HBGI
Healthy Brains Global Initiative

HBGI's Outcomes Contracting Capacity Building Workshops:

Session One:
evolving contracting and maximizing impact

16th May 2023

स्वागत!

Bienvenu!

Bem-vindo!

مرحباً!

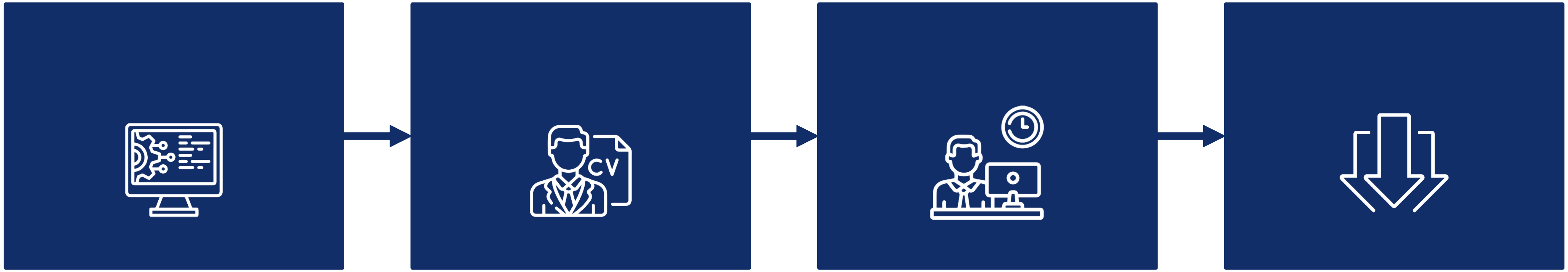
خوش آمدید!

¡Bienvenido!

Willkommen!

Welcome!

The Results Chain



The Results Chain

INPUTS → OUTPUTS → OUTCOMES → IMPACT

The Results Chain

INPUTS

e.g. training is delivered

→

OUTPUTS

e.g. training is completed and qualifications are achieved

→

OUTCOMES

e.g. jobs are secured and sustained

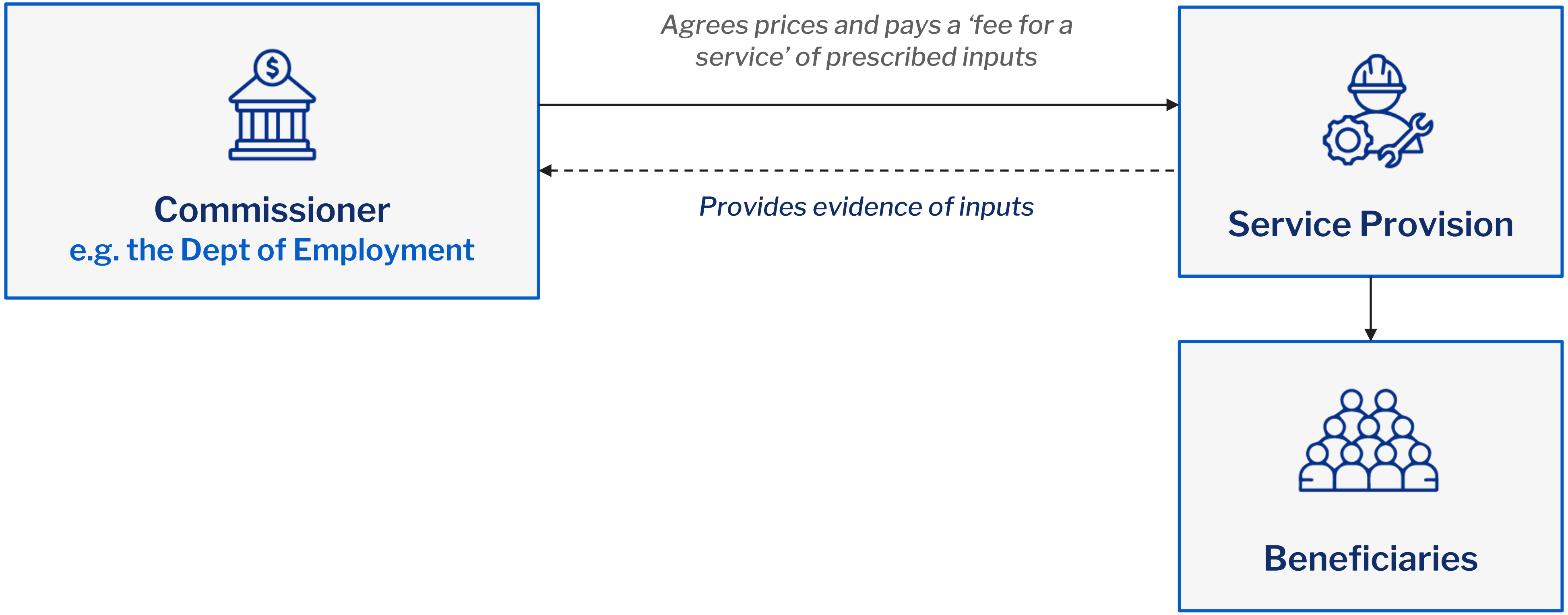
→

IMPACT

e.g. there is a reduction in unemployment


SPENCER
HALIFAX
Chaska
RESTAURANT
& BAR

‘Fee for service’ or typical input-based contracts, e.g. a training program



Advantages?

- Gives the commissioner **control over service content** and service user's experience, with the **commissioner as the service design 'expert'.**

- With tight prescription of service content, it **mitigates the risk of any 'gaming' by contractors** (e.g. prioritizing 'easy' service users and ignoring 'hard' ones), possibly ensuring equity.

- The **provider receives upfront funding**, removing the need for potentially expensive upfront borrowing/investment (and any 'risk premium') which might have favored private-sector contractors and excluded NGOs, and increased the overall program cost. The providers like this!

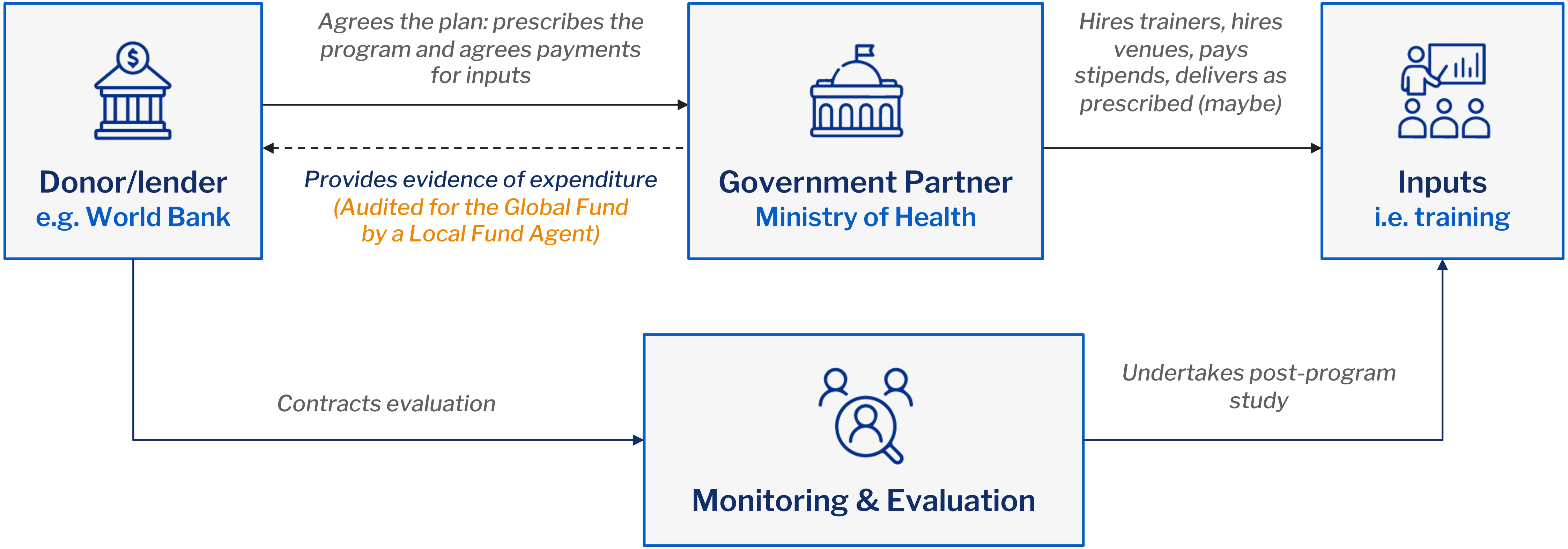
- A high visibility of cost of component parts should **make it easier to price the service and the contract**.

