



Village Enterprise Development Impact Bond (DIB):

A case study produced as part of the independent evaluation of the Department for International Development's Development Impact Bond Pilot Programme



“ The DIB creates incentives to focus on results and provides flexibility in implementation to adapt and innovate for greater efficiency and impact. It will create an evidence-based, innovative funding mechanism to effectively scale up Village Enterprise’s graduation out of extreme poverty program. ”

Village Enterprise

TIME PERIOD:

November 2017 - November 2020

THEMATIC AREA:

Livelihoods, using a graduation approach

COUNTRIES:

Uganda and Kenya

TARGET POPULATION:

People living in extreme poverty
(on less than \$1.90 per day)

OUTCOME METRIC:

Increase in household income, proxied through
consumption and assets

OUTCOME PAYMENT:

\$4.3 million tied to the achievement of the outcome
metric; \$5.3 million in total, including costs for
management and evaluation

SERVICE PROVIDER:

Village Enterprise

OUTCOME FUNDERS:

DfID

USAID

Anonymous donor

INVESTORS:

Total of nine investors, including the Delta Fund

This case study report covers the Village Enterprise Development Impact Bond, which aims to raise the income levels of the extreme poor through Village Enterprise's microenterprise development programme, known as a Graduation program. It seeks to equip its program participants with the resources to create sustainable businesses. The DIB launched in late 2017, with final payment expected by mid-2021¹.

This case study report focuses on the model, early successes and lessons learned during the design and set up phase. It summarises findings from consultations undertaken as part of the DfID commissioned independent evaluation of the DIBs pilot programme. Consultations were undertaken with the main stakeholders involved in the design and set up of the DIB between July-November 2018. A full list of consultations is set out at the end of this case study.

There are a variety of stakeholders involved in the DIB, including outcome funders (DfID, USAID and an anonymous donor), the service provider (Village Enterprise), the intermediary (Instiglio), the trustee (GDI), the evaluator (IDInsight) and several investors. Stakeholders mentioned several motivations for their involvement, including cost effectiveness, achieving better impact, contributing to learning, accessing more funding and publicity.

The prevailing view among stakeholders was that the DIB has been a positive experience. Although there have been challenges throughout the process, it has led to greater levels of collaboration between stakeholder types, helped to create space for innovation and given Village Enterprise access to the funding that enables it to scale its intervention to more programme participants.

While the design and set up of the DIB was complicated and costly, stakeholders hope that the learning taken from this experience will enable a smoother process in the set-up of future DIBs.

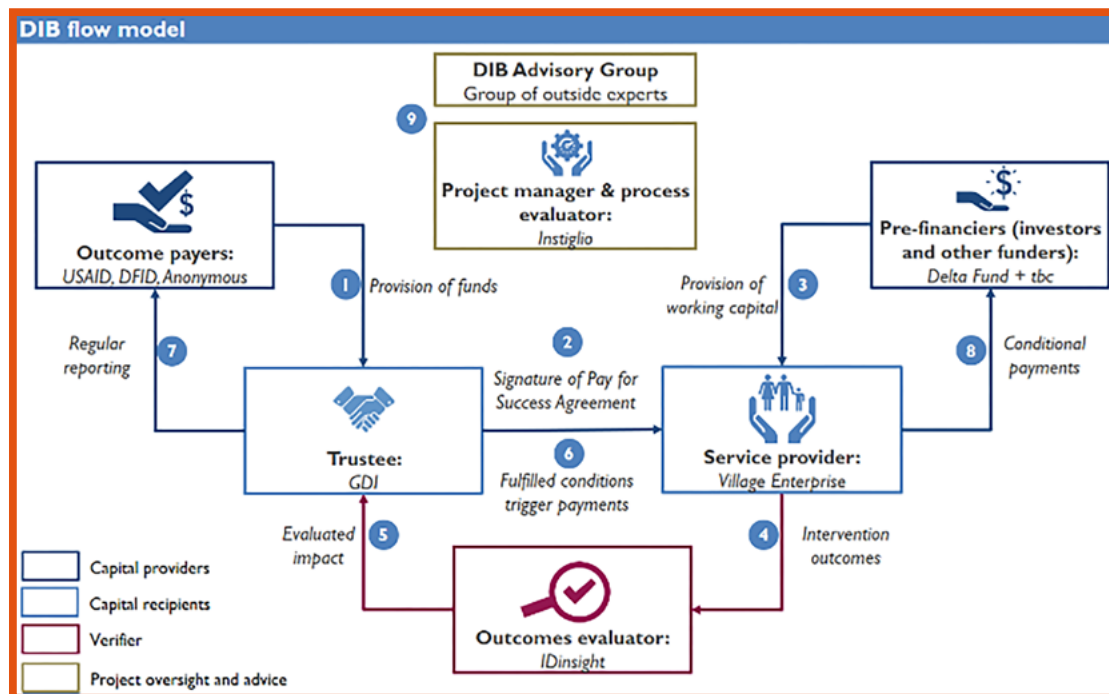
The following sections cover the DIB's model and the intervention funded, the history of development, the enablers and challenges to setting up the DIB, the lessons learned and advantages and disadvantages to using the DIB before presenting final conclusions.

