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WEBINAR

BREAKING THE CYCLE OF POVERTY THROUGH INNOVATIVE FINANCE: LESSONS FROM THE VILLAGE ENTERPRISE DEVELOPMENT IMPACT BOND AND BEYOND

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Panel with Q&A:
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MR. COULIBALY: Good morning, everyone. We have to test these because it’s been two years since we’ve used them in person and we’re literally just really returning to the office this month.

So it’s really great to be able to see and interact with so many of you in the three dimensions for a change. And for those who are also joining us online, welcome. My name is Brahima Coulibaly. I’m the Vice President of the Global Economy and Development program here at Brookings. It’s really a pleasure to welcome you for this event on Breaking the Cycle of Poverty through Innovative Finance taking Lessons from the Village Enterprise development Impact Bond.

Here at Global, we’re always looking for the next big idea to tackle the challenges of growth and development particularly in Africa where the development challenges are increasingly concentrated.

So let me put a bit in the project context, the agenda for today’s event. I think the efforts by government, philanthropies, multilaterals have really been successful in -- partially at least -- in lifting hundreds of millions of people out of poverty. But despite this progress, there’s an estimated 690 million people globally that still live in extreme poverty and I think COVID has added to this headline number.

By 2030, based on some work we’ve done at Brookings here by my colleague, Comy Corask (phonetic) to track poverty rate in real time globally. By 2030, that number is going to decline but only to 550 million people, which is obviously still far from the zero target under the SDG Goal One. Unless, of course, we act more forcefully and innovatively, I would say, because we can’t do the same things we’ve been doing and expect the same outcome.

So I think crucial then to this poverty eradication effort and where we need
to be innovative is the area of financing for development because it’s so crucial. And I usually like to say once you have a good development agenda, you don’t have the financing for it. Your plan is incomplete at best. You need to really have the solutions or how you finance that agenda.

So today’s discussion is very timely because the financing constraints are particularly severe in this current environment characterized by wider budget deficits, deteriorating sovereign debt outlooks, rising global interest rates which is pushing up borrowing costs and also debt servicing costs. I was just chatting with Hanan here how this is somewhat of the perfect storm when it comes to financing for development for the low-income countries including those in Africa.

As if that wasn’t enough, we now have the Russia/Ukraine crisis that is causing unplanned increases in military expenditures which is going to -- could have some consequences for overseas development assistance.

So for nearly then -- I think this bring a bit into focus here, the importance of Emily’s research and for the past nearly decade, she and her team have really been thought leaders in the area of innovating financing for development. In particular on the topic of outcome-based financing. They have conducted in depth research on social development impact bonds which has resulted in numerous studies that have been referenced in top-tier media including The Economist, the New York Times, the Financial Times, the Wall Street Journal.

Her work has been widely recognized and used among policymakers, researchers and academics alike. And has been featured in forums such as the World Economic Forum and the U.N. General Assembly. The social and development impact bonds combine elements of impact investing, result-based financing and public/private partnerships.
Where private investors bring in upfront financing with repayment only if the innovation succeeds and Village Enterprise Development impact bond just launched in 2017 targeted first time entrepreneurs living in extreme poverty in Kenya and Uganda. And it has demonstrated the strength of an outcome focus in ensuring sustainable impact and potential to unlock more diversified funding opportunities.

I very much look forward to a fruitful discussion with a panel of experts on the possibilities of innovative financing to tackle the poverty related challenges on the African continent and around the world.

And importantly too on the strategies of how we scale up this type of type of innovations because they’re often we see micro-interventions that are successful, but then they stay at that level. So then I would be curious to hear the views of the panel on this.

So on that note, let me now introduce our keynote speaker, Dr. Hanan Morsy who is Deputy Executive Secretary and Chief Economist at the U.N. Commission for Africa. And prior to the UNECH, she was Director of Macroeconomic Policy at the African Development Bank and in that role, we collaborated with the African Development Bank when she was in charge of the research department. And she was also lead economist at the European Bank for Reconstruction and Development and Senior Economist at the IMF. She is also a visiting scholar at the Harvard Kennedy School as Mid East Innovative.

So following Dr. Morsy’s remarks, Emily is going to moderate a panel discussion and then a fireside chat session with our colleague, John McArthur who is the Senior Fellow and Director of the Center for Sustainable Development. Before I turn it over to Dr. Morsy, on behalf of Brookings, I would like to extend our appreciation to the Delta Fund for its support to our Center for Universal Education. And I would also like to reiterate Brookings’ commitment to quality, independence and impact in all of its work.

With that, I would like now to welcome Dr. Morsy to the stage. Thank you.
MS. MORSY: Good morning, everyone. It's really great to be in person after so long our virtual meetings. So I'm delighted to be here. Thank you for the kind invitation on this very timely topic on breaking the cycle of poverty so on with the finance.

What I will aim to do in my remarks is really provide the context and framing of our today's discussion. Basically, highlighting the financing needs and development needs for the continent, the challenges that the continent faces and which has been aggravated by a series of shocks and what it means for the way forward in terms of the need for operative financing solutions and how today's event basically fit in.

So let me start by the, you know, impact of COVID on the continent. So Africa's development and economic and social aspects have been really severely impacted by COVID the pandemic. We've seen the continent suffer the worst recession in half a century in 2020 with contraction of three percent. And, you know, afterwards the roles are gradual kind of recovery but the worse -- probably the worse impact of the pandemic have been really the reversal of very hard-won gains in poverty deduction in the continent.

So it was two decades of very hard-won gains in reducing poverty. And to me, it's really, you know, the worse part of that impact of the pandemic. And due to that, basically, we have the number of newly poor in Africa increase by 55 million. This is enormous. This is on top of everything that we had. And then we have also 39 million people that were pushed into extreme poverty.

And in addition, we had between 30 to 35 million formal jobs that are at risk of reduction in wage and working hours because of reduce the amount of enforced lockdown. We've seen fiscal deficits double on average for the continent. We've seen also debt accelerate rapidly increasing from before the pandemic by about 10 to 15 percentage points of GDB. And all this really, you know, complicates an already challenging situation in terms of large development needs that the continent had even before the pandemic.
Of course, the pandemic in addition to poverty also worsened inequalities whether it’s income inequalities or gender inequalities. So that also adds to the social pressures. As I mentioned following the rebound in 2021, the growth it was hoped and expected that it would continue to recover in 2022. However, at that time there was also another challenge which was the increasing rising inflation and tightening by global central banks which means higher interest rate. That means it’s higher cost of debt service for many of our countries and hence made that recovery more challenging.

But maybe let me before we proceed more into what we’re seeing now. Just to give you a sense of the overall development financing gap that the continent needs. The SDG financing gap is estimated to have this increase by 1.7 trillion U.S. dollars. And for Africa, annual SDG expenditures are expecting to rise by 154 billion U.S. dollars annually due to the pandemic.

And by an additional 285 billion for the next five years to ensure adequate response to COVID. This comes on top of all the financing need that we have before the pandemic. And these include areas like infrastructure. And I remember vividly before presenting on this issue at Brookings in the African Economic Outlet. The infrastructure is estimated needs are between 130 to 170 billion U.S. dollars annually.

Health needs is estimated around 66 billion U.S. dollars to address the needs and achieve SDG. Education is estimated to meet the SDG goals is basically annually 39 billion U.S. dollars. In addition to this, there’s also the climate mitigation and adaption which requires investments of over 3 trillion U.S. dollars by 2030.

