**U.S. Agency for International Development**
**Report to Congress on the Use of Innovative Financing Tools to**
**End Preventable Maternal, Newborn, and Child Deaths**

The U.S. Agency for International Development (USAID) submits this report pursuant to the Joint Explanatory Statement that accompanied Division J of Public Law 115-31, the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2017.

> *Not later than 90 days after the enactment of this Act, the USAID Administrator shall submit a report to the Committees on Appropriations detailing USAID efforts to expand interventions to end preventable maternal, newborn and child deaths through the use of innovative financing tools, including pay-for-success and sovereign local guarantees, and evaluating the opportunities and challenges of expanding the use of such tools. The report should also include the costs and risks of such interventions to date, and anticipated funding commitments for such purposes in subsequent fiscal years.*

**Efforts to expand life-saving interventions through innovative financing tools:**
Over the last two decades, the world has reduced child and maternal mortality by one-half. Despite this tremendous progress, each year 303,000 mothers and 5.9 million children under five die of largely preventable causes—including over 2.6 million newborns—almost one million on their first day of life. USAID is working to save the lives of 15 million children and 600,000 women by 2020 by scaling up proven, high-impact health interventions in 25 priority countries that account for 70 percent of maternal and child deaths.

In the current landscape of development finance, official development assistance (ODA) from donors to developing countries is no longer the dominant source of capital in an increasing number of USAID's global health priority countries, yet remains vital to support ending preventable maternal, newborn and child deaths. Forty years ago, nearly three out of every four dollars sent from the United States to developing countries came in the form of ODA. Today, over 80 percent of resource flows from the United States to emerging and developing economies comes in the form of foreign direct investment, remittances, and private philanthropy. Innovative financing tools present a unique opportunity to help women and children and close the estimated external financing gap of $33 billion for maternal, newborn, and child health (MNCH) by identifying and leveraging new sources of funding beyond U.S. Government direct assistance.

USAID is leveraging new sources of funding and using existing funds in a more efficient and effective manner. While to date these financing tools account for a small amount of the total resources deployed by USAID for MNCH, the Agency is committed to exploring how to expand their use across our portfolios.

**Conditional funding** includes partnering with the private sector to reach new markets and support development objectives. In this innovative funding structure, payments to the implementing partner are tied to achieving specific health outcomes, which allow for greater implementer accountability and more efficient allocation of donor funds to proven programs. Conditional funding includes various structures, such as results-based financing, pay-for-success, development impact bonds, social impact bonds, milestone-based contracts, and performance-based incentives. Each mechanism is slightly different, but all are similarly structured around the general idea of changing the basis of payment from inputs and expenses to outcomes and impact.

Illustrative priority conditional funding initiatives in MNCH include the following:

- *Support to countries to develop performance-based health programs.* USAID has supported capacity-building efforts in priority countries by helping to develop results-focused primary healthcare systems—such as the Rwandan Ministry of Health's nationwide pay-for-performance (P4P) system— through supply-side and demand-side programs designed to provide incentives for high-performing facilities that improve health outcomes. In the Rwanda example, evaluation by the Work Bank has shown that the P4P system resulted in a drop in healthcare-worker absenteeism and gains in operational efficiency. Further, districts with P4P saw a 14-percent increase in births by mothers in institutional health facilities (which is safer than home deliveries), and a 27-percent increase in preventative visits for children under age two.
- *Pay-for-success partnerships to ensure results.* USAID is finalizing a co-funded pay-for-success agreement to reduce maternal and newborn mortality in India by improving the quality of institutional safe births and access to medicines and services for newborns and expectant mothers. Initial modeling projects that the partnership could save over 10,000 newborn and maternal lives over the next five years.

**Catalytic funding models** includes investments aimed at leveraging external sources of capital, or stimulating innovation and market-based solutions that can be sustainably delivered at scale. Examples of catalytic tools include pooled investment funds, matched funding arrangements and credit guarantees, as well as vehicles that support market-based solutions, such as "Grand Challenges," grant-based venture funds, and program-related investments (such as repayable grants or concessional loans).

Illustrative priority catalytic funding initiatives in MNCH include the following:

- *Credit guarantees to de-risk investments and mobilize private capital.* USAID's Development Credit Authority (DCA) guarantees support to healthcare providers and other areas within the health sector by enabling commercial banks to extend working capital loans to traditionally underserved sectors like health. In its most-common application, DCA guarantees reduce the risks to lenders by sharing the risk with banks, by reimbursing up to 50 percent of the value of a loan in the event a borrower defaults. USAID has executed 29 health-sector guarantees that have leveraged millions of dollars in private capital for investments in global health initiatives in 18 countries. For example, a development credit guarantee provided working-capital loans to private-sector health clients in Uganda. As a result, 29 private health facilities were able to expand and upgrade their practices. To date, DCA's default rate across its entire loan-guarantee portfolio is less than three percent.
- *"Grand Challenges" to fund new and more effective solutions.* Grand Challenges for Development focus global attention and resources on specific, well-defined international development problems, and promote innovative approaches, solutions, and non-traditional partners to solve them. They engage non-traditional partners to identify

