a clearer proposition. A DIB prototype design was created to engage bilateral donor agencies, which included Village Enterprise as the potential implementing partner. With a prototype DIB design in hand, and upfront funding commitment from the anonymous donor, Instiglio approached FCDO and USAID-DIV to present the innovative finance opportunity to drive greater results in poverty alleviation. Both FCDO and USAID-DIV signaled interest and undertook a comprehensive assessment of the selected service provider (Village Enterprise) and prototype design. Ultimately, FCDO, USAID-DIV, and the anonymous donor made funding commitments to the DIB, collectively totaling over USD \$4.2 million tied to the achievement of results. The DIB successfully crowded in funding from multiple outcome payers and tested the appetite for pooled funding mechanisms (i.e., outcomes fund).

What worked

1. **Striking the right balance between creating a concrete prototype to pitch to outcome payers versus coming to outcome payers with a blank slate and seek their input.** Starting with outcome payers committing funding to a cause and only then searching for the right implementing partner may be most aligned with the philosophy of building an outcomes fund. It is challenging, though, to attract outcome payers without a concrete opportunity for them to react to. Outcome payers have limited bandwidth to develop an opportunity, and may be more likely to engage if significant time has already been invested in building the opportunity. In this specific case, creating a prototype at the beginning was useful in bringing the outcome payers to the table.
2. **Upfront commitment from a donor can be catalytic to procure financial commitments from other donors; however, it is not a guarantee.** Having the upfront commitment of USD \$2 million from the anonymous donor did not create a barrier for other donors (i.e., FCDO and USAID-DIB) that committed funds. In presenting and discussing the opportunity, this helped provide assurance to FCDO and USAID-DIV that the opportunity was tangible (i.e., not a theoretical exercise without implementation in sight) and aligned with objectives at the time to implement a project with scale and collaborative vision beyond “traditional funding models” that would involve only one donor with a smaller budget limited in its reach. Yet, upfront commitment is not guaranteed to draw in other donors, as evidenced by limitations in drawing in private donors (e.g., foundations). Other considerations, such as financial planning cycles and alignment with organizational missions and strategies, are important.

Areas for improvement

1. **Capacity constraints challenged the ability of some outcome payers to assess the DIB opportunity.** For instance, while assessing the viability of the instrument design, the innovative finance team within FCDO had to reach out to poverty alleviation experts within the agency to better understand poverty graduation models and programming. Additionally, this was the first time the USAID-DIV team participated in the creation of a DIB. Capacity building for potential outcome payers to build familiarity of RBF across important functions of organizations participating in a DIB may be necessary to reduce the effort required during the DIB design assessment process.

Service provider selection

In 2016, the anonymous donor and Instiglio engaged service providers as part of their strategy to create a concrete funding opportunity to pitch to potential outcome payers. Through desktop research, the anonymous donor and Instiglio initially identified more than 80 service providers that implemented poverty-alleviation interventions in Africa as potential candidates. Instiglio assessed the potential fit of service providers to shortlist those that exhibited the required capacity, evidence of past results, and readiness to engage in the envisioned RBF instrument design. From the



shortlist, Village Enterprise was selected, given its strong evidence of past impact (a recent RCT), operational capacities, and its developed performance management practices.

What worked

1. **Rigorous evidence of past impact/results was helpful in attracting outcome payers.** Evidence of past results increased outcome payer confidence in the service provider's ability to achieve the desired impact and helped draw in the outcome payers to the DIB. Outcome payers noted that the positive results from the earlier Village Enterprise RCT supported their understanding of the organization's theory of change and expected results, facilitating their due diligence review.

Though, when implementing an impact bond with a program intervention that has a rich evidence base, there is still a risk that the intervention may not work. Evidence-based interventions cannot necessarily always guarantee or predict expected impact in all scenarios. Still, the risk of non-performance is likely lower for the intervention that has a track record of known achievement than the intervention that does not. Also, one advantage of impact bonds is that they may lead to programmatic innovation by the service provider (e.g., finding new cost-effective ways to implement to improve upon past results). However, it is possible that such innovation could be less attractive or interesting to the service provider if they already have a rich evidence base and understanding of their intervention.

Practitioners working on impact bonds in the future should weigh the pros and cons of selecting an intervention with an existing evidence base and carefully consider the right incentives to best motivate the service provider and move the needle of their performance.