So, you know, we have all these needs. We have the needs that we’re even exacerbated by COVID. And then now on top of it all, we are put in kind of the perfect storm as I was talking to Brahima before. So while the continent was still recovering from COVID, basically, we had the war in Ukraine which have severe implications, economic and social
implications for the continent. They are faced with three shocks, food, fuel and finance.

And basically, even though the links are modest in terms of over oil trade, they are concentrated in products that really matter for poverty. They are concentrated in, you know, basically food items and they have led to increase in global prices of these food items. And just to maybe give you a sense, you know, that trade exposures for Russia and Ukraine in terms of importers.

The largest ten importers include Egypt, Ethiopia, Kenya, Libya, Morocco, Nigeria, Senegal, South Africa, Sudan and Tunisia. So these are the top 10 and are the most affected. It’s very important to remember that these constitute half of the population in Africa and two-thirds of GDP. So it’s really significant what happens in these countries effect the rest of the continent. And, you know, many of these countries are also the countries with pockets of poverty and those at the risk of hunger are concentrated even poor ones that are considered as middle income. So that’s very important to keep in mind.

So let me perhaps just say that these striking figures call for significant and concerted efforts with addressing number of binding financing challenges. Of course, that includes low levels of domestic resource mobilization, underdeveloped capital markets, limited access to finance and high cost of external private financing and really lack of appropriate vehicles to challenge climate financing.

So here comes really the issue of what we’re discussing today that we really need new and alternate financing solutions to meet these enormous challenges. There are many areas that would help in that direction. The development impact bond is a good approach, which is not only just focused on the performance and result base. But also links private investors, the donors and beneficiary communities.

The type of challenge that we’re facing now requires really a multistakeholder collaboration to get the solutions that work. In addition, we have also, you
know, other things to think of. You know, there are vast pension fund resources that can be actually leveraged towards development, and that's a huge potential. However, there are a number of issues restrain that including regulatory issue and regulatory limits and the set of these funds.

Another thing, of course, is the issue of the need to unlock potential resources for things like impact investment, for issues of really having things like, you know, liquidity, sustainability facility. So I look very much forward to really listening to today's discussion and how it can fit with all the challenges that the continent faces. And thank you very much for your attention.

MS. GUSTAFSSON-WRIGHT: Thank you so much, Brahima, for welcoming us all here today and to, Hanan, for your pointed keynote remarks. Your bird’s eye view of the challenges and opportunities in the African continent certainly will provide a useful framing for our discussion today.

Good morning to everyone here with us in Washington, D.C. And good morning and good afternoon and evening to those who are joining us online. It is such a pleasure as the previous speakers have mentioned to be here with you in person. Those of you who are joining us in person after these two years.

So today as mentioned, we’ll be discussing an innovative financing mechanism. One that's being used in over 200 projects across 38 continents around the world to tackle such issues as unemployment, poor education and health outcomes, welfare, criminal justice and challenges in the environmental and agriculture sectors.

So impact bonds, a form of outcomes-based financing originated in the U.K. in 2010 as a way to address inefficient public spending on remedial interventions. Initially including prison recidivism and quickly spreading to include the other social challenges that I mentioned. The premise behind this mechanism was that it would be a triple win for
government, private sector and the recipients of social services by bringing risk capital to promising social interventions and tying public expenditures to the achievement of agreed upon outcomes. In addition to the potential for return for investors.

We often describe impact bonds as a combination of a public/private partnership or PPP, results-based financing and impact investing as Brahima mentioned. We’ve also described them as a new type of PPP, partnership for public purpose. Where a model of partnership that brings together a diversity of stakeholders to achieve social good.

In the case of social impact bonds or SIBs, this includes governments as outcome funders. And in the case of a development impact bonds or SIBs this includes third parties such as foundations, bilateral and multilateral agencies such as USAID, the World Bank, FCDO and U.N. agencies.

Today in our panel, we have the opportunity to hone in on the development impact bond for poverty alleviation in Kenya and Uganda. It is, in fact, the only impact bond in the world that has focused directly on this issue. And it is one of seven impact bonds in Sub-Saharan Africa and one of 22 to have been contracted in low- and middle-income countries.

So with that background, I would now like to welcome our speakers to the stage to dive deeper into this topic. So with me on stage, we have Brian Boland who is the Co-founder of the Delta Fund, which is a portfolio of impact investments and grants focused on supporting organizations working to improve equity. And Taddeo Muriuki is Vice President for Africa Operations at Village Enterprise, which is a nonprofit organization focused on the elimination of extreme poverty.

Joining us online are Avnish Gungadurdoss who is the Co-founder and Managing Partner of Instiglio, a nonprofit advisory firm dedicated to pioneering results-based financing approaches in international development. And Ruth Levine is the CEO of ID
Insight, an admission driven global advisory data analytics and Research organization that helps global development leaders maximize their social impact. You can find more details on their illustrious backgrounds in the agenda those of you who are here in person, which is also available online.

So, Avnish, let’s start with you. At Instiglio, you’ve been involved in helping to design and manage many projects around the world using outcomes-based financing. Could you kick us off by describing the Village Enterprise DIB and the rationale behind its origin?

MR. GUNGADURDOSS: Great. Well, can you hear?

MS. GUSTAFSSON-WRIGHT: Yes.

MR. GUNGADURDOSS: I want to thank you so much for, first of all, for receiving and having us. So, you know, we just maybe by just describing the project and then I’ll get onto the rational.

So these projects sort of brings together three different funders, FCDO, USAID and a philanthropic organization based out of New York who mobilize together about 5.10 million dollars of optimist fundings. And we went out to write this outcomes contract with Village Enterprise as the implementing organization.

And that was actually done through an outcomes fund structure where the donors sort of put their funds in this trust fund, which was managed by the global development curator. And this was really done in large part to really streamline donor engagement in these processes to make it as easy as possible for Village Enterprise as well to interface with the donors so they would ultimately have a single contract which is backed by these donors.

And basically, you know, specified only three things. What are the outcomes of the donors after? And these were basically improvements in income for the
4,000 ultra-poor households that Village Enterprise was going to work with. And second, what was the methodology to evaluate those outcomes, and that was an RCT that ID Insight executed.

And thirdly, how much more are we going to pay for each unit of improvement in income that we were able to observe at the end of the program? Which was also specified. So it was a really kind of big effort to streamline and to simplify outcomes contract. And you also noticed that a very conscious decision which had, you know, pros and cons -- I think in terms of learning that we can talk about later in the conversation -- was to really kind of delegate the task and the challenge of raising capital to Village Enterprise.

We wanted to really simplify the donor’s engagement as much as possible. So far, we believe that donors -- outcome funders being at the table has been the single biggest constraint of growing this preface. So finding ways to simplify that was a big focus for the project. So that was a little bit what the impact model is about. Outcome funders signing up a contract with Village Enterprise and Village Enterprise then on the back of that contract going and raising working capital and mobilizing its program to different outcomes, being evaluated and then, you know, outcomes payments were made at the end.

