

## **A conversation with Michael Kremer and Jeffrey Brown on July 25, 2013**

### **Participants**

- Michael Kremer – Scientific Director, Development Innovation Ventures
- Jeffrey Brown, Division Chief, Development Innovation Ventures
- Holden Karnofsky – Co-Founder and Co-Executive Director, GiveWell
- Cari Tuna – Co-Founder, Good Ventures

### **Summary**

GiveWell and Good Ventures spoke with Michael Kremer and Jeffrey Brown about Development Innovation Ventures (DIV) (<http://www.usaid.gov/div>), a USAID program that attempts to fill the philanthropic funding gap between small scale trials and large public or commercial programs. DIV runs an open competition for ideas to solve global development challenges, and awards funding based on cost effectiveness, rigorous evidence, and potential for scaling and sustainability. Funding is assigned through a staged funding model, either for initial exploratory work, rigorous testing, or the scaling up of an idea. DIV's goal is that this model of open-source innovation, rigorous evidence-gathering, and staged-financing will result in finding and scaling solutions that improve the lives of millions in the developing world

**Note:** This set of notes was compiled by GiveWell and gives an overview of the major points made by Michael Kremer and Jeffrey Brown.

### **Development Innovation Ventures**

Development Innovation Ventures (DIV), a US Agency for International Development (USAID) program, is a competition of ideas and open innovation platform that provides funding for socially impactful development projects via staged financing. The competition assigns funding for ideas in any sector and country based on a program being cost effective, having rigorous evidence, and having potential for scaling and sustainability.

Using staged financing, DIV aims to fill the philanthropic capital gap between early stage pilot programs and large capitalized projects by causing more proven interventions to be brought to scale. Lots of interventions have initial evidence of success, but many of those interventions have not scaled up. This may happen, for example, because government agencies or other funders have legitimate questions about whether a program that succeeded in a small trial could operate at scale. DIV provides funding to evaluate the effectiveness of such programs on a larger scale, combining an evidence-based academic approach with a venture capital-style approach to stage funding.

### **The public sector/double bottom line pipeline and the philanthropic capital gap**

Currently, the pipeline for public sector or double bottom line development projects is not as well established as the private sector pipeline. The public sector pipeline is largely made up of small scale projects, like pilot trials, and large, publicly implemented ones, with a lack of money in between. DIV is an attempt to fill that gap, in what is analogous to the venture capital or private equity role in the private sector. DIV's intention is to be able to get projects from the small, pilot stage to the large program stage and be able to exit with future funding in the hands of other sources of capital, public or private.

There are few other funders with such a role.

### **Staged funding**

DIV's funding model has 3 stages, and applicants can enter at any stage. The basic framework is that Stage 1 is initial concept work, Stage 2 is rigorous testing (often but not necessarily Randomized Controlled Trials (RCTs) and Stage 3 is scaling up.

The notional maximum amounts to be awarded to applicants at each stage are \$100,000 at Stage 1, \$1 million at Stage 2, and \$3 to \$15 million at Stage 3. In practice the average award for Stage 2 is significantly lower..

DIV's budget is complex, but the President's budget request for 2013 is \$28 million annually. It also has been able to leverage gifts from other sources, including the Gates Foundation and the UK's Department for International Development (DFID). Applicants are also incentivized to bring resources to the table, and on average DIV grantees bring in \$0.65 in cost-share for every \$1 of funding DIV provides.

Many applicants have projects with a commercial impact and want to measure their social impact, so they partner with others such as an academic and apply for a grant to gather evidence to help prove an approach.

### **Criteria**

The main criteria DIV focuses on are cost-effectiveness relative to existing methods, rigorous evidence, and a pathway to scale and sustainability, meaning the way a project could be handed off to impact or commercial investors or public funders. The bar for those criteria is set higher for later stages. Other considerations include the quality of the management team and the additional resources the applicant is bringing to the table.

The more evidence projects already have, the more likely their application is to be selected for funding.

The typical Stage 1 applicant normally has some intriguing, but not rigorous, evidence of success. Projects don't necessarily need to be cost effective and scalable immediately, but applicants have to make the case that their projects could be eventually.

Stage 2 applicants are likely to be cost effective and have a realistic chance of scaling, and the proposed evidence-collection for the project must be rigorous, frequently supported by an RCT for public sector projects, and market-based tests for commercial projects.

Stage 3 proposals must already have rigorous evidence, and public sector projects must show cost effective use of public money, while commercial projects must demonstrate commercial feasibility. Both public and commercial projects must give evidence that they will have social impact.

The current portfolio can be one indicator of what DIV is looking for, but as a young organization, DIV continually is updating its solicitation document, and as awareness of DIV continues to grow, the types of projects that make up the portfolio will certainly change.

Potential applicants can refer to DIV's website, under the section "Selection Criteria" within DIV's Annual Program Statement (<http://www.usaid.gov/div/aps>) for more information. Short descriptions are released on each funded project. Although DIV cannot publicly release details about rejected applications or why they were rejected, applicants can request this feedback on their proposals individually.

### **Applicants and projects**

DIV's competition is open to anyone with a global development solution. Around 90% of the winners are coalitions of two or more partners. Since being founded in 2010, there have been around 3000 applications, with the number tripling in December's application round and then tripling again in April's (1200 were received in April, 2013 alone). Roughly 4% of applications are chosen for funding, as of now; and about 55% of the funding given out is for projects that include RCTs.

DIV funds a wide variety of projects ([http://www.usaid.gov/sites/default/files/div\\_yearbook.pdf](http://www.usaid.gov/sites/default/files/div_yearbook.pdf)). Examples include thumbprint readers to monitor public health sector workers in Karnataka, India, and stickers in buses in Kenya which suggest that riders complain when the driver is not driving safely. The latter project is an example of one with potential for commercial scale, since local insurance companies stand to benefit from buses becoming safer.

DIV is open to applications that scale approaches with strong evidence of impact and cost effectiveness or that replicate the approach in other contexts to see if it works more broadly. The DIV website includes a list of some such approaches.

DIV is hoping to create a mechanism for other funders to fund some of the projects that DIV cannot, possibly by promoting something analogous to a "shop window" for investors.

### **Broader use of DIV's model**

DIV's model could be characterized as a government spending effectiveness tool, and so it can be useful more broadly. Two Presidential Innovation Fellows were recently assigned to DIV (<http://www.whitehouse.gov/innovationfellows/development-innovation->

[ventures](#)), one of which will help apply DIV's concepts and tools to the domestic domain. DIV was also cited in recent White House guidance (<http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-17.pdf>) to all federal agencies.

USAID, DFID, and the Omidyar Network recently announced plans to create a new global investment platform (<https://www.gov.uk/government/news/uk-to-help-technology-pioneers-join-the-fight-against-poverty>) based on the DIV model, called Global Development Innovation Ventures (GDIV). Its work will expand the DIV model so that other funders can join.

For more DIV news, see <http://divatusaid.tumblr.com> and <https://twitter.com/divatusaid>

*All GiveWell conversations are available at <http://www.givewell.org/conversations>*