



# THE CASE OF TROBON

CONFIDENTIAL

# What is a PBC and what is its value?

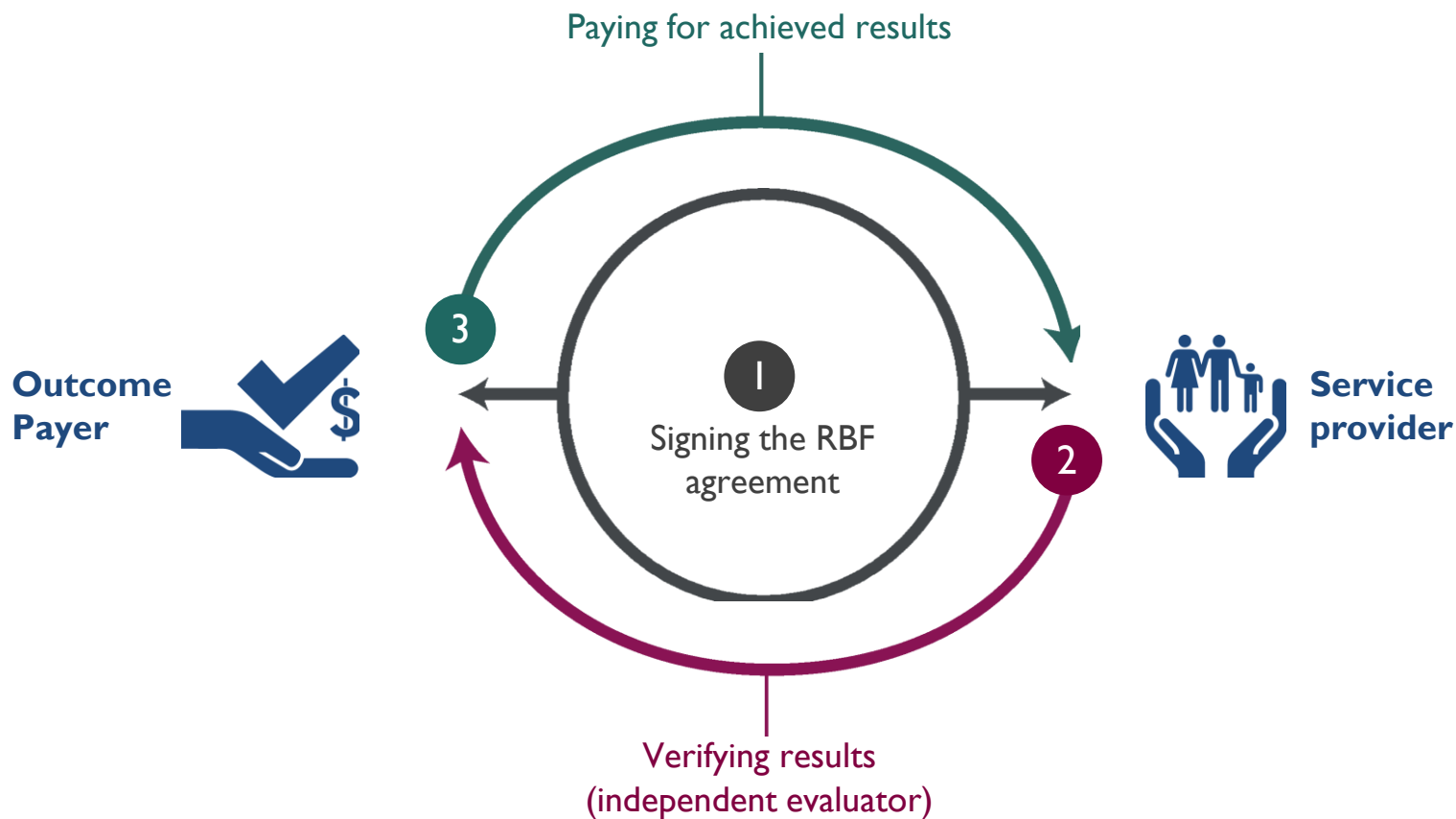
## A PBC introduces incentives to improve impact

**A Performance-Based Contract (PBC)** is a contract in which monetary rewards are provided against the achievement of **measured and pre-defined results**.




