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# INVESTING *for* IMPACT

Capitalizing on  
the emerging  
landscape for global  
health financing

USAID's **Center for Innovation and Impact (CII)** takes a business-minded approach to fast-tracking the development, introduction and scale-up of health interventions that address the world's most important health challenges. CII invests seed capital in the most promising ideas and novel approaches, using forward-looking business practices to cut the time it takes to transform discoveries in the lab to impact on the ground.



A tremendous amount of work went into the development of *Investing for Impact*. USAID would like to thank our team of advisors and reviewers for their invaluable input. We are especially grateful to Dalberg Global Development Advisors and Dalberg's Design Impact Group for their partnership in developing this work. Questions and comments are welcome and can be directed to the USAID leads for this guide, Joe Wilson, Priya Sharma, and Rachel Fowler.

For contact information, and to download the latest version of *Investing for Impact*, please visit [www.usaid.gov/cii](http://www.usaid.gov/cii)

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## Global development finance is changing.

Since USAID's inception, we have seen a historic fivefold increase in Gross Domestic Product (GDP) per capita in the world, driven by demographic dividends and better governance, with half of low-income countries graduating to higher income status since the year 2000. As a result, public and private investments in development now dwarf official development assistance.

It is exciting to see the financial landscape evolving. These small statistical shifts—denoted by gradual percentage increases in the charts and graphs with which we are all familiar—are what it looks like to lift millions of men, women, and children out of extreme poverty and, in turn, advance America's security and prosperity.

At USAID we strive to be at the forefront of these changes while remaining steadfast in our mission. Our efforts to look beyond traditional operating models have led to the creation of new financing instruments and approaches that are enabling donors, governments, and private and philanthropic funders to transact across an increasingly diverse financial landscape.

Nowhere is this commitment more evident than in our work in global health. When pursuing goals such as controlling the HIV/AIDS epidemic, preventing child and maternal deaths, and combating infectious disease threats, we cannot succeed on our own. Solving these immense problems requires investments from all stakeholders in order to finance global health across the full spectrum of capital.

We at USAID's Center for Innovation and Impact (CII) are pleased to contribute *Investing for Impact* to help inform the process. This report focuses on the ways USAID and other donors operate in the new financial landscape to leverage non-traditional tools and sources of capital to drive impact in global health. Drawing inspiration from best practices used throughout the Agency and by our partners, we hope this educational guide and toolkit can serve as a starting point for a deeper conversation and movement towards appropriate and effective use. As with all of our work, we encourage you to put it to the test and to share your own experiences.

We look forward to hearing from you.

**Center for Innovation and Impact  
Bureau for Global Health, USAID**

## TRENDS IN GLOBAL HEALTH FINANCING

**The rapid rise in global health financing over the last two decades resulted in significant improvements to health outcomes.** Governments in lower- and lower-middle-income countries, as well as donors such as USAID, DFID, and the Bill & Melinda Gates Foundation, spent over \$300 billion on global health in 2015, more than thrice the spend in 2000. Total global investments over the period resulted in a 40 percent reduction in under-five child mortality, a 35 percent global reduction in new HIV infections, and a nearly 50 percent global reduction in malaria mortality.

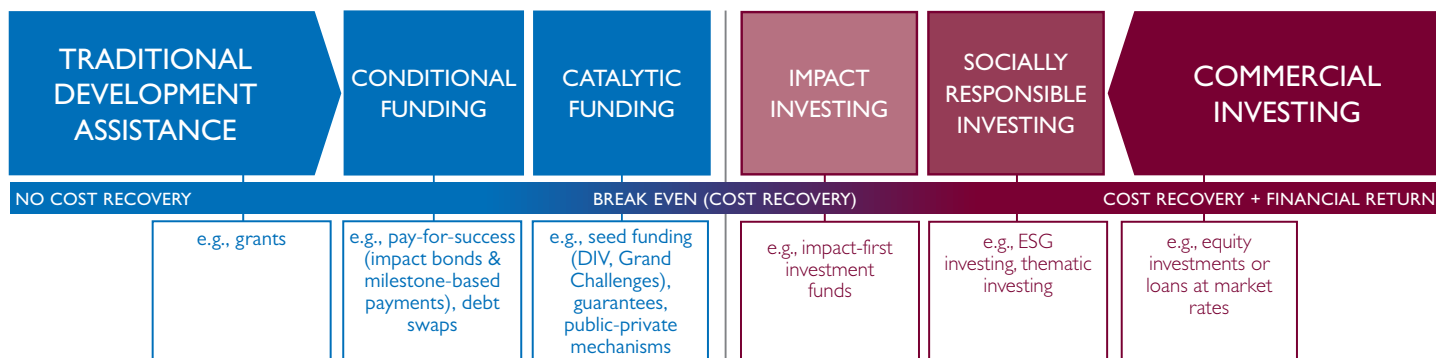
**However, given the current trends in health financing, and the scale and ambition of the Sustainable Development Goals (SDGs), existing levels of funding will not be sufficient to achieve these goals.** New sources of financing are needed to achieve our collective goals in global health. Across each of the key priority areas in global health (maternal and child health, malaria, HIV, TB), large funding gaps persist, which are not being met through traditional means.

## CAPITALIZING ON NEW TRENDS IN DEVELOPMENT FINANCE

The rapid growth of non-donor sources of financing and the leveling off of funding for development assistance indicate that donors with a strategy to engage a broad and more diverse spectrum of available financing options for global health (see Figure 1) will be well positioned in the years to come to maximize impact. Emerging trends include:

- > **Traditional development assistance is taking new forms.** Donors are supplementing traditional grant-based financing with new forms of conditional and catalytic support.
- > **Private investments and other non-donor sources of financing are increasingly generating social impact.** A movement is underway in which significantly more private investment decisions are being made with the goal of generating social impact.
- > **Donors, governments, and private and philanthropic funders are transacting across an increasingly diverse financial landscape.** Under the right conditions and policies, public and private finance are collectively supporting the advancement of an inclusive development agenda.

**FIGURE 1:**  
Global health financing across a diverse spectrum of capital



## HOW USAID IS APPLYING NON-TRADITIONAL APPROACHES TO FINANCING GLOBAL HEALTH

Changes in the global health financing landscape and the emergence of new opportunities to utilize non-traditional financing tools have not gone unnoticed.

**These trends present significant opportunities for USAID to:**

- 1. Leverage additional sources of funding across a diverse spectrum of capital** ranging from return-seeking investors to philanthropic donors in domestic and international markets.
- 2. Utilize existing funding in a more efficient manner**, such as through conditional grants and contracts that require certain targets or health outcomes be achieved before funding is allocated.

**The toolkit at the end of this report outlines eight illustrative financing tools health officers and other practitioners use to facilitate investments in global health (see Figure 2).** Given the current financing trends and the ambitious scale and scope of our collective goals, USAID and its partners will benefit from redoubling efforts to apply these non-traditional approaches to finance global health moving forward.

This interactive report is designed to be an educational resource for those interested in learning more about recent trends and non-traditional approaches to financing global health. Hyperlinks to additional resources have been added throughout the report. These links can be accessed by viewing the report online.

**FIGURE 2: Illustrative list of non-traditional financing tools available to USAID**

	A	B	C	D	E	F	G	H
	<b>Guarantee</b>	<b>Debt Swap</b>	<b>Pooled Investment Fund</b>	<b>Social Insurance</b>	<b>Seed Funding / Flexible Grant Capital</b>	<b>Milestone-Based Payments</b>	<b>Development Impact Bond</b>	<b>Co-funding/ GDA</b>
	Partial protection to lenders willing to extend loans to developmentally important but underserved sectors like health (e.g., USAID: DCA)	A developing country's debt is forgiven or transferred to another organization on the condition that the funds that would have been used to repay the loan are used for a specific purpose (e.g., USAID: Debt for Nature)	Funds from multiple parties are aggregated and used to support market-based solutions (e.g., Global Innovation Fund)	Insurance for social impact projects that unlocks private capital by protecting against some level of loss in the event the project is unsuccessful or the borrower is unable to repay the capital (e.g., USAID: Lulama)	Grant funding that operates like venture capital to finance high-risk, high-reward technologies and approaches that can be commercialized or scaled by others (e.g., USAID: Grand Challenges—Saving Lives at Birth)	Grant funding that is disbursed to recipients if and when pre-determined outputs or outcomes are achieved (e.g., USAID: Translating Research into Action—RBF4MNH)	A pay-for-success model that ties payment to the attainment of a pre-determined social outcome. Agreements include outcome funders, investors, service providers, and independent evaluation (e.g., USAID: Maternal Health DIB)	Public funding is used to leverage private funding (minimum 1:1 ratio) to increase impact by applying private sector knowledge and approaches to development problems (e.g., USAID GDA: Project Last Mile)
LEVERAGE MORE FUNDS	✓	✓	✓	✓			✓	✓
INCREASE EFFECTIVENESS OF FUNDS					✓	✓	✓	✓