So now, very quickly, why we decided to do this project? This thinking really started in 2016, 2017. Right around that time, there was a really sort of popular famous study that was published in a science journal. It was studying this class of interventions that’s called the poverty graduation program. That’s a program that Village Enterprise implements which accompanies ultra-poor families and, you know, it helps coaches them to develop small businesses and find ways to generate income streams. And this was kind of very much thought of as best in class interventions. One of the most cost-effective ways of addressing extreme poverty.

And the study did something quite interesting which is to study the effect of
these programs in seven different countries. And we saw incredible variation of performance in India, the benefits. The cost benefit was around 432 percent. In Honduras, it was minus 200 percent. So even when policy and programs are extremely evidenced based or evidence informed, rather, you see incredible variation in performance and impact. And that’s very representative, I would say of the broader development programming in different sectors.

So we sent out to really find a way. And when we kind of really look at why that’s the case? Quickly, you hear from implementors that implementation markers -- it’s not just about the designer program. Context matters. And you really need to be able to problem solve when you’re working in context with ultra-poor families in ways of traditional finance and contracting that is activity based that’s very rigid, it doesn’t really allow for it.

So that’s real technical matters to design this kind of program where the financing would be exclusively tied in outcomes where we would be able by a virtue of that help donors not really tie Village Enterprise down to a predefined activity plan, but rather give them the autonomy to go and really figure out how to work with different types of households and how to develop and tailor services to them. And we wanted to see if that actually helped boost the effectiveness of the program.

And also, give guarantees of impact to donors that they would only pay on outcomes and somehow provide a way to make programming much more information and to really increase the overall effectiveness of public spending.

The second real big rationale was to really -- at that point in time, we had seen more or less foundations being involved in impact ones. We wanted to really see a leap to the bigger development agencies participating in this. So carving out a project where they could really test and experience fewer form results-based finance and start really, you know, appreciate how to design these instruments and how to evaluate them. And what
kind of effect it can have on both in terms of the outcomes but also in the quality of aspects of implementation was really kind of for us an entry point to larger change management within development finance and how it's being spent and the effectiveness of it.

MS. GUSTAFSSON-WRIGHT: Okay. Fantastic. Avnish, thank you. So Avnish started to share a little bit about Village Enterprise. So tell us more about the poverty alleviation model. And why do you think that this model was a good fit for a DIP and why is Village Enterprise a good fit for a DIP, Taddeo?

MR. MURIUKI: Right. Thank you. First of all, thank you for having me here. It's been really good to be in person. We're so used to having the virtual thing so just having report here, it's really a good thing, yeah.

So Village Enterprise, we implement what you call a one-year, ultra-poor tradition model. Where we really work with people who are living in extreme poverty. Supporting them just at businesses but they can be able to increase their incomes and also their assets. So we really, again, work with people who we find isolated. Who live in the margins of society. People who, you know, are left out sort of even come up in programs or even market programs.

So we really thought, you know, it has been an organization that has really worked in this space. We had vigorous evidence based on -- you know, in terms of the work. We're very confident that implementing a development impact bond would be a really nice pilot for us.

Just, you know, thinking about we want moving us, you know, we think about the end user rather than activity based is what Avnish said. You know, we view that as a kind of potential to have that transformation to think about how do we have an approach that really focuses on that end user, that person who we are really supporting.

MS. GUSTAFSSON-WRIGHT: You are able to tailor to their needs?
MR. MURIUKI: Exactly. So for us, thinking, you know, why was it a good fit? You know, we have a cost-effective approach. We have an approach that, you know, we are able to contextualize in different places. For this DIB, we are actually able to implement it in different countries. So we really wanted to see is this an approach that we could be able to use so in the future we are able to unlock.

As other people have mentioned here, one of the constraints is we have all these micro-interventions that are not able to scale. So really trying an innovative approach that if we show robust results, we could be able to advocate for scaling.

MS. GUSTAFSSON-WRIGHT: To be able to demonstrate.

MR. MURIUKI: Yes.

MS. GUSTAFSSON-WRIGHT: Yeah. Great. Fantastic. All right, Brian?

MR. BOLAND: Yeah.

MS. GUSTAFSSON-WRIGHT: So back when this was being developed. Impact bonds were a fairly new financing mechanism. In fact, there were only a couple of contracted impact bonds in developing countries. And I’m sure -- so, you know, as an investor, I’m sure there are investors in the audience who would love to hear, you know, why did you become interested in this? And, you know, how did you get involved? And, you know, what was in it for you?

MR. BOLAND: So let’s talk about money.

MS. GUSTAFSSON-WRIGHT: All right. Let’s talk about money.


So in 2020, there’s 1.2 trillion dollars of Ts sitting in U.S. foundations. And that means it’s invested a lot of Coca Cola. Coke’s great. Like I like to drink it, but it’s
invested in Coke. It’s invested in real estate. It’s invested in these other things. The largest charity in the United States is? Does anyone know? Fidelity. Their daft. The donor advise fund is the largest charity in the United States.

These funds are sitting in the sidelines. They’re not actually helping with development. So we started to look at our assets, but personally in our donor advise fund and try to say, we need to make a change and align all of our assets towards impact and towards our values. It’s like no problem. This will be easy. Well, I’ll talk to somebody. We’ll like shift everything towards actually changing the world and having an impact, and it was incredibly hard. So we’re not finding vehicles to do so.

So we started to look at this development impact bond as an opportunity to bring money in off of the sidelines. For us as a proof of concept and then to try to get people who are asset holders to think about what they could do to invest their capital in ways that can take on risk that governments tend to not take on. And started to have real returns that are beyond financial returns, right?

So one of the things that I’m particularly passionate about is ROI is not just the dollars on the sheet. ROI should be the impacts and the benefits we get societally. So we saw this as a mechanism to develop a proof of concept to show that you could bring risk, acceptable capital into a situation where you could actually help at an intervention scale, right?

So, you know, we had noted Village Enterprise for a while. We knew this was a proven model. It should be growing. So it became an opportunity to prove that and to start to scale that. So, you know, if you can sort of demonstrate the foundations that they can bring capital to bear in ways then governments can support scaling even more or reimbursing to put it back out into risky places.

Then you can go after family offices. So family offices are the offices of the
ultra-wealthy who not only do they have more, they have 5.6 trillion, 5.6 trillion, in assets that could be deployed in ways that really bring benefits to communities who need it. That for us was the motivator, right?

Is looking at interventions. Interventions that you could prove work. I mean the thing about this is we knew beforehand that Village Enterprise worked. We know even more now that it works so we should bring as much capital to bear to these solutions as possible. That was our motivator. And I think that was why we were excited about that trend.

MS. GUSTAFSSON-WRIGHT: Great. And I’m sure we’ll get to hear more about what’s next and --

MR. BOLAND: Sure.

MS. GUSTAFSSON-WRIGHT: -- and your encouragement of others to engage.

So, Ruth, so ID Insight had the tough job of doing a high-stakes evaluation in the middle of the COVID pandemic. So, you know, first of all, how did you do this evaluation at ID Insight and what did you find? We get to hear exciting results.

MS. LEVINE: Yeah. Thanks, Emily. Can you hear me well?

MS. GUSTAFSSON-WRIGHT: Yes. Yes, we hear you.


So it was indeed a very challenging evaluation. And we had to kind of pivot our data collection plans and schedule because COVID hit more or less right in the middle. And so, we had to take a number of measures to protect the health and safety of both the respondents to those survey data collection and to our survey team itself. And I’ll talk a little bit about that later but let me get to the kind of evaluation design and what we found.