innovations that work. For instance, the Saving Lives at Birth Grand Challenge has received thousands of promising applications, and has funded over 100 potentially ground-breaking innovations. In particular, this included the Odon device, created by an Argentinian car mechanic, to help address obstructed labor. While the device is still undergoing licensure, it is the first such innovation in decades, and shows great promise. Another Grand Challenge for Development recipient advanced the application of chlorhexidine, an extremely low-cost antiseptic for newborn umbilical-cord care, which has saved thousands of newborn lives. In Nepal, this simple, low-cost antiseptic has reduced the odds of infant illness and death by 34 percent.

**Evaluating the opportunities and challenges of increasing the use of innovative financing tools:**

USAID has two goals for expanding the use of innovative financing tools for MNCH:

1. Leverage additional sources of funding across a diverse spectrum of capital, in both domestic and international markets, from return-seeking investors to philanthropic donors; and
2. Use of funding in a more efficient and effective manner to increase both the specific outcomes (such as immunization coverage) and public-health impact (such as mortality rates) for a given resource envelope. This could include conditional grants and contracts that require that the recipients achieve certain targets or health outcomes before USAID provides funding.

USAID recognizes the opportunity to use innovative financing tools to increase the flow of capital from impact investors to support the delivery of MNCH interventions; address working capital gaps across the MNCH commodity supply chain; and improve access to quality-assured, life-saving commodities at all levels of health systems. USAID also recognizes the opportunity to focus on market-shaping initiatives, which have the potential to cut MNCH commodity and pharmaceutical prices globally, for example.

One of the challenges to creating innovative financing mechanisms is the technical expertise required to identify, develop, and negotiate new transactions and partnerships. For MNCH, technical experts typically need to have experience in both finance and global health. At present, the Agency is training Mission staff on ways to employ a broader suite of financing tools—inclusive of traditional grants, as well as conditional and catalytic funding.

The level of coordination required between USAID and external partners is another challenge. Innovative financing transactions involve significant investments in time and human capital to negotiate and supervise agreements. Creating long-term contractual arrangements requires proper execution and oversight to ensure partners meet their responsibilities, despite the potential for shifting stakeholder strategic priorities over time.

Programs such as the Sustainable Financing Initiative (SFI) for HIV/AIDS, a three-year initiative funded by the President’s Emergency Plan for AIDS Relief (PEPFAR) and led by USAID to mobilize domestic resources for HIV/AIDS, offer lessons for MNCH on how to organize and achieve similar goals. SFI supports new and ongoing health-financing activities, including innovative financing, to increase domestic resources for the health sector in PEPFAR priority countries.

The changing financial landscape for MNCH highlights the need to prioritize plans that help host-country governments ease the financial and institutional transition from grants to other arrangements, such as concessional loans, and, eventually, self-financing. USAID strives to remain at the forefront of these changes to help countries grow their domestic resources and institutional capacity.

**Costs and risks of innovative financing tools:**
External analysis by Dalberg and the Global Development Incubator indicates that innovative financing models have mobilized over $100 billion in resources for international development since 2000. Yet, only a small percentage (approximately $7 billion) of those resources has flowed into investments in global health over the same time period.

To date, USAID has performed much of its work in innovative financing for MNCH on a deal-by-deal basis. The Agency intends to adapt a more strategic approach in the coming years, including by examining the skill sets of our staff. Given that many innovative financing tools are designed to leverage additional funding, the costs associated with their creation often include an initial or ongoing financial investment, in addition to the costs associated with staff time required to identify opportunities, develop partnerships, and negotiate transactions.

Each innovative financing tool and transaction is unique, so the associated risks and commitments of financial and human resources vary widely by project. The inherent complexity of the transactions often requires significant time and investment by USAID staff. For instance, on average it takes 18 to 24 months to develop and launch an impact bond successfully. Similarly, credit guarantees provided by DCA often take six to 12 months to finalize from the time a specific opportunity is identified. While we have demonstrated that we can finalize these types of deals, we also note that the more time required to complete these transactions, the less likely it becomes that agreements will materialize, as private-sector partners can pivot to other opportunities.

**Anticipated future funding commitments:**
Moving forward, USAID recognizes that, as domestic resources grow and developing economies become more attractive for capital markets, innovative financing instruments will further enable public, private, and philanthropic funders to transact across an increasingly diverse financial landscape. USAID will pursue opportunities to advance the means necessary to end preventable maternal, newborn, and child deaths through these tools. The ongoing redesign of the Agency launched by the current Administration will include reforms to diversify our partner base, promote the use of innovative procurement mechanisms and investment vehicles, and strengthen the skills of our workforce to design programs that employ these tools.