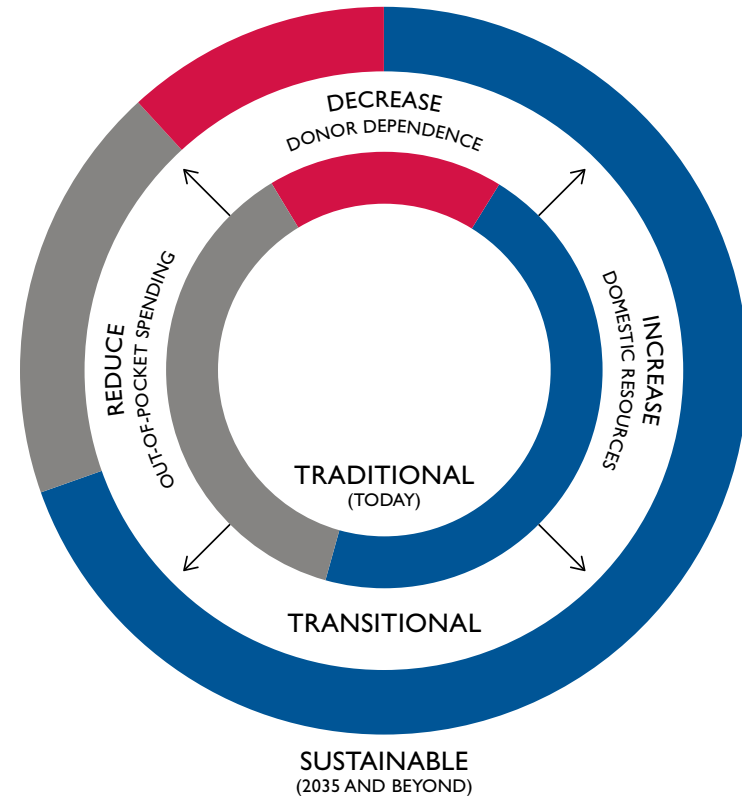
Forty years ago, nearly three out of every four dollars sent from the United States to the global south came in the form of official development assistance (ODA), otherwise known as foreign aid. Today we see just the opposite. **Over 80 percent of resource flows from the United States to emerging and developing economies come in the form of foreign direct investment (FDI) or sources other than ODA, and this percentage is climbing.**

The transformation is striking. We are living in a time where domestic resources are growing, and the global south is becoming more attractive for capital markets. As a result, the ways in which we finance global health are changing. A development finance architecture that was once heavily dependent on development assistance for health (DAH) has become increasingly reliant on domestic public expenditure in health, as well as local and international private investment.

At USAID alone, numerous programs and ongoing workstreams are dedicated to leveraging the economic transition of health. Initiatives are underway to mobilize domestic resources, foster country capacity and ownership towards equitable and sustainable development, and, ultimately, make global health progress less donor dependent, while improving health outcomes.

**In 2015, USAID’s Center for Innovation and Impact and the Bureau for Global Health launched [The Financing Framework to End Preventable Child and Maternal Deaths in](#)** order to provide Agency staff and our partners with a learning resource that identified ways in which additional financial resources and tools could support the Agency’s global health goals. Since then, the need for further exploration into these innovative financing tools and non-traditional forms of development assistance has only grown.

**FIGURE 3: The transition towards sustainable health financing**



## Today, more is expected of our investments in global health.

Requests for additional resources to fund new health programs are matched by calls to improve the efficiency and effectiveness of existing initiatives. In addition to directly delivering services through DAH, donors are redoubling efforts to drive change by advocating for new policies and providing strategic leadership and technical support to unlock additional sources of public and private finance. Doing so allows for small and targeted investments to have an outsized impact. Further, the donor community continues to identify the circumstances under which investments can be more effective than donations in delivering health outcomes and lifting people out of poverty.

At the same time, private capital—traditionally known for its emphasis on managing risk and maximizing return on investment—has become increasingly focused on measuring the social impact of investments. Each year, impact investors channel billions of dollars to projects that rigorously measure social returns while capital expenditures associated with environmental, social, and governance (ESG) indicators are measured in the trillions.

The drivers of these trends are many, but in aggregate they represent a shift away from the rigid dichotomy of once-perceived tradeoffs between social and financial returns toward a more dynamic and nuanced development finance architecture comprised of diverse sources of capital.

This interactive report is designed to be an educational resource for USAID staff and development practitioners interested in learning more about recent trends and non-traditional approaches to financing global health.

The first of its three sections summarizes high-level trends in global health finance over the past two decades. The second section identifies the implications of these trends and highlights opportunities in the new landscape of global health financing. Lastly, the third section provides an overview of how USAID is applying non-traditional approaches to financing global health and includes supplementary information on eight illustrative financing tools being utilized across the Agency.

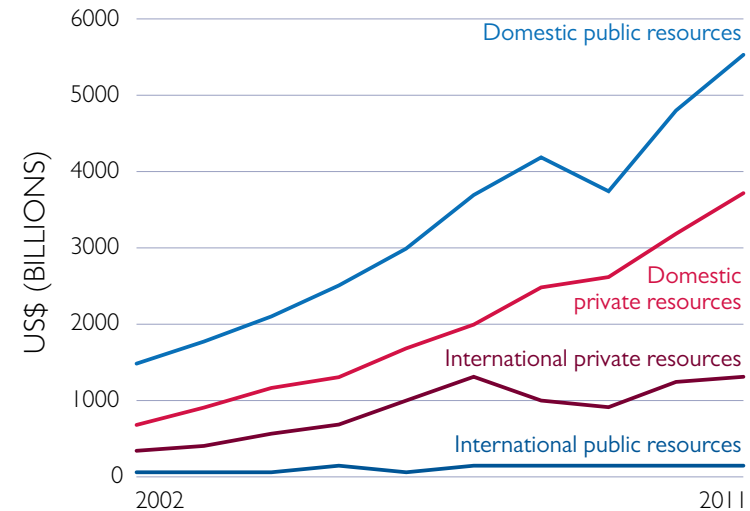


Global health financing, like the universe of development finance writ large, is undergoing a transformation. Consider the following figure depicting trends in global development finance since 2002.

Figure 4, from the [European Report on Development 2015](#), illustrates a number of important points:

- 1. Financing for development has grown rapidly in the 21st century.** Multiple sources of funding have unlocked trillions of dollars in public and private financial flows both to and within developing countries.
- 2. Domestic resources are experiencing accelerated growth and account for the largest source of development financing.** Driven by increases in GDP and tax revenues in the public domain and through the maturation of local capital markets in the private sector, economic growth continues to help mobilize domestic resources for development.
- 3. Private capital plays an increasingly important role in development.** While varying greatly from one country to the next, domestic capital markets and international financial flows coming in the form of FDI, remittances, and other sources account for a significant share of development finance.
- 4. Donor financing and international public resources, including ODA, are making up a smaller share of total financial flows.** Thus, the role of ODA must be reconsidered in light of the changing global architecture of development finance.

**FIGURE 4: Trends in development finance, to and within developing countries, 2002–2011**



CATEGORY	SOURCES
Domestic public resources	Tax and other public revenues, domestic debt
Domestic private resources	Gross fixed capital formation (excluding FDI) by private sector, private credit provided by domestic banks, market capitalization
International private resources	International, private transfers (private development assistance [PDA] remittances), FDI and other international private capital flows (bank lending, equity, and bond portfolio flows)
International public resources	ODA, Other Official Flows (OOF) and South-South Cooperation (SSC)

Sources: ODA+OOF – OECD DAC CRS Table I; Remittances and international private capital, GFCF and FDI – World Development Indicators (WDI); public revenue – IMF FAD database. Note: For ODA, OOF, remittances and international private capital, data drawn directly from relevant sources; for public revenues, authors’ calculation using IMF FAD data on tax revenue/GDP and WDI data for GDP.

## Trends in global health financing mirror the development finance landscape.

Domestic government spending on health continues to grow but varies widely by country.

- > Spending by governments in low- and lower-middle-income countries grew by 7.6 percent (annualized) from 2000–2015, as total spending rose threefold from approximately \$100 billion in 2000 to approximately \$300 billion in 2015.
- > This increased spending is driven by unprecedented levels of economic growth.
- > In many countries, however, donor funding is still a critical source of funding for health, especially in certain sectors such as HIV/AIDS. As developing country economies continue to grow, governments will need to devote more resources to health.

Private investment in health is growing yet remains selective.

- > Domestic and international private finance is a selective source of capital—there are limits to its ability to fund at scale the equitable provision of healthcare to the poor. The breadth and depth of private investment in global health varies from one country to the next, and within those countries there is often great disparity between capital flows to target populations.
- > Private investors have successfully deployed capital across the healthcare ecosystem, including investments in health infrastructure, pharmaceuticals, medical devices, information and communication technology, human resources, digital and mobile platforms, and insurance.

In the donor community, the last two decades have been called the “golden age” of global health financing.

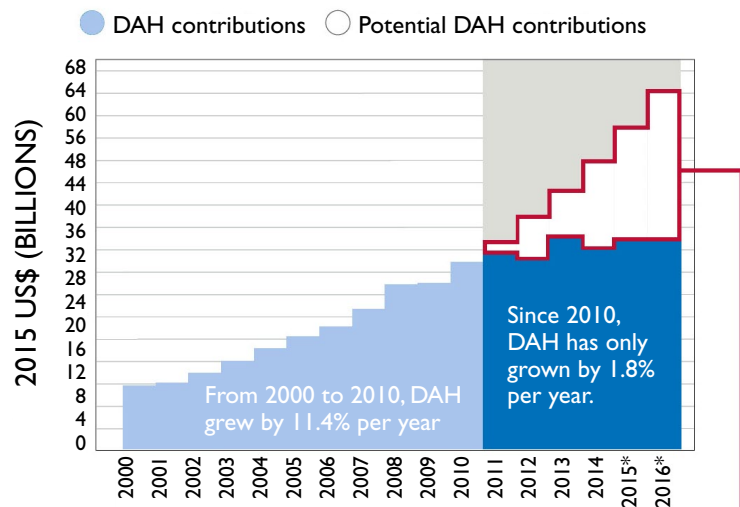
- > Donor financing remains a significant source of health funding in some low-income countries, despite a plateau in funding in recent years.
- > Institutional and private philanthropic donor funding also grew rapidly during this time, due in part to the rise of private foundations such as the Bill and Melinda Gates Foundation (BMGF).
- > In 2015, approximately \$30 billion of DAH came from public donors, an 8.7 percent (annualized) increase between 2000 and 2015; private philanthropic giving was \$6.6 billion in 2015, an 8.9 percent (annualized) increase between 2000 and 2015.
- > Funding from national governments channeled through bilateral / multilateral agencies and development banks like the World Bank grew significantly during this period as well.