¹ The intervention itself is due to complete at the end of 2020

This DIB was designed with Village Enterprise around their micro-enterprise graduation programme, which aims to raise incomes for those earning less than \$1.90 per day in Uganda and Kenya. Village Enterprise itself has existed for approximately 30 years but the ‘poverty graduation’ model used in this intervention has been running since 2011, funded by individual donations and grants. Payment-by-Results (PbR) has not previously been used.

The DIB design process began in 2016 with implementation beginning in November 2017. The DIB is only running in approximately 30% of the programme, in two specific regions of Kenya and Uganda. The remainder of the programme is continuing to operate under the traditional model. Figure 1 sets out the structure of the DIB, the various stakeholders and their roles.

Figure 1: DIB flow model²



² The DIB flow model originally appeared in the design memo developed by Instiglio

The 5 components of the planned programme are:

- **Targeting:** VE works to identify individuals who live on less than \$1.90 a day and who are unable to provide for their family's basic needs. VE assesses poverty levels through a community-based Poverty Wealth Ranking exercise coupled with the Progress-out-of-Poverty Index.
- **Business Savings Groups (BSGs):** BSGs are self-governing councils of ten businesses comprising 30 individuals; each BSG has its own constitution. BSGs create the platform through which VE carries out the training programme, as well as develop trust and respect between the participating community members.
- **Training:** Local mentors deliver a four-month training programme to equip participants with the necessary knowledge to run a business. The participants then form groups of three, and agree and plan for a small microenterprise that they will start together. Business Mentors guide each new group in selecting an enterprise that is best positioned to flourish, considering the team's skill set, local market conditions, risk factors, and profitability. The majority of participants start activities that involve livestock (41%). Other types of business include retail (35.4%), crops (24.3%), services (2.4%) and skilled work (1%). When creating their business plans, some participants will plan for multiple income generating activities (IGAs). This practice helps programme participants ensure income is smooth all year-round and helps hedge against risks of devastation in the case of failure of one IGA.
- **Seed Funding:** Seed capital is granted to each group of three, to enable them to start their business. In the past VE has provided seed capital of \$150. Using the flexibility available under the DIB, VE has decided to give 65% of businesses a \$150 seed, and the remaining 35% of households \$450, to experiment with a larger seed transfer and observe the impact. The capital investment is a grant rather than a loan.
- **Mentoring:** Mentors provide continuous guidance to the participants for one year, coaching them in choosing the focus of their business, as well as how to grow and manage their business and finances, including saving in Business Savings Groups. This is a critical capacity-building phase for beneficiaries.

The Development Impact Bond

There are three Outcome Payers who have committed to paying for results that are achieved and verified:

- Department for International Development, UK (DfID)
- the Development Innovation Ventures division of United States Agency for International Development, USA (USAID)
- An anonymous philanthropic fund based in the USA

Village Enterprise is the service provider who has committed to delivering the services to the target population and to be paid based on results. There are two types of payments:

- Reimbursement of seed capital. These are payments made to Village Enterprise following verification of disbursements by IDInsight after the transfer of seed capital to the groups of three households. As stated in the DIB design memo, there is little uncertainty around this income.
- Outcome payments. These are tied to the RCT conducted by IDInsight, with Village Enterprise being paid approximately \$1 for every \$1 increase in household income.