PBCs provide **incentives and flexibility** for service providers to learn and adapt to complex and changing contexts, thus improving the quality of program design and implementation.

By placing impact at the center of decisions and actions, PBCs can enhance the **cost-effectiveness** of programs and improve the **accountability** structure that the funder can rely upon.

# PBC Structure



Note that in PBCs, traditionally a big part of the funding is provided against inputs or activities and a smaller portion is paid for achieved results (usually, 5-20% of the total funding)

-  Governance flow (agreement)
-  Financial flow
-  Verification by independent evaluator

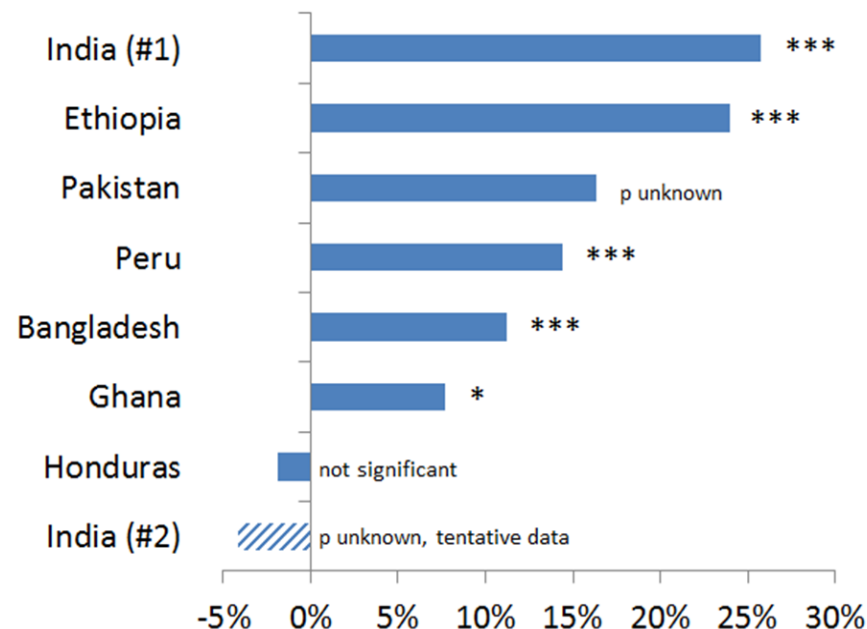
# Project background

## Trobon and its poverty graduation program

Trobon is a leading US-based non-profit that is scaling their poverty graduation program across the world. First developed by BRAC 10 years ago, poverty graduation programs have seen widespread adoption in developing countries and hold great potential for the ultra-poor, particularly women. A recent cross-country study (see the results in the chart on the right) showed large social returns in this type of program. However, the study also revealed large discrepancies in performance across countries. This highlights the need for funding mechanisms such as PBCs that maintain quality and integrity at scale, while providing the flexibility for local adaptation (Banerjee *et al.*, 2015)

Trobon partners with Community-Based Organizations (CBOs) to deliver their program, which targets ultra-poor women who live under \$1.25/day in rural Senegal. Its central goal is to provide financial resources, coaching and the necessary support for women to start micro-enterprises. These can then generate a steady stream of revenues to sustain their livelihoods. The program starts with a micro-grant of \$500-\$1000 per participating woman. The CBO's field agents then train, accompany and coach the women over 3 years as they engage in income-generating activities. These include, for example, rearing animals, selling cakes or other consumables, and agriculture. In addition, the field agents set up village Savings and Loans groups where the women eagerly save their revenues to invest in the health and education of their kids.

(Annual consumption increase) / (program costs) – 1  
for eight countries



# Structuring a partnership

## Trobon seeks to scale up its poverty graduation program

### Goal

The goal of the project is to develop a PBC between Trobon and the local implementing partners that it funds to improve social outcomes for the ultra poor in Senegal. Trobon is currently partnering with and funding small community-based organizations (CBOs) to deliver standardized poverty graduation programs to ultra-poor women. **As Trobon plans for a large national scale-up with 100+ partners, they hired Instiglio to design a PBC that preserves and improves impact at scale through well-targeted performance incentives.**

### Task at hand

This report explores the design of one of the various features of the Trobon PBC, namely the incentive design. This includes a) the results that CBOs will be paid for and b) the intensity of the incentives provided.