The creation of major public-private partnerships (PPPs)—such as Gavi, The Vaccine Alliance (Gavi) and the Global Fund for AIDS, TB, and Malaria (GFATM)—has helped shape the current financial landscape by consolidating donor funding and becoming an important channel for global health financing. In 2015, 14 percent of all development assistance for health was channeled through Gavi and GFATM.<sup>1</sup>

## A closer look at the “golden age” of global health financing:

Starting in the late 1990s, DAH flows to low- and lower-middle-income countries increased rapidly. Due in part to the escalation of activity to combat diseases such as HIV, malaria, and tuberculosis, DAH grew by an average of 11.4 percent per year between 2000 and 2010.<sup>2</sup> Figure 5 from the [Institute of Health Metrics and Evaluation \(IHME\)](#) illustrates the rapid growth and recent plateau of DAH from 2000 to 2016.

**FIGURE 5: Growth in development assistance for health (DAH) from 2000–2016, observed versus potential**



If the 11.4 percent growth rate in DAH from 2000 to 2010 had continued from 2010 to 2016, an additional **\$82 billion** would have been devoted to improving health care over the last six years.

\*2015 and 2016 are estimates.

Note: Continued growth scenario for DAH is modeled from 2011 to 2016, as based on the average annual percent increase from 2000 to 2010. The difference between DAH disbursed and DAH with continued growth is captured by the white boxes and the funding levels reported therein.

<sup>2</sup> Financing Global Health Brief 2016, IHME

This increase in global health funding contributed to significant improvements in [health outcomes](#). During the Millennium Development Goals (MDGs) era, from 2000–2015, investments in global health resulted in:

40%

global reduction in under-five child mortality (from 84 to 50 child deaths per 1,000 live births per year)<sup>3</sup>

37%

global reduction in maternal mortality (from 341 to 246 mother deaths per 100,000 births per year)<sup>4</sup>

35%

global reduction in new HIV infections (from 3.1 million to 2 million people newly infected per year)<sup>5</sup>

19%

global reduction in tuberculosis mortality (from 2.2 million to 1.8 million deaths per year)<sup>6</sup>

48%

global reduction in malaria mortality (from 839,000 to 438,000 deaths per year)<sup>7</sup>

<sup>3</sup> World Bank

<sup>4</sup> WHO

<sup>5</sup> WHO

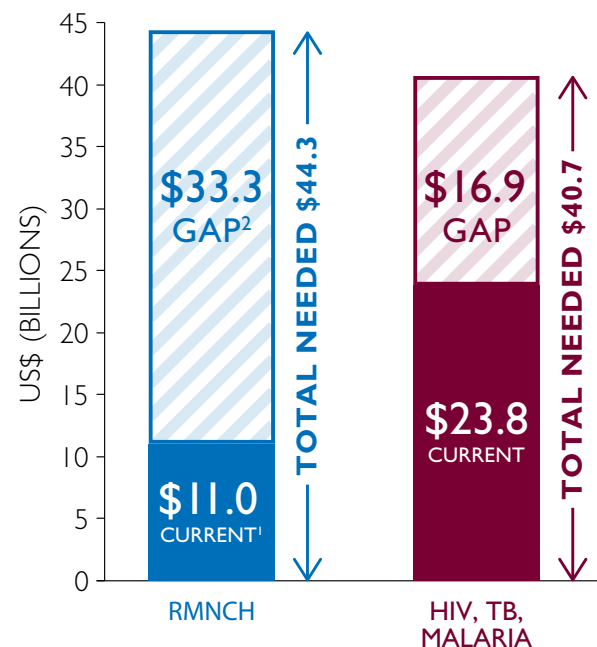
<sup>6</sup> WHO

<sup>7</sup> WHO

Building on the success of the MDGs, the global community has set ambitious goals for the next 15 years to address the next set of development challenges. The Sustainable Development Goals (SDGs)—the successors to the MDGs—aim to achieve significant milestones in global health by 2030, such as ending preventable newborn and child deaths, reducing maternal mortality to less than 70 per 100,000 live births, and ending the epidemics of AIDS, TB, and malaria.

However, given the current trends in health financing, and the scale and ambition of the SDGs, existing levels of donor funding will not be sufficient to achieve these goals (see Figure 6).

**FIGURE 6: Estimated annual external financing needs for key health areas 2015–2030<sup>8</sup>**



<sup>1</sup> Current funding includes only development assistance for health (DAH)—it does not account for domestic resources or out-of-pocket spending.

<sup>2</sup> Gap is projected as of 2015 and may shrink as actors such as GFF improve efficiency of fund utilization.

Sources: IHME, WHO, GFF, ONE Campaign, Stop TB Partnership, Malaria No More

<sup>8</sup> Note that there may be overlaps between funding and gaps for maternal, newborn, and child health (MNCH) and other categories.

The shifting trends in global health financing over the past two decades speak volumes about the changing role of international donors and development assistance.

In the years to come, the greatest reductions in mortality and gains in achieving universal healthcare will be made by governments themselves through the effective mobilization and use of domestic public resources. While international donors continue to support government-led efforts, these same donors will benefit from prioritizing efforts to crowd in more money for health by exploring ways to effectively leverage the substantial pool of resources that exist in the public and private sectors, and by emphasizing a value-based approach that pursues the efficient and effective use of development assistance to achieve results.

In assessing these trends, it is also clear that there is no one-size-fits-all approach to providing donor support. Each country is unique—as are its states, districts, and localities—and the provision of healthcare to its citizens is, inherently, a highly complex and political matter. Despite these intricacies, the rapid growth of non-donor sources of financing and the leveling off of DAH indicate that **donors with a strategy to engage with different sources of capital across the new landscape of development finance will be well positioned in the years to come to maximize their impact.** Gone are the days when financing international development was considered to be the purview of the public sector; while private investors sought only opportunities that realized a generous financial return. This paradigm that suggests a choice between social impact and financial return (see Figure 7) is obsolete.

**FIGURE 7: OBSOLETE: Development finance in silos**

PRIMARY FOCUS: SOCIAL IMPACT

FINANCED BY PUBLIC RESOURCES:  
GOVERNMENTS AND DONORS

NO COST RECOVERY

BREAK EVEN (COST RECOVERY)

PRIMARY FOCUS: FINANCIAL RETURN

FINANCED BY PRIVATE RESOURCES:  
INVESTORS AND PRIVATE CAPITAL

COST RECOVERY + FINANCIAL RETURN

The actual landscape of development finance is more fluid and nuanced. Rather than the silos depicted in Figure 7, there exists a broad spectrum of capital that represents a diverse range of social and financial interests.

Across this spectrum, some private investments target social impact with varying degrees of financial return or loss. Similarly, in certain instances, donor ODA funds are invested in programs designed to achieve some element of cost recovery or financial sustainability. In this context, donors, private investors, and governments alike engage with and benefit from partnering with stakeholders whose interests align with their development objectives and goals for social impact.

From this perspective, consider the following converging trends across the landscape of development finance:

## I. Traditional development assistance is taking new forms

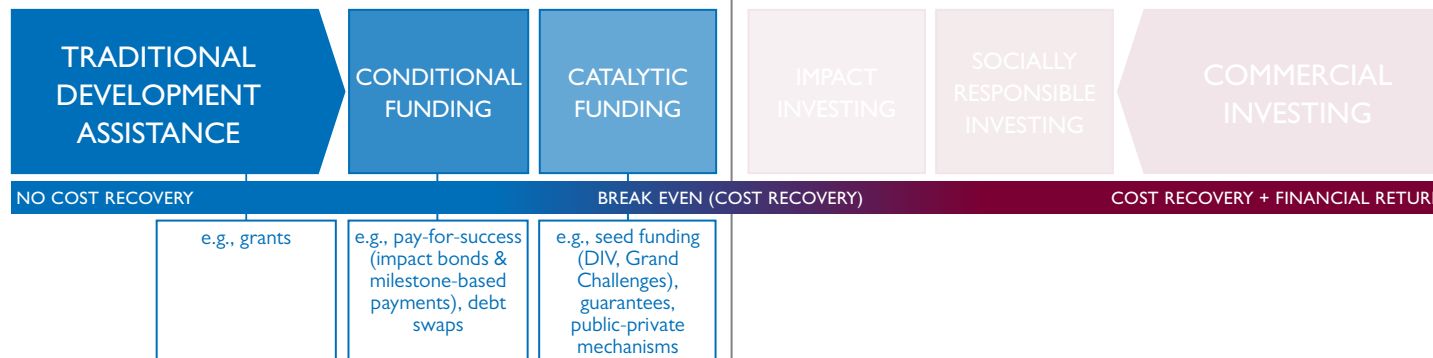
Historically, traditional development assistance has relied on grant-based financing, often supplementing, and in some instances displacing, local resources with direct programmatic support. However, as traditional development assistance for health has

begun to level off—increasing by an average of 1.8 percent per year between 2010 and 2015 compared to 11.4 percent between 2000 and 2010<sup>9</sup>—donors have begun to look for [new ways](#) to ensure that programs are achieving results and to mobilize additional resources for health from non-traditional donors, [including the private sector](#).

Emerging themes include:

- > **Conditional funding**, such as tying funds to specific health outcomes, rather than paying for inputs, allows for greater implementer accountability and efficient allocation of donor funds to proven programs. Conditional funding is comprised of [various structures](#) including [results-based financing](#), pay-for-success, [development and social impact bonds](#), milestone-based contracts, and [performance-based incentives](#).
- > **Catalytic funding** 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—all of which mobilize external resources—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.

**FIGURE 8A:**  
Global health  
financing across a  
diverse spectrum  
of capital



<sup>9</sup> IHME

## II. Private investments and other non-donor sources of financing are increasingly generating social impact

A movement is underway in which significantly more private investment decisions are being made with the goal of generating social impact. Traditionally known for an emphasis on managing risk and maximizing return on investment, private capital and other non-donor sources of funding are allocating significant [resources to help drive social impact](#). In addition to new sources of funding, new stakeholders are bringing different perspectives and complementary skill sets to address global health challenges, improve the effectiveness of existing resources, and achieve results. Not surprisingly, a growing share of these investments is being made in developing countries. FDI to developing countries increased by over 600 percent between 2000 and 2015, indicating a growing interest in these markets.