Income will be measured at household level using consumption and assets. The rationale behind this was that growth in assets provides some evidence that impact will be sustained. The total budget committed by outcome payers is approximately \$5.32 million with \$4.28 million committed to pay Village Enterprise, based on results.³ The remaining \$1.4 million was spent on pre-contract fees such as design finalisation, stakeholder consultations and a field visit as well as future post-contract costs such as the RCT, the process evaluation and the trustee's fees.

Global Development Incubator (GDI) is the Trustee, with responsibilities including receiving funds from donors, signing an outcomes contract with Village Enterprise in accordance with the DIB design (as approved by all parties), holding some donor funds in escrow⁴ during the project, disbursing payments for the achievement of results as reported by the outcomes evaluator and holding the outcomes evaluation contract.

Village Enterprise raised \$2.325 million as working capital for programme implementation. This capital has been provided by nine investors, including the Delta Fund as lead investor, the Bridges Impact Foundation and SV2, who will be paid by Village Enterprise, if results are achieved, as verified by the outcomes evaluator.

IDInsight is the independent outcomes evaluator.

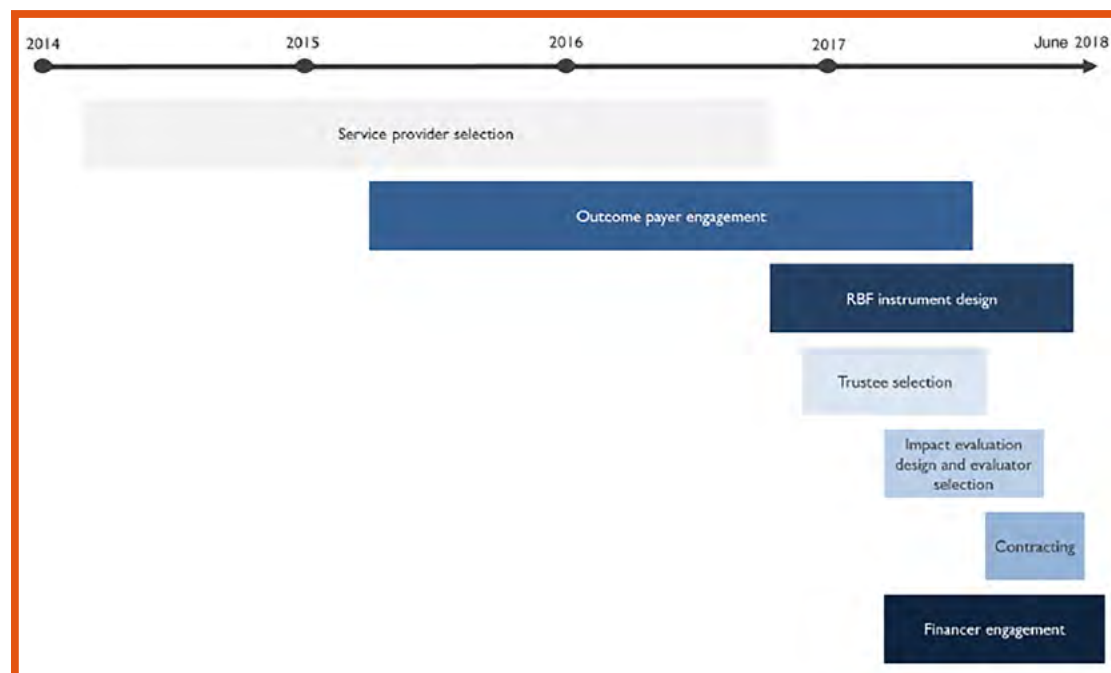
Instiglio is the project manager and process evaluator. Having already provided the technical expertise for the design of the DIB, Instiglio will provide project management and interface for outcome payers and the service provider, and will evaluate the process of creating and implementing the DIB to document lessons learned for future DIB and Social Impact Bond (SIB) deals.

³ Information is from the Village Enterprise DIB Design Memo

⁴ An escrow is a financial arrangement where a third party holds and regulates payment of the funds required for two parties involved in a given transaction.

A number of steps were taken in the development of the DIB. These are set out in the diagram below:

Figure 2⁵: History of Development



- **Service provider selection**

The first step was the selection of VE as the service provider. In their first process review from July 2018, Instiglio stated that the idea of developing a market for outcomes in poverty alleviation first emerged in discussions with the anonymous donor in early 2014. The anonymous donor and Instiglio agreed to engage with potential service providers implementing poverty alleviation interventions in Africa. From a long list of 80, Village Enterprise were selected as they had good evidence of impact and strong operational capacities.

