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**Amanda
Fernandez**
CARANA



**Adam
Bornstein**
USAID

December 17, 2015

Paying for Results: A New Approach to Mobilizing Finance for Development





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Lawrence Camp

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Lawrence Camp is a Senior Adviser with USAID's new Office of Private Capital and Microenterprise (PC M). Recently established within the Bureau for Economic Growth, Education and Environment (E3), PC M supports Agency efforts by mobilizing private investment towards development objectives. As Senior Adviser, Lawrence is primarily focused on innovative strategies for catalyzing private financing for development. He has a long experience in commercial banking and structured finance as Vice President and Group Head, and subsequently as Chief of Party of USAID projects. He is a graduate of Princeton University and the American Graduate School for International Management.



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Theo Talbot

Center for Global Development

Theo Talbot is a Senior Policy Analyst with the Center for Global Development's office in London. His work focuses on finance for development, with an emphasis on contracts and financing structures that enable development actors to deliver social returns by collaborating effectively with the private sector. Theo grew up in India and Ethiopia and has a Bachelor's in economics, finance and politics, and an M.Sc. and Ph.D. in economics. During his Ph.D., he was an Overseas Development Institute (ODI) Fellow in the Pacific, where he worked as an economist for the Government of Vanuatu. Before joining CGD, he worked at the Ministry of Planning and Investment in Hanoi.



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Amanda Fernandez **CARANA Corporation**

Amanda Fernandez is currently Senior Manager for CARANA Corporation, providing strategic direction to global economic growth projects, including USAID's Financing Ghanaian Agriculture Project. Ms. Fernandez has been in the economic growth field for more than 20 years as a donor, an implementing partner, and a private consultant. She previously served as a Deputy Chief of Party and Chief of Party for USAID's Productive Network I and II projects in Ecuador, overseeing investment facilitation, financial services and gender work. Prior to joining CARANA, she served as Regional Economic Advisor for USAID West Africa, as a Program Officer for the Annie E. Casey Foundation, funding financial inclusion and community economic development programs, and as Catholic Relief Services' Regional Technical Advisor for Microfinance, covering the Middle East, North Africa, the Balkans and Eastern Europe. She has authored several publications for USAID, including DCA impact briefs, gender impact analyses, case studies and opportunity guides to promote shared-value financing and investment opportunities in Africa and Latin America.



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Adam Bornstein

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Adam Bornstein recently joined USAID as a Senior Advisor in Innovative Finance with the U.S. Global Development Lab. He previously worked at The Global Fund to fight AIDS, TB, and Malaria as a Manager in Innovative Health Financing, based in Switzerland. At the Global Fund he was responsible for developing and structuring alternative funding products, working with government ministries, the private sector and civil society to identify sustainable pools of health financing. He formerly served as the International Finance Corporation's resident representative in Mongolia and Senior Vice President at CDIB Capital, a Hong Kong-based US\$1 billion private equity fund where he was responsible for direct investments in private and public companies across Asia. In the past he founded an early stage venture capital fund in Shanghai, consulted for Booz Allen, and had a hand in starting and managing Boom.com, Asia's first online stock brokerage. Adam holds an MBA from Boston University Graduate School of Management and is conversant in Mandarin Chinese.



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Paying For Results: A New Approach to Mobilizing Finance for Development

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Paying for Results: Introduction and Overview

- Agenda
 - Theodore Talbot from CGD on the merits of subsidies vs. guarantees vs. pay-for-performance
 - Amanda Fernandez on CARANA Corporation's FinGAP experience
 - Adam Bornstein from USAID on new advances in Development Impact Bonds
- Expected Takeaways
 - Transformation and Epiphany
 - Clarity and Burning Desire



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Paying for Results: The Challenge

- Access to Finance – the indispensable element for development
- Good news/bad news
- Why “Private Capital” matters



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Paying for Results: The Solution

- Several ways to try to catalyze private sector led investment
 - Demand side – project preparation, BAS
 - Supply side – training, risk mitigation
- Common thread
 - We are defining the solution
 - Heavy technical assistance/high cost
- Facing the affordable housing challenge in Haiti
 - Let market actors solve the problem using pay-for-results



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**Good Work—
Paying for Performance in Development**

Theo Talbot, CGD



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What does paying for performance have to do with Kenyan schools?

Why do we need to work with the private sector?

How to do it well?



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Bridge international academies



Schooling for \$6 a month

Income ~ \$60 a month

\$26 million for 237 new schools

300,000 additional students

CDC & IFC equity, debt from OPIC



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Our options as donors

Subsidise

\$10 million at 4%

Guarantee

\$9.9 million of commercial
loans

Pay for success

\$3 per student

Same expected cost to
donor

Same expected value to
Bridge



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Our options as donors

**Very different
market effects**

- Subsidise
- All Bridge's activities

- Guarantee
- Shifts downside risk to taxpayer

- Pay for success
- Contestable, minimizes downside

Guarantees “mobilised” \$15.3 billion (2009-2011)