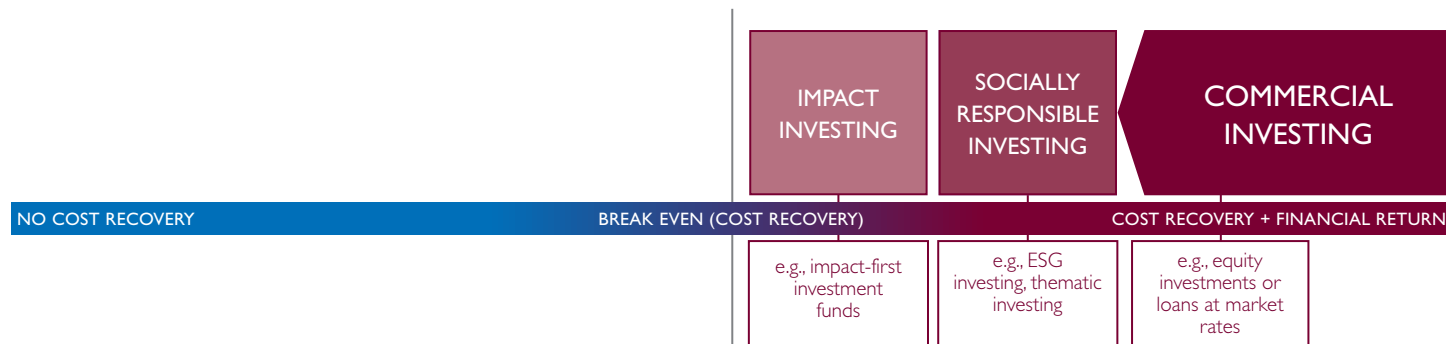
Emerging themes include:

> **Socially responsible investing** includes the growth in assets managed using strategies that consider [ESG](#) issues in investment analysis. These investors incorporate ESG principles into the selection of their investments either by

actively screening out investment opportunities that do not meet specific criteria (e.g., not investing in tobacco companies) or by seeking investments that have explicit social goals. Another example of socially responsible investing is thematic investing, whereby investors direct capital towards a specific geographic or social impact focus.

> **Impact investing** is a type of socially responsible investing. Defined by the [Global Impact Investor Network \(GIIN\)](#) as “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return,” impact investing has grown significantly since its inception less than a decade ago, with at least \$114 billion in assets. The introduction of new tools such as impact-first investment funds has facilitated this growth, as has the rise of inclusive businesses and social enterprises that target consumers in the bottom two economic quintiles. Many impact investors target opportunities in global health. One such example is Acumen Fund’s [“Our Family Clinic”](#) project, which invested in affordable health clinics in India. This investment yielded modest returns via the clinics’ profits, but the primary objective was to improve health outcomes. Both socially responsible investing and its impact investing subsection represent promising new sources of capital for global health.

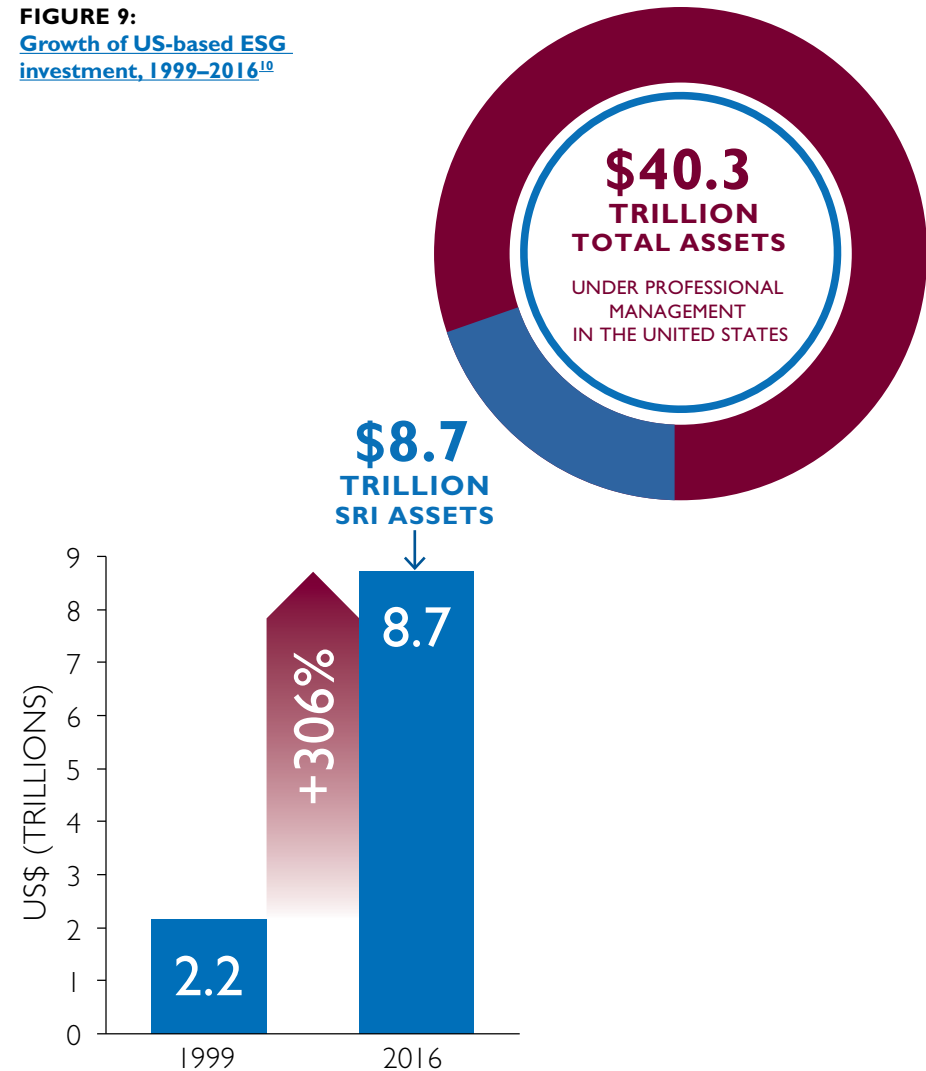
**FIGURE 8B:**  
Global health financing across a diverse spectrum of capital



## Socially responsible investing by the numbers:

- > In the US alone, the total number of funds invested using ESG criteria has grown nearly fourfold since 1999 to over \$8.7 trillion in total assets managed. Today, more than one in every five dollars invested under professional management in the US incorporates some element of ESG.

**FIGURE 9:**  
Growth of US-based ESG investment, 1999–2016<sup>10</sup>



<sup>10</sup> Source: US SIF Foundation—figures estimated from the 2016 Trends Report Highlights



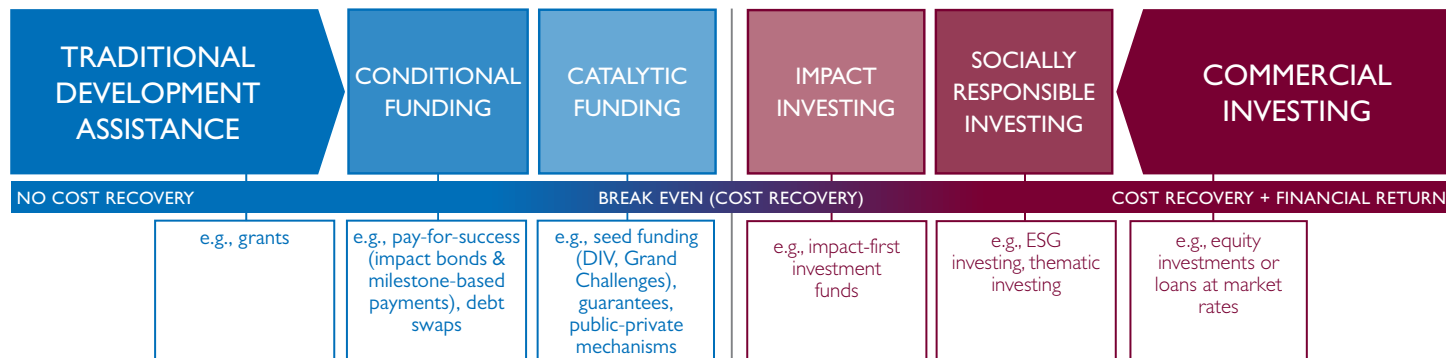
### III. Donors, governments, and private and philanthropic funders are transacting across an increasingly diverse financial landscape

There is reason to be cautiously optimistic about what these new trends indicate for the future direction of development finance. On balance, more resources are actively seeking and generating social returns (impact) across a spectrum of capital that encompasses financial objectives ranging from profit maximization to no cost recovery. Under the right conditions and policies, public and private finance are collectively and at times collaboratively supporting the advancement of an equitable and inclusive development agenda—more on this in the spotlight on innovative financing and blended finance.

In global health, the emerging themes illustrated in Figure 8C are merely the tip of the iceberg. The full landscape of global health financing is infinitely complex and involves a range of public programs, taxation strategies, and insurance schemes; it includes out-of-pocket spending by patients and numerous civil-society resource flows that do not fit neatly into categories. Recognizing a broader understanding of development finance was a key theme during the third International Conference on Financing For Development in Addis Ababa in 2015, and the landscape of global health finance is no exception.

As the financing landscape broadens, the role of development assistance adapts. While continuing to fill critical funding gaps to serve the world's poorest, donors are actively seeking opportunities to transact across this diverse financial landscape to make finite resources go further and to improve development outcomes.

