Innovative Financing for Nutrition

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Key messages

- To reach the global targets for stunting, wasting, anemia in women and exclusive breastfeeding, it is estimated that an additional $7 billion (US) per year is needed over the next ten years.
- While the majority would come from the traditional sources represented by governments and donor organizations, the remaining gap of a little more than $4 billion over 10 years would need to be filled by innovative financing sources and household contributions.
- There are three reasons to be optimistic about the use of innovative finance for nutrition:
  1) the financial case for solving malnutrition provides a very powerful incentive for governments to invest;
  2) in certain cases where inefficiencies in the market are clear, innovative financing can have a positive impact; and
  3) there is, at least theoretically, a viable commercial market for nutrition products, even in low-income countries.
- Innovative financing enables and rewards countries, enterprises, and NGOs with a good track record to innovate and to optimize supply and delivery models. It provides new business opportunities in emerging markets for credit, lowers risk for any single investor, and thus has the potential to improve overall efficiency, effectiveness and transparency of aid utilization.

Investments in nutrition are not comparable to the scale of the nutrition problem – on average, countries spend just 1% of their health budgets on high-impact nutrition-specific programs. At present, $3.9 billion per year is spent on nutrition. To reach the global targets for stunting, wasting, anemia in women and exclusive breastfeeding, it is estimated that an additional $7 billion per year is needed over the next ten years. While the majority would come from the traditional sources represented by governments and donor organizations, the remaining gap of a little more than $4 billion over 10 years would need to be filled by innovative financing sources and household contributions.[1] Additional sources of funding from areas linked to nutrition such as education, agriculture and food security, water and sanitation, gender and health promotion must also be mobilized towards achieving specific nutrition outcomes. Since 2006, innovative financing has mobilized over $8 billion in health and $1 billion in agriculture and food security. An additional $18 billion and $2.5 billion, respectively, are expected by the year 2020.[2] As seen in other sectors, innovative financing is the manifestation of an increased focus on programs that deliver results and, with this, public private partnerships.[2] This article provides perspectives of experts in innovative financing, highlights of relevant models from other sectors, and new initiatives in the nutrition sector. Joe Dougherty from Dalberg Global Development Advisors explains that: "Innovative financing is simply anything other than a traditional grant. It is of two types. One type seeks no financial returns such as performance-based contracts and the other type seeks financial returns such as debt, equity or a hybrid of the two."

> "Current investments in nutrition are not comparable to the scale of the nutrition problem"

Landscape of innovative financing mechanisms

Since the creation of the Millennium Development Goals (MDG) in the year 2000, different types of innovative financing instruments (**Table 1**) have mobilized $94 billion complementing official development assistance (ODA) in developing countries.[2] Guarantees, whereby the public sector has the ability to leverage capital by providing credit enhancements, and bonds, which dedicate resources to specific development goals such as low-carbon infrastructure, mobilized more than half of these funds. These are proven models (**Figure 1**) with simpler structures, fewer stakeholders to manage, and clear standards for