- **Outcome payer engagement**

This process began in May 2015 with a strategy of engaging foundations. However, this did not result in any commitments to provide outcomes funding and so in late 2016, the anonymous donor and Instiglio worked with Village Enterprise to develop a more detailed design and shift the focus to identifying potential bilateral funders. After signalling interest in the project, USAID and DfID undertook a comprehensive assessment of Village Enterprise as well as the DIB design. The total amounts (outcome payments, evaluation, project management, etc.) committed are \$1.30 million (USAID), \$2.02 million (DfID) and \$2 million (anonymous donor).

- **DIB design**

There then followed a more detailed design process, beginning in June 2017. The discussions involved DfID, USAID, the anonymous donor, Village Enterprise and Instiglio. Discussions covered design components such as the payment functions, discount rates and the number of households to be reached. The process lasted until November 2017.

⁵ The DIB set up process chart is from Instiglio's first process review.

- **Trustee selection**

Stakeholders agreed to contract a trustee with the responsibility of collecting, holding, managing and disbursing the funds as well as drawing, signing, holding and managing the various contracts. The rationale for using a trustee was to reduce the burden of contracting and fund management from the other stakeholders, including the outcome payers. Two candidates were invited to submit proposals and through a trustee assessment matrix, GDI were ultimately selected as the trustee.

- **Impact evaluation design and evaluator selection**

Stakeholders wanted to ensure that any increases in income were attributable to the intervention itself. There was also a motivation to contribute to the learning of 'what works' in poverty reduction. It was felt that an RCT would be the most rigorous means of achieving this. Therefore, in July 2017 the anonymous donor, Village Enterprise and Instiglio developed an initial evaluation design, using an RCT to evaluate the results of the intervention. There then followed an evaluator selection process including a request for proposals and interviews with potential candidates. IDInsight was selected in late 2017 as the independent evaluator and outcome verifier.

- **Financier engagement**

Village Enterprise needed to raise \$2.325 million as upfront working capital to begin programme implementation. This process began in late 2016, with the support of Instiglio and the anonymous donor. Village Enterprise started to engage with potential investors in mid-2017 and were ultimately able to raise the full amount from nine different investors, closing their fundraising round in June 2018.

Rationale

Stakeholders cited a variety of motivations for their involvement in the DIB, including:

- **Cost-effectiveness**

As the intermediary, Instiglio saw the DIB as a way to increase the cost-effectiveness of spending on poverty alleviation. Instiglio believed that the DIB would shift outcome payers' focus from monitoring outputs to measuring outcomes, resulting in a reduction in monitoring costs. Stakeholders from the anonymous donor agreed with this assumption, saying that the DIB was an opportunity to test how the graduation model could be implemented in a way that moderates transaction costs. Finally, the DIB means that funders do not need to pay when the intervention fails to produce results; the prevailing view among all stakeholders was that this would produce greater value for money.

- **Better impact**

Both Instiglio and stakeholders from the anonymous donor felt that the paying for results mechanism generally (rather than a DIB specifically) creates conditions more conducive to impact. Instiglio stated that as funders contributing only pay the service provider when results are achieved, the service provider is incentivised to not only better track and manage results but also is granted the flexibility to adapt elements of their intervention based on what is achieving better results. This view was reinforced by the anonymous donor who stated:

“...accountability to results not only incentivizes efficient resource allocation; it naturally selects for it. This allows the private sector to learn by reinforcement, much like biological systems do.” Anonymous donor

- **Contributing to learning**

As the service provider, Village Enterprise had a different rationale for their involvement in the DIB. Stakeholders commented that for them this was a 'very new type of mechanism', and they were motivated to test the efficacy of the DIB model.

“We had not done this for poverty alleviation in Africa... we are a small organisation and for us it was a way to contribute to learning around what makes impact in the sector.” Village Enterprise

This was also cited by the anonymous donor as a key motivator for their involvement in the DIB. The view was that the DIB, as a fairly new funding mechanism, would be an opportunity to learn not only how the graduation model could be implemented at scale but also how to implement a 'pay for success' project in a way that moderates transaction costs. The anonymous donor hoped that this learning would contribute to the evidence base for future poverty alleviation interventions.