**FIGURE 8C:**  
Global health  
financing  
across a diverse  
spectrum of  
capital



## SPOTLIGHT ON INNOVATIVE FINANCING AND BLENDED FINANCE

A hallmark of the emerging trends in global health financing is the utilization of new instruments that enable public, private and philanthropic funders to transact across an increasingly diverse financial landscape. The terms “innovative financing” and more recently “blended finance” have both been used to describe these types of transactions. And while there are similarities and overlaps between the two concepts, there are important distinctions. Experts define the terms as follows:

**Innovative financing is defined in [Innovative Financing for Development](#) as “approaches to mobilize resources and to increase the effectiveness and efficiency of financial flows that address global social and environmental challenges.”**

This definition incorporates two distinct facets of innovative financing: 1) innovative financing as a complementary source of capital to traditional development finance; 2) innovative financing as a way of making development projects more effective and efficient by redistributing risk, improving the availability of working capital, and matching the length, or tenor, of investments with project needs.

Many innovative financing mechanisms combine public and private sector resources. For example, the public sector can make investments into the private sector through guarantees and pay-for-performance mechanisms, while the private sector can provide funding to the public sector via bonds. However, there are also innovative financing mechanisms that enable public investment into the public sector (i.e., debt swaps or taxes and levies) and mechanisms such as impact investing funds that channel private investments to the private sector.

Overall, innovative financing has mobilized over \$100 billion and is estimated to grow by \$24 billion per year by 2020.

**Blended finance is defined in [Blended Finance Vol 1: A Primer for Development Finance and Philanthropic Funders](#) as “the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets.”** According to this definition, blended finance is used to overcome barriers impeding private capital from flowing into developing country markets. In many cases, the main barrier is that the (perceived) risk of investing

in emerging markets outweighs the financial return. Development and/or philanthropic funding can be used to de-risk investment and improve the overall risk-adjusted return, bringing it in line with investor expectations. Blended finance makes use of existing financial instruments and types of capital such as grants, guarantees, debt, and equity and uses them in creative ways to de-risk and thus incentivize private investment.

Blended finance has three main characteristics: 1) leverage—development and philanthropic funds are used to catalyze private investment; 2) impact—investments must result in social, economic, and environmental progress; 3) returns—financial returns must be in line with private investor expectations. Estimates suggest that at least \$25.4 billion has been invested in more than 74 blended finance funds and facilities. Per an analysis by the Organization for Economic and Co-operation and Development (OECD), 140 blended finance facilities were launched between 2000 and 2014.

### INNOVATIVE FINANCE

Refers to a range of approaches to mobilize resources and improve the efficiency and effectiveness of aid

### BLENDED FINANCE

Uses public sector funds to catalyze private investments into developing countries and emerging markets

# PUTTING THEORY INTO PRACTICE: HOW USAID IS APPLYING NON-TRADITIONAL APPROACHES TO FINANCING GLOBAL HEALTH

At USAID, changes in the global health financing landscape and the emergence of new opportunities to utilize non-traditional financing tools have not gone unnoticed.

The Agency strives to be a leader in the areas of [development financing](#), [domestic resource mobilization](#), public financial management, and [private sector engagement](#). As economic transitions accelerate in many developing countries, USAID continues to adjust its investments from the direct delivery of commodities and services toward capacity building and technical assistance in support of the advancement of equitable and sustainable health systems.

Each year, significant investments are made in these areas through both traditional programmatic means as well as non-traditional approaches, some of which are described in the pages that follow. Regardless of the approach, the objectives are the same—non-traditional financing tools are designed to directly leverage new funds or target the effectiveness of current funds while more traditional programs can help to further the critical infrastructure, policies, governance structures, and best practices that help achieve the same goals.

The body of evidence confirming the impact of these programs is vast and beyond the reach of this report. Instead, the examples in the pages that follow highlight some of the many non-traditional approaches being employed or under consideration at USAID that seek to:

- 1. **Leverage additional sources of funding from across a diverse spectrum of capital**, ranging from return-seeking investors to philanthropic donors in domestic and international markets.
- 2. **Utilize existing funding in a more efficient or effective manner**, such as through conditional grants and contracts that require certain targets or health outcomes be achieved before funding is allocated.

In order to maximize the impact of these non-traditional approaches to health financing, USAID draws on its extensive technical expertise and convening power to facilitate dialogue, transactions, and partnerships between key stakeholders in the public and private sector.

**FIGURE 8D: Global health financing across a diverse spectrum of capital**

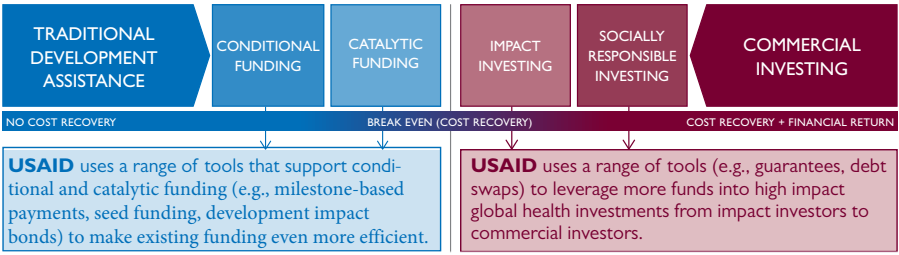


Figure 8D illustrates different types of tools USAID uses to leverage external capital and/or improve the effectiveness of existing funds. For instance, conditional funding such as pay-for-success contracts and milestone-based payments can be used to improve the effectiveness of programs by linking the disbursement of funds to the achievement of specific outputs or outcomes. To leverage external resources, USAID can, for instance, use its Development Credit Authority (DCA) guarantee or create a pooled investment fund to help crowd in private capital for global health. It is important to highlight that the emerging themes listed in Figure 8D are not mutually exclusive, nor do financing tools fall discretely into categories across the spectrum of capital. Rather, these non-traditional financing tools and approaches can be used in different ways depending on the issue being addressed.

**Theory into Practice:** USAID employs teams, leads initiatives, and funds programs that apply non-traditional approaches to financing global health.

### THE SUSTAINABLE FINANCING INITIATIVE FOR HIV/AIDS (SFI)

[The United States President's Emergency Plan for AIDS Relief's Sustainable Financing Initiative \(SFI\)](#), led and implemented by USAID, is a three-year, \$63.5 million initiative to deliver an AIDS-free generation with shared financial responsibility. Launched in 2014, SFI supports new and ongoing health financing activities to increase domestic resources for the health sector. USAID focuses on four approaches to domestic resource mobilization, tailoring a mix of these interventions to each country's context:

- 1. Advocacy:** Using evidence to generate and sustain political will so that host governments will allocate more resources to health and to mitigating the impact of HIV
- 2. Tax administration and policy:** Increased tax revenues through either improved tax collection or the development of new taxes
- 3. Technical efficiency:** Improving technical efficiency through commodity procurement and supply chain system strengthening, health insurance, and other financial management reforms, allowing countries to avoid waste and improve health, and HIV and AIDS outcomes, with existing resources
- 4. Private sector:** Expanding the use of private health insurance markets and encouraging private markets to increase options and facilitate greater participation, creating sustainable health outcomes and greater service coverage

### USAID'S GRAND CHALLENGES FOR DEVELOPMENT

Grand Challenges call on the brightest minds across the globe to share their bold ideas. In 2011, the Global Health Bureau launched USAID's first Grand Challenge for Development, [Saving Lives at Birth](#), to solicit groundbreaking solutions to save the lives of mothers and babies around the time of birth. With the support of multiple partners, the program has become a flagship Grand Challenge for the Agency, yielding a rich and diverse pipeline of solutions that are already beginning to scale.

One of the first innovations to receive seed funding from Saving Lives at Birth was the [Odon Device](#), the first device to assist with obstructed labor since the development of the forceps centuries ago and the vacuum extractor decades ago. This \$250,000 grant was used to implement small-scale clinical trials to test the safety and efficacy of the device under the direction of the World Health Organization (WHO). The evidence generated from these trials, as well as the high-level attention the device received as a Saving Lives at Birth grantee, brought the Odon Device to the attention of Becton, Dickinson and Company (BD), a leading global medical technology company. With the WHO, [BD announced a commitment](#) to further develop and launch the Odon Device. BD will utilize its core competencies in medical device design, quality systems, process design, and manufacturing to develop the Odon Device and establish high-scale, low-cost production. BD will also commercialize the Odon Device and offer affordable-access pricing in developing countries. The device will initially be introduced in priority countries with a large burden of maternal mortality.

### USING USAID'S DEVELOPMENT CREDIT AUTHORITY (DCA) GUARANTEE FOR GLOBAL HEALTH

USAID's DCA guarantee, a highly effective innovative financing tool, has unlocked \$4.8 billion in private capital for development since 1999. In global health alone, DCA has facilitated 29 health sector guarantees across 18 countries.

A critical barrier that many private health providers face in low- and lower-middle income countries is a lack of access to working capital. Without working capital to finance operations, many providers are unable to expand the types of services they provide, hire and train new staff, make upgrades to their facilities or equipment, or maintain an adequate stock of quality assured commodities.

USAID's DCA guarantee supports these healthcare providers by enabling commercial banks to extend working capital loans to traditionally underserved sectors like health. The DCA guarantee de-risks lending by sharing the risk with the bank, reimbursing up to 50 percent of the value of a loan in the event a borrower defaults. Of note, DCA's default rate across its entire portfolio is less than three percent.