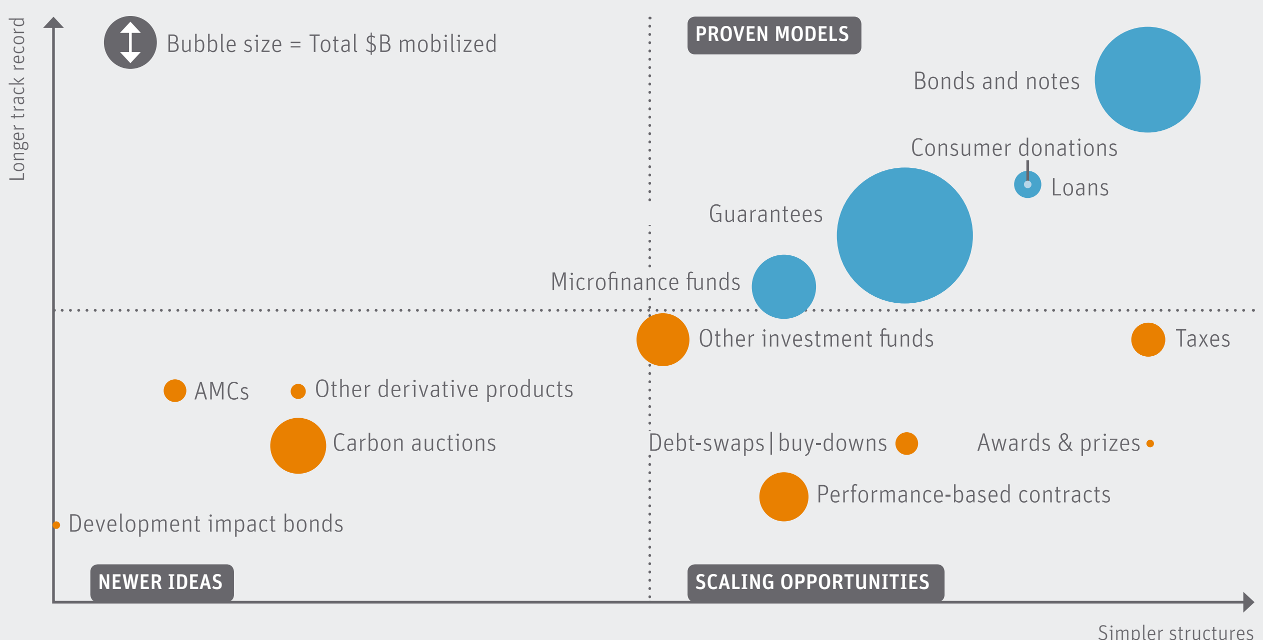
TABLE 1: Description of innovative financing instruments[2]

Compulsory charges	Voluntary contributions		Results-, output-, and performance-based mechanisms			
Taxes	Donations as a part of consumer purchases	Carbon auctions (voluntary market)	Debt swaps & buy-downs	Performance-based contracts	Development impact bonds	Awards & prizes
Specific tax imposed by government to raise funding for a specific development challenge	A percentage of each purchase of a consumer product goes to fund a designated development challenge	Voluntary participation in legally binding exchanges for trading carbon credits and reducing emissions	Developing country debt repayment obligations are transferred or reduced based on meeting development goals	Grant contracts structured to disburse based on meeting specific performance targets	Investors fund development intervention upfront, government | donors repay them with interest based on results achieved	Financial reward for development solutions in a competitive selection process

assessing risk. They are hence able to scale and to establish track records. Models that have the potential to scale, such as solidarity airline levy or performance-based contracts, are also easy to operate but would need more performance data in order to be considered mature mechanisms. Newer models such as Development Impact Bonds (DIBs; **Box 1**) are nascent and would need to be proven by traditional donors and philanthropies before they can attract private investors. A DIB would be useful for improving aid effectiveness and mobilizing private-sector resources in the nutrition sector, as nutrition has a strong financial case and there is a viable market for nutrition products (see impact investing).

> "Successful financing mechanisms are focused, drive results, are effective in raising the priority of the issue, increase partnerships, and have robust accountability frameworks"
>
> *Augustin Flory, CIFF*

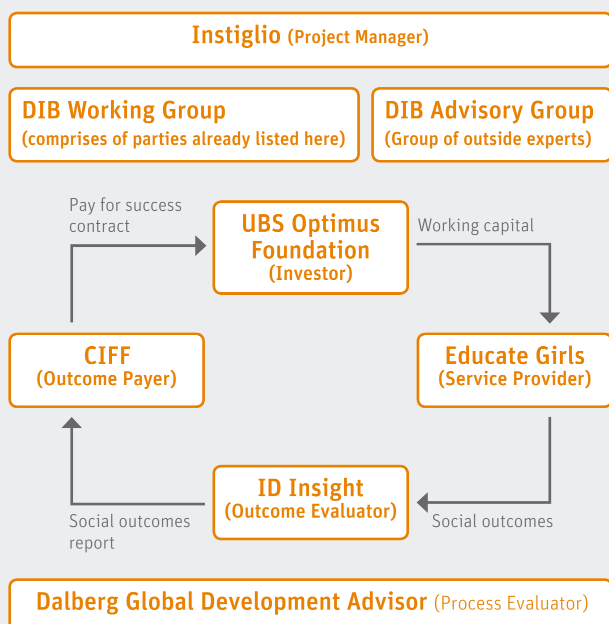
FIGURE 1: Landscape of innovative financing mechanisms[2]