- **Achieving scale**

As well as contributing to learning, Village Enterprise saw the DIB, through the increase in funds that would be available to them, as an opportunity to scale their intervention whilst maintaining impact. Furthermore, as a financing mechanism, the DIB was seen as 'a good strategic fit' for what they wanted to achieve in the future, namely to attract more funding for their services. The DIB achieved this through generating additional funds from investors. However, stakeholders could not say that these additional funds would not have been possible with another mechanism.

“ We had ambitious goals and thought the DIB would be a good opportunity for us to achieve them. ” Village Enterprise

This 'achieving of scale' was also cited by stakeholders from the outcome funders and investors as their motivation for getting involved in the DIB.

- **Opportunity to get more funding**

In order to achieve this scale, stakeholders from Village Enterprise also spoke of the DIB being an opportunity to attract more funding for their intervention. This additional funding has enabled them to not only potentially achieve scale but also implement other things, such as adaptive management and launch another RCT to provide further evidence of impact across Kenya and Uganda.

- **Publicity**

Stakeholders from the Delta Fund (one of the investors) felt that the DIB would 'bring government attention' to the poverty graduation model. The investor was on the board of Village Enterprise and strongly believed in their work. Having attended some conferences they saw the DIB as an interesting mechanism to be involved with.

“ It seemed like a potentially sustainable model for funding, not only to scale it but also in the long term not having to continually scrap for fund raising. But ultimately we believed in their (Village Enterprise's) work, who have proven to be an efficient model of offering help to extreme poor. The DIB was a potential way to scale that funding and draw attention to a sustainable and efficient model. ”

Delta Fund

Enablers

1 Strong working relationships

The key enabler in the setting up of the DIB was a strong working relationship between all stakeholders. This was stated by interviewees from the outcome funders, the service provider and the intermediary who all felt it enabled a 'constructive and positive' experience.

2 Strong evidence of potential impact

Stakeholders commented that a previous RCT conducted on the Village Enterprise graduation programme provided strong evidence of the impact of their operations. This evidence was particularly important for some of the outcome funders. For example, Instiglio stated that DfID in particular gained confidence in Village Enterprise's ability to deliver results.

3 Clear presentation of the design

Instiglio's process review also stated that clearly presenting the design of the DIB to potential outcome funders and investors enabled conversations to advance quickly. Stakeholders from the anonymous donor and investors agreed that this enabled them to get a good and clear understanding of the DIB.

4 Complementary experience

Another factor cited was the complementary experience of the different stakeholders involved. For example, Village Enterprise and the anonymous donor had experience of poverty alleviation whilst Instiglio had experience of results based financing. This helped to inform a more practical design of the DIB.

Challenges

Instiglio's process review mentioned a number of challenges that emerged in the design phase of the DIB. These, along with stakeholder views, are set out below:

- **Outcome payer engagement**

Instiglio and the anonymous donor spent considerable time engaging with foundations, which resulted in no commitments to provide outcomes funding. Furthermore, Instiglio felt that engaging with multiple outcome payers at different times created inefficiency. Also, capacity constraints meant assessment of the project was challenging for both USAID and DfID.

- **Design**

Stakeholders stated that negotiations lacked clear protocols for ensuring the views of all were included. This, according to Instiglio and Village Enterprise, increased the amount of time it took, and therefore staff time required, to finalise the design of the DIB. Furthermore stakeholders also commented that having multi-party negotiations slowed the process down as all views needed to be accommodated.

- **Trustee selection**

This process also took longer as conversations with trustee candidates began without a clear agreement on the function of the trustee.

- **Contracting**

There was a poor understanding of outcome payers' procurement burden which delayed the start of the contracting process

- **Investor engagement**

Village Enterprise had to not only raise the investments but also to create the investment structure, an SPV, to receive the investments and outcome funds.

- **Due diligence**

Stakeholders from DfID stated that there needed to be a higher level of due diligence undertaken for this DIB than for their traditional grant funded mechanism. This included conducting due diligence on the trustee, the service provider and the investors. Although it is normal for DfID to look at a service provider's ability to deliver, the evidence base and other reputational risks, the increased number of stakeholders involved meant that this process was longer.