Areas for improvement

1. **Village Enterprise's role and responsibilities under the DIB structure were not made entirely clear during selection or immediately after selection.** As the service provider, Village Enterprise was expected to engage investors for upfront capital fundraising and to develop, formalize, and manage those relationships, but this was not clear to Village Enterprise at the outset. As a result, the amount of time and effort required of Village Enterprise during DIB design processes, particularly to engage investors, surprised Village Enterprise. More upfront guidance would have been helpful on the processes that lay ahead, the expected involvement of Village Enterprise in each of those processes, and an estimate of the resources and capacity they would be required.

For future designs, stakeholders would benefit from clearly mapping out processes upfront and aligning on and communicating across all stakeholders the expectations regarding the respective roles and responsibilities of each, timing, and needed level of effort, resources, and expertise.

RBF instrument design

The DIB design was refined through discussions among FCDO, USAID-DIV, the anonymous donor, Village Enterprise, Instiglio, and IDinsight (once selected as the evaluator). Discussions involved reviewing and negotiating RBF technical design components, such as the minimum number of households to be reached, the household survey to be used for the impact evaluation data collection, and critical details of the payment formula, including the annual discount rate, payment caps, and whether payments should depend on statistical significance.

What worked

1. **Poverty alleviation and RBF expertise helped parties to create a common understanding and easily move the discussions forward.** USAID-DIV noted that the anonymous donor's expertise in poverty alleviation was particularly helpful in explaining the tradeoffs of design components to other parties. Instiglio's experience designing RBF instruments with multiple stakeholders guided the team toward a practical and informed instrument design and financial model. Contributions by stakeholders with sector-specific and/or RBF knowledge helped mitigate challenges faced by other less experienced organizations.



Some stakeholder limitations of sector-specific and/or RBF knowledge, however, presented challenges and delays for DIB design. As previously mentioned, the FCDO innovative finance team and the USAID-DIV team leveraged support from other internal teams and from other DIB stakeholders. Limited RBF experience meant a steep learning curve, particularly in understanding how to select outcome metrics and how to price results.

2. **Project management promoted a largely inclusive design process.** Several stakeholders acknowledged that the pre-implementation design conversations provided them with sufficient opportunities to contribute to debates and that their views were considered by others. This was promoted by the project manager role that summarized debates and key takeaways and decision points, which provided stakeholders with helpful options from which to choose from. This facilitated design debates to finalize the design and move to the DIB implementation phase on planned timelines.

Areas for improvement

1. **Unclear negotiation and decision-making processes meant multi-stakeholder negotiations required significant effort and time, which often delayed key decisions.** Negotiations and discussions during the technical design lacked clear protocols to most efficiently advance discussions and decisions. It was not always clear to stakeholders which organizations were required to be involved in each conversation and which had decision-making responsibilities. By default, stakeholders used consensus-based decision making, which sometimes created impasses. This approach sometimes led to side conversations between some stakeholders that were not always clearly communicated to all stakeholders. Overall, negotiations and decision-making processes during this pre-implementation phase, including discussing RBF technical components and selection of key stakeholders (i.e., the trustee and the outcomes evaluator) accounted for more than 45% of the time spent by stakeholders on the DIB overall.¹⁶ Future programs should prepare project managers (or similar roles) to present clear processes upfront for stakeholders and be equipped with the right skills to navigate situations of stakeholder management, decision making, and negotiation.

Selection of the trustee and the trustee fund management

The outcome payers and Instiglio agreed to hire a trustee to reduce the burden on other DIB actors related to contracting and fund financial management (e.g., collecting, managing, and disbursing funds). Two potential candidates were shortlisted that submitted proposals for the trustee role. The outcome payers and Instiglio reviewed proposals and conducted interviews with candidates to discuss the objectives and vision of the DIB, the expected role of the trustee, and candidates' qualifications and interests. Then, outcome payers and Instiglio conducted a written assessment of candidates following an agreed set of criteria and selected Global Development Incubator (GDI) as the trustee.

What worked

1. **The inclusion of an independent trustee to pool outcomes funds, manage financial transactions, and manage contracts of all stakeholders (apart from the investors) worked to streamline important processes.** The trustee played a vital role in streamlining contracting and financial management, reducing the outcome payers' involvement in these activities. Insights from the DIB trustee processes can inform future outcomes funds since these instruments would likely require a trustee as part of the governance structure to provide administrative and fiduciary support.