- This is the existing area of expertise in most procurement practice, suggesting **commissioners are likely to have existing capacity and capability**.

Disadvantages?

- **What is success? – not clearly defined.** The program loses sight of the desired outcome or impact. Maintaining people's attendance on a course is actually preventing them from taking work if it is available. Or a road may be built, which does not actually lead anywhere.
- The **commissioner holds the 'volume risk'** too, i.e. the risk of getting people onto the program.
- It emphasizes the **expertise of the service provider over the needs of the service user.**
- This is a very limited view of **value for money** if only the cost of inputs or outputs are considered, but not the chances of achieving an outcome. A cheap training program for farmers which does not deliver any increase in productivity is an expensive waste of resources.
- The **commissioner carries all the risk** of outcome failure.
- To audit delivery will be costly and distracting.
- An **emphasis on process** over product shapes the culture of the service, encouraging a rigid, **bureaucratic approach**.
- The individual needs of the service user are lost, with the process-driven emphasis suggesting **'one size fits all'**.
- **Innovation is stifled**, with repetition of the same patterns delivering contract compliance, and service variation carrying risk.

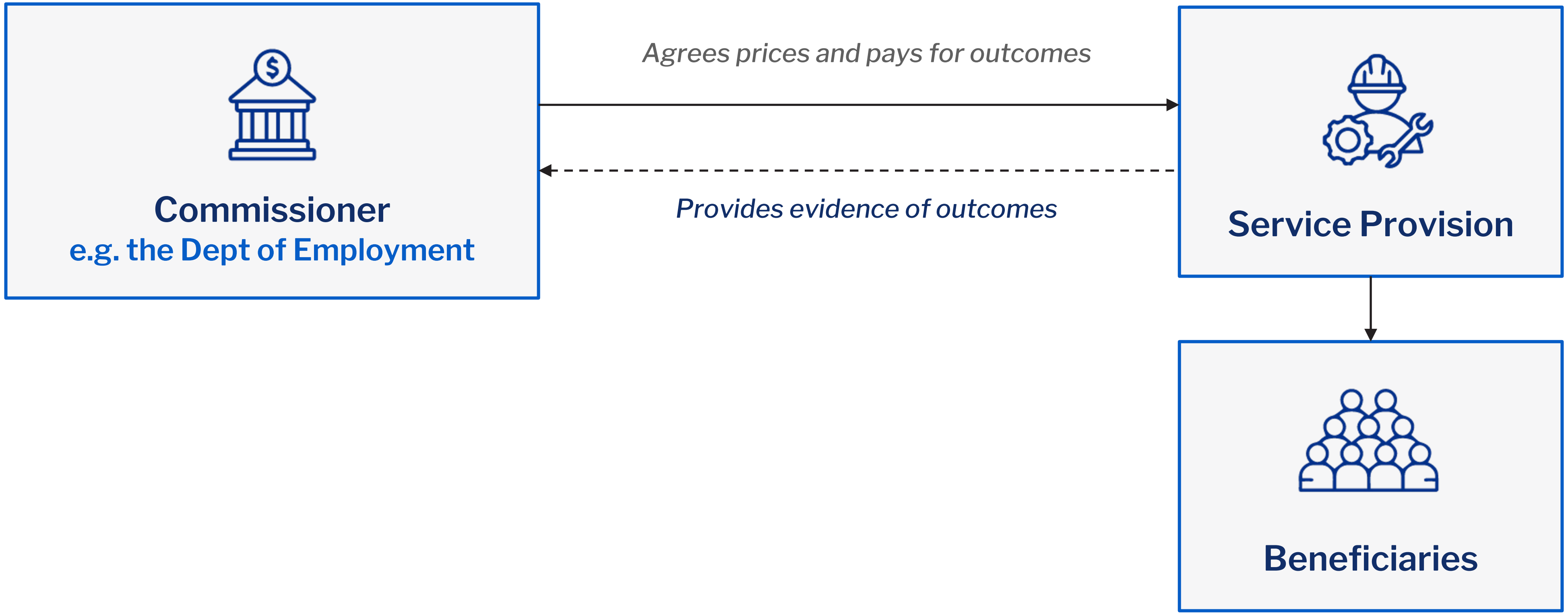
How the World Bank and the Global Fund (and others) pay for training




SPENCER
HALIFAX
Chaska

The Sheba Test

Paying for outcomes, e.g. a job or sustained job



A good outcomes-based model can:

- **Align incentives**, or policy with payment;
- **Change the culture**, change the language and focus;
- Increase the **quantity and quality** of performance;
- Deliver **value for money**;
- Pass the **risk of not achieving** to the service providers (or the investors);
- Also possibly pass the **volume risk** to the service providers (i.e. reaching more, more excluded people);
- Address **donor fatigue**;
- Increase **transparency** over where money goes (i.e. increase accountability and exclude 'leakage');
- Focus service design on the destination and with the service user. Encourage an **individualized, localized approach** (and an 'asset-based approach' moving away from 'deficit' or a 'medical model');
- Enable **flexibility and incentivize innovation** (including in response to conflict);
- Create a **data rich system** because of the performance focus.

Disadvantages?

- The commissioner may not carry financial risk, but still carries the **risk of social failure**.

- The **cost of upfront borrowing/investment** and of delivery risk must be reflected in the contract price. (This is likely to increase in proportion to the distance (in time and required activity) between each link in the results chain - between inputs, outputs and outcomes);