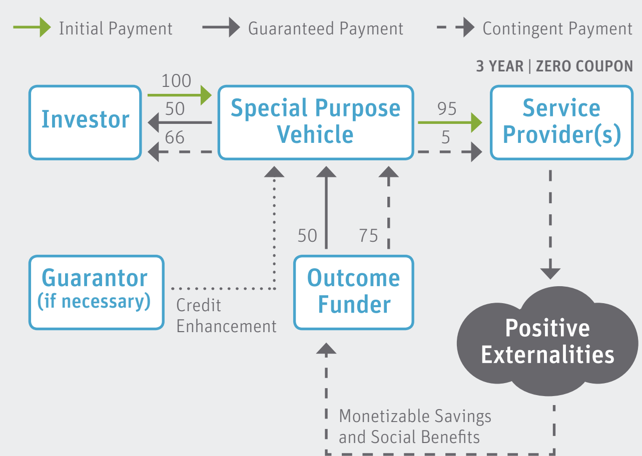
	Securities and Derivatives					
Advanced market commitments	Other Derivative Products	Other Investment Funds	Microfinance Investment Funds	Loans	Guarantees	Bonds and Notes
Commitment of funds to guarantee price | market for products once developed	Financial instrument that derives its value from performance of another asset like securities tied to residential mortgages or weather events	Investment vehicles that are structured and funded to target a specific development challenge, often blending investors with different risk | return profiles	Investment funds that finance microcredit lenders in developing countries who provide low-income and marginalized borrowers with access to finance	Loans made with concessionary repayment terms to borrowers for implementing specific development interventions like green credit lines	Financial commitment to provide payment in case of financial loss, including insurance products, that act as a risk-migitation incentive to attract other funders	Debt financing raised in capital markets to fund development interventions like microfinance or climate change interventions

Box 1: Development Impact Bond

A particular class of impact investing, social impact bonds (SIB) – also called "pay for success" – has become popular in high-income countries. Private investors provide capital to fund a social intervention, and governments repay the investor only if an agreed outcome is achieved. Development Impact Bond (DIB) is similar to a SIB but implemented in low- and middle-income countries: a donor, as opposed to the government, funds the outcome.[3] The first and most notable DIB was started in 2014 in Rajasthan, India, and is called Educate Girls DIB.[4] It aims to increase enrolment and improve learning outcomes for girls. Funding is fully tied to outcomes. This DIB is a proof of concept to demonstrate both social and financial returns. In practice, it works as follows:



Educate Girls (service provider) received working capital from UBS Optimus Foundation (investor) to carry out a three-year intervention. ID Insight (outcome evaluator) will assess progress made in improving enrollment and learning outcomes and provide an evaluation report to the Children's Investment Fund Foundation (CIFF), UBS Optimus Foundation and Educate Girls after the program ends in 2018. CIFF (outcome payer) will disburse payments to UBS Optimus Foundation according to the indicators measured for the program. A theoretical example[2] of cash flows in a DIB follows:



Potential Cash flows	At issue Cash flows	At maturity (guaranteed)	At maturity (If metrics are achieved)
Investor	−100	+50	+66
Outcome Funder	0	−50	−75
Special Purpose Vehicle	+5	0	+4
Projects	+95	0	+5

New and promising models in nutrition

The share of the total ODA for basic nutrition during the MDG period (2000–2011) doubled from 0.2% to 0.4%, which is very low when compared to spend on food and agriculture. There is no information on the impact of other financial resources in nutrition. Augustin Flory from the Children's Investment Fund Foundation (CIFF) explains, "The limited progress in nutrition during the MDG period, even in countries that had experienced high economic growth, combined with the size of the problem (nutrition is the underlying cause of 45% of under-five mortality and affects more than 40% of children in Africa and South Asia) and the exceptional cost effectiveness of the solutions brought CIFF and the governments of UK and Brazil to host the Nutrition for Growth Summit in 2013 to catalyze greater political and financial commitments for nutrition."