So the point, the goal of our evaluation was to measure the attributable
impact of the Village Enterprise program on the economic welfare of households. Did it make a difference to households in extreme poverty? And if so, how much? And as you heard earlier, these were households in Western Kenya and Eastern Uganda.

So to do this, we conduct a randomized control trial, a RCT, to measure that impact of the program that was financed by the DIB and that was run in 241 villages from 2017 to 2020. So quite a span of time, and it involved about 15,000 of the poorest households. So originally, we had planned a kind of phased endline survey but because of COVID, we conducted one inline survey of about 10,000 -- close to 10,000 households from May to August 2021.

And that was depending on when the households participated in the program that was somewhere between six months for some households up to two and a half years for other households from the point where they ended their participation in the program. And so, our results show the results on households over that duration.

So we looked at basically many things, but two high level endpoints or types of impact. One is consumption and the other is assets. So on average, we found that the monthly consumption was about $10 higher in the households in which -- that participated in the program compared to those who didn’t. So that’s $10 a month greater and that’s about six percent higher consumption levels.

So what did this mean for households? It meant that they were able to consume -- purchasing consume more food and that was especially -- it turned out stable foods and meats. As I said, we also looked at assets. And on average, the households that had participated in the program had about $40 more in assets than the households that didn’t participate. And again, that’s about a six percent difference. And so, the households that had participated, we saw buying more durable assets and livestock as well as additional inventory for businesses.
And just to sort of emphasize that some of these households had kind of ended their participation in the program up to two and a half years before we did the endline survey. And so, I think that suggests that they were pretty persistent effects of the program, which is exciting to see. And this was, obviously, during the acute period. At least that sort of second half of the time when the program was implemented was during a pretty acute pandemic period.

So let me just say a couple of words about what the team -- and it was an incredibly talented and dedicated team at ID Insight that did this work. It was one of the first projects that we did when we were able to go kind of back to field work after closing that down during the most acute COVID period.

And so, what the team did to -- and what we did as an organization to protect the health and safety of all the participants and all of our colleagues was incorporate very robust COVID safety protocols, lots of use of PPE. Our team wore the masks, and passed out masks that were worn. And we also had to take into consideration what we would do if one or more of the surveyors or any member of our team became ill or even tested positive.

And so, we had to take into consideration, you know, where are we going to quarantine? How are we going to protect others on the team as well as survey respondents? So I’m belaboring this point just a little bit because I want to emphasize how challenging this evaluation was and honestly how proud I am of the team for having been able to do it. And I’m also grateful to FCDO and the other outcome payers who kind of came together and were able to support the extra costs associated with the precautions we took.

MS. GUSTAFSSON-WRIGHT: That’s great. Thanks so much, Ruth. I know that there’s so much more behind this. And I wish we had time to dig deeper into it with wearing my evaluation hat, I wish I could hear more. I know there were, you know, also
some heterogeneous impacts. And if anybody is interested in reading more details about the evaluation that can be found on the ID Insight website.

So, Taddeo, back to you. So as a service provider, tell us a little bit about how being involved in this development impact bond has been different than sort of your business as usual. So normally, I assume, you know, you receive grants that are based on some activities. How has this been different?

MR. MURIUKI: Yeah, that’s a really good question. First of all, I just want to emphasize with the results from what Ruth has said. And, you know, seeing that we had such positive results during a pandemic. So we are really convinced that even in a pandemic our results have been even more exponential than that.


MR. MURIUKI: So, you know, for us to get to those results, it really, you know, we just contrast it to the kind of traditional funding we do.

Just before I came here, I was checking my emails and, you know, I had this email telling me, you know, bond rates, very low bond rate, right? So bond rate is what our funders, some of our funders really insist. Like we need to spending money? Because to spend money that means true that we’re doing activities.

So that’s what happens is terms of traditional funding, we’re going to be pulling our teams now to be able to go through spreadsheets to make sure that they’re being (inaudible), to potential allocate costs and all that. But how much better are they really focusing on the outcomes? Really focusing on that entrepreneur? Looking through the data and saying, how can we be able to support that entrepreneur to be able to get increased income?

So traditional funding, I feel like it’s broken. I think we should be able to do a better job of fixing it. And I think having such an innovative approach would really be able
to be one of the solutions where we really are able to have programs really focusing on the end user, on the outcomes rather than just the multiple -- you know, all the activities that we really have to do.

I mean it’s not a bad thing. We need the money so we have to kind of say who pays the paper calls it so you have to do these things. But for you, you know, having that kind of shift where we were able to just really be flexible and are able to do, you know, our own things without really thinking behind them. But we have to have reporting on the dollar. We have to stop doing this. But just focusing on how are we mainly able to support that to pass on? Increase their income? Increase their savings? How do we increase their business profitability? That for us was really, really phenomenal.

And we really enjoyed it because we had that freedom. You know, you could breathe and just do as much as you can without really thinking how am I going to report on this donor requirements. But that and user being the person who we are really targeting.

MS. GUSTAFSSON-WRIGHT: And does this mean that along the way, you had to be collecting, you know, kind of more real time data to figure out sort of, you know, kind of who is doing well? Who is doing less well? Who do we need to focus on?

MR. MURIUKI: You’ve nailed it. You’ve nailed it. So what we really did is actually we improved our performance systems so we started calling it an adaptive management system. Also, it accelerated some of our systems that a donor listing can be thinking about doing.

So we give access to all our (inaudible). So we provided them with tablets. They had access to dashboards. These are things that we always knew at the back of our minds that we needed to do. But just because we really needed to make sure that that person who is supporting has data to be able to guide them in making that decision. So let's
say, you know, we had like some dashboards where they could look and say, the business is right business. So they would be able to go to the dashboard -- to the business and say, oh, this person, they’re struggling. Maybe they’re not keeping their records. Or maybe, you know, they’re having struggles, problems accessing input. This is really affecting the business.

So that -- just having access to that data but then making targeted interventions based on that data was really transformational for us.

MS. GUSTAFSSON-WRIGHT: I can imagine, yeah. That sounds fantastic.

So, Avnish, let’s come back to you. So just taking a little bit of a step up. What do you see as the opportunities for outcomes-based financing for poverty alleviation in general? And also, just for development -- more broadly for development finance. Let’s start with that.

MR. GUNGADURDOSS: Yeah, thanks for that. So maybe to answer this question, you know, just it’s good to really sort of agree on what it is that we’re trying to scale, right? And often think about a set of best practices and an expertise that we are really developing for these projects. We have our partners. We have the broader ecosystem around how to really get high quality and implementation to be ultimately driven by beneficiary outcomes and to be, you know, ultimately improving and impacting lives.

So we’re learning things like, you know, what are the most effective ways of structuring finance? What are ways of making performance incentives in financing? What are ways to measure efficiently? What are ways to performance managed?

So all in all this is starting to contribute to emerging science around better refinancing and better management. It’s testing various innovations in how to do this. And with each of the projects and impact bonds and results-based finance projects, we’ve seen in the last 10 years, we’ve started to really build a bit of an evidence base. A bit of a sort of
toolkit of what works and what doesn’t. And certainly, the journey is still young and there’s lots to learn.