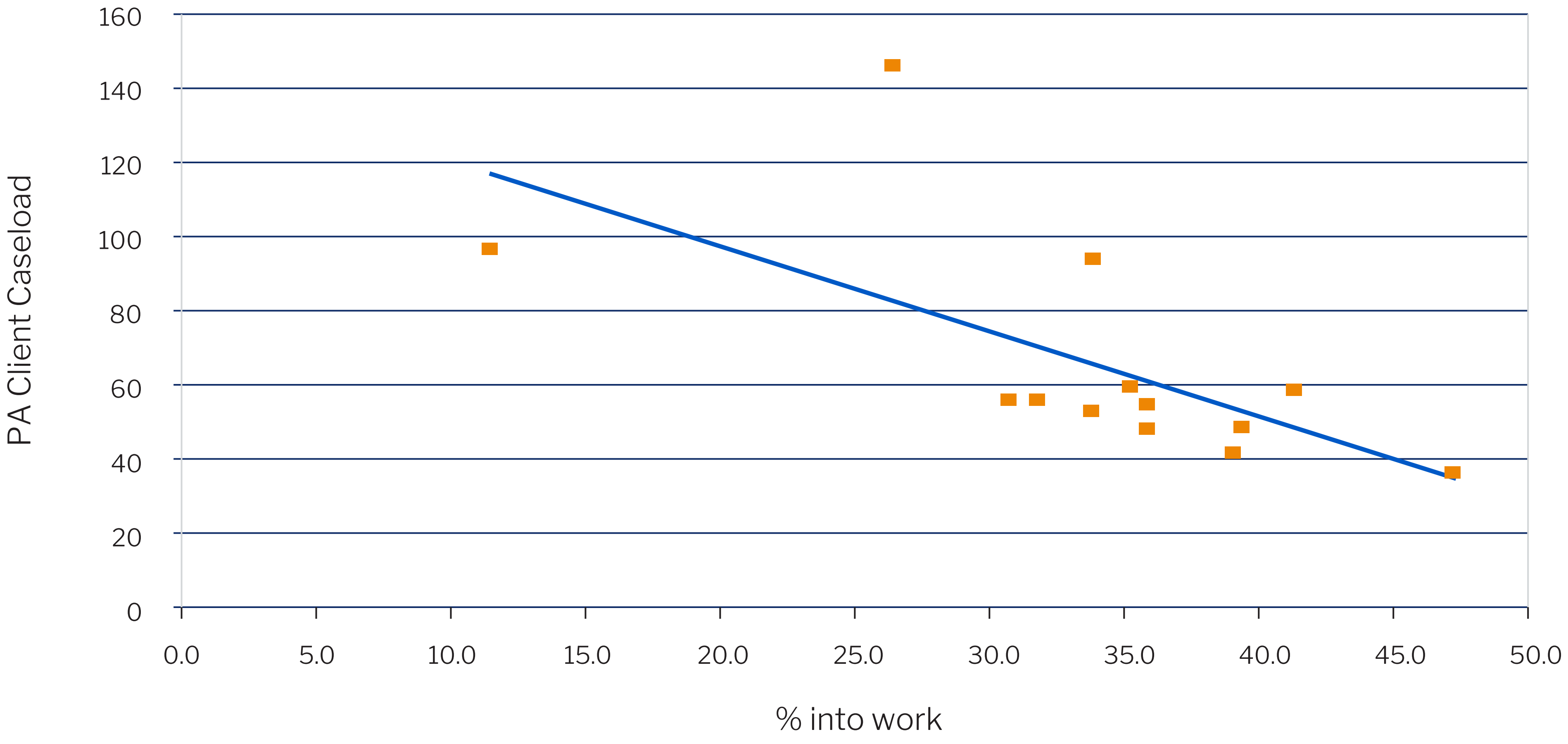
- It will **favor larger, private sector organizations**. Small NGOs could be squeezed out, and their local, special expertise lost;

- Paying for outcomes potentially incentivizes contractors to '**cherry pick**' (i.e. attempt to pre-select 'easy' service users most likely to convert into outcomes) and to 'cream and park' (i.e. once on the program, invest more time/resources in 'easy' ones and ignore the 'hard' ones);

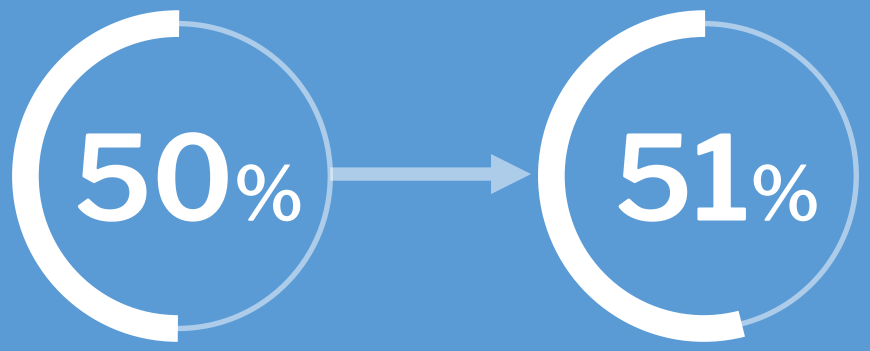
- Shifting the contracting to outcome payments requires the contractors to **shift their culture and build capacity**;

- The commissioner must develop a **new capability in procurement and contract management**.

Outcomes versus caseloads

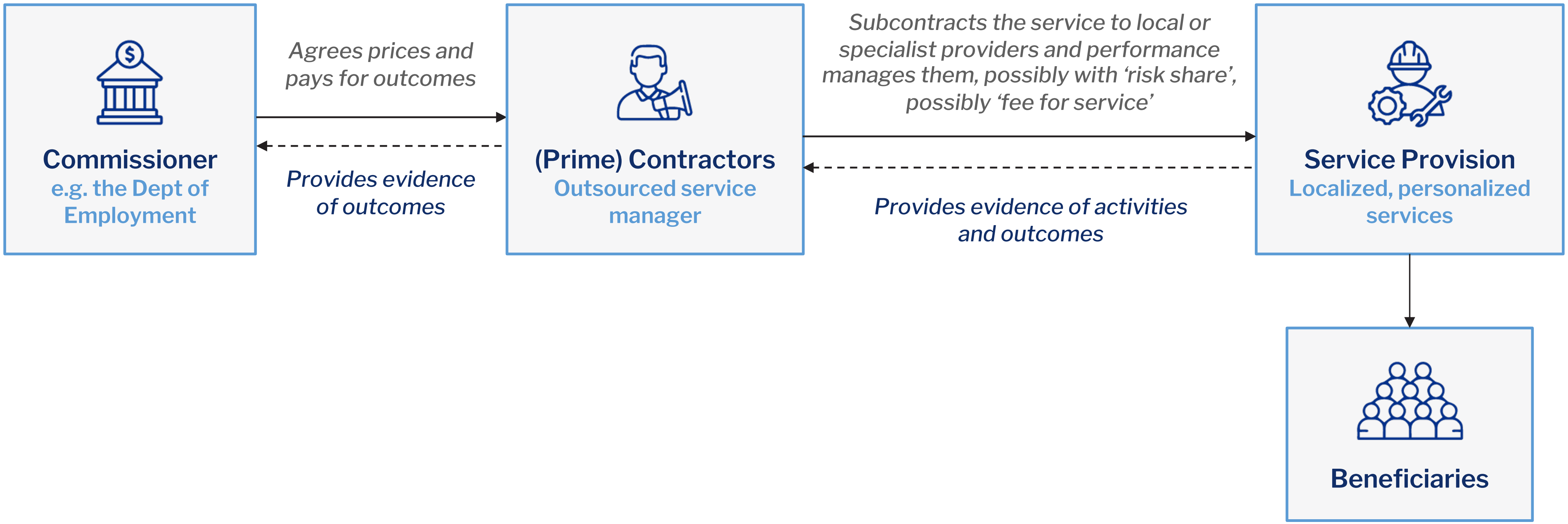


(Cambridge Policy Consultants, 2003)



But how do you get from 50% into work to 51%?

Looking for added value, strengthening performance management and localization: paying for outcomes through a Prime Contractor



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Advantages?