The key outcome is a **functional PBC** that can be tested amongst the current partners – 3 CBOs with an annual budget of \$100,000. This should also be replicable at a national scale with a variety of similar or smaller CBOs.

# An impact driven PBC

## Principles that guide the design

The PBC must:

- **create the largest possible impact on the livelihoods** of the ultra poor in the treatment population.
- **have a design that is clear** to the local partners, from field staff to upper management, allowing them to easily apply the design to their work.
- **be fair** to every person directly or indirectly affected by the implementation of the PBC. Fairness is about treating people with equal standards<sup>1</sup>.
- **avoid perverse incentives** for all participants in the program, especially protecting the beneficiaries.
- **maximize the replicability** of the design process and the PBC, particularly in delivering the program.

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<sup>1</sup> Fairness may be a desirable characteristic for either substantive reasons (Trobon intrinsically values fairness as a principle) or instrumental reasons (PBC designs that are not perceived to be fair may crowd out intrinsic motivation or aggregative multitasking problems)

# EXERCISE I

Assessing Savings in the Case of Trobon

# Exercise I

## Background

One of the central outcomes of the poverty graduation program is a woman's ability to generate income. Income is notoriously hard to measure, however, if a woman generates sufficient income, she usually saves in a Savings and Loan account. CBOs form women beneficiaries into Savings and Loans (SL) groups. The group meets once a month and women are eager to save what they can for the 'hunger seasons' and to invest in the education/health of their children. As a result, savings is a good proxy for income. The SL groups keep a rigorous account of all activities in a register.

In this exercise, you are helping Trobon assess the feasibility and appropriateness of paying CBOs based on the increased levels of savings of the beneficiaries of the program.



# Payment metrics

## Criteria for good payment metrics

Easy to measure	Closely related to ultimate goal	Manageable control	Minimization of perverse incentives
Outcomes must be simple to understand, easy to measure and low-cost.	Outcomes must generate the key social value of interest to the outcome payer.	<p>The selection of outcomes should balance the benefits of transferring more performance risk to the service providers with the costs of the associated risk premium.</p> <p>Outcomes transfer more risk to the service providers the more distant they are in the theory of change and the more sensitive they are to external factors. Outcomes transfer less risk the more they are within the manageable control of the service provider.</p>	<p>Outcomes must minimize the risk of creating undesirable effects, such as:</p> <ul style="list-style-type: none"> <li>i) cream-skimming, where the service provider focuses on the subgroup of the population easier to impact, and leaves the others unattended</li> <li>ii) leading field agents to promote behaviors that may be counterproductive (e.g. pressure to save money rather than cover basic consumption needs).</li> </ul>

# Payment metrics

## Assessment of potential trigger outcomes

The table below summarizes the assessment of the potential outcomes that could be used to trigger the performance payments, based on the four criteria described in the previous slide (IGA stands for Income-generating Activities).

**Exercise 1.1.** Please rate Savings, in the table below, against the criteria in each column. Use the rating scale low, medium or high, where low signifies no agreement with statement and high signifies strong agreement.

**Exercise 1.2.** Please justify your response, including all your assumptions and provide an overall conclusion or recommendation.

Outcome	Easy to measure	Closely related to ultimate goal	Manageable control	Minimizing perverse incentives
Diversified IGAs	●	●	●	●
Food security	●	●	●	●
Savings				
Investment in children's wellbeing	○	●	○	●

Low ○
Medium ●
High ●

# EXERCISE 2

Selecting the appropriate indicator for the payment metric

# Payment metrics

## Selecting an indicator for savings

Assume the team has decided to move forward with using savings as an outcome that triggers payment. The team must now consider a specific methodology to assess increases in savings. Below are some of the options under consideration in terms of concrete SMART indicators that would capture the level of savings.