This is really a question about where should we be integrating this kind of practices more? And for one big opportunity that I’ve been advocating for, and I think we’ve been advocating for as an organization, is to really turn our attention to how do we integrate these practices and result based findings and (inaudible) management in the large-scale procurement systems of governments, for example? Or in governments that are resistant. Or in aid institutions, a large-scale delivery systems?

Today, we’re talking about north of $5 trillion being spent in data systems that are not really gathering results as consistently as often and at the levels that we would want them to. So when we often talk about the development financing, I think a first order question is to make sure that we are using the money that we already have really well and really efficiently. So we need to be finding ways to use those practices and mainstream those practices certainly in simpler ways, and simply instruments in ways that are scalable. But I would think it would be, you know, a worthwhile pursuit for donors and philanthropists to really dedicate significantly more resources and attention to fixing other systems around the world.

We’ve seen what happens in COVID when that’s not taken care of. Governments are not able to actually react to the increasingly complex priorities that they have to be bettering for citizens. And I think we’re starting for these projects to really lay the foundation for this kind of work to translate at a larger scale.

And certainly, in the last few years, we’ve already been engaging government in these multi agenda reforms, starting to generate avenues of how this could work in more quality sized environments. And that’s really where the big opportunity, I think for this work is. I know we should really be taking the work forward.
MS. GUSTAFSSON-WRIGHT: Absolutely. Thanks, Avnish.

And, Ruth, you have before your role at ID Insight, you have quite a bit of experience on the funder side. So what do you think that funders and others might keep in mind if they -- as they consider joining? You know, whether they want to be part of a development or social impact bond or other results-based financing mechanism?

Ruth, can you hear me? Did we lose you? Well, while we're getting you back, I'll jump to Brian. Can you hear me, Ruth? No. Okay. All right. We'll jump to Brian in the meantime.

So we've heard a little bit. You made very clear what your views are as an investor. But what do you have to say about some of the criticisms of impact bonds? So the high design costs? Or this idea that investors are making money off the backs of the poor?

MR. BOLAND: Oh, you went there. Yeah, so I think there's a couple of things to think about here, right? So let's look in isolation and then let's look broadly at the sector.

So if you look at this development impact bond specifically. The impact is forecasted to be 4X over the duration of the next couple of decades. I can't remember the length of time. But the moving forward impact is 4X the cost of the program, right? So there is a durable, sustainable significant impact that come just from the cost of the program. So I think that's one thing to think about.

The second thing to think about is how you would think about a single DIB in isolation versus hopefully a portfolio of them, right? Ideally, what I talked about earlier with risk acceptable capital being able to fund interventions that are not proven that's kind of where I would like to see this space go.

The criticism that I would accept from this DIB on the investor payouts is that I didn't take a lot of risk because we knew Village Enterprise. We had seen a RCT on
their interventions and results. We knew that it worked. It was highly likely as a scale they
would work more. So it would be on the lower risk end of a kind of investment. Should we
do tons of those? No, absolutely not.

We should have before that actually just funded Village Enterprise with a lot of
money because we actually knew. We did, but like other people as well. Governments
and agencies with unrestricted funding. So on the benefits we talked about earlier is that a
lot of funding gets restricted and you chase burn rate which I get nauseous when like I hear
chasing burn rate.

We should fund the organizations that work. We should fund the
interventions that work. We should fund the well and we shouldn’t be restrictive in the kinds
of funding that we give them. Some of these finance structures can create that, right?
Where you take organizations that tend to put restrictions on things and you remove those
restrictions.

Ideally, you’d have a portfolio where some of these interventions should fail,
right? We should have development impact bonds where the results don’t turn out what you
think they are. What you want them to be because that means that you’re taking risk, you’re
innovating in the space and then you are able to take those learnings and apply them or
have other development impact bonds that are successful, create a portfolio that maximizes
impact.

Then one last thing. If you do a development impact model like this, right?
We have this incredible RCT was done. Super expensive. Would you do it on everything?
No. Does it give you an incredibly high signal on impact and changes to the program in the
interventions it had? Yes. Will Village Enterprise change how they work moving forward?
Yes. That has an impact that’s not calculated in the benefits of development impact bond.

Will they be able scale their programs more effectively because they can
now track more and more capital? I believe so. And so, then, you know, this high investment on the learning phase, on an innovation phase and approved phase then has scaling implications beyond that phase, I fully believe. So like that’s kind of the important part to me.

So, one, a portfolio where some of these should work. Some of these should not work. We should have risk capital pushing innovations that we want prove. And then we should scale them. The thing that I’m super keen on is USAID and FDCO coming out of this. They should have no questions about what to fund in the future, right? This should just be a line item every year. We know that graduation works and Village Enterprise works. So like, here, you go. Like every year, we’re now scaling this program, right?

And then you start to see the benefits of those upfront costs prove out a model that scales interventions. That has real impacts for people. Not burn rate, but human lives changed. So that’s kind of the feelings that I -- and like some of the pushback comes from foundation leaders who give out less than five percent a year. So that’s a whole separate gripe I got.

MS. GUSTAFSSON-WRIGHT: Right. Great. I’m going to move onto our rapid-fire questions. Ruth, can you hear me now? No, all right.

So we’re going to jump into my final question to all of the panelists. So what I wonder is what’s next? You know, either for your organization? Or for outcomes-based financing? Or development finance more broadly. Let’s start with you, Taddeo.

MR. MURIUKI: I just want to hang onto Brian. I mean --

MR. BOLAND: You’re not that lucky.

MR. MURIUKI: The passion that he exhibits, yes. We are very excited. You know, we saw the results. We have also seen internally what kind of minds have shifted, you know, having the datacentric framework. So for us, really thinking about how do
we scale this up? Because really a lot of it is, I think on two things.

We need to change from being an activist centric to an outcome centric.

You know, sometime back I was listening to a donor who I don't mention. But they mention that they've poured billions of dollars in a certain region in Kenya. Or any time they come, they lament that they've seen hardly anything.

So I'm thinking if they had this sort of predefined outcome metrics working with all these different organizations or service providers that they probably have seen something. Of course, align some latitude of failure. So I think moving from that sort of activity that how many workshops? How many trainings have that? But what are you doing for that person on the ground?

The other thing is unlocking capital, scaling it up. How do we, you know -- just because initially they said, you know, in terms of the magnitude of poverty and, you know, being exacerbated by the pandemic. The need is so great. We had to find a funding that really is able to reach more people. And not only in the poverty space but also in others. So for us, at Village Enterprise, really what's next is working with governments. Trying to see how governments are going to be able to adopt this so that we can be able to reach more people. And that's a support they can implement as well. We're really interested in this space and how we can be able to share our lessons with them.

MS. GUSTAFSSON-WRIGHT: That's fantastic. I really think that that's a really great last point. And I think I've seen that with other service providers as I'm sure you're getting a lot of calls --

MR. MURIUKI: Yes.

MS. GUSTAFSSON-WRIGHT: -- from other service providers around the world who say, how did you do this? So I think the investors also should support their time to be able to do that. Ruth, can you hear me?
MS. LEVINE: I can. Thank you so much for holding the mike. I'm really sorry I couldn't hear you before.

MS. GUSTAFSSON-WRIGHT: Yeah. No problem. So the question is we jumped into what’s next. And perhaps you can bring in some of your perspectives as I said, you know, having been wearing the funder hat in the past. You know, kind of what should funders be thinking of next?

MS. LEVINE: Yeah. Thanks for the question and again I'm sorry I couldn't hear the earlier ones.