- The introduction of the Prime Contractor brings an increased **focus on performance and outcomes**.
- It can create a system-wide shift in **culture**.
- The commissioner is purchasing supply chain selection and performance management, and because this has outcome-payments attached, it is incentivized to grow its capacity and capability.
- **Separation of duties** reduces the potential for conflict of interest and enables incentives to be more clearly defined/perceived and therefore aligned.
- With larger prime contracts wrapped around smaller subcontracts, **services can be localized, arch over typical service 'silos',** include specialist providers who might otherwise not be involved, and be more closely aligned with service user needs.
- **Cost can also be more closely linked to need** with tighter oversight of where service users are directed), increasing efficiency.
- It is possible to move towards **longer, larger contracts**, which further reduces transaction costs for the commissioner and encourages investment from the contractor.

Disadvantages?

- There are **additional transaction** costs for the Prime (in supply chain selection and then management), which will be passed on to the commissioner (reflected in the contract price).
- If profit is sought at both the level of the Prime and the Subcontractor, this may **add margin on margin** and further increase cost.
- If the Prime Contractor is also the service provider (or delivers part of the service) there may be a **conflict of interest**. It may structurally exacerbate the effect of ‘creaming’ and ‘parking’.
- If the Prime passes risk down the supply chain, with outcome-based payments reflecting the funding in the head/prime contract, this **passes on the requirement for upfront capital or borrowing**.
- Moving to a smaller number of larger contractors could **reduce service variation, creating an ‘homogenized’ service**.
- Moving to a smaller number of larger contractors could also **increase the risk of market failure**, since the commissioner is sharing risk across fewer organizations.

What makes a good 'outcome' or payment trigger?

How to maximize the incentive/reinforcement?

Agree a **clear, simple** definition of success. Define your target population. Don't prescribe the inputs. Tie the payments to activities/outcomes which are:

- Not too far down the 'results chain';
- Clear, comprehensible (and a small number of them);
- Relevant, with 'face validity' (i.e. operationally real and linked to what success is);
- Measurable;
- Verifiable;
- Costed with commercial nous and considerate of cashflow.

Then…….track, report and review.

Impact Bonds

Rationale and structure

A key challenge of outcomes contracting?

Commissioner
e.g. the Dept of Employment

Agrees prices and pays for outcomes

Provides evidence of outcomes

(Prime) Contractors
Outsourced service manager

Delivers direct OR subcontracts the service to local or specialist providers and performance manages them

Provides evidence of activities and outcomes

Service Provision
Localized, personalized services

Beneficiaries

There is a potential cash gap.
Where does the working capital come from?

Addressing the cash gap

There are a number of ways to address the cash gap:

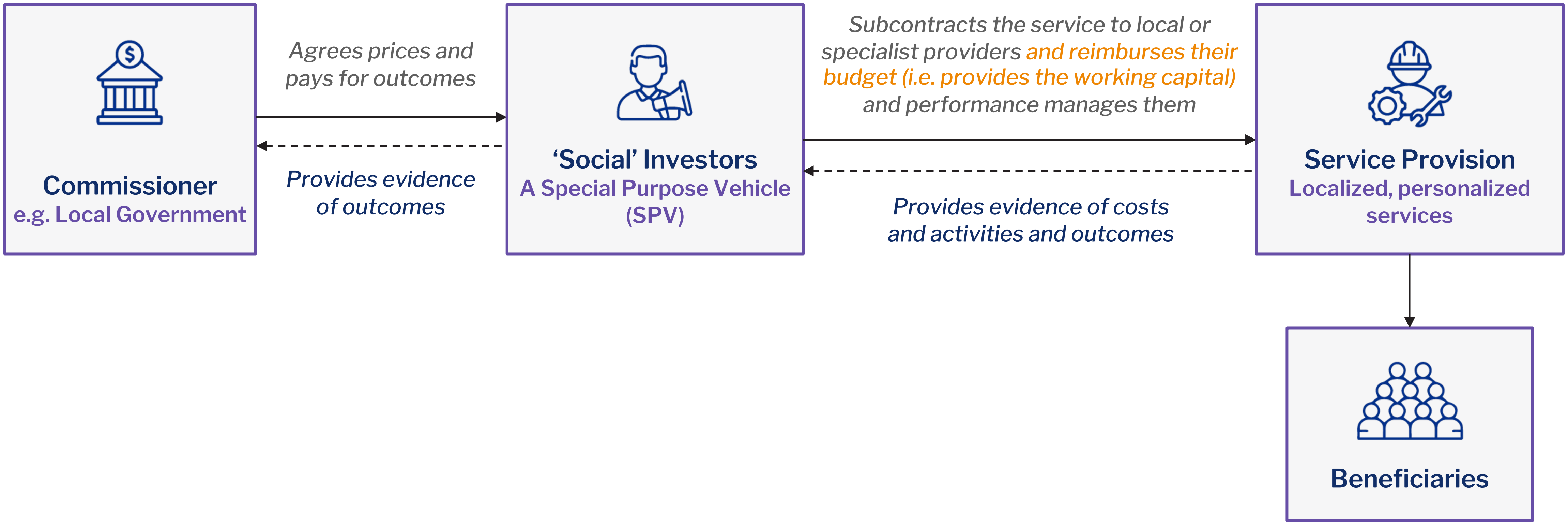
Contract with providers who have cash reserves or can borrow the cash;

Provide an upfront 'mobilization allowance' tied to achievement of gateways (possibly make it a loan, which the provider repays when they start to deliver outcomes);

Bring some of the payments forwards and pay for some inputs or 'interim outcomes';

Bring in 'social investors' to provide the capital, as in a Social or Development Impact Bond.

Social (or Development) Impact Bonds



The main criticisms?

“It is complex!”

“Quality will suffer.”

“It is expensive to set up.”

“Providers don’t like it.”

The main criticisms/barriers?

“It is complex!”

But what could be simpler?! Have you SEEN the World Bank’s procurement frameworks??? Define/agree ‘success’ and pay for it. Think about the Sheba Test.

“Quality will suffer.”

Define your target group carefully. Then you can’t deliver quantity without quality.

“It is expensive to set up.”

It doesn’t have to be! Cut through the noise and keep it simple. Beware management consultants. Replicate.

“Providers don’t like it.”

Look at the HBGI Report: Paying for Outcomes on Mental Health Programs.

It’s not a cure-all. But it has the potential to deliver a lot more for a lot more people in many cases!