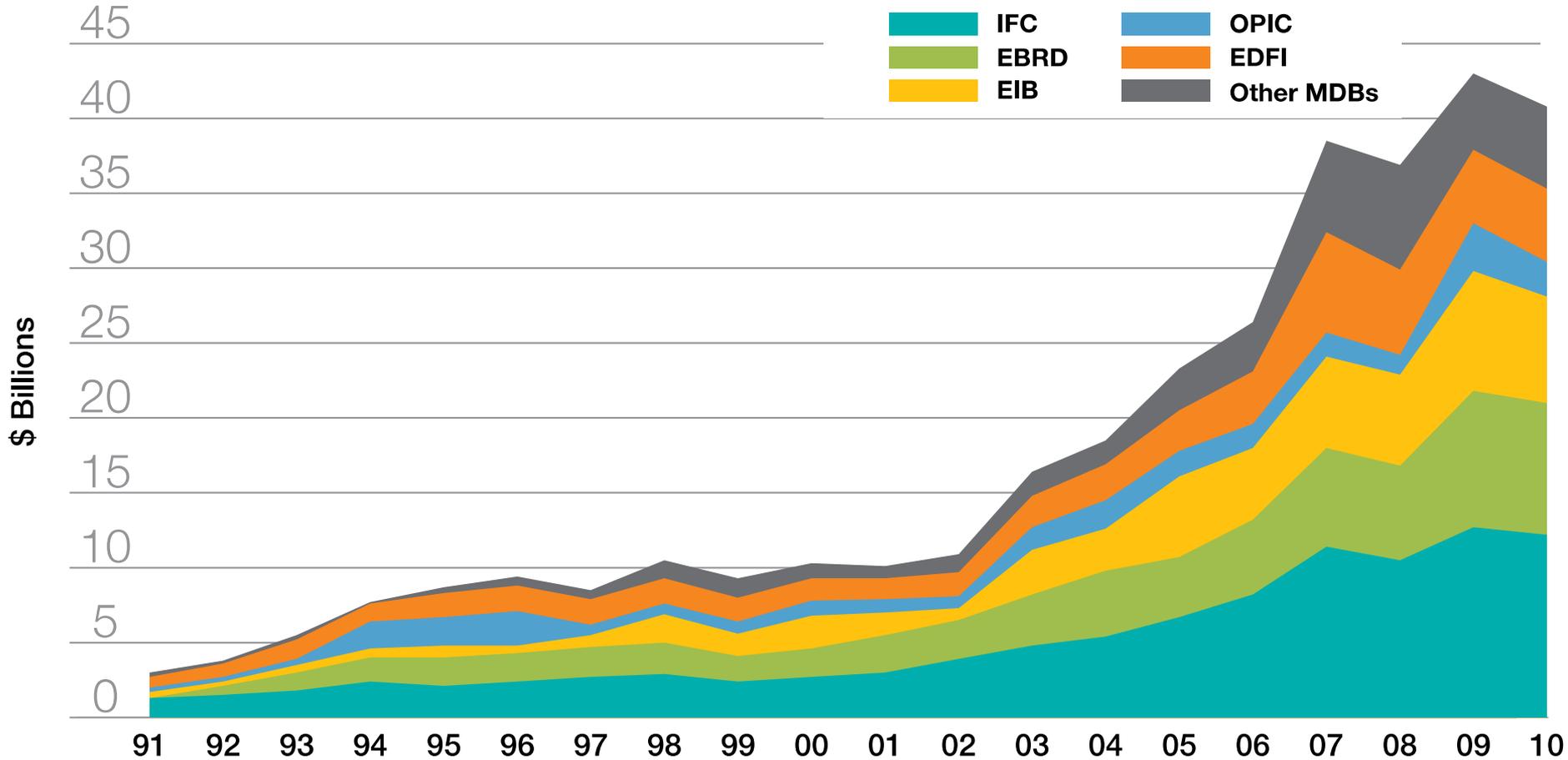
DFIs wrote \$11.5 billion in guarantees (2013)

And \$3.5 billion in insurance (2013)



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IFI Private Sector Commitments 1991–2010



Data from "International Finance Institutions and Development Through the Private Sector", IFC 2011



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We all want to do more of it

**“ODA must...crowd in
other funding sources...”**

***– Development Committee joint
statement, 2015 Spring Meetings***



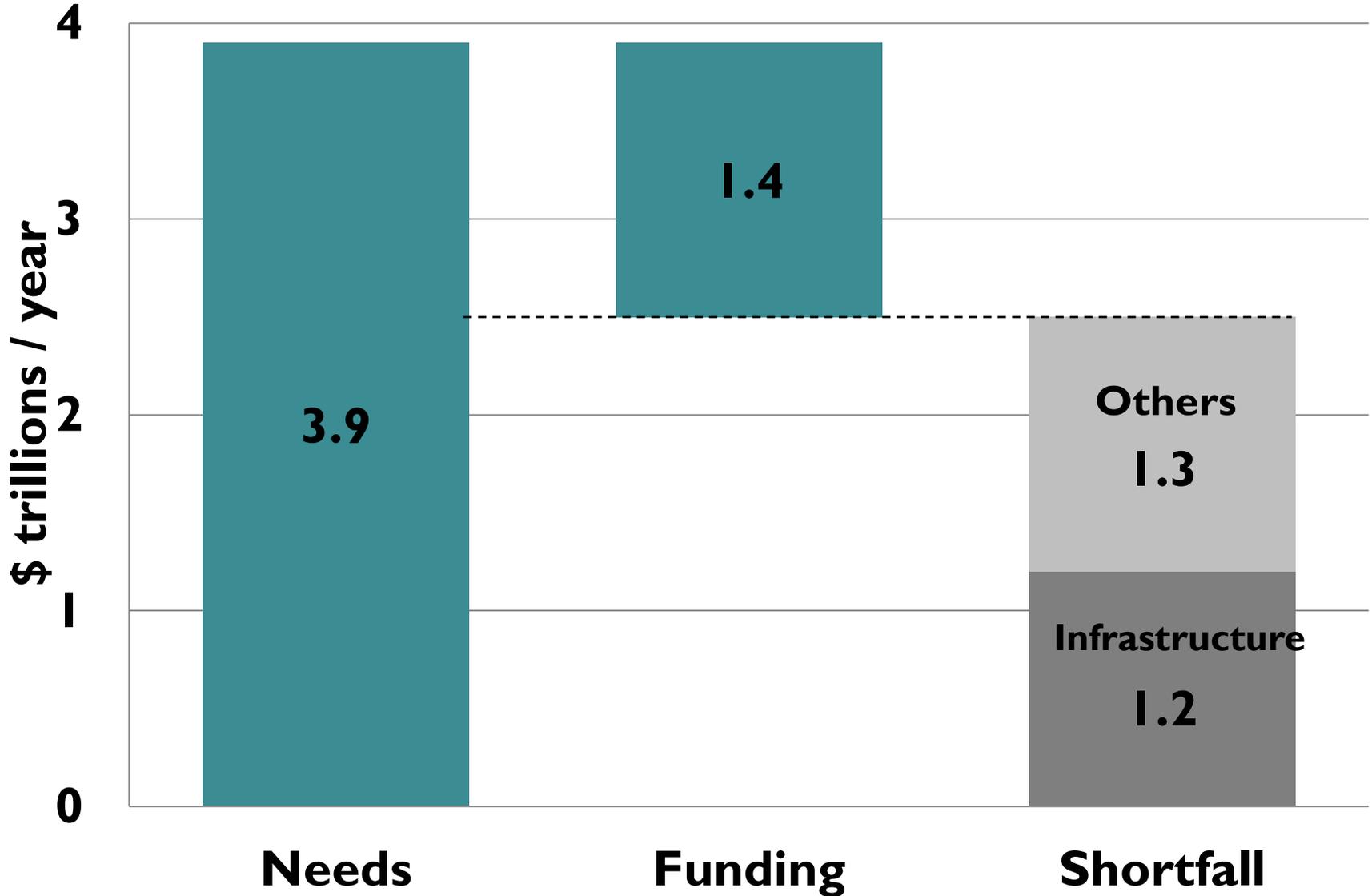
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SDGs—The \$2.5 Trillion Gap