Areas for improvement

1. **Conversations with trustee candidates began without clear alignment across the outcome payers and Instiglio on the expected functions of the trustee.** Lack of upfront alignment became apparent after early conversations with trustee candidates. These conversations raised doubts about the

¹⁶ All DIB stakeholders were requested to report the amount of time they spent on various DIB processes by the project manager (Instiglio).



value-add of the trustee role, the type of relationship desired between the trustee and other stakeholders, and the length of time of the trustee's engagement with the DIB. After initial conversations, stakeholders realized the need to create greater clarity regarding the expected role of the trustee and aligned on trustee functions before further continuing conversations with trustee candidates. While conversations with candidates helped stakeholders resolve open questions about the trustee role, greater alignment upfront will benefit future designs that explore the use of this trustee role.

2. **The trustee would have benefitted from more expertise and knowledge of RBF structures, particularly as it applies to conducting legal tasks in an RBF context (i.e., creating outcomes-based contracts and contract amendments).** As the design of this DIB pushed many stakeholders to explore many new aspects of contracting—for instance, the utilization of a trustee to pool outcome payer funds—stakeholders faced a degree of “*building the plane while flying it*” throughout the pre-implementation phase. Trustee limitations in specific legal expertise and experience (especially as it relates to RBF-style programming) meant initial contracting of the Outcomes Payment Agreement and later amendments faced challenges and delays. To fill these gaps, some stakeholders relied on outside legal support.
3. **Limited understanding of procurement requirements of outcome payers delayed the start of the contracting process. Due diligence activities were demanding for all stakeholders, especially the trustee.** FCDO's procurement policies required that GDI, as the trustee responsible for holding contracts, conduct due diligence on all participating DIB stakeholders. Additionally, FCDO had to conduct due diligence on GDI as the selected entity for the trustee role. This created unforeseen demands on the time, effort, and costs of stakeholders and delayed the contracting process.

Due diligence and procurement requirements vary for each organization. For this DIB specifically, GDI followed the procurement requirements of FCDO. Practitioners designing similar structures in the future would benefit from clarifying at the beginning the procurement requirements for each one of the stakeholders.

Selection of the outcomes evaluator and impact evaluation design and implementation

The impact of the intervention funded by the DIB was evaluated using an RCT. Stakeholders were interested in using an RCT rather than a quasi-experimental methodology to have greater confidence that the results of the verification mechanism reflected the reality for program participants. The RCT design reduced the risk that outcome payers disburse payments for an impact that did not in fact happen. Stakeholders also wanted to contribute to the poverty alleviation evidence base with a rigorous evaluation of the intervention. Further, an RCT would allow stakeholders to rigorously test variations of the model. Outcome payers agreed to share the costs of the evaluation based on estimated costs of an initial evaluation design. To select the independent outcomes evaluator, the DIB Decision Making Group released a Request for Proposals to shortlisted candidates, assessed submitted proposals, and conducted question and answer sessions with candidates. The Decision Making Group conducted written assessments of candidates following the agreed criteria, conducted final interviews with candidates, and selected IDinsight as the independent outcomes evaluator.

IDinsight prepared a draft evaluation design, statement of work, and budget and, working collaboratively with the DIB Decision Making Group, all parties agreed on a finalized evaluation design. IDinsight conducted the data collection and analysis required for the evaluation, including auditing and reporting on the seed funding transfer events and estimating the impact of the intervention on consumption and assets. Final results were reported by IDinsight in a final impact evaluation report that was reviewed and approved by all stakeholders.

What worked

1. **The evaluation gave outcome payers confidence that funding rewarded real impact.** Had the evaluation not been an RCT, stakeholders would not have been as confident in the results of the evaluation. As the intervention took place in part during the COVID-19 pandemic, a quasi-experimental methodology, such as a matching method, may have found that households were worse off. This may have led to questions about how the program would have fared had it not been for the pandemic, and whether households would be even worse off had it not been for the program.



2. **The impact evaluation also led to additional learning outcomes.** The impact evaluation had multiple arms in order to test variations in the size of cash transfers, leading to additional learning about how to best structure graduation model interventions.