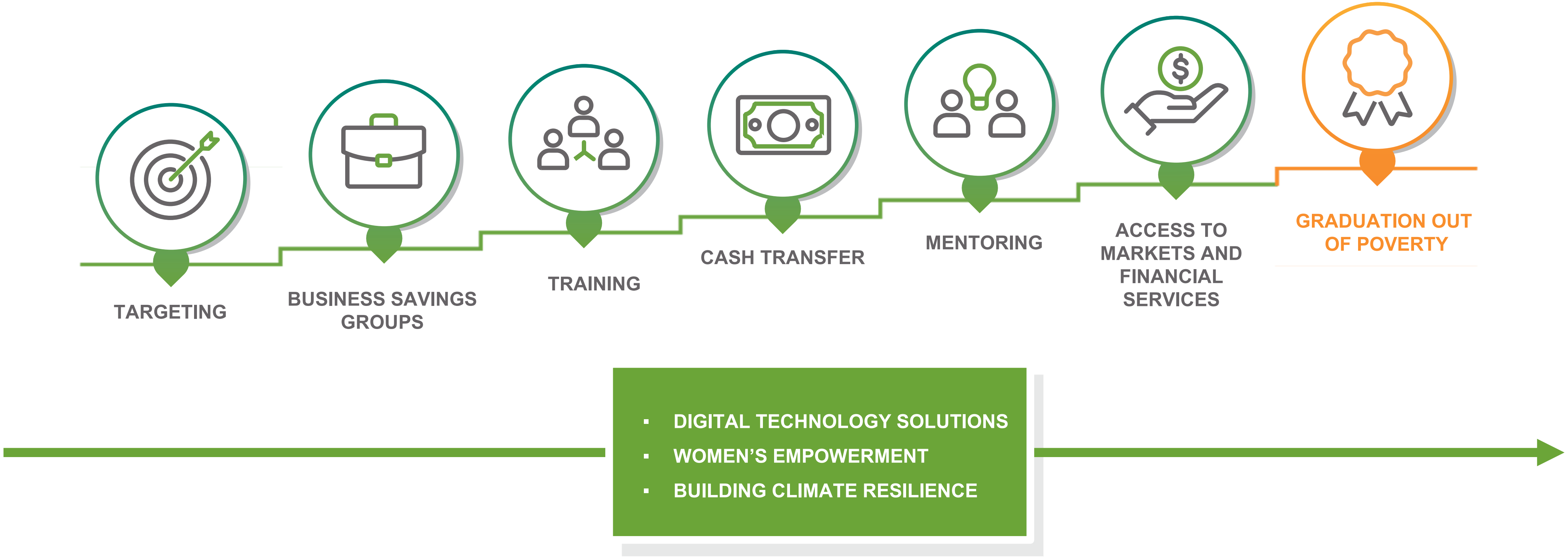
Your Questions/Comments

Catalyzing Sustainable Impact to End Extreme Poverty

Village Enterprise

Our Vision: An African continent forever free of extreme poverty

Village Enterprise Model — A Proven, Sustainable Solution that Addresses Multiple Poverty Traps



Village Enterprise Development Impact Bond
(2017-2022)

First Development Impact Bond for Poverty Alleviation in Africa

An first-of-its kind Outcomes Fund

Total $5.32M DIB | $4.28M Outcome Fund

Committed investment $2,325,000

Impacted 95,000+ lives

Started 4,766 Businesses & 481 Savings Groups

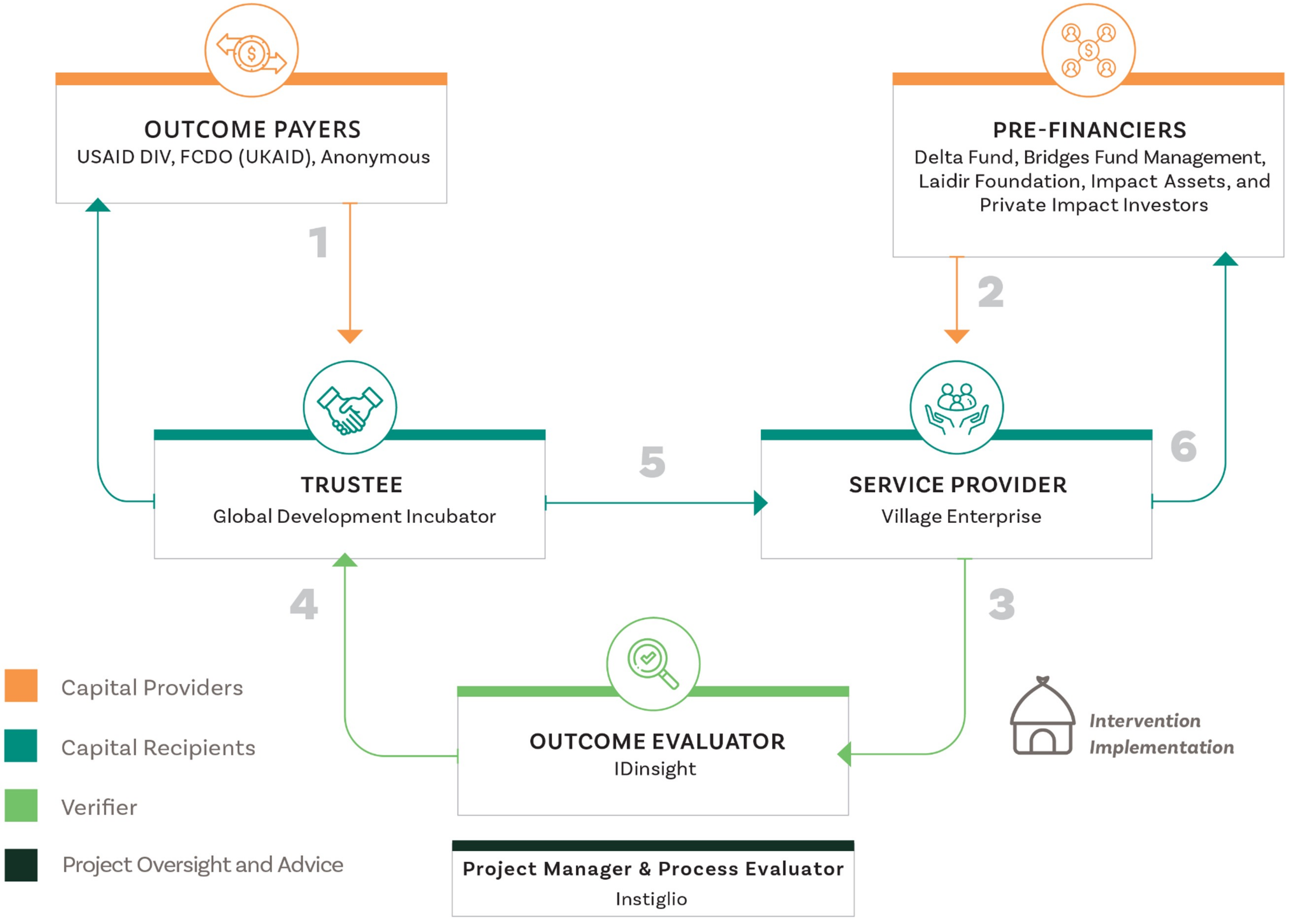
Trained 14,100+ new entrepreneurs (75% women)