Advantages to using the DIB

Stakeholders cited many advantages to using a DIB during the set-up and design phase of the programme. It is important to stress that stakeholders did not fully attribute the following to the DIB mechanism specifically but rather stated that this particular DIB helped to enable the following:

- **More performance focused**

The DIB has enabled a strengthening of systems and processes at Village Enterprise, including the adaptive management system, financial system and safeguarding processes.

“ It creates a level of rigour because we want to deliver our outcomes. ” Village Enterprise

For example, when Village Enterprise implemented the previous RCT, they did not have a cost tracking mechanism fully established in order to assess cost effectiveness. As mentioned earlier, part of the rationale for Village Enterprise and the anonymous donor to enter this DIB was to contribute to learning. As part of this learning, they have now implemented a rigorous cost-tracking mechanism to analysis cost under the DIB structure versus under traditional grant funding. Stakeholders felt that this type of rigour helps to ensure that staff are delivering efficiently and productively, creates a higher accountability for outcomes, a greater incentive to perform and ultimately improves the performance focus.

- **Brings more finance to the development sector**

Stakeholders had mixed views on this potential advantage. Stakeholders from Village Enterprise stated the mechanism enabled them to raise larger sums of money than they would have been able to through grant funding. However, outcome funders and investors, as international development agencies and philanthropists, felt that the funding would have gone into the development sector in any case. Therefore the funding did not attract new finance into the development sector as a whole.

Having said that, the additional funding still enabled Village Enterprise to invest more in the service as they were able to develop adaptive management and monitoring and evaluation systems which they believe will also help to improve their performance.

“ The idea is that this will help us to deliver better. We have developed new M&E dashboards, database and ultimately this work is going to get quality information into the hands of managers, improve our outcomes by following up more rapidly to improve our performance. ” Village Enterprise

- **More innovation**

The additional funding has also allowed Village Enterprise to have more flexibility and deliver other innovations, such as adaptive management practices, piloting of mobile money and using different grant sizes. Stakeholders from Village Enterprise felt it would have been more difficult to do this with a smaller amount of money. Furthermore, outcome funders stated that the DIB design helped to create 'a space' for these innovations; the rationale was that with the transfer of risk from the outcome funder, the service provider is able to deliver the intervention as they see fit and adapt it where necessary to achieve better results. Therefore the mechanism enabled innovation by providing the service provider with the funding and space to do it.

- **Greater collaboration and coordination between stakeholders**

The prevailing view from stakeholders was that the design phase of the DIB did see high levels of engagement, collaboration and negotiation between different stakeholders. The working group consisted of the outcome funders, Instiglio and Village Enterprise and was meeting twice a week, sometimes for multiple hours which was described as "way above what you would normally see for a regular project". Furthermore, the stakeholders were united towards 'one common outcome' and although views on how to achieve this outcome varied, it was still described as 'a single united goal' by a stakeholder from DfID. This higher level of collaboration meant the various stakeholder types built working relationships and trust with one another, potentially setting the base for future collaboration as well.

Stakeholders felt that there were two factors behind this; firstly, as a relatively new funding mechanism it took longer for the various parties to get to grips with and agree what was required from each of them and secondly, with the involvement of various stakeholders, the mechanism was seen as 'more complicated', with higher levels of discussion and negotiation seen as a natural element of the DIB.

Following on from greater levels of collaboration, stakeholders were not fully convinced that this led to more rigorous design. The view was that although there was a more rigorous design process, this was more dependent on the level of engagement of the outcome funders. For example, DfID was mentioned as showing a keen interest in the design of the programme. While the core programme was already designed a lot of work still needed to go into defining how the programme works, particularly for DfID's priority areas of gender-based violence and protection. However, stakeholders stated that this seemed to be a result of the donors involved, rather than a result of the DIB.

“ Because of DfID there was a lot of detail required on the design but I would not say it would uniformly be the case across the DIB sector. ”

Village Enterprise

Disadvantages to using the DIB

Stakeholders also mentioned some disadvantages of using a DIB. These tended to focus on the complicated and costly design process. All stakeholders agreed that the process of getting the DIB 'off the ground' was a rigorous process which took considerable time, energy and effort. In the case of Village Enterprise, there was a need to consult with external professionals such as lawyers and accountants (over 200 hours of time in total). Village Enterprise estimated a total of 3,218 hours of staff time (approximately \$158,000) was spent on the DIB design and set up. One staff member stated that half of their time in 2017 was spent on this DIB.