Areas for improvement

1. **The evaluation was costly in relation to the program.** The evaluation cost USD 478,162,¹⁷ which represents 9%¹⁸ of total DIB program funding (USD 5.32 million). In retrospect, some stakeholders question whether the value of the certainty and learning that came from the evaluation was worth the cost. Alternative verification methodologies may not have required collecting information from a control group and may have required a lower sample size, which would reduce costs.
2. **IDinsight made strong contributions to evaluation design debates, but its ability to do so was limited as it was brought into the design process after various design decisions had been made.** Some design considerations may have benefitted from early input of an experienced evaluator, such as whether only statistically significant impacts should trigger outcome payments.¹⁹ Outcome payers discussed the importance of having a high degree of confidence that its funds pay for proven results, the arbitrariness of setting a statistically significant threshold, and how establishing such thresholds might affect the pressure and risk borne by Village Enterprise. Earlier input by an evaluator brought into design discussions from the start could have helped stakeholders consider a wider range of implications and more quickly reach solutions. Future RBF instruments would benefit from engaging evaluators earlier, when possible, to provide input for key decisions and shed light on how to operationalize evaluation preferences.
3. **The evaluation required significant additional effort from Village Enterprise compared to a non- or quasi-experimental evaluation and restricted the number of households Village Enterprise could reach compared to its *business-as-usual* model.** Village Enterprise's business-as-usual model involves implementing a household poverty targeting in each village and then offering the intervention to all those eligible before moving to a different location. The evaluation, however, required Village Enterprise to make an additional effort to identify eligible households that would not receive the program, and to add inefficiencies to its programming. First, Village Enterprise was asked to identify potentially eligible households in villages that would not receive the program. This created discontent in local communities and Business Mentors. As the impact evaluation required numerous villages, and the program budget was limited, Village Enterprise could only work with 70 households per village (fewer than what would have been possible without the evaluation). Further, buffers between villages were instituted to prevent spillover effects from households participating in the program to those not participating. The distance between participating villages and the low number of participants per village added inefficiencies.
4. **Adjusting data collection to the COVID-19 pandemic required additional and unexpected time and effort from stakeholders, as well as limited intervention learning during implementation.** During the COVID-19 pandemic, the Working Group engaged in recurrent risk assessments to start data collection. Stakeholders developed a protocol to manage contagion cases and identified additional funding for protective equipment, additional enumerators, and other pandemic-related expenses. Several stakeholders commented that this adaptation process was not smooth as there had been no process guidelines on how to handle a situation in which the evaluation could not be completed as planned (and non-completion was not the fault of the evaluator²⁰). As a result, multiple discussions were required to define a new data-collection and evaluation implementation strategy. Additionally, the initial evaluation design planned to have data collection and analysis and reporting on results for cohorts 1-4 (of seven total) at a midpoint of intervention

17 This is the initial budget before additional funds were added to help adjust to the challenges and delays created by the COVID-19 pandemic. An additional USD 45,000 was provided by FCDO for direct costs for data collection due to COVID-19 (e.g., COVID tests, soap/disinfectant, facemasks), as well as an additional contingency fund made available by FCDO only to be used to cover costs related to the management of COVID-19 exposures or new cases amongst field staff (e.g., hotels to isolate infected staff, additional tests). Of the contingency fund USD 24,480 (of USD 48,000 available) was paid.

18 Other non-outcome payment costs include (as percentage of total program budget): design and stakeholder engagement USD 191,104 (3.59%), trustee USD 105,300 (1.98%), process review USD 70,915 (1.33%), and project management USD 118,585 (2.23%).

19 Other noted topics that may have benefitted from earlier evaluator involvement include evaluating impact after each cohort or for grouped cohorts; Village Enterprise's ability to implement and the evaluator's ability to measure program impact across two countries; and the sample size and corresponding level of power commensurate with the available evaluation budget.

20 Evaluation was delayed not due to evaluator non-compliance, but due to the unexpected COVID-19 pandemic.



implementation. Reporting on the first wave of results during the implementation would have provided valuable information to stakeholders, particularly Village Enterprise that could have better understood how well the intervention was working as inputs into discussions, for example, about what to continue doing or what to adapt in pursuit of final results.

Service provider-investor relations

This specific DIB structure (unlike most impact bonds) tasked the service provider to raise working capital for the intervention. The service provider was not given specific requirements and was free to identify philanthropic donors, impact investors, or traditional investors. Outcome payers benefited from this arrangement as they were not required to contribute to the process, resulting in less time, effort, and resources spent negotiating and contracting with investors as compared to the usual impact bond structure. This structure, however, shifted the burden to Village Enterprise that was responsible for capital raising and managing relationships with investors.