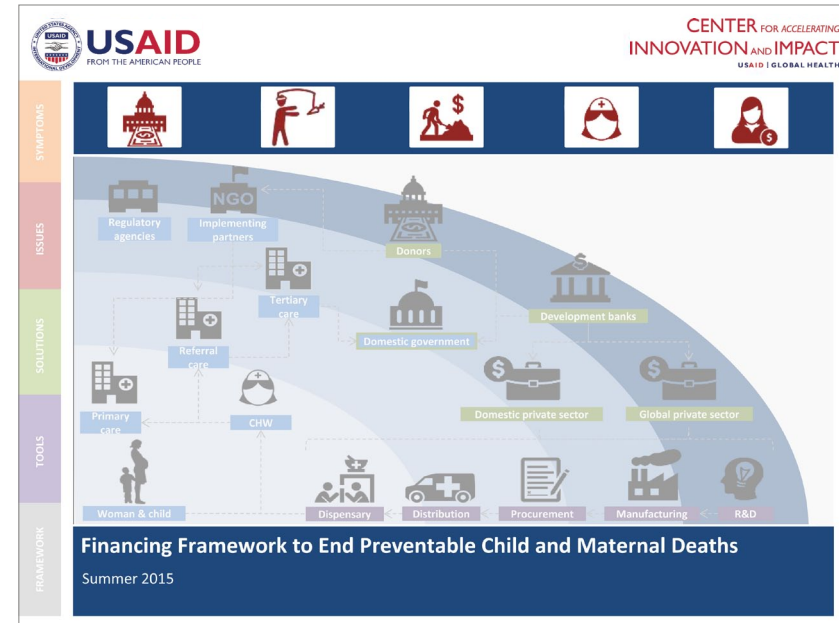
USAID is unique among bilateral donors in having a scaled, in-house, guarantee mechanism such as the DCA guarantee. Notably, DCA is the third largest guarantor in the world behind Overseas Private Investment Corporation (OPIC) and the International Finance Corporation (IFC), and helps mitigate barriers that lenders face (e.g., perceived or actual risk, lack of market information), as well as those that borrowers face (e.g., lack of familiarity with accessing capital markets).

## USAID AND NON-TRADITIONAL FINANCING TOOLS

Launched in 2015, USAID's [Financing Framework to End Preventable Child and Maternal Deaths](#) is an educational and interactive toolkit created to assist development practitioners in identifying common financing issues in global health and the many [financing tools](#) available to address them.

Keeping with the educational and interactive theme of that toolkit, the pages that follow describe the types of non-traditional financing tools available to USAID today. The illustrative tools listed in Figure 10, on the following page, highlight some of the specific ways in which the Agency is using these non-traditional tools to leverage external funds and increase the effectiveness of our investments. In the toolkit section at the end of this report, readers will find additional material on each of the illustrative financing tools, including background information, implementation guidelines, and examples of how each tool has been used. Given the current financing trends and the ambitious scale and scope of our collective goals, USAID and its partners will benefit from redoubling efforts to apply these non-traditional approaches to finance global health moving forward.

Beyond these tools, USAID utilizes its convening power and technical expertise. As the world's largest bilateral donor, USAID brings together fellow donors, governments, development partners, and leaders from the private sector to coordinate and carry out our shared goals in global health. USAID has a long history of engaging with non-traditional partners in development finance and has established an extensive network of key stakeholders around the world to leverage resources, share knowledge, and facilitate transactions. USAID can also play a key role in helping to advance necessary policy reforms and improve the enabling environment to further support and incentivize public and private sector investment in global health. Finally, and perhaps most importantly, USAID staff has extensive technical expertise and on-the-ground knowledge and experience that is invaluable to partners.



The global health community has made great strides over the last 50 years. The fact that we can envision an AIDS-free world or an end to the preventable causes of child mortality is a testament to this progress and the investments in global health made to date. Yet there is still more work to be done to achieve the vision outlined in the SDGs. Now is the time to continue building on the great accomplishments of years past. Achieving our goals will require new approaches to financing global health and the changing landscape of development finance holds great promise. USAID remains at the forefront of these transformational changes and is well positioned to continue shaping the new development finance landscape in the years to come.

Figure 10: Illustrative list of non-traditional financing tools available to USAID

	A	B	C	D	E	F	G	H
	<b>Guarantee</b>	<b>Debt Swap</b>	<b>Pooled Investment Fund</b>	<b>Social Insurance</b>	<b>Seed Funding / Flexible Grant Capital</b>	<b>Milestone-Based Payments</b>	<b>Development Impact Bond</b>	<b>Co-funding/ GDA</b>
	Partial protection to lenders willing to extend loans to developmentally important but underserved sectors like health (e.g., USAID: DCA)	A developing country's debt is forgiven or transferred to another organization on the condition that the funds that would have been used to repay the loan are used for a specific purpose (e.g., USAID: Debt for Nature)	Funds from multiple parties are aggregated and used to support market-based solutions (e.g., Global Innovation Fund)	Insurance for social impact projects that unlocks private capital by protecting against some level of loss in the event the project is unsuccessful or the borrower is unable to repay the capital (e.g., USAID: Lulama)	Grant funding that operates like venture capital to finance high-risk, high-reward technologies and approaches that can be commercialized or scaled by others (e.g., USAID: Grand Challenges—Saving Lives at Birth)	Grant funding that is disbursed to recipients if and when pre-determined outputs or outcomes are achieved (e.g., USAID: Translating Research into Action—RBF4MNH)	A pay-for-success model that ties payment to the attainment of a pre-determined social outcome. Agreements include outcome funders, investors, service providers, and independent evaluation (e.g., USAID: Maternal Health DIB)	Public funding is used to leverage private funding (minimum 1:1 ratio) to increase impact by applying private sector knowledge and approaches to development problems (e.g., USAID GDA: Project Last Mile)
LEVERAGE MORE FUNDS	✓	✓	✓	✓			✓	✓
INCREASE EFFECTIVENESS OF FUNDS					✓	✓	✓	✓

Note: Not an exhaustive list. Only includes tools that directly utilize grant capital. Does not include tools that mobilize domestic resources for health, e.g., taxes, levies

# TOOLKIT: ILLUSTRATIVE LIST OF NON-TRADITIONAL FINANCING TOOLS AVAILABLE TO USAID

## INTRODUCTION TO THE TOOLS

This interactive guide is designed to be an educational resource for USAID staff and development practitioners interested in learning more about recent trends and non-traditional approaches to financing global health. The following toolkit highlights eight illustrative non-traditional financing tools available to USAID today. Each of the tools is described in a one-page summary that includes relevant background information, implementation guidelines, and examples of how the tool has been utilized.

As an illustrative example, consider a USAID Health Officer seeking to improve nutrition outcomes in a particular community or population, with the ultimate goal of decreasing under-5 child mortality. She could finance this directly by funding a public health campaign that promotes exclusive breastfeeding for children 0–6 months and continued breastfeeding for two or more years. Alternatively, depending upon the availability of resources, context of the health system, and the specific problem or challenge that needs to be addressed, she could use a number of financing tools to achieve similar outcomes.<sup>11</sup>

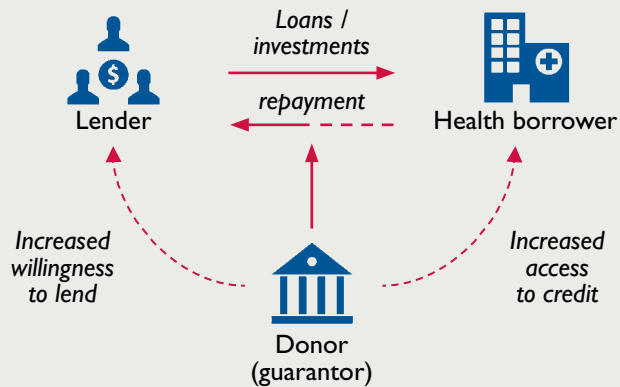
For example, if poor nutrition outcomes among children under-5 are driven by:

- 1. Lack of awareness:** USAID could enter into a co-funding agreement with a private manufacturer of complementary baby food to launch an educational or behavior change campaign promoting exclusive breastfeeding for six months and the use of complementary foods for children older than six months.
- 2. Lack of dietary supplement options tailored to local contexts:** USAID could enter into a pooled investment fund, partnering with public and private entities to incentivize companies to invest in product development or provide seed funding to promising innovations that address specific micronutrient deficiencies, such as yogurt or biscuits fortified with iron or edible cooking oils fortified with vitamin A.
- 3. Lack of channels to deliver existing supplements to community members:** USAID could use guarantees, coupled with appropriate training and technical assistance, to enable private providers to offer nutrition counseling services and stock quality supplements, ready-to-use therapeutic foods (RUTF), or ready-to-use supplemental foods (RUSF).
- 4. Limited diagnosis and treatment of malnutrition in primary health clinics:** USAID could provide a milestone-based grant to incentivize clinics to prioritize the integration of diagnosis and treatment of malnutrition into primary care visits. USAID could also help equip the clinics with accurate weighing scales, length-measuring tools, arm measurement tools, and BMI charts, as well as ensure that the clinics are stocked with RUTF, RUSF, and micronutrient supplements.

<sup>11</sup> Note that each of these tools does not have to be used to address each of these health system issues. In fact, the financial transaction can be structured such that many of these tools can address any of these issues, depending on the context.

# A Guarantee

- > When the risk of an investment is too high for private funders, a guarantee can be used to reduce the funders' possible losses by leveraging the balance sheet of the donor.
- > **Guarantees** span a range of specific applications, from loan repayment to first-loss investment coverage.
- > A guarantor uses grant funding to cover a predetermined amount of an investment in the event that it is unsuccessful.
- > The assurance that an investor will be repaid may make the investor more willing to enter into a transaction, in turn making funding available to program implementers.



## WHY IS THIS TOOL NEEDED?

- > **Impact:** By encouraging the entry of new resources into the development space, guarantees can channel funding to a broad range of health programs.
- > **Effectiveness:** Guarantees mobilize private sector lending to increase healthcare providers' access to capital, enabling them to provide more and higher quality products and services.

## WHEN CAN THIS TOOL BE USED?

Guarantees are most effective when:

- > **Providers of finance** seek market-rate returns on loan portfolios and have relatively low risk tolerance.
- > **Recipients of finance** operate in a country context where financial markets are relatively well developed (e.g., there is an active loan market and established repayment mechanisms), but do not have an adequate credit history to obtain a loan.

## HOW CAN THIS TOOL BE USED?

- > USAID mission officers can use the Development Credit Authority (DCA) mechanism to structure guarantees.