**Exercise 2.1.** Using the information provided on design principles, characteristics of an impactful PBC and payment metric criteria, please provide your recommendation of which indicator the team should choose. Provide justification for your choice.

Savings			
Indicator	<b>Option 1:</b> % of participants that accumulate a savings amount of at least 40,000 CFA	<b>Option 2:</b> Average monthly savings	<b>Option 3:</b> Average number of contributions to the SL group
Measurement method	Verification of SL group registers	Calculation of total savings – SL as well as informal savings.	Verification of SL group registers
Frequency	Quarterly	Quarterly	At the end of the program
Recall period	N/A	At point of survey (recall is done for informal savings)	N/A

# EXERCISE 3

Assessing the incentives structure in the Case of Trobon

# Exercise 3

## Background

A context-appropriate incentive structure is critical to create the right type of performance incentives within the context of CBOs in Senegal. Performance incentives can be powerfully positive but can also produce perverse behaviors. Instiglio needs to ensure the performance incentives are strong enough, but also properly integrate the realities of the CBOs, the program, the external environment and Trobon's overall ambitions of scale.

**In this exercise, you are helping Trobon select one payment structure from the three options presented in slide 17. Use slides 14-17 as well as slides 4-6 to justify your response. State the assumptions that you are basing your response on.**

# Incentive levels in the Trobon program

## Team performance rewards team members

### 1. The PBC will offer performance incentives to CBO teams delivering Tobon's program.

The achievements resulting from the collaborative effort of the team will determine the total conditional payment.

### 2. The bonus is then distributed to individuals proportional to their respective salaries.

This choice is consistent with providing incentives proportional to the level of effort/agency of individuals.

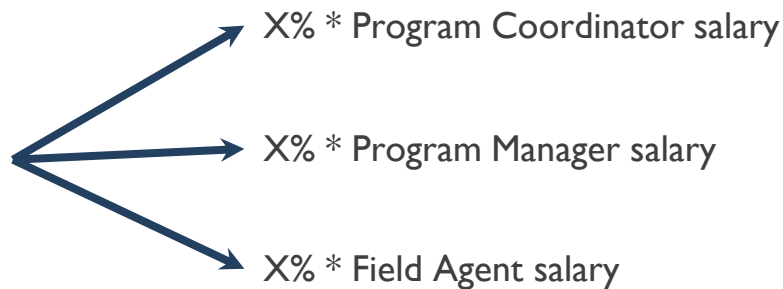
Team performance



Bonus amount

**X% of  
salary  
budget**

Amount earned by team members



# Payment structure

## Relevant background

Your team has already assessed a number of factors that are useful in determining the ideal payment structure of the PBC. Here are four key take-aways:

### 1. Limited information regarding historical and expected performance

*Assessment:* The PBC is being designed in a context of uncertainty and incomplete information. The field research found that available historical data is insufficient to determine expected performance. One of three local partners has no data on any of the potential indicators, whereas data for the remaining local partners has been collected for only two out of four payment metrics.

### 2. Different appetites for risk and rewards

*Assessment:* A participatory workshop with the leaders and teams of the 3 CBOs revealed that each CBO has a different preference among the 3 options. In other words, there was no clear 'winner' from that exercise but it revealed that different groups of people with similar set-ups could have difference risk appetites or views on the PBC.

### 1. Intrinsic motivation is an important success factor currently

*Assessment:* An important insight from the field work is that CBOs have high levels of intrinsic motivation. This has been a key success factor for the program so far. But can it scale?

### 2. CBOs have limited capacity to manage performance and weak organizational infrastructure

*Assessment:* An important insight from the field work is that CBOs are small structures that tend to have low capacity to measure and manage outcomes. Their programming tends to be small-scale and driven by donor funding. Yet, they remain the best partners to deliver this highly contextual program where community relations are central to impact. There is also a shared sense they are having a real impact on the women they serve. They have been implementing the program for 8 years.