Village Enterprise began fundraising late 2016, contacting potential investors and conducting meetings—successfully raising USD 2.325 million by June 2018 from nine impact investors, led by the Delta Fund.

What worked

1. **Village Enterprise independently raised working capital, built the requisite capacity and infrastructure, and managed relationships with investors, reducing the cost and effort otherwise shouldered by outcome payers and other stakeholders.** This provides evidence that service providers, under an outcomes fund mechanism, can independently raise funding and finance working capital. Additionally, it shows there is a market for outcome-based mechanisms, such as DIBs and outcomes funds in the philanthropic investment space. Although Village Enterprise had to invest significant time in searching and contracting with investors, the staff remained confident in the ability of the DIB to drive results and attract new and diverse types of funding, and ultimately the organization was successful in raising upfront working capital from investors, building the requisite capacity and infrastructure to do so, and managing investor relations.
2. **Village Enterprise is now better placed to engage with investors in the future thanks to the investment in capacity building and infrastructure development made for the DIB.** Prior to the DIB, Village Enterprise raised capital through traditional models—mainly grant funding from donors and foundations. The DIB incentivized Village Enterprise to adapt its processes to tap into alternative funding sources. This required Village Enterprise to build its capacity to engage with private investors and develop the necessary infrastructure to receive and manage investment funds. Although this required a large upfront investment, Village Enterprise expects these changes to have a long-term impact on the organization due to the wider scope of funds it can tap into and the subsequent effect this can have on the organization and its programs.

Areas for improvement

1. **Independently obtaining working capital represented significant costs and a steep learning curve for Village Enterprise.** Village Enterprise noted that shouldering the responsibility to engage investors and secure working capital meant a significant increase in time and effort. This included work to engage potential investors and build the financing infrastructure needed (e.g., creating a special purpose vehicle), as well as building the knowledge and capacity needed to accomplish this work. Additionally, managing investor relations in parallel with, but separate to, engagement with the other stakeholders (e.g., outcome payers, project manager) stretched Village Enterprise's capacity, especially while discussing adaptations to the DIB during the COVID-19 pandemic. These costs may have represented a significant opportunity cost since Village Enterprise had to commit resources that would otherwise have been used to further its mission. In the future, if a service provider is to assume this role, it may need support in courting and engaging investors.
2. **The governance structure design separated investors from the Decision Making Group and Working Group, causing inefficiencies, especially when facing COVID-19-related challenges.**



Investors were not included in the DIB decision-making bodies. When included in discussions, investors were often included indirectly through Village Enterprise, and at times, some investors, but not all, were brought into discussions. For instance, not all investors were involved in initial discussions of how to overcome the challenges to data collection for the impact evaluation as brought by the pandemic. Village Enterprise updated investors on its own and brought their perspectives to the DIB decision-making bodies. This indirect engagement limited the decision-making power of investors, stretched negotiations, and strained Village Enterprise's resources, as well as put additional pressure on Village Enterprise to separately coordinate different parties. This was particularly evident during negotiations to resolve evaluation delays caused by the pandemic: evaluation delays shifted timetables, affecting the terms of the contract for Village Enterprise and investors. Some investors pointed out that, had they been fully involved in decision-making structures, they would have felt comfortable investing their commercial rather than philanthropic capital. Additionally, some investors stated that the structure added to their risk of investment and that they would not invest in an instrument with a similar structure in the future.

Practitioners designing similar instruments in the future would benefit from creating clear expectations and alignment upfront of what role investors play (or do not play) in the governance structure. Those designing these structures in the future may benefit from consulting investors on what type of participation would be most attractive to them.

Governance structure and project management

A key objective of the DIB was to test a governance structure similar to that of an outcomes fund, in which contracting is implemented through one central entity and the service provider is tasked to independently manage investor fundraising and relationships. A project manager, Instiglio, also provided a broad oversight function during DIB design and implementation. During design, the project manager brought together and led stakeholders on technical design discussions to reach consensus on a final design. During implementation, the project manager brought together stakeholders for regular Working Group meetings, helped troubleshoot technical issues, and coordinated Working Group reviews and approvals of relevant reports or decisions to be made, among other tasks.