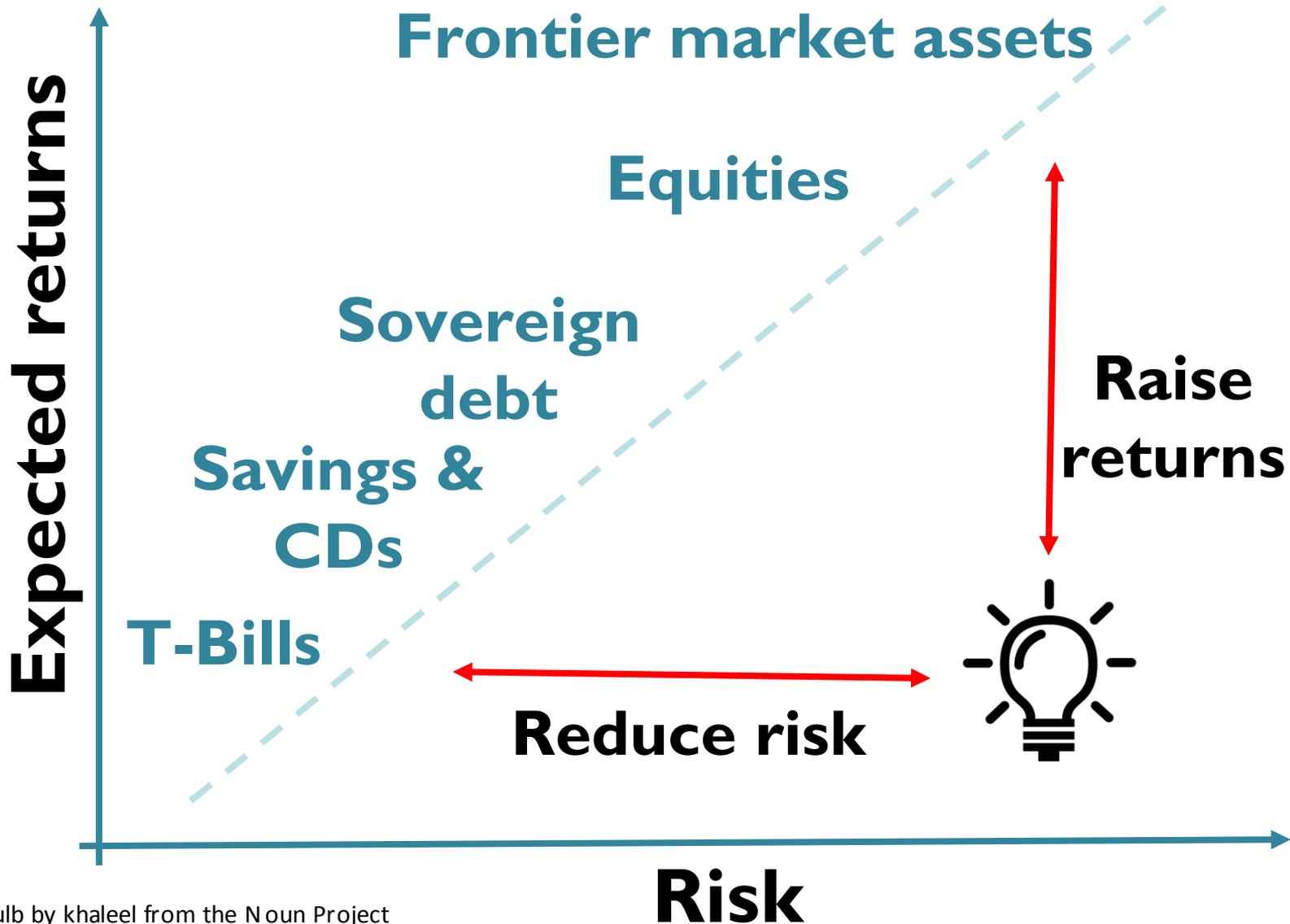


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Are we doing it well?



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Reduce risk

Guarantees, various kinds of insurance

Give a subsidy

Lump sum transfers, subsidised credit

Pay for success

Subsidies conditional on performance



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NEWS & INFORMATION
PRESS RELEASES • USAID AND GE PARTNER WITH KENYA COMMERCIAL BANK TO OPEN HEALTH FINANCING

FINANCING

\$10 mn loan

Backstops half default value

Distortionary and tied

Is it really additional?

For Immediate Release
Tuesday, January 28, 2020
USAID Press Office
202-718-3329 | Email: USAIDPressOfficers@usaid.gov
NAIROBI – The U.S. Agency for International Development (USAID) today announced a new partnership that will make up to \$10 million available in conjunction with Kenya Commercial Bank (KCB), local financing available to small and medium enterprises for



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	Guarantee	Subsidy	Pay for success
Avoid moral hazard in project selection	X	✓	✓
Better performance management	X	✓	✓
Improve targeting	X	X	✓
Promote contestability	X	X	✓
Avoid the costs of optimism bias	X	X	✓
Build public support	X	X	✓
Reduce monitoring and evaluation costs	X	X	✓

Conditional subsidies carry the same cost

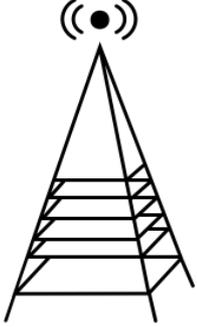
But have unique benefits

Not a new idea– but should be more widely used



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Paying for success isn't new



Peru's *Fitel*



5,000 towns

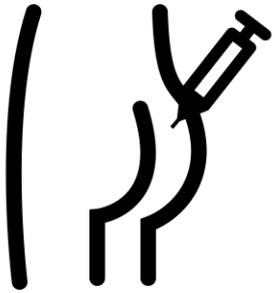
41% Cheaper

2:1 additionality



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Paying for success isn't new



**Advance Market
Commitments**



**Social / development
impact bonds**



Cash on delivery aid



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**If we want to stay
in business, paying
for performance is
the business we
need to be in.**



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Center
for Global
Development

