

Instiglio

Mandate:

Instiglio's vision is a world in which **every cent spent** on delivering social programs has the **greatest possible impact**. We are a nonprofit that works to improve the impact of social programs through **Results-Based Financing (RBF)** instruments and **Performance Management**. Instiglio is the only organization exclusively dedicated to RBF in developing countries.

Instiglio provides technical assistance to government and donor agencies to help design, structure, and implement RBF instruments (e.g. Performance-Based Contracts, Impact Bonds) to improve the results of development programs by tying payments to verified, achieved results. Instiglio's RBF design expertise guides donors and governments in the selection of outcome metrics (i.e. the results they wish to pay for), as well as how to set the prices of and verify those metrics. In doing so, implementers of social programs are incentivized to achieve stronger, more effective program impact.

Graduation Lessons Learned:

A process review is currently underway for the Village Enterprise DIB (2017-2020). Instiglio is gathering lessons learned and testing hypotheses of how effective and efficient the PAOF is towards increasing the impact of the Village Enterprise poverty Graduation model. This review is ongoing, but initial insights include:

1. **Ease of committing funds for donors.** The PAOF uses an independent trustee to escrow outcome funds. The outcome payers were able to engage on their own terms in a streamlined fashion to commit funds, reducing transaction costs. Specifically, the PAOF structure did not require outcome payers to engage in working capital fundraising, which was instead left to Village Enterprise.
2. **Private risk capital crowded in.** Meeting the fundraising challenge, Village Enterprise autonomously raised nearly half of the targeted pre-financing before program start and raised the total USD 3.2 million within 5 months of project launch.
3. **Effectiveness.** An RCT conducted by an independent evaluator will validate the intervention outcomes, shedding light on how effective this intervention is under the PAOF mechanism.
4. **Funding allocated to a promising intervention.** Village Enterprise, perhaps a smaller NGO not normally able to scale financially large projects with large multilateral funders like USAID and DFID, was able to draw attention to its evidence-backed intervention to the tune of USD 4.8 million for outcomes payments.
5. **Efficiency gains of the PAOF.** Having piloted the PAOF with Village Enterprise, a structure is in place and ready to quickly design, contract, and implement poverty Graduation interventions. Learning from this past iteration, design costs and time are drastically improved compared to bespoke, one-off RBF instrument designs. Processes are established and contracts templated to facilitate smooth, quick design and launch, saving donors and government time and money

Scale and budget: Instiglio has a staff of 32, an annual budget of \$1.8 million, and projects spanning the regional, national, and international levels. Instiglio has worked with over 30 multilateral donor agencies, governments, high-performing NGOs, and impact investors in over 15 countries. We have developed firm partnerships with influential development institutions, like the World Bank, MCC, USAID, and the IDB.

Beneficiaries: Since 2012, Instiglio has indirectly worked with innumerable beneficiaries through the RBF design and implementation work we do with our various partners, who directly work with beneficiaries. As just one recent example, the Village Enterprise Development Impact Bond (DIB) launched in November 2017 will reach a minimum of 12,660 rural poor households in Kenya and Uganda over three years. Under this DIB, Village Enterprise will receive up to USD 4.2 million in pooled outcome payments for the verified increase of beneficiary incomes as attributable to their poverty Graduation intervention.

HQ: Instiglio is registered as a non-profit entity with offices currently in Washington, DC and Bogota, Colombia. Since 2012, Instiglio has operated in Africa, including developing workforce development programs in Morocco, a poverty Graduation program to improve livelihoods in Burkina Faso, and the Village Enterprise Development Impact Bond (poverty Graduation) in Kenya and Uganda.

With partnerships and strategic programs in Africa increasing, we are in the process of opening a permanent office in Nairobi, Kenya, which will open by the end of 2018. In the meantime, we have continued to establish our Africa presence and foster our ongoing relationships in Kenya via our Washington, DC office. With proximity to clients in the DC hub who are active in Africa, we are able to regularly engage and build relationships from the DC base that span to East Africa.

Initiation: Since 2016.