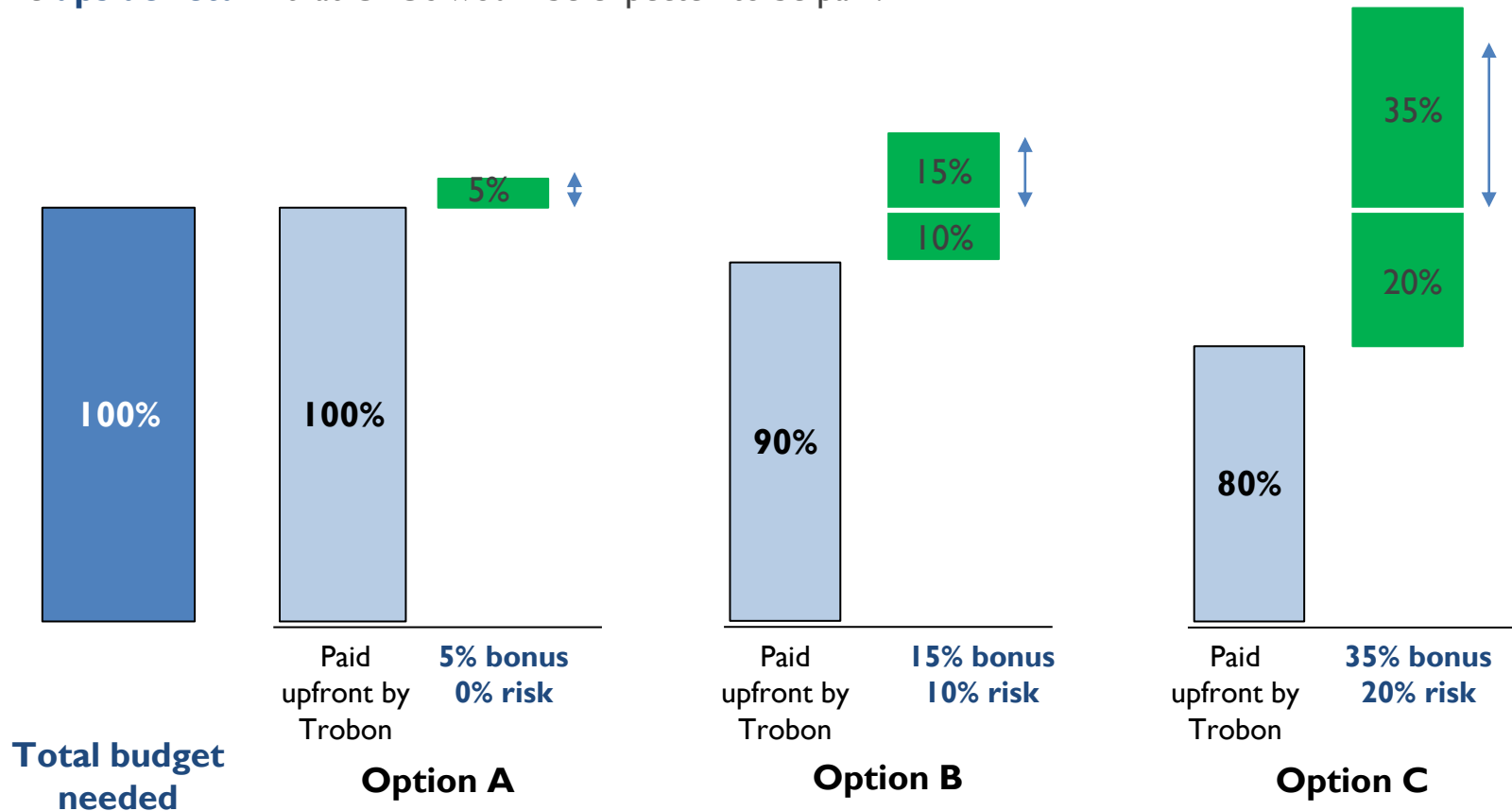


# Payment structure

There are multiple options to provide financial incentives

These options differ in:

1. The **total amount of money** Trobron would need to set aside in order to fund these PBCs
2. The amount of **risk transferred** to CBOs
3. The **upside return** that CBOs would be expected to be paid.



Graphics not drawn to scale