Well, I think the primary consideration for funders who are considering this kind of way to drive impact is the primary consideration is to kind of know thyself. It's a very special kind of funder that I think can really appreciate and engage in this kind of innovative financing. Hopefully, an increasing number of funders and types.

But it’s really important that funders understand that it’s requires an ability to negotiate, compromise and then pull your hands away. And not all funders are constitutionally built to do that from my experience. And particularly, the important act of -- as I say, pulling your hands away. And what that means is giving full indiscretion to the program implementers to be creative to innovate, to figure out more efficient ways to do the work. And for the funder not to micromanage. Or frankly, not to manage at all.

So again, funders need to understand am I that kind of funder that is able to do that? Or could I become? And what would have to change in my incentive environment to permit that to happen?

MS. GUSTAFSSON-WRIGHT: Great.

MS. LEVINE: I also think that funders should think about and try to figure out whether this sort of arrangement, any kind of results-based funding and particularly a development impact bond is likely to lead to better ultimately outcomes than the standard
way of doing business. And I think there is a persuasive case to make, but it’s always important to sort of do the comparison, right? Between business as usual and a new kind of model.

So if a funder primarily is a project funder, the question is can this lead to greater innovation and outcomes alignment than their business as usual? And again, I think there is a case to be made that in many instances, it will lead to better outcomes alignment.

And if a funder is, you know, provides unrestricted funding so is already kind of hands off and creates the environment for innovation and efficiency gains among, you know, with a grantee organization then I think the question is, you know, if you’re asking is it going to be better than the way I normally do business? I think the question is, is it going to attract and bring in other funders?

Is my participation going to grow the pie? So if I still wear my thunder hat, those are the kind of considerations I would be thinking about. What kind of funder am I? And what is the gain from engaging in this kind of arrangement relative to business as usual?

MS. GUSTAFSSON-WRIGHT: Thanks so much for, Ruth. I really love that. What kind of funder am I comment? I think that really makes sense.

So, Avnish and Brian, we have for each of you, we have one minute where we want to make sure we have time for audience questions. So, Avnish, I’m going to ask you this next question. And if you can do that in one minute that would be great. I know it’s a hard one, a hard task.

MR. GUNGADURDOSS: Thank you, Emily. Very challenging task for me who is not at all concise, but I’ll try.

So, you know, what’s next for us, I think I alluded to that in the last response I gave. Is to really find ways to integrate as best practices in governments who have today
the scale funders and the scale doers in most countries where we work.

So we’re going to be looking at really increasing our government partnerships. Finding ways to engage champions where we find them. When there’s an opportunity where we find them to test and try results-based financing and performance management practices within the platform of government whether that’s for procurement or directed at every system. I think that’s a real vacant that the space needs to really focus a lot more.

We’re going to try to generate evidence that’s currently thin in this space. What kind of deltas in part we can generate and governments can generate by adopting these practices upscale? And, you know, some of these bigger scale partners like the World Bank, the EU, the global fund we’re currently working with them to bring these practices to many different countries to really find ways to expose more governments to this and really scale up those practices.

I think today it is unacceptable that governments don’t have the right systems to manage the impact bottom line. They manage way too much money for that and I think we need to find ways to really upgrade our governments across the board to do better on the public money. And to really evolve public financial management from just a system of tracking spending to a system of tracking social value that governments are to their country. So that’s really what we are looking to aim for.

We really have an ambition to change standards and change the standards of what we find acceptable when it comes to public financial management.

MS. GUSTAFSSON-WRIGHT: Right. It’s really mindset shift and particularly among the big players and government, obviously, who is holding so much of the funding. All right, Brian.

MR. BOLAND: Unrestricted funding, we’re 100 percent unrestricted funder.
We want more people to get there and I would argue everyone should get there too.

We should scale this flavor of graduation models, the implementation that Village Enterprise crazy works so we should all grow it. And then three, there’s a lot that we learned about this development impact bond. There’s a bunch of structural stuff I would do differently. In the future, like we think that results-based funding broadly has a ton of promise so we’re going to continue to test different models. Tons of interesting financing models that are coming into play. We’re going to continue to work on those.

MS. GUSTAFSSON-WRIGHT: Great. Thank you.

MR. BOLAND: Lesson 66.

MS. GUSTAFSSON-WRIGHT: Fantastic. All right. So I would like to now open it up to the audience for some Q&A.

And we have somebody that has a microphone. They’re standing in the back so raise your hand if you have a question. You’re finally in person. You can do this in person.

SPEAKER: Yeah. Thank you for really interesting insights on this. I have a couple of questions. I think one is there for you. I think you touch on it a little bit but if you can clarify more whether the design future for that impact bond is an incentive in itself that have direct impact on the outcome? As opposed to say, any other kind of funding? Are you seeing evidence that because of that repayment incentive you’re getting better outcomes on those compared to other type of funding?

And then for, Brian, in the grand scheme of things, I’m trying to get a mental picture here of how big can this get? You shared some numbers, you know, over a trillion dollars in assets. So if ideally, everything outcome trends removed, how big can it get? And should it even get that big?

MS. GUSTAFSSON-WRIGHT: Let’s collect a couple of questions. Demar
(phonetic)?

SPEAKER: Well, thank you. Thank you very much for this. It was very interesting. I guess I’m left with bridging the trillions of dollars that Hanan talked about with a $4 million investment that this project represents. So I mean we spent a lot of time talking about scale, but how do you get there is clearly the big question?

I mean if you address that question. What really is the binding constraint? Is it lack of bankable projects? Is it not enough donors with the right mindset? Is it quality of implementing partners on the ground? Is it management information systems? Is it all of the above? And I’d like the direction that of this point too in terms of working with governments to reform their systems as probably the most likely route to scale. So it’s a combination of comment and question.

MS. GUSTAFSSON-WRIGHT: Great. There’s one more question there and then we’ll go to answer.

SPEAKER: Great. Thank you. Just two quick ones. One is the deployment of throwing proper capital into impact bond structures. How much of it is through program related investments or PRIs? The second question unrelated but in looking at the outcome drive focus and result focus of this, how much do you see or mitigating on scaling the system to the outcomes? Thank you.

MS. GUSTAFSSON-WRIGHT: All right. Great. Thanks. So, Taddeo, do you want to take that first question?

MR. MURIUKI: Yeah, sure. I feel that’s really good questions. So yes. So let me just go -- when we started the impact point, what we did is really sat down with the whole team just to explain to them the structure and why you are doing this.

And then, you know, thinking -- sorry, for them to kind of now move into that mindset shift that we just -- we’re really going to be working towards outcomes that are going
to translate for payments. Because for us, it was, first of all, we need to get paid. But also repetition and risk if we don't deliver this then what else? You know, maybe our traditional funders would probably dry.

So yes, the design did lend to the focus on outcomes. And that’s why, you know, we accelerated innovations. We said whatever we need to do to get these outcomes, let’s do it. And so, we would take calculated risk. Before we used to have so many of the meetings before you make a decision. But now, we like, you try this out and we can also democratize it. So like even our field team, if they come up with an idea. They want to try it out with business groups, we would let them do that.

You know, the use of data to make sure that everything that we did was informed by data, but looking at the end goal. Like how does that translate into that outcome? But really making sure that it’s increasing the impact of our entrepreneurs. So yes, the design did really help us, incentivize us in terms of making sure that we achieving the outcomes.