Village Enterprise

- Village Enterprise is an NGO implementing a poverty Graduation model to improve the livelihoods of rural, poor Kenyans. Starting in 2016, Instiglio worked with Village Enterprise to design an RBF instrument around their poverty Graduation intervention to help improve and scale their intervention. Preliminary design components were created, which would evolve into the selected outcome metric and price (paying Village Enterprise \$1 for each \$1 income increase of verified program impact). Through 2017, Instiglio and Village Enterprise worked with outcome payers and the independent evaluator to finalize the RBF instrument and evaluation designs, in what would be launched as the Village Enterprise DIB.

Living Goods

- Living Goods is a non-profit organization empowering Community Health Promoters in Kenya to teach Kenyan families how to improve their health and sell life-changing products to the most vulnerable. In 2017, Instiglio assessed the feasibility of utilizing an RBF instrument as a funding mechanism for the Living Goods program. Finding Living Goods well prepared for RBF funding, Instiglio conducted preliminary RBF design and stakeholder engagement to guide the complete RBF design. Beginning in 2018, and currently underway, Instiglio is designing a Performance-Based Contract in detail with Living Goods, including the payment metrics, prices, and evaluation design.

Graduation work: The Poverty Alleviation Outcomes Fund (PAOF) is a ready-built Results-Based Financing mechanism currently running a poverty Graduation pilot program with the Village Enterprise DIB. By creating the PAOF, we have created a laboratory to experiment with how donors and governments can most effectively contract and scale Graduation programs. Iterating the PAOF, we will learn if pooling donor funds with a more explicit, incentivized focus on outcomes and cost-effectiveness is an impactful method for donors and governments to launch Graduation programs to achieve poverty alleviation goals.

In the PAOF structure, pooled funding is committed for the verified achievement of pre-defined outcomes. By funding outcomes, and not activities, funders are guaranteed that 100% of

resources are linked to poverty reduction, while giving providers the flexibility to implement their poverty Graduation interventions as they believe best deliver the greatest results. By creating an ecosystem for innovation and rewarding the achievement of results, the PAOF promotes and scales the most cost-effective spending of programs on poverty alleviation.

For example, consider the PAOF pilot with Village Enterprise, a relatively small NGO operating in East Africa with aims to scale its poverty Graduation intervention to an additional 1,000,000 Africans in the next five years. Under its usual funding operations Village Enterprise was successful, but perhaps not to the magnitude of multi-million-sized projects. Answering the challenge of the PAOF, where donors pooled USD 4.3 million for the verified, attributable increase in beneficiary income, Village Enterprise was now on the radar of large donors like DFID and USAID, and able to scale more widely based on the merits of their program and delivered success.

Expanding the PAOF to include more donor funding and more evidence-backed implementers like Village Enterprise, practitioners will widen the reach of poverty alleviation programs in the region, impacting the lives of more rural poor, while simultaneously generating knowledge around what works in the poverty alleviation space. Identifying which implementers in the PAOF deliver results, and how effectively the PAOF mechanism fosters this, donors and governments will be equipped with vital knowledge of how best to scale Graduation models.

Future Plans: Through the PAOF, we will surface and scale the most impactful and cost-effective poverty Graduation programs in Kenya. By trying payments to the pre-defined results of poverty reduction, implementers will be given a set of incentives to deliver greater, cost-effective impact. Armed with this learning, donors and governments will know which poverty Graduation models deliver impact and if the PAOF is a viable mechanism through which to scale those interventions.

Further, the PAOF is a mechanism that strategically fits within the existing architecture of the poverty alleviation and social protection in Kenya. It is crucial that the PAOF align with the objectives and plans already laid out by the Government of Kenya, as articulated, for example, by Vision 2030 and the Department of Social Protection.

We believe the PAOF can be an effective mechanism to connect the dense ecosystem of evidence-backed service providers working to reduce poverty (and the donors who fund them) with existing government social protection programs. Inviting the Government of Kenya to partner with implementers and donors on the PAOF to co-define and co-design the desired results and how those results are verified, presents a pathway to long-term sustainability of poverty Graduation models in Kenya. Through this partnership and learning in subsequent scale-up phases, the government will integrate findings and best practices of the PAOF into their social protection strategies, promoting government uptake of the PAOF. And, finally, as the most impactful and cost-effective interventions are surfaced, the government will scale up these successful models.

Where do you hope your organisation will be in 5 to 10 years?