What worked

1. **The DIB governance structure, which borrowed elements from outcomes funds, shows how these types of instruments can bring together multiple stakeholders, including large donors, such as USAID-DIV and FCDO.** The governance arrangement was able to attract two of the largest bilateral donors, and allowed the outcome payers and the other stakeholders to stay on course during the global pandemic, which put strains on development funding. While other development programs had their budgets cut or revised, this specific project was not affected.
2. **The governance arrangement allowed the outcome payers to have a low-touch relationship.** The introduction of the trustee role streamlined contracting relationships and financial flows, alleviating related administrative and logistical costs and time that would have been borne by outcome payers in a traditional funding model. Engagement consisted of quarterly meetings and occasional approvals of operations/reports, such as approving payments to be made following seed funding reimbursement reports.
3. **Project and stakeholder management ensured that most discussion and negotiations were largely inclusive and efficient.** Most parties acknowledged that project management practices created a conducive environment for stakeholders to engage during design and implementation, which ensured the project stayed on course despite multiple challenges. For instance, USAID-DIV noted these practices allowed stakeholders to move forward through the complicated COVID-19 negotiations despite varied and sometimes conflicting interests at play during that period.

Areas for improvement

1. **The force majeure clause, as defined in the Outcomes Payment Agreement, did not provide sufficiently clear guidance on how to proceed amidst a force majeure scenario (pandemic).** First, the content of the force majeure clause was not sufficiently clear on how to address non-evaluation when



not at the fault of the evaluator (i.e., non-compliance).²¹ Future instruments should take a closer look at force majeure clauses and decide if, and how best, to include these in contract agreements as best applies to their unique program contexts and circumstances. Second, the Outcomes Payment Agreement did not clearly outline the process to trigger the force majeure clause under these unique circumstances, nor the specific implications of it. The Agreement left the decision to trigger the force majeure clause to Village Enterprise and was not triggered as a collective decision of all stakeholders. Future instruments should consider the most suitable approach for each project: a collective decision to invoke force majeure may, or may not, be appropriate. Third, unclear decision-making processes generally slowed down progress towards a resolution. Last, the pandemic brought general uncertainty, which complicated the stakeholders' ability to make decisions around whether and how to invoke the force majeure clause. Not knowing if the pandemic would last two months or two years, for example, made it difficult for stakeholders to know if, or when, to adjust evaluation plans.

2. **Despite decision-making processes being defined in the Outcomes Payment Agreement, these guidelines were either insufficient or not always strictly followed during implementation.** The DIB Design Memo and Outcomes Payment Agreement outlined the roles of each stakeholder for the DIB and provided instructions on decision making (e.g., a defined Decision Making Group, a defined Working Group). However, during implementation, these guidelines were not always strictly followed or made clear to stakeholders. Regarding discussion and decision-making spaces, during the COVID-19 pandemic, the composition of the defined Working Group informally changed at times to include some investors. Additionally, meetings were called “as needed”, with less-than-ideal predictability: Working Group meetings sometimes involved investors and sometimes did not, as well as sometimes were conducted with only outcome payers or only with Village Enterprise. Such decisions were made in the moment with an aim to efficiently move decisions ahead. Yet, this introduced a level of inconsistency of Working Group Meetings, which may have further complicated the stakeholder discussion and negotiation processes.

Additionally, decision-making protocols generated challenges when multi-party negotiations were required, especially during the DIB pre-implementation phase and during DIB implementation when the COVID-19 pandemic disrupted program implementation and delayed the evaluation. The project manager aimed to procure unanimous stakeholder consensus when discussing design decisions and program updates. On the one hand, this led to a broader consensus around decisions. On the other hand, this often created delays, stalemates, and additional effort required of stakeholders to negotiate and reach consensus. Practitioners developing similar instruments in the future would benefit from considering if the appropriate process for decision making should be unanimous consensus, majority vote, or something else. Either way, a clear decision-making process to align stakeholder expectations can help overcome impasses if/when faced.

Last, despite the initial assumption that Village Enterprise's management of investor relationships separate from the Working Group would streamline engagements, the investor input proved critical to finalizing program updates during the pandemic. Investors were consulted often throughout the DIB lifecycle, yet without formalizing their involvement in the Working Group. This inconsistency muddled the role of the investors and was exacerbated by a lack of clarity on how their views informed the project (i.e., were investors merely consulted or did investors have a formal decision-making role?).