MS. GUSTAFSSON-WRIGHT: I really love this idea that your field teams are getting to come up with ideas and innovate on their own and that’s so fantastic.

So, Brian, how big can get this get was one question?

MR. BOLAND: You know, I wish I had a number, but massive, right? So we’re just talking eventually in the sidelines and foundations and family offices. You have other trends where you have millennials who are -- when you survey them they say they actually want to invest their money in things that do good in the world. And they’re actually willing to sacrifice return, right? So it’s not just about extract of capitalism for the next generation. It’s about holistic returns. And I think that’s the part of a system shift that we’re seeing.

You’re seeing a lot of energy that’s been captured in impact investing and
ESG, which like is 95 percent, in my opinion, baloney in like marketing. But it’s capturing a consumer demand that we want to have impact.

So I think the shift that I expect to see is it will start against system change that create the ability for people to start see what their impact was alongside their financial impact. There’s a lot of stuff that has to happen there. You have to have your financial systems report on other metrics than did your portfolio dollars go up or down?

And like connect people closer to the work. That’s starting to happen. There’s pockets of that, but that starts to unlock, I think, more and more of this capital that can be deployed in pools. You know, like a collective fund of your average person being able to invest in some of these interventions would be a really exciting intervention in the future.

It’s going to take a long time to get there because we have, you know, an American capitalist gospel of shareholder returns is the most important thing. And that’s a system that is starting to get pressure and starting to change. So I wish I knew the size. I do think it’s potentially massive. And I do feel like people want more than just the dollars. But I’m also an optimist, but people are saying that too so.

MS. GUSTAFSSON-WRIGHT: So there’s actually an impact going on in Israel that used (inaudible) funding.

MR. BOLAND: I don’t know about that.

MS. GUSTAFSSON-WRIGHT: Yep. Super interesting. So it sounds kind of like if you build it, they will come.

MR. BOLAND: You know, I think -- I’m a big believer that you can shape consumer perceptions and demands. It’s harder. Easier to capture existing consumer interests. And there’s this ground swell, particularly in the millennials. I think older generations are going to be harder change the mentality there.
I think the millennials, et cetera, are moving in that direction. Having conversations with people who run family offices. Who are generational wealth kind of folks who are saying, you know, we have to do more with these assets. This is not just about growing the number to be 3, 5X by the time we move on, but like how do we actually deploy capital in ways that matters? So it’s happening.

It’s just not off the shelf. It’s not the first selection in your chart portfolio. It’s, you know, it does have change.

MS. GUSTAFSSON-WRIGHT: But I think if you build the pieces perhaps what tomorrow was getting to, right? So we need to have the outcome funding side of it, right? So, Avnish or Ruth, do you want to take the question around scale? I know you’ve touched on that a bit, but, you know, what are the kind of -- if you could take three key things that need to happen to get this to scale what are they?

MR. GUNGADURDOSS: Yeah. I’ll take a crack. I wish it were that simple. But, you know, like I think sort of the unfortunate realities that our funding and programming systems are just so insufficiently accountable to the people we serve.

These people are not in the boardroom. They are often the people with the lowest voice in the entire system. The dynamics of the frontline is obviously lopsided so there’s absolutely no accountability regarding service quality.

And we really hugely rely on the good will of individuals in public institutions and other frontlines to do well. And the institutions within which they work are not, I think, often times systematically incentivizing a focus on services that are quality and impact.

So I think, you know, the first starting point for success in this work, I think, is to really even appreciate just how huge of a change management this is to shift a system, an international aid system or public sector systems that are so comfortably locked into a low performance equilibrium.
And how hard that transition is going to be for everybody. It’s hard to perform better. It’s hard to perform differently. You need to be comfortable with having less reach with greater impact. This is a huge (inaudible) transition. So we’re at the intersection of, you know, very complex and methodical issues, very complex and thorny development issues.

And I think, you know, we need to be able to surface enough positive deviations for each of these experiments. And build a greater and greater coalition of races that are really pushing for developed systems to be much more effective. Drawing more attention from philanthropy and other partners to actually fixing those issues and not just thinking that designing evidence-basing from policies is enough. It’s necessary but not sufficient.

We also need to think about implementation. And that’s, you know, the black box that the uncomfortable truth that we don’t really touch upon very often and as well as we should. So I think, you know, it would require that more coalition building and change management to really get to move in a serious way. Understand that it’s a performance of the public sector and the aid institutions.

MS. GUSTAFSSON-WRIGHT: Okay. Thanks, Avnish. Would you like to give us your thoughts in one minute, Ruth? Anything you want to add to that?

MS. LEVINE: Honestly, on that point. I think it was a mike track moment for Avnish because he covered the waterfront.

Let me just say one word about the gaining question because I’m not sure if anybody picked up on that and whether this kind of arrangement, you know, induces a kind of gaining of outcomes. And there I would say that’s why you really have to be careful about what outcomes you choose and have them be the truly meaningful ones. As in this case, meaningful in terms of increases in income/consumption and assets.
So the gaining can occur when the outcomes that are chosen are actually not necessarily related to the true impact that you want to have. So the closer you can get to measuring and paying on the true impact that you wish then the less you have to worry about the gaining problem.

MS. GUSTAFSSON-WRIGHT: Great. Thank you so much. Yeah, that’s a really important question. Thanks for picking up on that one. All right. Well, we’re going to move towards our fireside chat. Please join me all in thanking our panelists for this fantastic conversation. Welcome, John.

MR. MCARTHUR: Hi, there.

MS. GUSTAFSSON-WRIGHT: Great to see you. So for our fireside chat, we now have John McArthur who is a Senior Fellow and Director of the Center for Sustainable Development here at Brookings. And before joining Brookings, John was Chief Executive Officer at the Millennium Promise Alliance. And prior to that he served as Manager and then Deputy Director of the U.N. Millennium Project.

He’s also been Senior Fellow with the Fund Level Institution. A faculty member at Columbia’s School of International and Public Affairs and Policy Director at Columbia University’s Earth Institution.

Can you hear me without this or am I -- all right. I will stick with the mike. All right, John. So great to see you. It’s been a while. So, John, you wear many hats in your different roles. And most relevantly, you cofounded and cochaired the 17 Rooms Initiative which is a new approach to categorizing action for the sustainable development goals. And in addition to that you are Senior Advisor for the U.N. Foundation.

So as we’ve heard today, the Village Enterprise DIB has focused on SDG 1 ending poverty as well as SDG 8, the promotion of sustained inclusive and sustainable economic growth full and productive employment and decent work for all. The project, of
course, indirectly touches on many of the other SDGs.

So from your perspective, what are some of the key weaknesses of the current development finance architecture in addressing these goals? We’ve talked about some of them today in the conversation. And how do you see an initiative like the Village Enterprise DIB contributing to these challenges?

MR. MCARTHUR: Well, thank you. I feel like I’m an underwhelming fireside chat after such a terrific panel. It was really great to hear from everyone.

But I think the simplest answer to your question is that the development financing system is not trying to achieve the goals. So it’s a pretty fundamental mismatch. And a lot of people who learn about the goals, whether it’s -- especially in the private sector, but also in other walks of life. Presume that there’s some budget that goes along with these goals that all countries of the world agreed to, but of course there’s not.