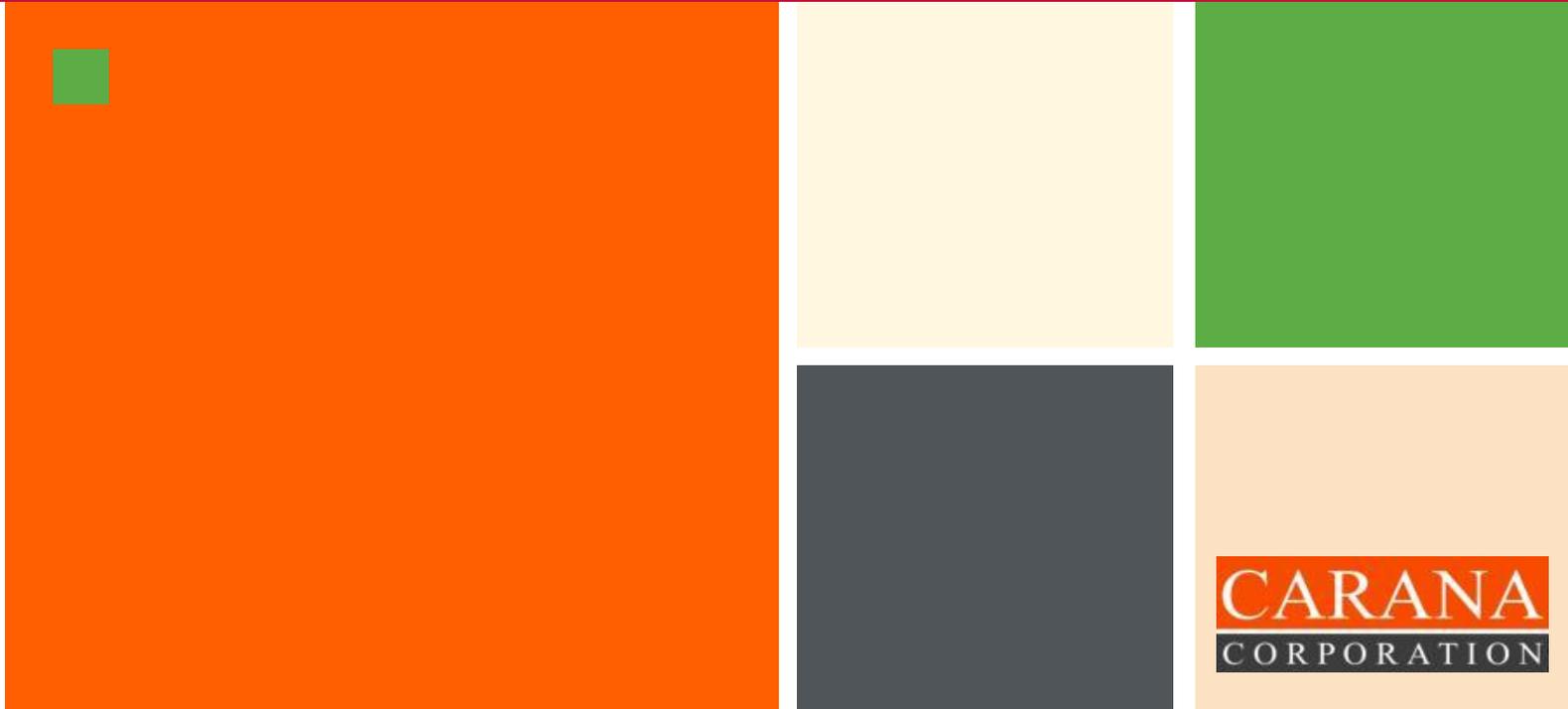
Paying for Success: Catalysing Private Investment for Development

Theo Talbot
@theobot1000

Full paper is at cgdev.org



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Pay-for-Performance Models

Amanda Fernandez

Senior Manager & USAID-FinGAP Case Leader

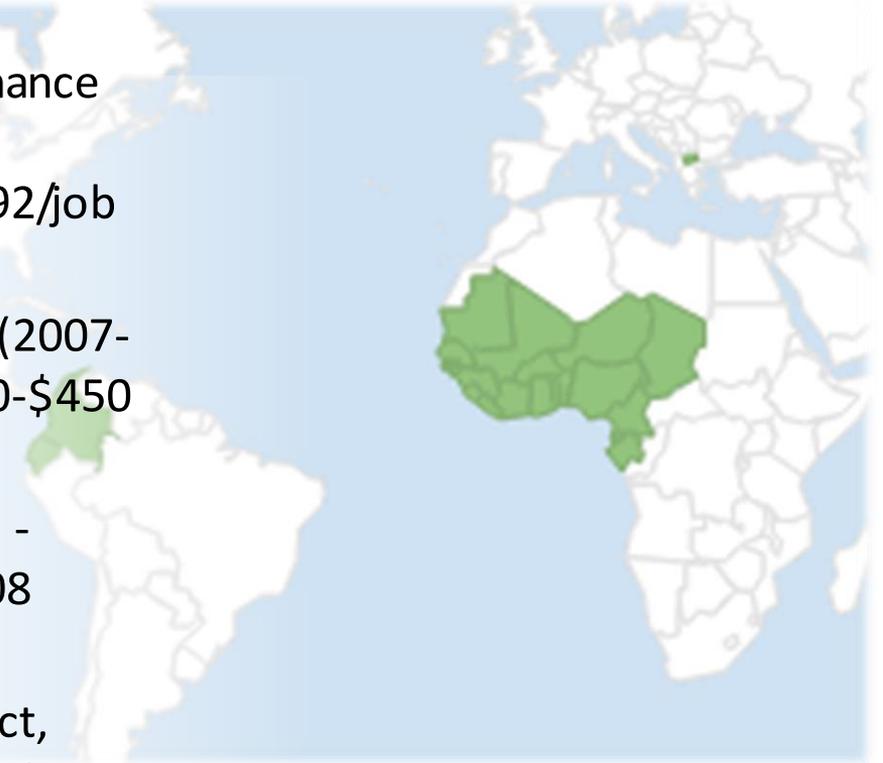
afernandez@carana.com



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CARANA/USAID History with Pay-For-Performance Models