> "Three reasons to be optimistic about the use of innovative finance for nutrition – strong investment case for solving malnutrition, opportunity to fix certain inefficiencies in the market, and a viable commercial market for nutrition products"
>
> *Joe Dougherty, Dalberg*

> "Nutrition is chronically underfunded – a focused fund that positions and brands nutrition as a smart investment is required to attract other resources from the private sector"
>
> *Martin Short, The Power of Nutrition*

Momentum was built for tracking all forms of financing, alignment with the Sustainable Development Goals, and developing innovative financing mechanisms to bridge gaps and spark new ways of working. The need for new financing solutions was also reinforced at the Third International Financing for Development conference last year. Joe Dougherty from Dalberg provides three reasons to be optimistic about the use of innovative finance for nutrition: **1)** the financial case for solving malnutrition (e.g., the combined effects of undernutrition can cost affected countries up to 11% of GDP[5]) provides a very powerful incentive for governments to invest; **2)** in certain cases where inefficiencies in the market are clear (e.g., timing of payments), innovative financing can have a positive impact (**Box 2**); and **3)** unlike some other sectors, there is, at least theoretically, a viable commercial market for nutrition products, even in low-income countries (see impact investing).

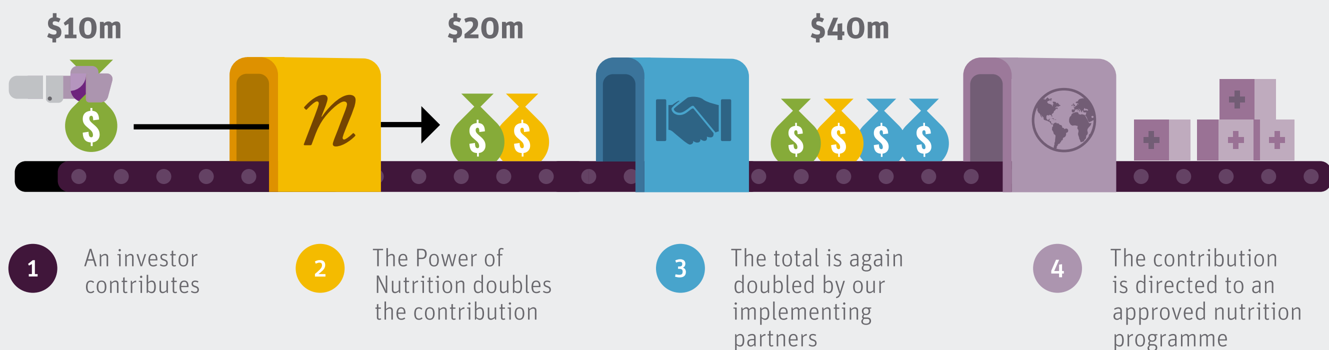
Some examples of new and promising models are explained below: **The Power of Nutrition** is an independent charitable

Box 2: Bridge Funds

Bridge funds are designed to increase the speed and efficiency of funding from international donors. Two notable examples are UNICEF's Pledge Guarantee for Health (PGH) and the US Fund for UNICEF Bridge Fund. PGH[6] is a financial tool that enables governments and NGOs to obtain short-term, low-cost financing based on pending aid commitments. PGH transactions average six months in duration, allowing the $100 million in credit from commercial banking partners to be turned over twice annually, thus reducing the time between a donor pledge and "money in the bank." Recipients are thus empowered to use committed donor funding in advance of disbursement, resulting in higher buying power, accelerated procurement and delivery, and optimization of the supply chain.[7] This means that costs associated with uncertain payment timings, additional premiums, expedited production and shipment, stock-outs, wastage, and expired commodities are lowered.

Similarly, the Bridge Fund pools capital in the form of 3-year or 5-year fixed-rate loans to speed the delivery of life-saving commodities and assistance to children in need. For example, a single net worth grant of $1.4 million allows the Bridge Fund to borrow, or leverage, $5 million, which is 3.5 times as much capital. If this bridges just two transactions per year ($10 million), that net worth investor has already achieved seven times the impact of the ori-ginal investment. After five years, a grant-maker can achieve up to 35 times ($50 million) the impact of the original investment. In three years, a total of $101 million of social investment capital was mobilized to accelerated delivery of school supplies to 45,000 Syrian children and anti-malarial commodities to three countries; it sped the procurement of more than 100 million polio vaccinations in Nigeria and the distribution of therapeutic food to 10,000 children in Burkina Faso during a nutrition crisis; it saved