Process review

The process review assessed the effectiveness and efficiency of the DIB financing mechanism. Insights from the process review are expected to inform the scale of other DIBs and other future results-based financing instruments. Instiglio was tasked with implementing the process review.

What worked

1. **The process reviewer, also assuming the role of project manager, could leverage its intimate access and proximity to stakeholders and the project to draw relevant and nuanced findings.**

²¹ As mentioned, delay of the evaluation was not at the fault of the evaluator, but due to the unexpected COVID-19 pandemic. Accordingly, the Outcomes Payment Agreement was not clear on non-evaluation when it is not due to non-compliance of the evaluator.



Instiglio was involved with the project from the outset as one of the organizations that initiated stakeholder engagement to garner interest for designing and implementing the DIB. This position allowed Instiglio to collect data and critically assess each process from start to finish. Having participated in the initial outcome payer engagements, for example, Instiglio was able to draw out the subtle differences between engaging foundations versus bilateral donors, nuanced insights that may have been harder for an outside process reviewer to identify.

However, there are trade-offs between employing an independent process reviewer versus utilizing a project stakeholder, like Instiglio in this case. As project manager and early stakeholder in conceiving the idea of this RBF instrument, Instiglio was able to leverage its experience from project inception and throughout the DIB design and implementation. An independent process reviewer, however, can reassure stakeholders of the objectivity of the review and may be worth considering in the context of potential conflicts of interest.

Areas for improvement

- I. **The process review required additional resource commitment from stakeholders on top of an already complex project.** Asking stakeholders for time and attention to respond to process review surveys and interviews added to demands of an already time-consuming project. For instance, exploring the costs / time spent on the project was a question of broad interest for the process review to explore, but diligently collecting this data would have required putting together a data collection system and would have required more time from stakeholders than was available. Consider this was also potentially exacerbated by other learning initiatives conducted in parallel, namely an FCDO review of its three ongoing DIB programs (conducted by Ecorys) that aimed to evaluate learning and evidence from these DIBs. These initiatives were distinct: this process review focuses solely on the Village Enterprise DIB, whereas the Ecorys report evaluates learnings looking at three DIBs (the Village Enterprise DIB, a Humanitarian Impact Bond with the International Committee of the Red Cross, and a Quality Education India DIB) and, from the onset, Instiglio and Ecorys coordinated to share learning and work to avoid duplicating efforts. However, stakeholders likely experienced areas of overlap in interviews conducted and questions asked, which may have been redundant.



7. Conclusion

The Village Enterprise DIB successfully generated conditions that helped Village Enterprise reach its targets, improving the livelihoods of thousands of households. The DIB allowed Village Enterprise to develop a clear focus on results and created a structure of improved accountability. It also provided Village Enterprise with the flexibility necessary to improve its intervention to achieve expected impact through program updates, such as an adaptive management system. This specific instrument also piloted outcomes fund-like structures for contracting, governance, and fund management within a DIB instrument, which may be useful for practitioners moving forward.

As this project aimed to test this innovative instrument, and as a learning exercise, this process review concludes with some key reflections on the instrument design decisions.

1. Tradeoffs using an outcomes fund structure for an impact bond

This specific DIB design incorporated a few characteristics that are inspired by outcomes funds: namely, all outcome payer funding was pooled in an account held by a trustee and investors were brought in by the service provider (rather than by the group of stakeholders). While these design decisions were made to reduce transaction costs, they also brought their own challenges. First, potential outcome payers were less interested in agreeing to transfer their funding to an outcomes fund that did not yet have a discrete project to fund. Therefore, a discrete prototype was designed before engaging outcome funders. Second, having the service provider identify and maintain relationships with investors meant that the service provider had to invest significant time in activities that most service providers have not done before, which required a significant learning curve. Third, the governance structure of stakeholders did not include investors as part of the formal decision-making bodies, which proved problematic. This was particularly evident when the DIB faced the challenges of the COVID-19 pandemic. Practitioners designing RBF instruments in the future should make design decisions considering the above tradeoffs.