Stakeholders felt, however, that this may only be a 'one-off' disadvantage as learning taken from this process can be applied to future DIBs where the design and set-up phase will be more efficient.

“ An area is the cost-benefit of investing so much time and energy into the financing mechanism, almost 50% of my time for the whole year, which I did not spend on securing other type of funding for Village Enterprise...But hopefully for the next transaction it will not be so much. ” Village Enterprise

Stakeholders from DfID also stated that learning from this design phase will help in the future. For example, the contracting process will be smoother with better knowledge of what is required and clearer idea of the roles.

“ We are not at the stage of having a standardised template but some of the terms in the contract can be standardised. ” DfID

Stakeholders mentioned a number of lessons learned from the DIB design process:

- 1 **Ensure outcome metrics are well aligned with the Theory of Change.**
Stakeholders stated that with regards to the outcome metric and payment function, there is a need to make sure outcome metrics are well aligned to the programme's Theory of Change. This will create the incentive to achieve impacts.
- 2 **Have trust in the service provider.**
Stakeholders, in particular investors, felt that it is important to have trust in the service provider. As part of building that trust, it is important to go through a stringent vetting process.

“ From there my advice is to do all you can to get out of [the service provider's] way and enable them with few restrictions on their work...once you have vetted them just trust them to implement.”

Investor

- 3 **Ensure all stakeholders have the capacity to deliver what is expected of them.**
This was raised in Instiglio's process review as a key recommendation. It was felt that using the DIB funding to support service providers, for example, in gaining access to independent experts (such as lawyers or investment structuring experts) would mean less strain on their capacity. Similarly, funds should also build in technical capacity for outcome funders who may not be as versed in results based financing.

More generally, stakeholders felt that having strong legal, financial and accounting skills was very important when negotiating deals. Furthermore, having a culture of innovation in the organisation (of whatever stakeholder type) was seen as vital in designing the DIB.

The Village Enterprise DIB has been a learning experience for all stakeholders involved. Stakeholders saw the DIB as an opportunity to achieve better impact in a more cost effective way. With an increase in available funds, stakeholders from Village Enterprise saw the DIB as an opportunity to achieve scale through expanding their intervention and reaching more people. Furthermore, with donor agencies only paying for outcomes, stakeholders hoped it would lead to cost effectiveness, through a reduction in costs related to monitoring outputs. This combination, it is hoped, helps outcome funders to achieve better value for money than through traditional grant funded mechanisms.

Some positive effects of the DIB mechanism have already been seen on this programme. At its outset, as a relatively new type of funding mechanism, it has created greater levels of collaboration between different stakeholder types, including outcome funders, the service provider, investors and the intermediary. Furthermore, the service provider has innovated, particularly by experimenting with different grant sizes, using mobile money and introducing new adaptive management techniques. Stakeholders felt that the DIB helped to create an 'innovation space' to make it possible. This is a positive sign for the future.

There are also some potentially negative effects. For this DIB, the service provider was responsible for approaching and bringing investors into the intervention. Although they were able to do this with success, stakeholders from Village Enterprise felt that this was a costly process and a challenge for them. However, stakeholders hope that in the future Village Enterprise will be better equipped to undertake such a task and will do so more efficiently.

The next case study report will be published in 2020, with a focus on delivery and outcomes.

Stakeholders Consulted

- Village Enterprise
- Instiglio
- Anonymous Donor
- Anonymous investor
- Bridge Fund
- UK Department for International Development

This in-depth review is a series being produced as part of the DfID DIBs pilot programme evaluation, commissioned by the Department for International Development and undertaken by Ecorys UK.

Hashim Ahmed, Research Manager at Ecorys, wrote the report.

The report is based on a review of documents provided by stakeholders and consultations with key stakeholders involved in the DIB. Consultation took place during 2018, during the second year of implementation for the Village Enterprise Development Impact Bond. The report will be updated in subsequent years to provide an account of the DIB's progress.

In total, the evaluation will produce in-depth reviews of three DIBs funded or supported by DfID. More information about the DFID DIBs pilot programme evaluation, including other in-depth reviews, can be found at: <https://devtracker.dfid.gov.uk/projects/GB-1-204722/documents>

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