## EXAMPLE:

- > DCA has partnered with the USAID Uganda Mission and Sida to provide a 7-year, \$3 million loan portfolio guarantee (LPG) to increase access to credit for the Ugandan private health sector.
- > Targeted borrowers include Ugandan healthcare workers and privately owned and operated micro, small, and medium enterprises across the health value chain.
- > The 60 percent LPG to Centenary Rural Development Bank is jointly shared between USAID and Sida, each guaranteeing 30 percent of the total loan portfolio.



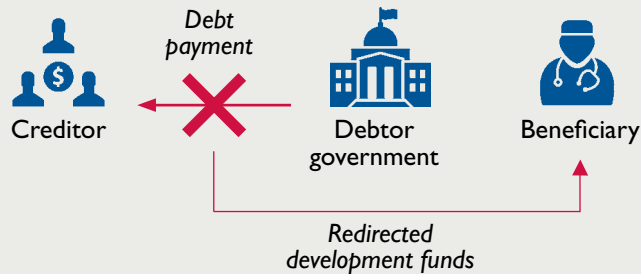
## ADDITIONAL RESOURCES

[USAID, DCA Impact Brief, 2015](#)



# B Debt Swap

- > A **debt swap** is a method of transforming debt into resources for development work.
- > Creditors (e.g., private investors, creditor governments) forgive a portion of a country's debt.
- > In return, countries commit to using the funds that would have gone towards debt repayment for a social project.



## WHY IS THIS TOOL NEEDED?

- > **Impact:** Debt swaps can ease the significant debt burden of developing countries while making resources available for critical health projects.
- > **Effectiveness:** Debt swaps increase the availability of domestic government funding to programs by redirecting resources from debt repayment to social projects. This also helps governments with limited budgets to meet development obligations.

## WHEN CAN THIS TOOL BE USED?

Debt swaps are most effective when:

- > **Providers of finance** hold debt of the target country and are willing to either sell or forgive the debt for social impact.
- > **Recipients of finance** have particularly high levels of debt currently being serviced and lack additional public resources for development programs, but have the capacity to administer funds for social programs as resources become available.

## HOW CAN THIS TOOL BE USED?

- > USAID mission officers who identify appropriate circumstances for a debt swap should work with USAID technical experts to facilitate the structuring and execution of the arrangement.

## EXAMPLE:

- > The Tropical Forest Conservation Act, passed in 1998, led to the execution of "Debt for Nature" debt swaps. These allowed the US government to forgive developing country debt, which was in turn channeled into forest conservation initiatives.
- > As of July 2013, approximately \$223 million of debt was cancelled across 14 countries.
- > Over \$326 million was generated for tropical forest conservation over the life of the agreements, from rescheduled debt payments alone.



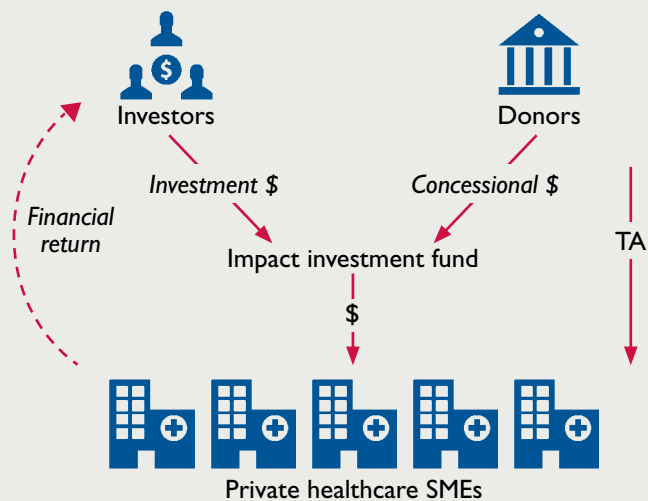
## ADDITIONAL RESOURCES

[Exchanging Debt for Health in Africa: Lessons from Ten Years of Debt-for-Development Swaps, 1999](#)

[USAID Debt for Nature Swap](#)

# C Pooled Investment Fund

- > Private investors partner with donors (public or philanthropic) to aggregate their funds to invest in businesses or funds that generate social and financial returns.
- > This private capital may also be blended with donor funding to mitigate risk, enhance returns, or provide technical assistance to investors or investees.
- > Pooled investment funds can be used to help support and scale market-based solutions to development challenges.



## WHY IS THIS TOOL NEEDED?

- > **Impact:** Investment funds can help grow the private healthcare sector, enabling innovative business models (e.g., clinics, dispensaries, insurance schemes) serving low-income consumers to reach scale.
- > **Effectiveness:** Donors can catalyze private funding using investment funds, provided there is an investment opportunity.

## WHEN CAN THIS TOOL BE USED?

Investment funds are most effective when:

- > **Providers of finance** are interested in investing in the health sector but may need risk-sharing mechanisms to achieve their desired risk/return ratios or technical assistance to support their investments.
- > **Recipients of finance** have financially viable private sector business models but need investment capital to scale and achieve maximum impact.

## HOW CAN THIS TOOL BE USED?

- > USAID mission officers can provide concessional capital (e.g., grants or guarantees) to investment funds through the DCA mechanism or technical assistance to investment funds through a number of mechanisms including SHOPS Plus.

## EXAMPLE:

- > USAID has provided significant support to the Global Innovation Fund (GIF), which uses investor resources to support innovative solutions to development problems at the pilot, testing, and scale-up stages.
- > GIF offers funding ranging from £50,000–5 million using grants, loans, convertible loans, and equity / debt investments—tailored to suit the financing needs and risk profile of the investment while offering potential returns.

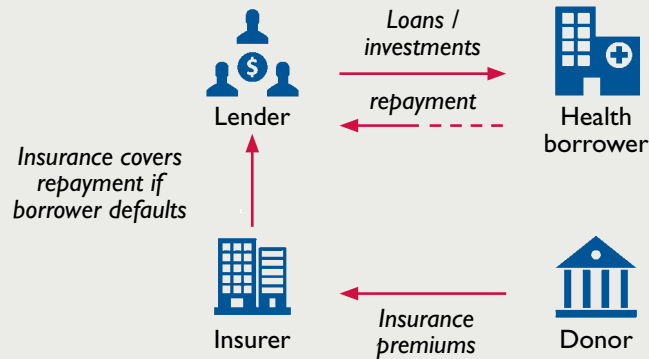
## ADDITIONAL RESOURCES

[Convergence, Global Partnerships Investment Funds, 2017](#)  
[Global Impact Investing Network, Impact Investing Trends, 2016](#)  
[Global Innovation Fund](#)



# D Social Insurance

- > When the risk of an investment is too high for private funders or investors, social insurance can be used to protect against possible loss and/or non-repayment.
- > The **social insurance** protection offered to private funders or investors can help ensure that capital that would not be made available for a social impact project is made available.
- > Unlike the DCA guarantee, the risk is borne by the third party insurer.



## WHY IS THIS TOOL NEEDED?

- > **Impact:** By encouraging entry of new resources into the development space, social insurance can channel funding to a broad range of health programs.
- > **Effectiveness:** Social insurance can be used to unlock significant private sector resources by reducing the risk to the lender/investor and encouraging engagement with development actors.

## WHEN CAN THIS TOOL BE USED?

The provision of social insurance is most effective when:

- > **Providers of finance** are interested in investing in a social impact project but may need some level of protection against the risk of losing their investment.
- > **Recipients of finance** have a financially viable project but need upfront capital to scale and achieve maximum impact.

## HOW CAN THIS TOOL BE USED?

- > USAID mission officers who identify appropriate circumstances for social insurance should work with USAID technical experts to facilitate the structuring and execution of the arrangement.

## EXAMPLE:

- > USAID partnered with Absa Bank, Aspen Pharmacare, GSK, Imperial Health Sciences, and Pfizer to create Lulama, an innovative financing model that provides independent pharmacies in underserved areas in South Africa with access to working capital.
- > USAID purchased insurance against the risk of pharmacies defaulting, unlocking \$6.5 million in credit from a commodity wholesaler to improve access to quality assured, affordable commodities.
- > The initiative anticipates averting 200,000 deaths due to improved access to medicine as Lulama scales in South Africa.



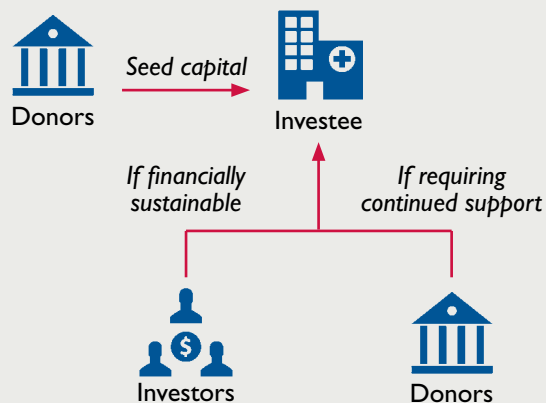
## ADDITIONAL RESOURCES

[Lulama](#)  
[HugInsure](#)

## E

# Seed Funding / Flexible Grant Capital

- > **Seed funding / flexible grant capital** is used by donors to invest in early-stage social enterprises or high-impact innovations that are then scaled by other donors or commercialized at a later stage.
- > Donors can take a venture capital approach to financing.
- > There is no expectation of repayment on the part of the donor.



## WHY IS THIS TOOL NEEDED?

- > **Impact:** Seed funding can be used to help innovators or social enterprises targeting low-income consumers demonstrate impact and proof of concept.
- > **Effectiveness:** Seed funding improves effectiveness by using public funds to demonstrate the viability and impact of an innovation or social enterprise before additional public or private resources are invested for scale-up.

## WHEN CAN THIS TOOL BE USED?

Seed funding is most effective when:

- > **Providers of finance** need to see a proven or commercially viable model before they will invest to scale.
- > **Recipients of finance** have high-potential ideas and need to demonstrate proof of concept for significant health impact and a path to sustainable scale or need rigorous monitoring and evaluation support to demonstrate commercial viability.