Financial Return

Social Return

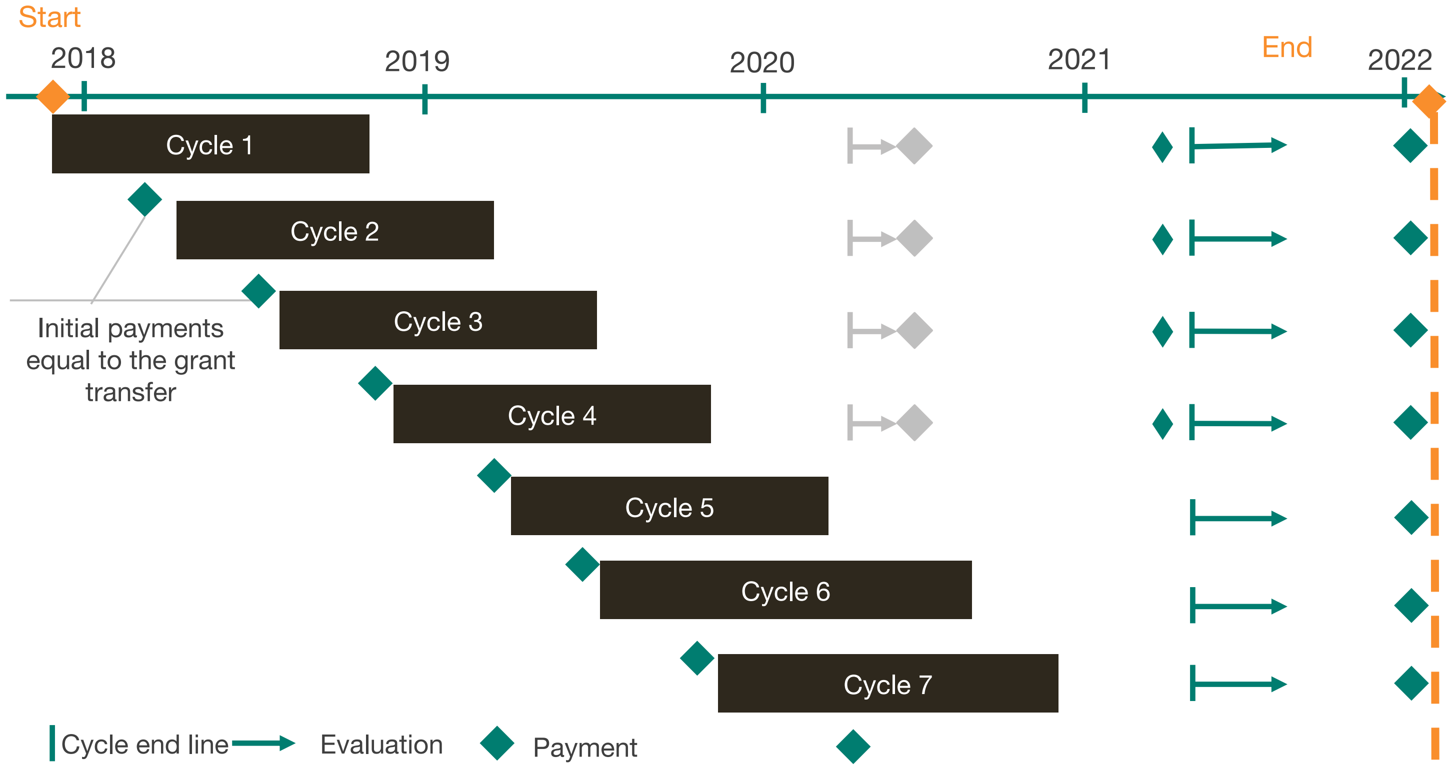
RCT Evidence

A Unique and Complex DIB Structure

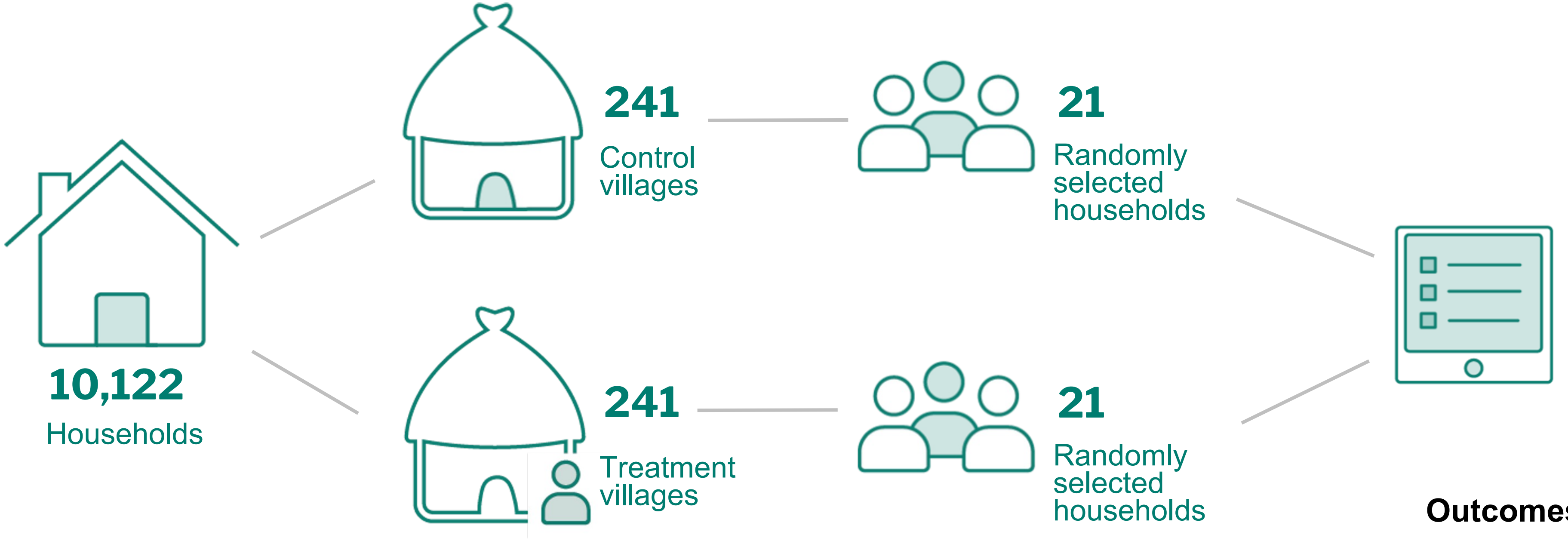


DIB Implementation

	C1	C2	C3	C4	C5	C6	C7	Total
Number of businesses with low transfer	280/279	380/376	380/377	380/458	520/556	520/556	520/554	2980/3156
Number of businesses with high transfer		230/228	280/275	280/280	280/278	280/274	280/275	1630/1610



Randomized Controlled Trial



Shortened Consumption and Expenditure Survey

Data collected through enumerator-administered **in-person** surveys using tablets

Evaluator: IDInsight | Funders:
UKAid and USAID

Data Collection Timeline

Uganda: May 15-July 2 (via Laterite - research firm)

Kenya: June 1- Aug. 15 (IDinsight)

Outcomes Measured

- Change in income (measured via Consumption & Expenditure as a proxy)
- Change in assets (non-productive, productive assets and savings at the Household level and the business savings group level)

Positive Three-Year Final Results

$21m

Total lifetime household income 4 x overall costs of the project

6.3%

increased spending on food, healthcare, education, and other expenses

5.8%

increase in assets, such as livestock, housing, savings, and business supplies

Statistically significant and sustained increases in household spending and net wealth despite the pandemic

540%

Lifetime Benefit-Cost Ratio

Highest cost-effectiveness among poverty graduation interventions*

8.3% XIRR

Financial return

Transformational Organizational Impact

- Focus on impact - strong performance/adaptive management system
- Technology adoption
- Improved programming
- Strengthened organizational systems and processes
- Increased visibility and thought leadership

Key Learnings

- Flexibility and incentives to adapt and innovate
- Proven DIB effects – improved program delivery quality and impact
- Alignment of all stakeholders on results, not receipts
- Need for streamlining outcome evaluation (metrics and methodology)
- Simplification of contracting
- Improved governance structure and balance of powers

Future Outcomes-Based Contracts

Scaling Outcomes-Based Financing

1. Bring evidence of the effectiveness of Outcomes Based Contracting:

- Better outcomes
- Improved cost-effectiveness (reduced transaction costs, decreased burden of due-diligence process, simplified reporting)
- Increased advocacy and adoption of RBF by funders and local implementers

2. Build streamlined models for outcomes-oriented programming and contracting in the poverty alleviation space that can be replicated and adopted at scale

- Build capacity of the sector to drive impact and cost-effectiveness
- Partner with local organizations and governments to scale graduation and improve wellbeing