And there’s no real set of mechanisms to match the broad range of economic, social and environmental problems. And I think especially coming out of the pandemic and the crisis that it has been instigating, there’s a broad awareness that the development financing system is a bit broken. And it’s broken in particular because it’s not getting anywhere near the amount of resources needed to match the goals that everyone requires. It’s not providing the liquidity that the lowest income countries, in particular, and some of the lower middle-income countries need.

It’s working very, very well for the richest countries that can borrow pretty much as much as they want in order to tackle any kind of unprecedented challenges at home. But even there it’s not providing quite enough systemic alignment with long-term outcomes like decarbonization where public goods need a different set of incentives.

So I think that’s the kind of overview of everything. It’s not that nothing is happening to be very clear. There are things happening. Global official development
assistance is about $170 billion a year in the latest accounting from the OECD. That is about cross border flows generally from richer countries to poorer countries. That’s only a smidgen of the broad global sustainable development finance that’s needed, which is on the order of probably 10 to 20 trillion a year and a 100 trillion-dollar global economy.

But there are things happening and we do see in specific sectors and specific targeted forms of institution. And I would say specific targeted forms of financing, some things are working. So it is not to be, you know, entirely maudlin about the whole thing, but it is to say that there’s not enough of the good. And it’s certainly not enough of the good to match the problems and the ambitions that everyone has agreed to.

MS. GUSTAFSSON-WRIGHT: Absolutely. Thanks for a little bit of good news there, but and yeah. So, John, you recently coauthored an essay in a series on 21st century multilateralism, which aims to address some of the most pressing questions and needs for a national cooperation in the years ahead. Your essay was entitled *From Vertical Funds to Purpose Driven Funds: A New Approach to Multilateralism*.

So can you explain your key messages in this essays? I thought it was a great essay. And, you know, what is the problem that you’re attempting to address in this essay? And some thoughts on how it relates to today’s discussion.

MR. MCARTHUR: Well, I would say that when we look at -- as part of why today’s conversation is interesting -- when we look at specific things where there are questions as to what works or questions as to how to scale up what works. We have both types of problems. So even, I would say, you know, we have a glaring -- we have pretty good evidence that vaccines work in a pandemic.

The act accelerator, the international body for pooling resources has a budget for the current fiscal year of about 17 billion, and it’s got about two billion financed so far. So it’s about a $15 billion gap. It’s a pretty massive gap and it just shows how even
when the evidence is absolutely clear about what works, the world is still having trouble cooperating to put resources towards what works.

There’s a different set of questions though or are complementary when we’re not total sure what will work or in the past, we haven’t been entirely sure what will work, but there’s a growing body of evidence like today about what types of things work. And the issues of extreme poverty are pretty headline ambition for the world, at least nominally. Where the first among equals of these sustainable obstacles literally target 1.1 is to end extreme poverty by 2030. And crucially, there’s something called the 2015 Addis Ababa Action Agenda which was the agreement of principles at least for financing for the sustainable development global agenda of policies.

And in that there was a very important commitment to get universal access to basic services. The idea of a new social compact, social protection and minimum essentially services for all, which is utterly consistent with, you know, SDG 1.1, end extreme poverty by 2030. If we look at the institution which has taken on the lead ambition for this goal, it’s actually the World Bank.

In 2013, the World Bank took on the headline goal for itself of ending extreme poverty by 2030. There are a bunch of technical issues in terms of how the definition is counted, but the core of our argument with Homy Cross (phonetic) and Dennis Snower is that the institution of the World Bank including either the most grant-based financing arm is not yet squaring the circle of this ambition of the goals, this institutional purpose that the bank has set for itself and the financing mechanisms that need to be implemented around what we know works.

And I would say that, you know, we estimate that the current financing gap for extreme poverty is less than $100 billion. There are about 49 countries where it’s more than one percent of national income. Therefore, they need a little bit of external help. And
the body of evidence that’s growing around what I would call an anchoring of cash transfers.

And we heard today about cash transfers plus. And there’s lots of debates on what’s the right structure and what’s the right plus? But there’s a huge set of -- a body of evidence that cash transfers are an extremely powerful tool to get people out of extreme poverty especially if we don't know what else to do.

And so, it’s not to say that it’s the only thing that needs to be done, but it’s at least a very particular form of social protection which is in the agreements and an institutional vehicle could be created around that purpose of delivering social protection to everyone in the world. We need to at least to end extreme poverty.

So there’s a long history of so-called vertical funds which get all sorts of allergies in the room very quickly because people don’t want more institutions. But we’re seeing don’t talk about vertical versus horizontal. Talk about purpose, talk about evidence and talk about scaling mechanisms towards the evidence of what works.

MS. GUSTAFSSON-WRIGHT: Okay. Thanks. So I sort of see these -- when I hear you talk, you know, when I read your article --

MR. MCARTHUR: I can’t hear you right now for some reason.

MS. GUSTAFSSON-WRIGHT: Can you hear me now?

MR. MCARTHUR: Yes. Thanks.

MS. GUSTAFSSON-WRIGHT: Great. Okay. Perfect. When I read your article about these purpose driven funds, it really made me think about outcomes funds which are the pooling of outcome funding for these outcomes-based financing mechanisms. So that’s a trend that we’re seeing increasingly a number of outcomes funds in development for specific sector areas.

So, for example, in education, education outcomes fund. So I’m wondering, you know, just quickly could you -- do you have any thoughts about kind of what might be
some recommendations for these outcomes funds in terms of lessons learned I think from the, you know, the bad name, vertical funds, you know, in terms of this purpose driven focus?

MR. MCDONALD: I think one of the central elements. You need articles here for finance for sure, you know, to match the scale. I think a point that has already been made or the problem. But the governance of them is crucial too.

So this goes well beyond intergovernmental governance. And one of my favorite institutions in the world, the Global Fund of Malaria, for example, has multistakeholder governance in from the start. It's got scientific review in the process of grant allocation and it's got, you know, beneficiaries in effect represented in the governance mechanism on all sides. It's got sole society from different parts of the world, the private sector, philanthropical representation and science.

That gives a ballast around the what works questions, which allow the scaling to update the systems to deliver results. I think if we're going to talk about large scale, international institutional reform, it needs to be anchored in similar principles of governance with the evidence on the board and in the process and the representation of the beneficiaries on the board, not through their government but through the civil society. And working alongside the public sector entities that are crucial with the budget to match.

MS. GUSTAFSSON-WRIGHT: Absolutely. That kind of brings me back to our -- at the start of this, I say I often -- we talk about outcomes-based financing as being partnerships for public purpose. And I see this. You know, this partnership of bringing in the diversity of stakeholders really with the outcome focus, you know, at the core of this.

Well, I wish we had more time to talk, John. It's been great to sit here with you virtually and wonderful to have you. Will you all please join me in thanking John for this fantastic fireside chat.
MR. MCARTHUR: Thank you.

MS. GUSTAFSSON-WRIGHT: And thanks again to all of the panelists and also thanks to the Brookings’ team in particular Sarah Osborne, Senior Research Analyst on my team who is my partner in crime and behind all of our work in outcomes-based financing and other things. Thanks again to Brahima and to Hanan for your contribution at the beginning.

Thank you all for joining us. I hope to see you again those of you who are joining us online. Hope to see you in person sometime soon. Please take good care and see you soon.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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