The PAOF will successfully identify and scale evidence-based implementers working in the poverty alleviation space in Kenya. Through the PAOF:

- we have learned that poverty has been reduced for participating Kenyans (as attributable to the implemented interventions),
- we have generated data of how many have benefitted and by how much; this data has been rigorously evaluated and verified, and this knowledge has been widely disseminated,
- we have learned that donor spending for poverty reduction has become more cost-effective,

- we have generated and disseminated greater evidence around how to design, govern, manage, and scale the PAOF as an effective mechanism to scale future Graduation interventions,
- the Government of Kenya has incorporated lessons learned and best practices into their social protection strategies and increased its involvement in the PAOF via co-funding and scale up of successful interventions.

Graduation research topics and findings

Operational research and impact evaluations will be conducted for each project seeded by the PAOF. The research and evaluations will generate:

- Best practices of designing outcomes-based contracting for poverty Graduation programs. Research will inform funders on how to
 - generate the right types and levels of incentives for implementers,
 - select the metrics to track and pay for,
 - define the level of autonomy given to implementers, and
 - prepare for and think through various contracting questions.
- A database of the cost-effectiveness of various interventions under a unified measurement framework. This will provide donors and governments with a data-driven understanding of what price to pay for poverty alleviation outcomes.
- A detailed understanding of the most effective program components and management practices in Graduation approaches. This will equip donors and governments with data to better focus their funding on such components.

Currently, we envision specific poverty Graduation interventions will be selected through collaboration with donors and governments, who will more specifically identify preferences for desired outcomes, target populations, geographies, and intervention types.

Instiglio has engaged approximately ten implementers active in the poverty alleviation space who are interested to engage in the PAOF, including many experienced in poverty Graduation models and direct cash transfers.

Through the PAOF, generated evidence will allow us to better understand which interventions deliver what levels of impact, for which target populations, and in which geographies. Populating this database of learning will equip donors and the Government of Kenya with the knowledge to design / scale up the strongest evidence-backed poverty alleviation programs attuned to their preferences of scope, scale, and style.

It is crucial that the PAOF be designed and adopted to strategically fit within the existing architecture of the poverty alleviation and social protection in Kenya. To these ends, we are engaging innovative government actors in Kenya to assess and shape the value-add of the PAOF for their work and to responsibly and sustainably integrate the PAOF with their poverty alleviation objectives.

Engagement in Kenya will explore government actors' and agencies' poverty alleviation objectives and feasibility of partnering together in the PAOF. Some planned engagements in Kenya include:

- Department of Social Protection (Social Protection Secretariat)
- National Social Security Fund
- Ministry of Devolution and ASAL (Hunger Safety Net Program, National Drought Management Authority)
- National Treasury (Programme for Rural Outreach of Financial Innovations and Technologies, PROFIT)
- Vision 2030

Engagement with the Government of Kenya will explore their objectives and assess their interest in engaging in the PAOF. In the short-term, we envision:

- Governments co-define and co-design the results that matter to them under their social protection frameworks and co-design how to verify those results.
- Governments help identify & select a target population.
- Donors and service providers implement the fund aligned with government poverty-alleviation goals, and
- Governments pre-commitment to scale up, co-defining the subsequent scale-up phase (e.g. cost levels, timelines), and potentially committing to future funds.

In the long-term, we envision:

- Government integrates learning and findings into government social protection strategies.
- Government scales up successful models developed and discovered via the PAOF.

Operation research (see above)

Research and impact evaluations generate:

- Best practices of designing outcomes-based contracting for poverty Graduation programs (e.g. outcome metric selection, pricing outcome metrics).
- A database of the cost-effectiveness of interventions.
- A detailed understanding of the most effective program components and management practices in Graduation approaches.

Partnership building with donors and government:

The PAOF will be a link to strengthen partnerships between the current ecosystem of implementers (and their donors) and existing government social protection programs in Kenya. Instiglio will facilitate, helping bring these actors together through the PAOF to ensure clear alignment on how to design in partnership and scale up successful poverty Graduation interventions.

Building stakeholder capacity:

With many implementers, donors, and government actors new to the PAOF and concepts of Results-Based Financing, Instiglio will provide hands-on accompaniment to assess readiness and feasibility for RBF. For implementers, for example, this includes, assessing their strategic alignment with RBF, their evidence of past program results, their organizational capacity, and their capacity for performance management. Similarly, Instiglio will be able to train and guide donors and government actors through the design and use of RBF instruments, leveraging our vast experience and expertise in this realm.