## HOW CAN THIS TOOL BE USED?

- > USAID mission officers can use mechanisms such as the Grand Challenges for Development (GCD) or Development Innovation Ventures (DIV) to identify social enterprises or innovators that need seed funding.

## EXAMPLE:

- > USAID has contributed \$20 million to its partnership, *Saving Lives at Birth*, a Grand Challenge for Development, which leveraged \$80 million in donor funds and an additional \$60 million in project funds from other donors and investors to provide seed funding for new approaches to addressing maternal and neonatal mortality.
- > This approach gives innovative solutions critical early support, facilitating their scale-up to become self-sustaining programs in the field.
- > *Saving Lives at Birth* has invested in over 100 health interventions, reaching around 1.5 million mothers and newborns to date.

## ADDITIONAL RESOURCES

[Global Impact Investing Network, Catalytic First Loss Capital, 2013](#)

[USAID, A healthy first breath for Malawi's newborns, 2012](#)

[Saving Lives at Birth](#)

[USAID Grand Challenges for Development](#)



# F Milestone-Based Payments

- > **Milestone-based payments**—also known as performance-based grants—allow donors to fund projects through traditional channels while improving project accountability.
- > Programs are designed in the conventional manner, but funding is contingent upon the achievement of results rather than payment for inputs. This allows ineffective approaches to be terminated or course-corrected more quickly.
- > For program implementers, desired project milestones or outcomes with measurable indicators and targets are a requirement.



## WHY IS THIS TOOL NEEDED?

- > **Impact:** Milestone-based payments can shift the focus of project implementation from process and inputs to results and outcomes.
- > **Effectiveness:** By linking payment to milestones rather than inputs, implementing partners are both incentivized to thoroughly understand the key levers of change in their programs and afforded the flexibility to quickly adapt to changing circumstances.

## WHEN CAN THIS TOOL BE USED?

Milestone-based payments are most effective when:

- > **Providers of finance** are less willing to take risks (e.g., due to limited budget or political pressure to deliver), wish to improve funding efficiency, or wish to further incentivize effective project delivery by implementers.
- > **Recipients of finance** are financially able to cover the costs of project implementation prior to expected fund disbursement and are able to reliably and rigorously evaluate outcomes against targets.

## HOW CAN THIS TOOL BE USED?

- > USAID staff who identify appropriate programs and partners for milestone-based payments can utilize USAID technical and contractual support to negotiate the terms with the implementing partner.

## EXAMPLE:

- > Development Innovation Ventures (DIV), part of the U.S. Global Development Lab, runs a year-round competition for bold development ideas that, when chosen, receive a form of staged financing.
- > DIV's tiered-funding model, inspired by the venture capital experience, invests comparatively small amounts in relatively unproven concepts and continues to support only those that prove they work through rigorous testing methods.



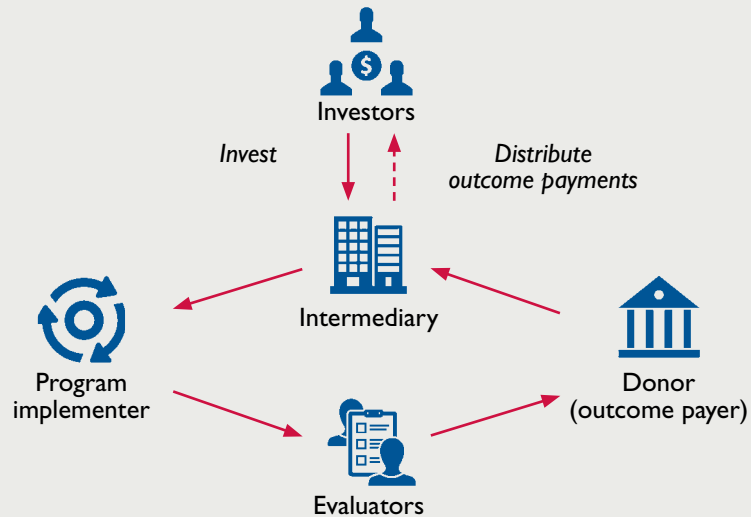
## ADDITIONAL RESOURCES

[USAID, The PBF Handbook, 2011](#)

[USAID Development Innovation Ventures \(DIV\) fact sheet](#)

# G Development Impact Bonds

- > **Step 1:** The outcome payer and the investor and / or implementing partner make a pay-for-success agreement.
- > **Step 2:** The investor provides the program implementer with initial programmatic funding.
- > **Step 3:** Program implementer delivers services to a target population with a clear goal of achieving a social outcome.
- > **Step 4:** Results of services are independently evaluated to determine success.
- > **Step 5:** The outcome payer pays the investor if social outcomes are achieved.



## WHY IS THIS TOOL NEEDED?

- > **Impact:** DIBs can be used to scale proven interventions for which outcomes are clearly measurable.
- > **Leverage:** DIBs mobilize private funding by offering a potential return to philanthropic investors that are willing to take on the risk of program failure.
- > **Effectiveness:** DIBs improve the efficiency of public spending by ensuring that program investments achieve their intended results.

## WHEN CAN THIS TOOL BE USED?

The provision of investment insurance is most effective when:

- > **Providers of finance** are able to clearly identify development outcomes that are: 1) meaningful, 2) measurable, 3) attributable to the intervention, and 4) quantifiable in terms of costs and social benefits.
- > **Recipients of finance** utilize rigorous evaluation methods to measure the impact of their interventions and are empowered to innovate and apply a results-driven approach to attaining development outcomes.

## HOW CAN THIS TOOL BE USED?

- > USAID mission officers who identify appropriate programs for impact bond / pay-for-success funding can work with USAID technical experts to facilitate the structuring and execution of the agreement.

## EXAMPLE:

- > A pay-for-success agreement is being explored to reduce maternal and newborn mortality by improving the quality of maternal and neonatal care in India. Implementing partners will work with private healthcare facilities to achieve rigorous quality accreditation standards. USAID will pay only after facilities are accredited; assurance of quality services will be determined by an independent evaluator.

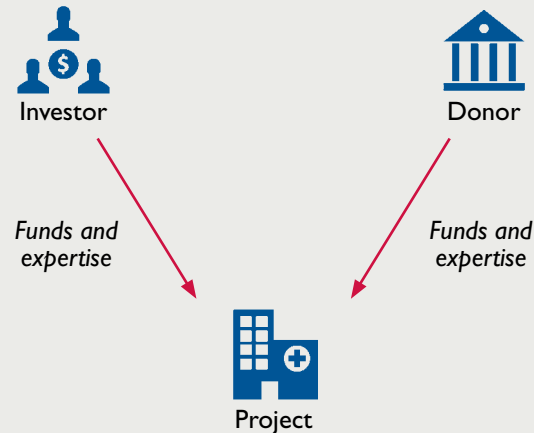
## ADDITIONAL RESOURCES



[The Brookings Institution, The potential and limitations of impact bonds: Lessons from the first five years of experience worldwide](#)  
[Center for Global Development, Investing in Social Outcomes: Development Impact Bonds,](#)

# H Co-funding / Global Development Alliance (GDA)

- > **Co-funding and GDA agreements** leverage external funding and other non-financial resources for high-impact health investments through the provision of technical assistance and targeted funding.
- > These agreements are co-created, co-developed, and co-implemented and entail extensive partnering and collaboration between USAID and the private sector.
- > These partnerships are based on complementary objectives and aligned interests.



## WHY IS THIS TOOL NEEDED?

- > **Impact:** Co-funding brings new resources and complementary expertise into the development space and enables the implementation of a broad range of health programs.
- > **Effectiveness:** Co-funding can provide a “demonstration effect” to private capital, reducing the need for public donor funding over the long-term.
- > **Leverage:** Co-funding mobilizes private sector capital for global health programs.

## WHEN CAN THIS TOOL BE USED?

Matched funds are most effective when:

- > **Providers of finance** align public and private sector goals and then work together to jointly develop and implement activities that leverage those parties’ respective assets and expertise.
- > **Recipients of finance** are able to absorb and effectively utilize public and private funds, and meet the monitoring requirements of both parties.

## HOW CAN THIS TOOL BE USED?

- > The best way for partners to get started is to contact [gda@usaid.gov](mailto:gda@usaid.gov), reach out to the relevant USAID office, and / or review the annual GDA APS.

## EXAMPLE:

- > Through the GDA mechanism, USAID and other donors partnered with the Coca-Cola Company to improve supply chain management for essential medicines in Africa.
- > This approach allowed not only the blending of public and private funds for shared objectives but also leveraged the industry knowledge and technical expertise of the private sector to address a critical public health barrier and improve last mile delivery of critical commodities.

## ADDITIONAL RESOURCES



[USAID.gov/partnerships](https://www.usaid.gov/partnerships)

[USAID, Global Development Alliance \(GDA\) Annual Program Statement \(APS\) 2017 Project Last Mile](#)

BD	Becton, Dickinson and Company	IFC	International Finance Corporation
BMGF	Bill and Melinda Gates Foundation	IHME	Institute of Health Metrics and Evaluation
CII	Center for Accelerating Innovation and Impact	LPG	Loan portfolio guarantee
DAH	Development Assistance for Health	MGDs	Millennium Development Goals
DCA	Development Credit Authority	ODA	Official Development Assistance
DIB	Development Impact Bond	OECD	Organization for Economic Co-operation and Development
DIV	Development Impact Ventures	OPIC	Overseas Private Investment Corporation
ESG	Environmental, social and governance	PPP	Public Private Partnership
FDI	Foreign Direct Investment	RUSF	Ready-to-use supplemental foods
GCD	Grand Challenges for Development	RUTF	Ready-to-use therapeutic foods
GDA	Global Development Alliance	SDGs	Sustainable Development Goals
GDP	Gross Domestic Product	SFI	Sustainable Financing Initiative
GFATM	Global Fund for AIDS, TB, and Malaria	SSC	South-South Cooperation
GIF	Global Innovation Fund	WHO	World Health Organization
GIIN	Global Impact Investing Network		







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