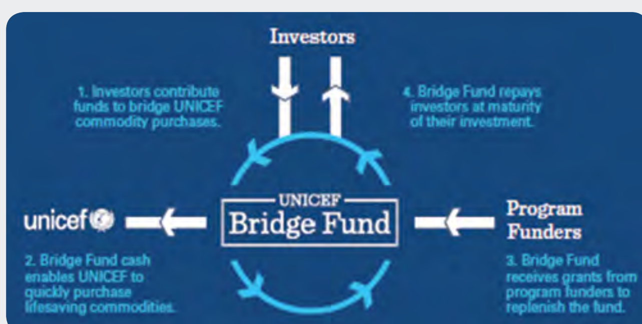
FIGURE 2: The Power of Nutrition guarantees that every investment is multiplied four times



Source: www.powerofnutrition.org

foundation that has committed to unlock $1 billion by 2020 in new private- and public-sector financing for child nutrition that would not have been generated in its absence. Every dollar from private and other non-traditional sources of financing (such as non-OECD donors) is first matched by the UK's Department for International Development (DfID). A second match is guaranteed by the implementing partners (Figure 2). This financing is expected to drive a measurable reduction in child undernutrition by scaling up a package of evidence-based nutrition interventions in hotspot geographies in sub-Saharan Africa and Asia. Incubated by CIFF and the UBS Optimus Foundation, the Power of Nutrition was launched in April 2015 with $200 million in signed commitments. It identified Tanzania as the first nutrition hotspot

$10 million on purchases of oral polio vaccine, and allowed more than 1.4 million children to be vaccinated in Nigeria through accelerated support from the World Bank.



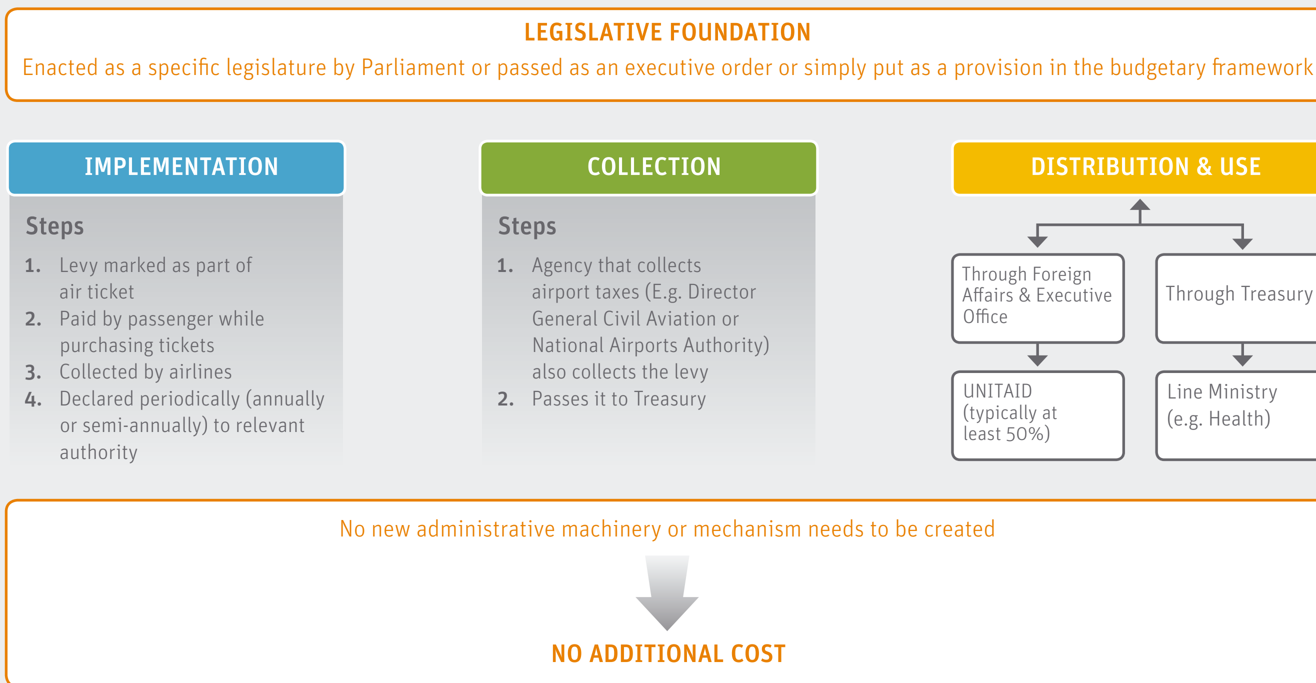
Source: Dalberg, UN Foundation – Pledge Guarantee for Health; www.unicefusa.org/unicef-bridge-fund

and made a first investment to the country in partnership with the World Bank. This investment unlocks up to $44 million to provide incentives to primary health care facilities for successful performance against nutrition indicators.[4] A new investment that unlocks $10 million to tackle child undernutrition in post-Ebola Liberia has just been announced in partnership with UNICEF.