- **Colombia** Enterprise Development Program (2003-2006) - \$60M in SME finance and 14,126 new jobs with \$4.9M (\$12 leveraged for every USAID \$ spent; \$292/job created)
- **Macedonia** Competitiveness Project (2007-2012) - \$118M in SME investment; \$200-\$450 leveraged for every USAID \$ spent
- **West Africa** Trade Hub (2009-2013) - \$68.9M in SME finance with \$637K; \$108 leveraged for every USAID \$ spent
- **Ecuador** Productive Network II Project, (2009-2013) - \$38.2M in SME finance with \$76K; \$500 for every USAID \$ spent

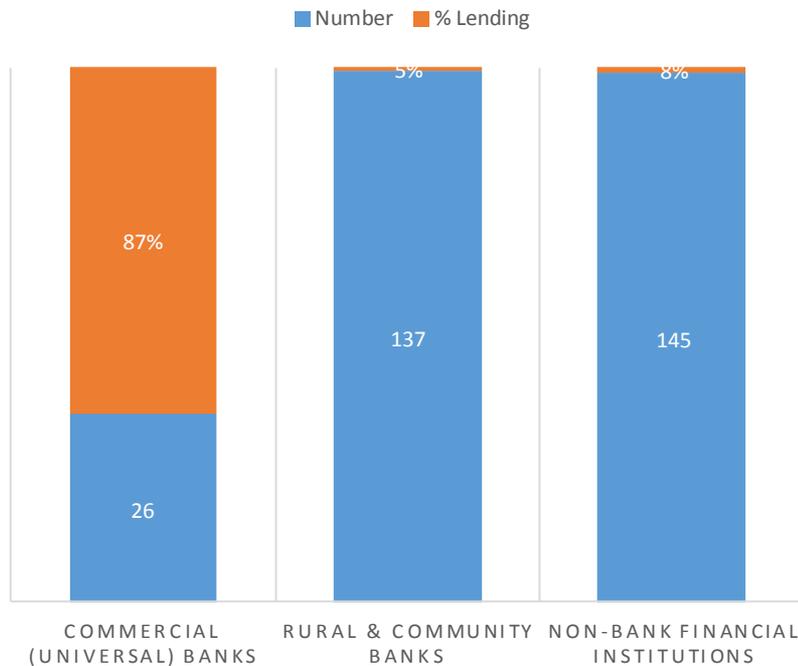




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USAID-FinGAP Project Basics: Commercial Banks Largely Ignoring Agribusiness

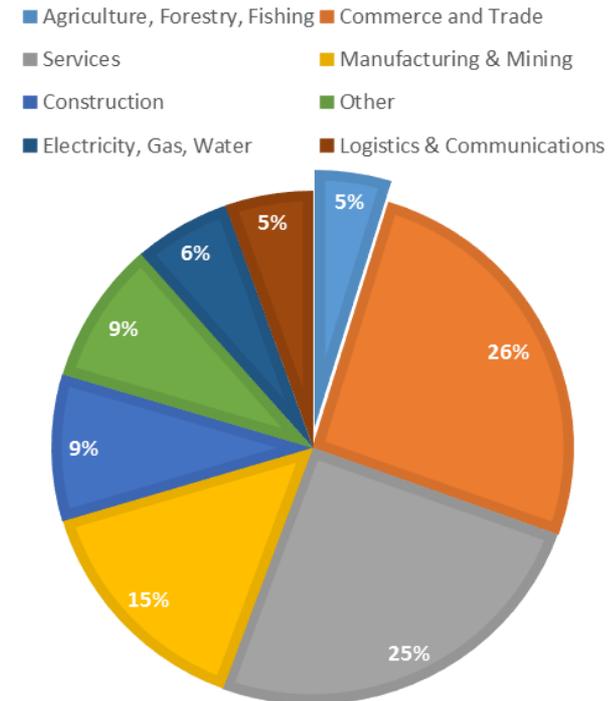
LENDING BY TYPE OF FINANCIAL INSTITUTION



%: a percentage of \$17 billion total combined assets of three banking sub-sectors (12/31/2012).

Traditional "money-center" banks in Accra dominate lending.

DISTRIBUTION OF CREDIT



NPL for agribusiness lending at the end of 2012 was 21%!



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USAID -FinGAP Project Basics: Details

- **5 year project** (2013-2018)
- **Target client:** Rice, maize, soy SMEs in Ghana's underserved north
- **Goal:** Lure banks to make critical, agricultural investments that will make or break Ghana's FtF strategy
- **Life of Project Targets:** 250 deals; Average deal size \$300K; \$75M in financing linked to 120,000 smallholders



- **Concept:** Business Advisory Service Providers (BAS) identify and close agribusiness deals
- **Mechanism:** Performance-based subcontracts requiring financing release
- **Leverage:** Fee shared between USAID and SMEs
- **Design:** Time-limited, fees capped, phased out over time
- **ROI/Leverage:** \$18.9M lent for \$1.1M (17:1)



- **Concept:** Incentive Grants to FIs to stimulate lending to new sectors
- **Mechanism:** Performance-based grants
- **Leverage:** For every USAID grant dollar, \$10-\$50 is lent to SMEs
- **Design:** Time-limited, short-term stimulus. “First come, first serve.”
- **ROI/Leverage:** \$49.3M lent for \$839K in grants paid (59:1) just in 2015





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Pay-for-Performance Methodologies Utilized: Some FI Incentive Grant Partners



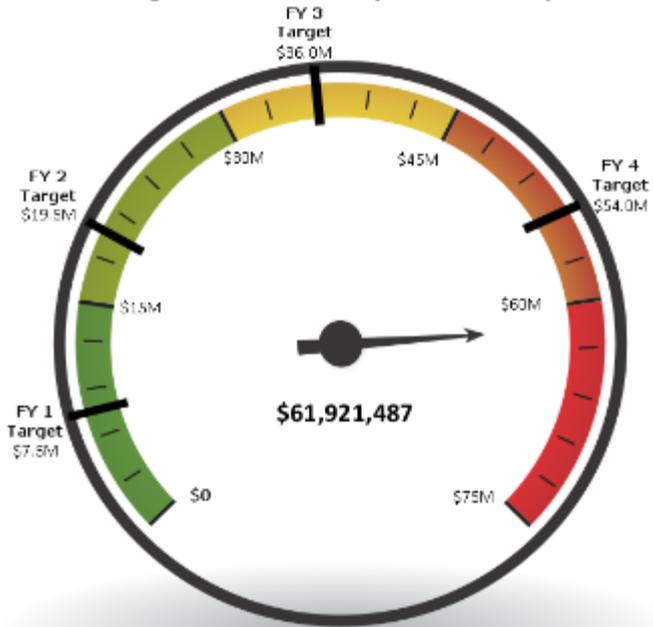
SINAPI ABA TRUST
Transforming lives Through Micro-Finance