2. The role of evidence and an impact evaluation methodology in outcomes-based contracts

This impact bond was used to fund an intervention that has significant evidence behind it, including an RCT of the intervention as implemented by the service provider. Selecting an intervention with a high level of evidence reduces the risk of not having an impact, as well as attracts outcome payers and investors. However, one of the value propositions of impact bonds is that they can be used to innovate and test interventions that may not have as much evidence (and, consequently, investors should be compensated for taking on that risk). Thus, as the results-based financing ecosystem matures, practitioners designing similar instruments in the future may be able to engage in projects that imply a larger risk to those involved (i.e., do not have RCT evidence of past results).

This impact bond used an RCT to determine the impact that the intervention had on participants. An RCT reduces the risk that outcome payers may be paying for an outcome that does not reflect the reality for the program's participants, when compared to a quasi-experimental methodology. Implementing an RCT, though, usually comes at a higher cost, as it involves targeting households and collecting data from a control group and may introduce inefficiencies to program implementation; for example, by excluding potential program participants. Practitioners designing RBF programs in the future should make design decisions considering these tradeoffs.



References

- Bandiera, O., Burgess, R., Das, N., Gulesci, S., Rasul, I., & Sulaiman, M. (2017, March 20). *The Quarterly Journal of Economics: Labor markets and poverty in Village Economies*. Retrieved from Oxford Academic Website: <https://academic.oup.com/qje/article-abstract/132/2/811/3075123?login=false>
- Banerjee, A., E. D., Goldberg, N., Karlan, D., Osei, R., Pariente, W., . . . Udry, a. C. (2015, May 15). *A Multifaceted Program Causes Lasting Progress for the Very Poor: Evidence from Six Countries*. Retrieved from Science Website: <https://www.science.org/doi/abs/10.1126/science.1260799>
- Brookings. (2022, June). *Research: Social and development impact bonds by the numbers*. Retrieved from Brookings Website: <https://www.brookings.edu/research/social-and-development-impact-bonds-by-the-numbers/>
- EAPN. (2021). *Research on impact and implications of COVID-19 philanthropy work in East Africa*. Retrieved from EAPN Website: <https://globalfundcommunityfoundations.org/wp-content/uploads/2021/03/ReportOfEAPNPhilanthropySurvey2020.pdf>
- Edutopia. (2018, June 20). *Teaching strategies: Making the Most of Visual Aids*. Retrieved from Edutopia Website: <https://www.edutopia.org/article/making-most-visual-aids>
- Gustafsson-Wright, E., & Osborne, S. (2020, September). *Measuring the success of Impact Bonds: Do the benefits outweigh the costs of impact bonds*. Retrieved from Brookings Website: <https://www.brookings.edu/research/do-the-benefits-outweigh-the-costs-of-impact-bonds/>
- Gustafsson-Wright, E., Osborne, S., & Crane, E. (2021, December). *How have impact bond funded projects in low and middle-income countries fared during COVID-19? Working Paper #164*. Retrieved from Brookings Website: https://www.brookings.edu/wp-content/uploads/2021/12/Working-Paper-164_COVID-survey-FINAL.pdf
- IDinsight. (2022, March 8). *Village Enterprise Development Impact Bond Evaluation Findings*. Retrieved from IDinsight Website: <https://www.idinsight.org/publication/village-enterprise-development-impact-bond-evaluation-findings/>
- Perakis, R., & Savedoff, W. (2015, February 6). *Policy papers: Does Results-Based Aid Change Anything? Pecuniary Interests, Attention, Accountability and Discretion in Four Case Studies*. Retrieved from Center for Global Development Website: <https://www.cgdev.org/publication/does-results-based-aid-change-anything-pecuniary-interests-attention-accountability-and>
- Sedlmayr, R., Shah, A., & Sulaiman, M. (2019, May). *Cash-plus: Poverty impacts of alternative transfer-based approaches. Journal of Development Economics 144*. Retrieved from ScienceDirect Website: <https://www.sciencedirect.com/science/article/abs/pii/S0304387818305522>
- UBS Optimus Foundation. (2018). *World's first Development Impact Bond in education: Process evaluation from the Educate Girls Development Impact Bond*. Retrieved from Dalberg Website: https://dalberg.com/wp-content/uploads/2018/10/Dalberg-report_EG.pdf
- World Bank. (2017, October). *The stallings classroom observation system*. Retrieved from The World Bank Website: <https://www.worldbank.org/en/programs/sief-trust-fund/brief/the-stallings-classroom-snapshot#:~:text=The%20Stallings%20classroom%20observation%20system%2C%20also%20known%20as%20the%20Stallings,te>