UNITLIFE is a model built on the solidarity levy in extractive industries started in 2014. Replicating the very successful UNITAID model (Figure 3), UNITLIFE brings together political leader commitments from seven countries in Africa to eliminate chronic malnutrition. It is estimated that $100–$200 million in annual revenues can be generated from a micro levy of $0.10 on each barrel of oil sold by the state.[8] Benefits include substantial source of funding, low maintenance to collect once installed, ability to expand to gas and minerals, independence from annual public budgeting and discussion process in parliament, which makes the solidarity levy mechanism less volatile[6] The structure of the model is currently being designed, and may look similar to UNITAID. UNITLIFE will be governed by a steering committee whose members will include contributing countries and UNICEF (as the host organization). The committee will be supported by a small technical secretariat located in Geneva. A technical advisory committee, whose members are independent, will evaluate proposals to support the implementation of nutrition-specific interventions as mentioned in *The Lancet* and to advise the steering committee.[9]

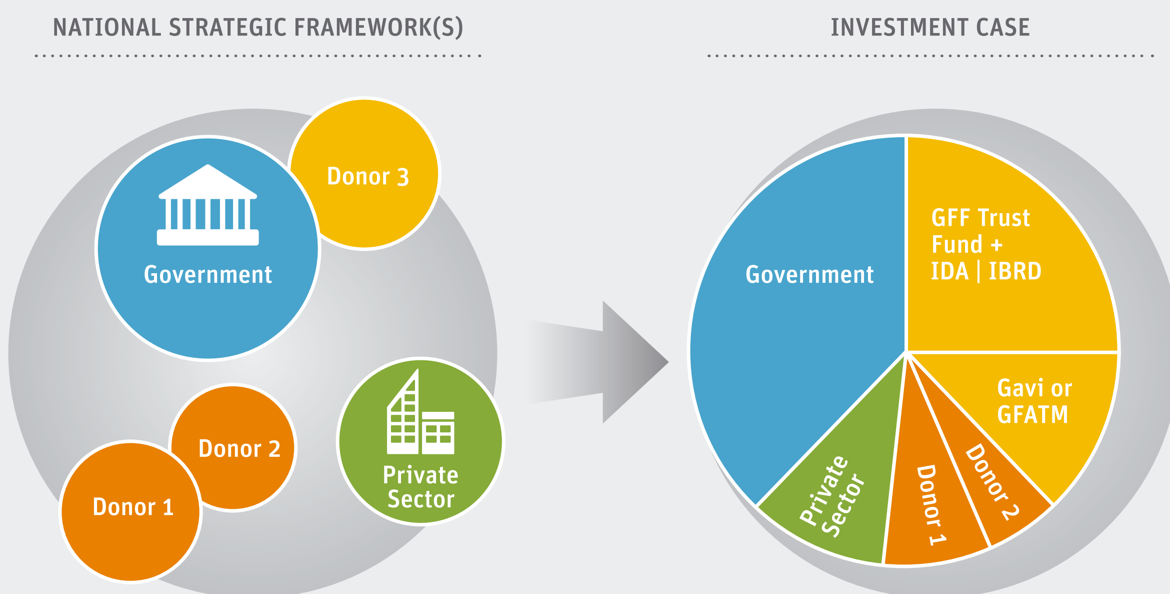
The Global Financing Facility in Support of Every Woman Every Child (GFF) aims to close the funding gap between resource needs and those available for reproductive, maternal, newborn, child, and adolescent health (RMNCAH). Financing is mobilized from three key sources: domestic financing from public and private sectors; GFF Trust Fund and two of the World Bank's agencies – International Development Association (IDA)

FIGURE 3: How is the air ticket levy implemented?[10]