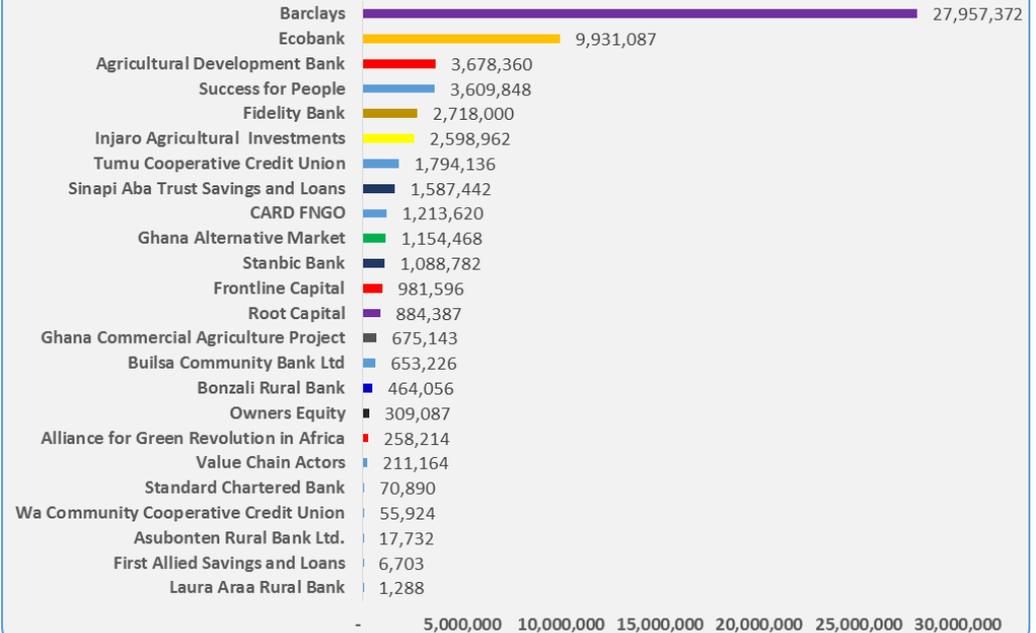
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Financing Received by FinGAP-Supported Agribusinesses (US Dollars)



Financing facilitated comprises debt, equity and grants

USAID-FinGAP Financing by Institutions



Overall ROI/Leverage: \$61M in financing with \$1.9M in perf. fees; 31:1

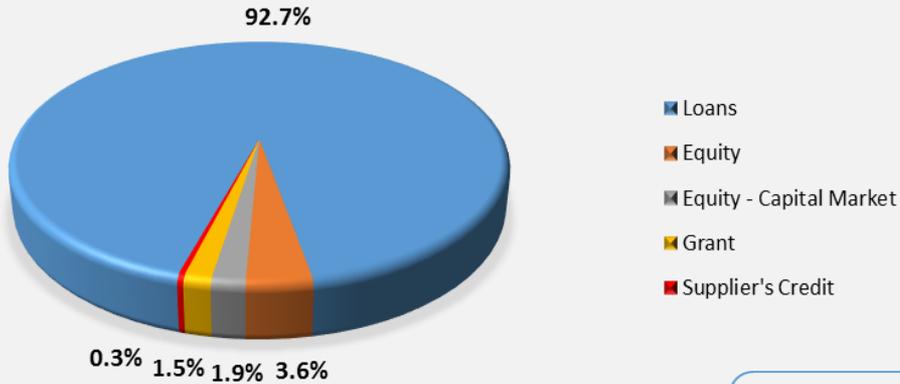
PAR: Under 3%



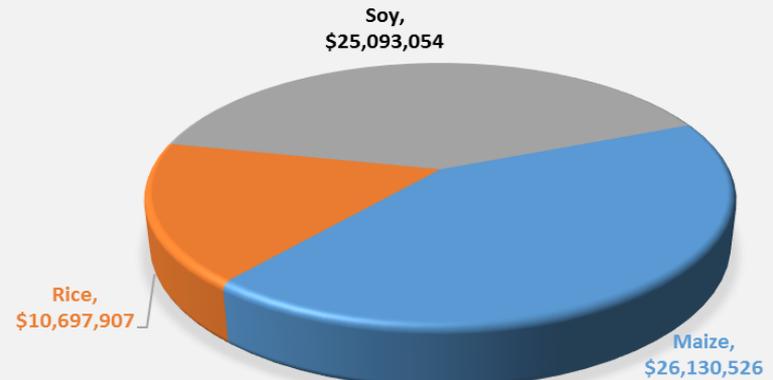
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Results: More Metrics

USAID-FINGAP FINANCING BY SOURCE OF FUNDS



USAID-FINGAP FINANCING BY VALUE CHAINS (\$)



Sources of Financing:
\$36.7M in working capital
\$20.5M in capital expenditure

- 44 active BAS; 24 FIs lending
- 500+ MSMEs receiving financing, impacting 61,000 smallholders



“I can now compete favorably with my competitors in the market, and I have better prices with improved sales and income.”

- Z uwera Mahama, K palsipaga
Customer



“Our agribusiness loan portfolio was GH¢3 million. Currently, it stands at GH¢54.6 million, thanks to our relationship with USAID - FinGAP.”

- Andrew Ahiaku, Head of Barclays
Agribusiness Desk



“USAID-FinGAP’s assistance in securing financing has enabled us to reach out to more and more women.”

