SOCIAL FINANCE

OUTCOMES BASED APPROACHES SERIES

FOOD FOR THOUGHT: THE CASE FOR A GLOBAL NUTRITION OUTCOMES FUND

Recent estimates suggest that global targets for reducing stunting could be met at a cost of just $8.50 per child if high levels of effectiveness and efficiency can be achieved at scale. That kind of effectiveness and efficiency can be achieved with the strong incentives to focus on results and adaptive delivery offered by an Outcomes Fund.

PETER NICHOLAS, DIRECTOR, MARCH 2020

BACKGROUND

More than 160 million children are stunted, representing an enormous loss of both human and economic potential. At the current slow rate of progress, the World Health Organisation estimates that there will still be 127 million stunted children by 2025, the vast majority in sub-Saharan Africa and South Asia. This is a long way from the 2025 SDG target of 100 million.

There are a number of challenges to achieving these targets:

Funding gap: While there is a growing consensus that improving young child nutrition is one of the most cost-effective investments, there is a significant shortfall in needed expenditure. Based on the limited data available for the 37 countries that account for the majority of the world's stunting, an estimated $2.9bn is currently being spent annually by governments, donors and households on key interventions that target stunting reduction. This leaves a funding gap of about $40 billion between now and 2025 to meet the SDG target.

Data and accountability gap: The Global Nutrition Report points to the lack of accountability in nutrition programmes, with too few commitments specifically linked to measurable outcomes. While there has been some progress in the collection of nutrition data, there is still a ways to go in improving databases and tracking progress in nutrition programmes, with still significant gaps in basic data such as coverage rates of nutrition interventions. Related to this information paucity is weak accountability for programmes that fail to deliver results, with the existing limited resources not necessarily being allocated effectively or efficiently.

Value chain of interventions: Funding for nutrition is often input driven, and typically focused on a few elements, such as micronutrient supplementation or breastfeeding, that preclude introduction of other critical elements. An extensive "value-chain" of interventions is often needed, starting from (or prior to) conception, through the child's first two years of life. This value chain typically includes a range of 'nutrition-specific' interventions (e.g. energy protein and calcium supplementation in pregnancy, nutrition education, and complementary feeding), and ‘nutrition-sensitive’ interventions (e.g. facilitating pre- and post-natal consultations). The complex mix of household, environmental, socioeconomic and cultural influences that affect stunting means that interventions need to be tailored to each target population, and be adapted during implementation based on learnings about what is working well and what needs improvement.

PROPOSAL FOR A NUTRITION OUTCOMES FUND

Many of these challenges can be effectively and efficiently addressed through a Nutrition Outcomes Fund, which would pool resources from a range of funders interested in improving children’s nutrition.

The key feature of the Fund is that it would provide funding *only* if defined improvements in nutrition are achieved. By paying for tangible results, rather than for rigidly defined delivery programmes, the Fund would incentivise innovation, flexibility in delivery and minimal bureaucracy. The Fund would be open to Providers from the public, NGO and private sectors, and would contract for the delivery of independently-measured improvements in nutrition (measurement would be against a baseline or trend, and/or against a control group).

By linking financing to achievement of measurable gains rather than to pre-defined inputs, the Fund would give Providers the incentives, and the freedom, to quickly adapt, improve and augment their nutrition programming. Programming would adapt as data becomes available as to what interventions are needed to meet and exceed the payment triggers. Accountability, and future funding, would be tied to results, not to successful execution of pre-defined programme elements.

The Liberia Education Advancement Program (LEAP) that Social Finance has been supporting already has some of these characteristics: LEAP funds a range of non-government school managers who manage failing Government schools; in the latest round of annual financing only those who have performed well on objective measures of educational attainment have received further funding from LEAP.