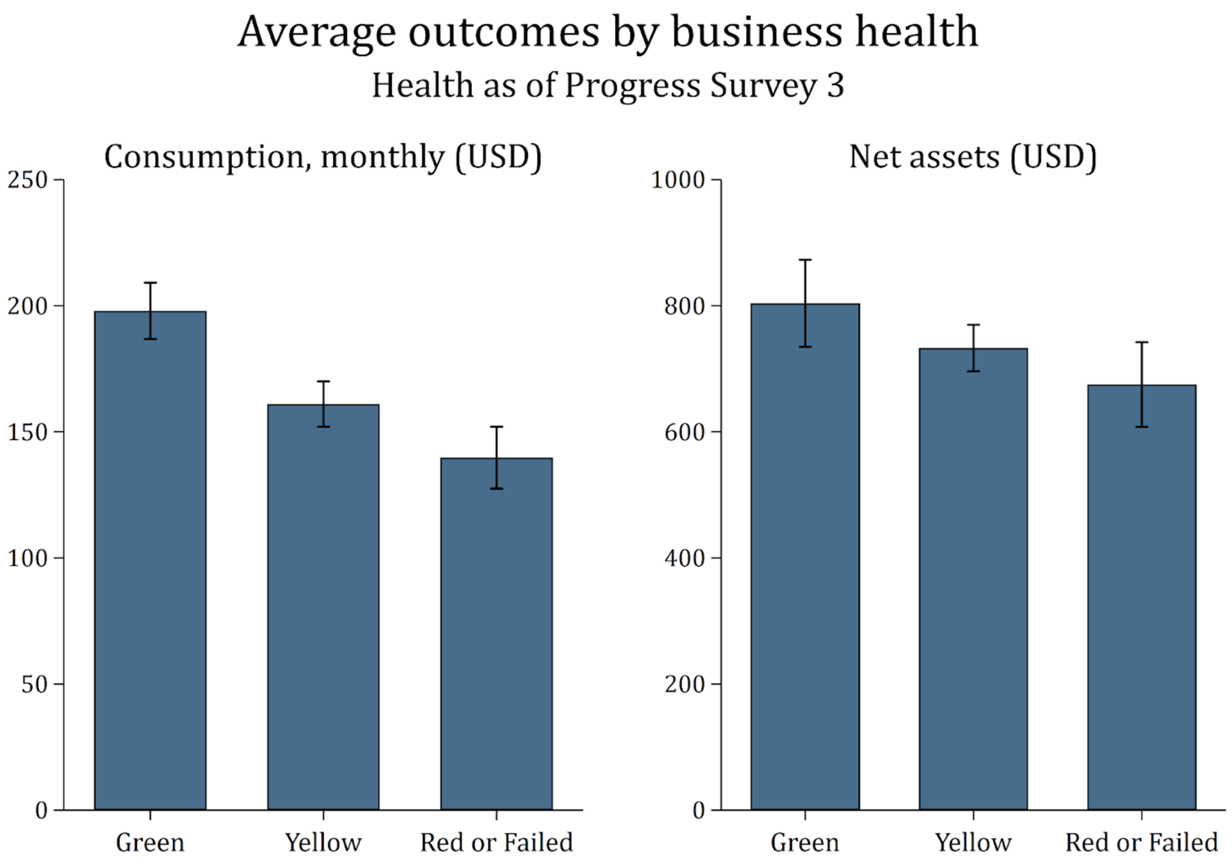
Village Enterprise's (simplified) Results Chain

Inputs → Outputs → Outcomes → Impact

Delivery of seed capital, business and financial literacy training and mentoring mentoring to people living in extreme poverty → Access to resources and Increase in business and financial skills and knowledge → Sustainable and growing businesses are launched. → Increased household income, wealth and wellbeing.

RCT Findings

Outcome by Business Health: Positive correlation between the health of our businesses, as measured through our adaptive management system, and household outcomes. Future performance payments could meaningfully be tied to business outcomes.



Error bars denote 95% confidence intervals.

Village Enterprise HBGI proposed program targeting increased income and wellbeing among extremely poor households in Uganda

Possible outcomes:

The primary outcomes to which payments could be linked could include:

1. each new microbusiness launched six months into the program cycle;
2. each new microbusiness sustained/still in business one year later.

Payments could also be linked to household level economic outcomes such as increased income, assets and savings amongst participant households (target: up to 15% increase in consumption (as a proxy for income)) and assets (savings plus assets, net liabilities) at least one year after program launch, compared to a control group.

The program will track and record other data to which payments could be attached, including:

- each individual who records improved psychosocial wellbeing (including mental health, self-efficacy, and future expectations) (target: at least 0.15sd);
- each individual who records a reduction of salivary cortisol level (target: tbd);
- each individual who sustains or increases improvements in psychosocial wellbeing (including mental health, self-efficacy, and future expectations) (target: at least 0.15 sd);
- each individual who sustains or further reduces salivary cortisol level (target: tbd).

Your Questions/Comments

Conclusion

Thank you for attending!

Richard Johnson, CEO (Richard.johnson@hbgi.org)

Shomsia Ali, Special Advisor (shomsia.ali@hbgi.org)

Appendix

Scale to Date

70,000+	242,000+	1,500,000+
Businesses Launched	Individuals Trained	Lifted Out of Poverty