- Dora Torwiesh, Director of
Operations, Nuts for Growth



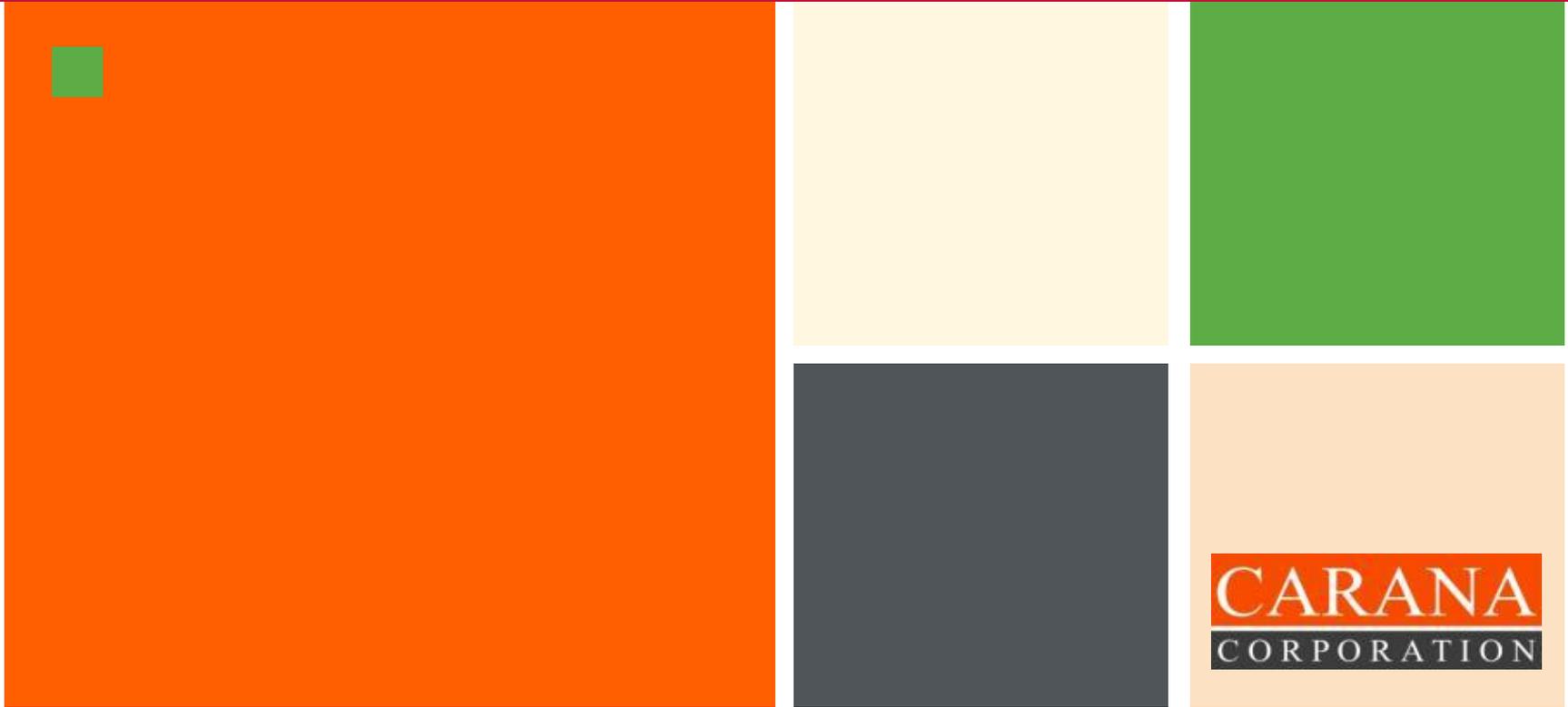
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Key Success Factors: FI Incentive Grants

- Preparation of potential FI grantees (RFI, Bidder's Conferences)
- Simplified grant application procedures (Fill in the box, focus on numbers, limit prose)
- Resisting temptation to mandate the "how". Allow grantees to set performance targets and decide how to use resources
- Short-term availability of grants stimulates competition among FIs
- FI Incentive grants complemented by other risk-mitigating strategies: Identified deals, BAS providers, guarantee cover (DCA), agricultural insurance, bank training, project team as honest broker



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Thank you!

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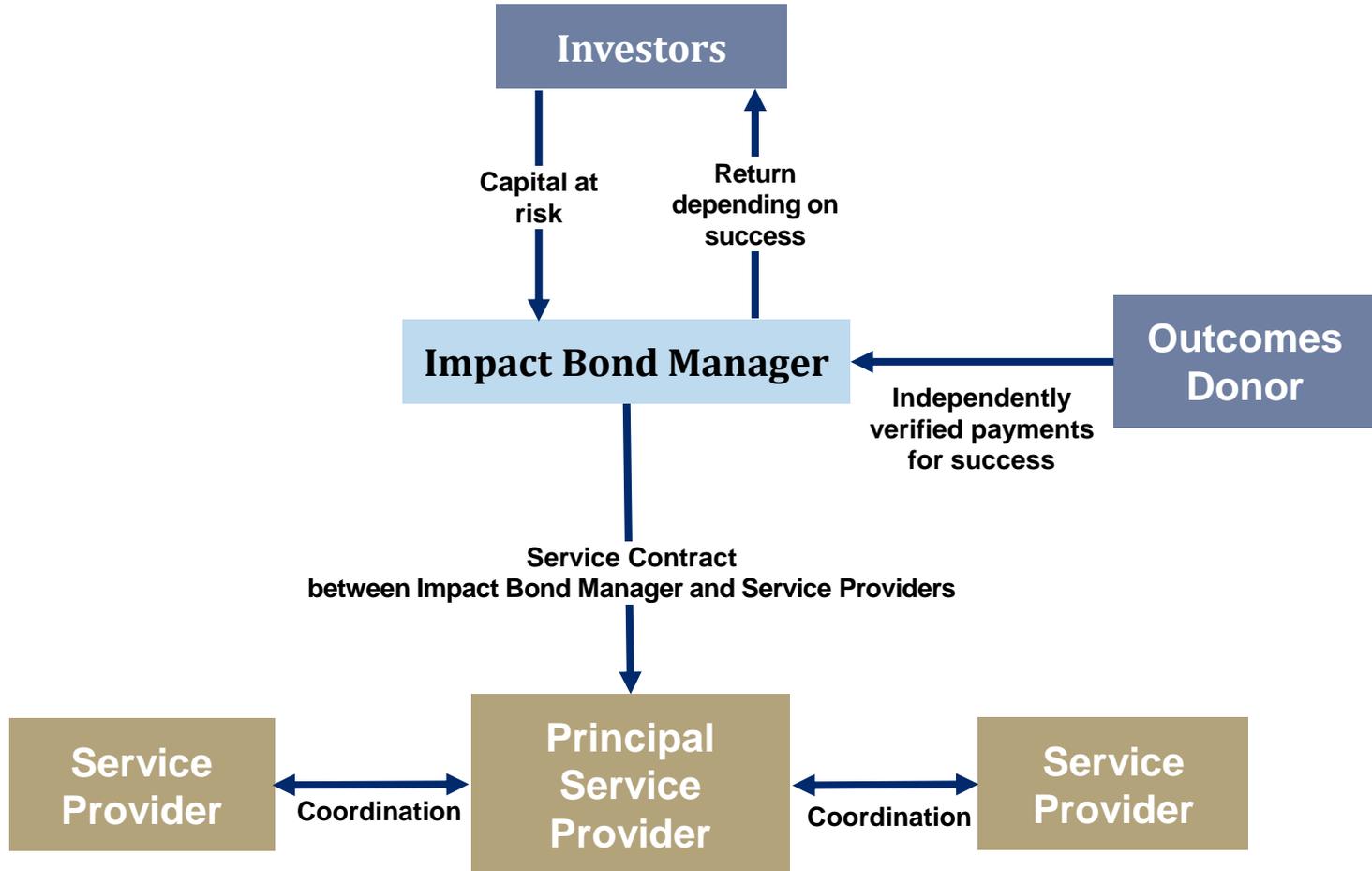
Impact Bonds