The funding under this approach would be based on the following principles:

Pooled Resources. The Outcomes Fund would pool resources from a mix of funders committed to improving children’s nutrition, including official donors and foundations. This would reduce administrative overheads, with one structure (e.g. a Multi-Donor Trust Fund) managing all donor contributions and payments to Providers. The Fund would be managed by a Secretariat supported by an Expert Panel. The Panel could include nutrition experts and regional and country experts from the initial focus regions/countries.

Competition. Nutrition Providers would bid for financing from the Outcomes Fund, with continued support dependent on their success in consistently reaching agreed metrics.

Tariffs. For each country, or region of a country, a set “tariff” would be established that defines how much the Fund pays per nutritional improvement achieved. This amount would be capped at the assessed benefit of the nutritional improvements, and would vary according to the cost structure of each country/region.

Scope. The tariff would cover the expected costs of efficient new or improved interventions, covering both nutrition-specific and nutrition-sensitive approaches – for example where there are severe diarrheal outbreaks the interventions might cover not only oral rehydration, but also expansion of WASH programmes.

Measurement. To ensure the Fund's credibility with both donors and Providers, of nutritional outcomes achieved would be objectively measured by an independent entity.

Geographic Focus. The Fund would initially be focused either on a single high-need Region, or on a more dispersed set of high-need countries.

Technical Assistance. A TA facility would help Providers develop adaptive management techniques that focus on results rather than pre-defined programming.

SOLVING THE RISK CAPITAL REQUIREMENT

There remains a challenge of sourcing working/risk capital until the outcomes are (hopefully) achieved. Most Providers cannot absorb the financial risk of delivering a nutrition programme as they face the possibility of a loss if they fall short of the agreed targets – indeed in many cases they simply don't have the necessary working capital to spare. Fortunately this financing problem can be solved through either: (1) the Outcomes Fund pre-financing the first year through a traditional project grant, and then transitioning to full outcomes-based funding in year two; or (2) tapping into Outcomes Investment Funds.

1. PRE-FINANCING PROVIDERS

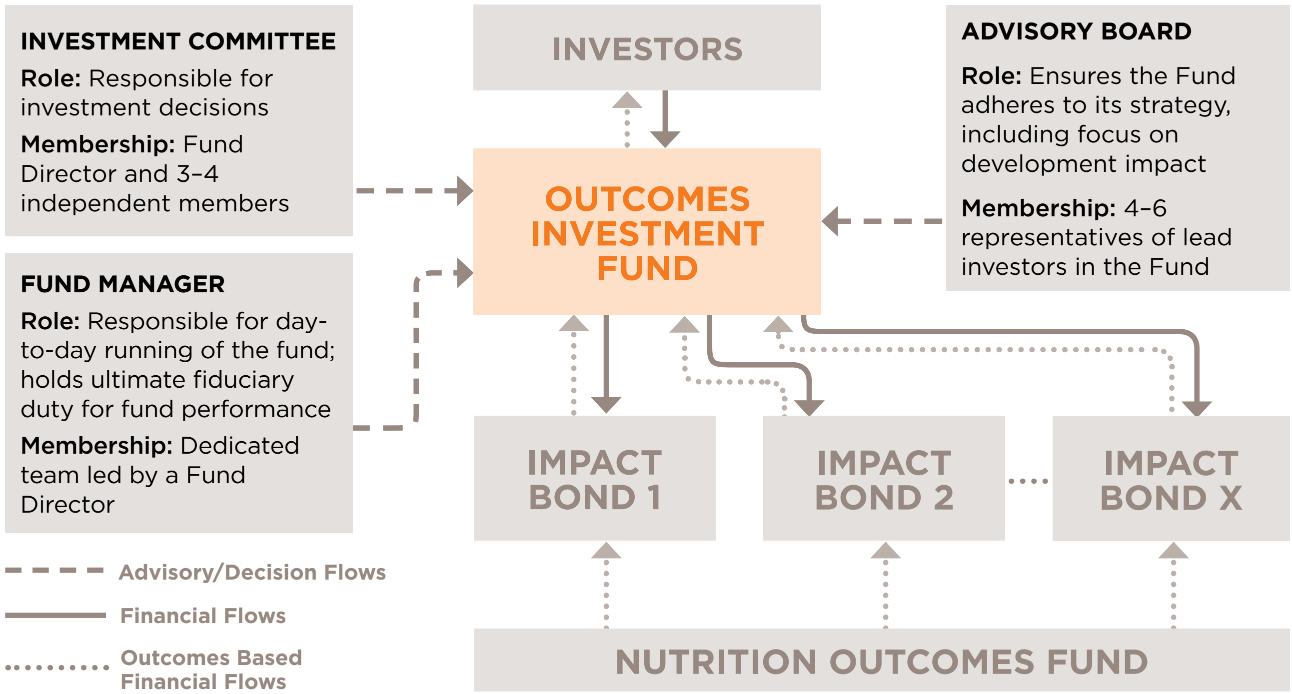
In this solution to the working/risk capital need the Outcomes Fund finances the first year (or other defined period) of Providers' programmes on a traditional project basis. The key feature is that funding for Providers in subsequent years would be tied to their degree of independently-measured success in achieving nutrition outcomes in the preceding years. The Providers would be given the responsibility to decide how best to achieve those goals, thus incentivising adaptive management.[1]