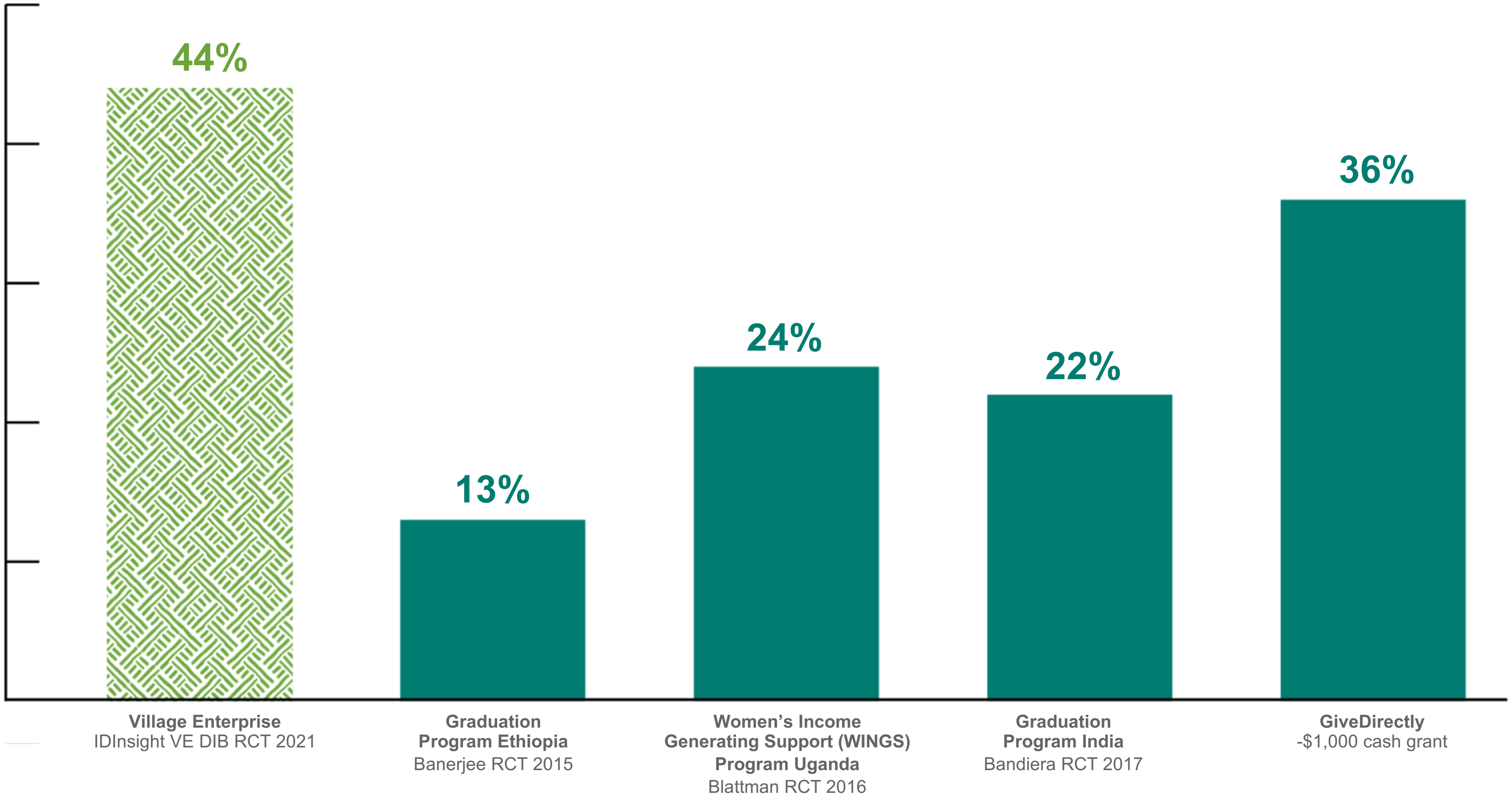
Endorsements

Strategic Partnerships

Village Enterprise Cost-Effectiveness

Village Enterprise has the most cost-effective graduation program among those measured via RCT and is even more cost-effective than unconditional cash transfers.*

Internal Rate of Return of RCT-evaluated Programs



* The 2018 RCT, conducted by Innovations for Poverty Action, found Village Enterprise's full program leads to higher impact on consumption than fully costed unconditional cash equivalent.

Evidence From Two RCTs Over the Span of 10 Years

PROFITABLE BUSINESSES

Increase in:

- income
- savings
- assets
- consumption and expenditure

FOOD SECURITY AND NUTRITION

Increase in:

- the number of meals
- protein consumption

WOMEN'S EMPOWERMENT

Increase in:

- mental health
- women's well-being
- sense of economic standing

A Solution that Delivers Significant Impact Long After Village Enterprise Exits

Five-Year Longitudinal Study Results

933%

Increase in household savings

83%

Increase in annual household per capita consumption and expenditure

42%

Increase in daily meal consumption

70%

Still operating a business

Completed 438 surveys of alumni of FY 2017 cohorts

Appendix One

The characteristics of a good contract

10 characteristics of good performance-based contracts

1. **What does success look like?**
The overall objective has been clearly and simply defined and agreed with all stakeholders.
2. **Who does what?**
There is clarity over the roles (and separation of duties) of, for example, the funder and the service provider and the local government.
3. **What is purchased?**
The funding is tied to a few highly relevant and easy-to-understand deliverables along the input, output, outcomes path (ideally as close to the outcomes/success as possible).
4. **What are the 'minimum standards'?**
There is a clear definition of the minimum quality criteria that the deliverables must meet.
5. **At what price?**
The price that is agreed enables/incentivizes high performance, and it takes into account actual operating costs. (Cheapest is not necessarily best.)
6. **How is delivery confirmed/what triggers payment?**
The payment decisions are based on trusted/independent verification of delivery.
7. **How much is paid when?**
The payments to the service providers are structured to ensure cashflow in the system (or working capital is brought in, e.g. from social investors lending upfront capital).
8. **What performance management ensures success?**
The incentive to deliver high performance increases when payment is attached to outcomes. There is tracking, reporting and monthly review to drive this. There is transparency and regular publication of results.
9. **What assurance model oversees this?**
There are layers of assurance, undertaken by the service provider, by the funder and possibly by a third party monitor.
10. **What are the consequences of under-delivery?**
The contract clearly defines any payment adjustments, penalties or 'step-in-rights'. As well as other contractual obligations re: safeguarding, equity, environment.

An outcome-based employment program contract

1. **What does success look like?**
The overall objective is sustained employment for as many unemployed people as possible.

2. **Who does what?**
The funder defines success, designs the contract and the payment model, procures the service providers and then quality assures and oversees provider performance, making payments for verified deliverables. The service providers aim to deliver the highest possible performance, deploying the necessary resources, driving performance and seeking continuous improvement, with strong internal audit and assurance. Depending on the context, a third-party monitor verifies the outcomes and audits achievement of minimum standards.

3. **What is purchased?**
At least 80% of the payments to the service providers are linked to: job entry, and; employment being sustained (measured at three months and at six months). The total budget is split 20/30/25/25: 20% for enrollments; 30% for job entries; 25% for three months of employment, and; 25% for six months employment.

4. **What are the 'minimum standards'?**
The jobs must all pay at least minimum wage, be for at least 20 and no more than 40 hours a week, with contracts lasting a minimum of one year. The jobs must be in safe environments. The 'travel-to-work distance' cannot be more than 90 minutes. The jobseekers must all be aged 17 or older. At least half of the outcomes must be for female jobseekers.

5. **At what price?**
Because the budget is capped, potential service providers were told the overall budget and asked to bid by saying how many enrolments, job entries and how many sustained employment outcomes they could achieve (with a 20/30/25/25 split). This determines the unit price they are paid for each of these deliverables. (The funder built a 'shadow budget' to identify a realistic unit price for these and bids that are more than 20% below this are automatically rejected. Bids are evaluated 80% on technical merit and 20% on price.)

An outcome-based employment program contract

6

How is delivery confirmed/what triggers payment?

Job entry must be verified by a work contract or letter of appointment (on headed paper or with a company stamp), stating all job details. Sustained employment requires evidence of salary having been paid, e.g. pay slips.

7

How much is paid when?

Service providers submit an invoice at the end of the month (with copies of verification evidence) for all enrolments, job entries and sustained employment outcomes achieved in that month, with the funder auditing and then paying these invoices within 20 working days. (Service providers may also be paid/lent a 'mobilization allowance' upfront, the day delivery commences, which they then 'repay' as they start to achieve outcomes.)

8

What performance management ensures success?

The service providers embed this in their systems to deliver maximum outcomes (and are given capacity building assistance to develop it). The funder receives monthly reports, which are published, and on a quarterly basis has a formal review with the providers. There are multiple service providers to enable comparison/competition between them.

9

What assurance model oversees this?

The service providers implement their own quality assurance systems. These (as opposed to delivery) are assured by the funder. The quality of the outcomes is also controlled by definition of minimum standards (e.g. minimum wage, minimum number of hours, and working conditions).

10

What are the consequences of under-delivery?

The service providers are only paid if they deliver. Targets are set out at the beginning for enrollments, job entries and sustained. If these targets are missed, in the first instance a Performance Improvement Plan is agreed. If they continue to be missed, then a formal Improvement Notice is served. Finally, the contract may be terminated, and the service transferred to one of the other providers.

Appendix Two

Establishing and running an Outcomes Fund

The Twelve Steps in Establishing and Running an Outcomes Fund

1. FUND RAISING
2. FUND STRUCTURING AND OVERSIGHT
3. MARKET ENGAGEMENT
4. REQUEST FOR PROPOSALS (RfP)
5. SELECTION
6. CONTRACTING
7. MOBILSATION
8. PERFORMANCE MANAGEMENT
9. PAYMENT ADMINSTRATION
10. GOVERNANCE
11. COMMUNICATION/DISSEMINATION
12. TOWARDS MAINSTREAM FUNDING