Note: Solidarity (e.g. air ticket) levy is a small tax added to outbound air tickets. It is applied to all airlines and therefore has no impact on competition, nor does it penalize the implementing country.[11] The levy is tiny relative to ticket price: rate may be flat (e.g., US $2–4 for all) or graded (e.g., $2 for economy class/$40 for business class). Between 2006 and 2013, UNITAID raised $2.2 billion. It has been used to shape markets and lower prices for antiretroviral medicines (from $10,000 to $100 for a year's treatment), introduce new TB testing tools (doubled detection rates for drug-resistant TB), and expand access to new malaria drugs and diagnostics (contributing to a 50% reduction in deaths since 2000).[12]

FIGURE 4: GFF – Complementary financing of the investment case



Note: A country-specific investment case is at the core of the model. The Investment Case, a prioritized plan, drives efficiency by focusing on evidence-based, high-impact interventions while also improving alignment, which reduces gaps and overlaps as financiers increase funding for RMNCAH.[13]
Terminology: GFF Global Financing Facility, **IDA** International Development Association, **IBRD** International Bank for Reconstruction and Development, **GFATM** Global Fund to fight AIDS, Tuberculosis and Malaria, **RMNCAH** Reproductive, Maternal, Newborn, Child, and Adolescent Health

and the International Bank for Reconstruction and Development (IBRD); and other international donors. The GFF Trust Fund encourages additional allocations from IDA and IBRD – funds that are given as grants or low-interest loans to the poorest countries (**Figure 4**). Such a design can support GFF to mobilize more than $57 billion from 2015 to 2030 and substantially increase domestic attention paid to nutrition programming.[13,14] Further scale and efficiency will come from integrated financing. Jessica Johnston, during her time at the MDG Health Alliance, provides an excellent example of how malaria and nutrition programs would benefit from such integrated approaches in select regions in Sub-Saharan Africa – the provision of nutrition screening and supplementation, co-delivered with malaria prevention, can increase the overall effectiveness of the malaria treatment, and serve as an incentive for parents to adhere to the regimen, and in turn, help reduce incidents of severe malaria and child mortality.[15]

> "We should move away from single-delivery platforms, it's not how people live, and it's a waste of resources in the long term. We need to see more investment cases for integrated approaches to delivering global health interventions, as well as seek opportunities to build or leverage innovative financing mechanisms."
>
> *Jessica Johnston, Office of Reid Hoffman (formerly at the MDG Health Alliance)*

Impact Investment provides growth capital to companies with both a financial and a social mission.[16] Investments typically run for at least five years and at least provide a return of principal, with returns ranging from zero to market rate. A good example in nutrition is the loan made by LGT Venture Philanthropy, through a partnership with GAIN, to Meds & Food for Kids, a Haitian-based producer of lipid-based nutrient supplements. A loan of $732,000 helped to set up a new production facility that now has the capacity to produce 10 times more than it did at its previous facility.[17] Over a period of five years, more than 100,000 children received these supplements. Such examples are few, and funds have yet to be effectively targeted towards nutrition. This is partly due to the lack of investable companies, which are either too small or not sufficiently profitable.[16] However, if partnerships with the public sector are catalyzed, one can expect to see scale through impact investment, as in the case of Africa Improved Foods in Rwanda, which has a total project size of $59 million through a mix of debt and equity from investors, private sector and the government of Rwanda. Africa Improved Foods in Rwanda aims to reach more than a million people with adequate nutrition in two years (**Figure 5**).[18]

> "A necessity for DIBs specifically, as well as impact investing more generally, is adaptive management that continually improves the scale of success. Regular progress measurement and analysis alongside a culture of performance is core to this."
>
> *John Fairhurst, UBS Optimus Foundation*

Conclusion

It may be observed that decreases in aid budgets drive innovative financing. However, as seen in the examples provided in this article, there are several other noteworthy benefits. Innovative financing enables and rewards countries, enterprises and NGOs with a good track record to innovate and to optimize supply and delivery models. It provides new business opportunities in emerging markets for credit, lowers risk for any single investor, and thus has the potential to improve overall efficiency, effectiveness and transparency of aid utilization.