December 17, 2015

Adam Bornstein
Senior Advisor, Innovative Finance

Impact Bonds are Results-Based Programs financed by Risk Capital

- An Impact Bond is not a “bond” but rather a procurement contract
- An outcomes donor pays for agreed results after they are achieved
- Project financing is provided by investors who take on the risk of the project failing to deliver agreed results, and therefore losing some or all of their capital
- Financial returns to investors are tied to the achievement of agreed outcomes
- Outcomes donors do not specify implementation modalities
- Investors and Impact Bond Managers acting on their behalf manage implementation – investors have supported adapting the interventions they finance based on real-time data and service user feedback
- Contract outcomes and outputs are independently verified





Aim is to improve the efficiency and effectiveness of development programs

Adaptive implementation

- Link investor returns to outcomes to foster adaptive implementation

Results, transparency and accountability

- Crowd in funders by reducing risk and increasing evidence of effectiveness

Private sector partnership

- Bring in investor community as source of expertise on adaptation and delivering results

Provide access to upfront funding

- Provide upfront funding to facilitate participation of not-for-profit and smaller-scale service providers



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Impact Bonds Focus on Improving Results

TRADITIONAL RESULTS-BASED MODEL

Donor typically determines implementation model in advance, with less room for quick adaptation

Service providers need to comply with donor specifications and wait for funding ex-post

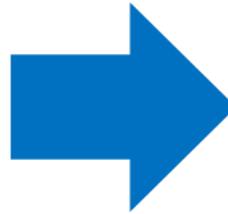
Donor focuses on inputs to ensure achievement of outcomes

IMPACT BOND MODEL

Donor focuses only on impact achieved, rather than also on inputs

Evidence-driven, adaptive implementation that closely involves service providers

Investors provide up-front capital, and incentivize real-time management of service providers





Over 50 Impact Bonds raising \$150m have been launched, with at least as many in development.

Portugal

- One Impact Bond for education of primary school children

UK

- 30 Impact Bonds for issues ranging from recidivism, to child services, employing a range of commissioning models

Northern Europe

- Impact bonds in the Netherlands (2), Germany, Belgium and Switzerland, for migrant and youth unemployment.

Canada

- One Impact Bond for at-risk single mothers

US

- 8 Impact Bonds, including highest value bond of \$27m. Issues range from high risk youth to recidivism
- Harvard Lab providing assistance to 9 states

Latin America

- SF and IDB exploring project in Mexico, Brazil and Chile
- Impact Bonds also in development in Colombia (education) and Peru (agriculture)

Sub-Saharan Africa

- Impact Bonds in development for Sleeping Sickness in Uganda, HIV prevention and ECD in South Africa, and maternal and child health in Cameroon

N Africa and the Middle East

- Impact Bonds for youth training and employment and diabetes prevention in development in the West Bank
- Prevention of university drop outs and diabetes being explored in Israel

Asia

- Three pilots being developed in Japan
- Impact Bond being piloted in Rajasthan for girls' education

Australia

- 2 Impact Bonds on out-of-home care



A Development Impact Bond targeting East African Sleeping Sickness would deliver significant animal and human health benefits at scale across poor, rural parts of Uganda.

OVERVIEW	
Objective	<ul style="list-style-type: none"> Reduce incidence of East African Sleeping Sickness by treating cattle – the main parasite reservoir
Size	<ul style="list-style-type: none"> An 8 year, ~\$50m DIB covering 44 at-risk districts in Uganda Minimum 4m cattle to be treated across the affected area
Socioeconomic benefits	<ul style="list-style-type: none"> Estimated livestock benefits of \$15 per cattle per year free of trypanosomiasis and \$7.50 per cattle protected by insecticide per year \$150m animal health benefits and \$90m human health benefits estimated over 8 years
Intervention	<ul style="list-style-type: none"> Mass cattle injection programme - delivery of 5.5 million cattle treatments over 3 years Establishment of prevalence and vector control strategy over 8 years
Outcomes	<ul style="list-style-type: none"> Successful mass treatment of cattle in years 1-3 Reduction in the parasite prevalence from baseline in years 4, 6 and 8
Data systems	<ul style="list-style-type: none"> Uses tailored app and database to track cattle treatment progress in real time
Sustainability	<ul style="list-style-type: none"> Promotion of ongoing insecticide spraying by farmers to maintain parasite prevalence reduction achieved by the mass treatment programme and sustained socioeconomic benefits
Impact Bond value-add	<ul style="list-style-type: none"> Improves the effectiveness of delivery through real-time data collection and analysis Investment structure encourages strong management and programme adaptation Provides greater accountability and transparency around impact of donor funding

South Africa Sex Worker SIB

OVERVIEW	
Objective	<ul style="list-style-type: none"> Reduce incidence of HIV in South Africa's 150,000 sex workers through innovative prevention
Size	<ul style="list-style-type: none"> 5 year, ~\$12-15m SIB covering >60% of the addressable population
Socioeconomic benefits	<ul style="list-style-type: none"> Estimated 60-70% of all sex workers are HIV positive This high risk population receive <1% total health budget for prevention Positively impact adjacent population of miners, truckers and other migrant labourers

Haiti WASH DIB

OVERVIEW	
Objective	<ul style="list-style-type: none"> Improve urban water and sanitation in Port au Prince
Size	<ul style="list-style-type: none"> 5 year, ~\$12mm DIB
Socioeconomic benefits	<ul style="list-style-type: none"> Accelerate health outcomes through the provision of sustainable WASH programs Greater public awareness about sanitation practices



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