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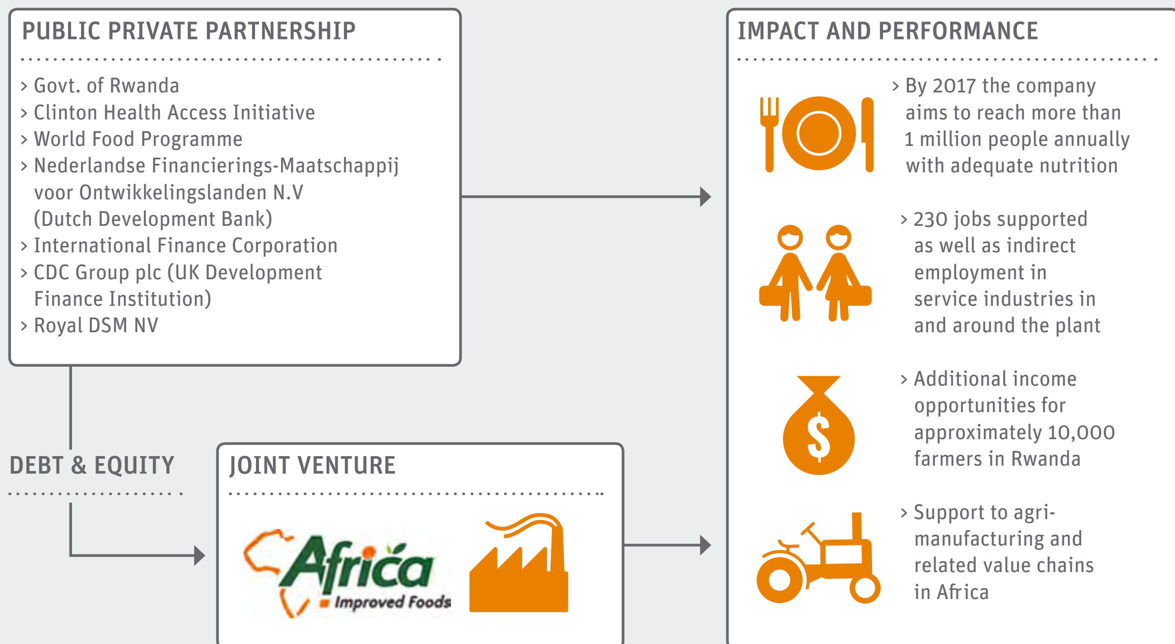
FIGURE 5: Impact of investing through a public-private partnership model in Rwanda



Note: A 45,000 tons per year processing plant in Rwanda for fortified cereals. A significant portion of the final product will be sold to the World Food Programme, which will distribute the product in the broader region (Southern Sudan, Uganda, Burundi etc.). The Rwandan government will distribute the product at no cost to the most vulnerable populations. The processing plant will source soybeans and maize locally from Rwandan farming cooperatives, offering approximately 10,000 farmers a stable, sustainable income for a proportion of their harvest.[18]

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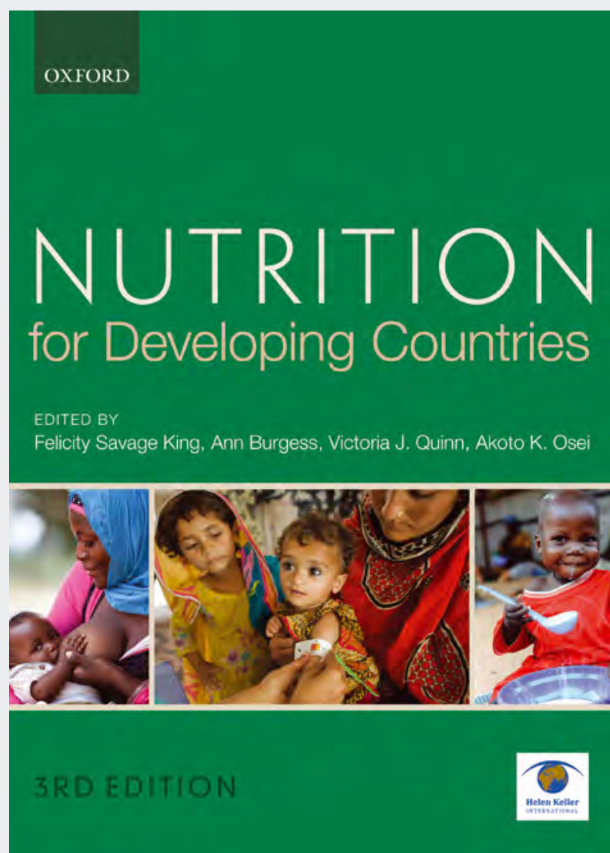

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