[1] To help ensure long-term Provider engagement some payments for the initial year would be withheld pending: (i) verification of achievement of agreed results; and (ii) start of implementation of the subsequent phase. There would also need to be sufficient time between the measurement of outcomes and the start of a new funding cycle to allow for programme development and for Government budgetary timelines.

TIMELINE OF A PRE-FINANCED OUTCOMES FUND

START OF YEAR 1	**Establishment of the Outcomes Fund** to provide: • Traditional funding in Year 1 for nutrition programmes • Funding in subsequent years for successful programmes based on objective measures of results in the previous year
YEAR 1	**Traditional project funding** for nutrition programmes, but with a commitment to expanded funding if the defined metrics are met. Intensive data collection/analysis to inform adaptive management
END OF YEAR 1	**Independent measurement of change** in stunting and other objective measures towards the end of Year 1
YEAR 2	**Expansion of successful nutrition programmes** based on objective measures of results in the previous year. Continued data collection and analysis to inform adaptive management
START OF YEAR N	**Further expansion of successful nutrition programmes** based on metrics analysed at the end of year N-1. Continued data collection and analysis to inform adaptive management

STRUCTURE OF AN OUTCOMES INVESTMENT FUND



2. OUTCOMES INVESTMENT FUND

Under this approach capital from social investors is pooled into an Outcomes Investment Fund to take the risk of financing Providers, using a series of Development Impact Bonds. The social investors would get their money back from the Nutrition Outcomes Fund (plus a risk premium) if the Impact Bonds they finance succeed, otherwise they would make a loss. As with the pre-financing approach this incentivises a focus on unbureaucratic, flexible management focused on achieving results. But in addition it brings in the benefits of the private sector experience of external investors.

This approach would:

- Ensure financing only for high quality, well-vetted Impact Bonds.
- Enable Impact Bonds to be launched and implemented significantly faster.
- Focus on both social and financial returns, supporting outcomes-based contracts driven by a strong social mission.
- Help build the Impact Bond market and capture learning to inform future transactions.
- Crowd in social investors looking for a ready-made investment vehicle with a portfolio of promising Impact Bond opportunities.

CHOOSING BETWEEN PRE-FINANCING AND AN OUTCOMES INVESTMENT FUND

In the long run these two approaches should yield broadly similar results. Which is chosen depends largely on how easily and quickly external capital can be sourced and structured. The pre-financing approach has the advantage of not requiring any up-front external capital, but having a lag of a year or more until the full advantages of outcomes incentivisation kick in. The pooled Outcomes Investment Fund has the advantage of disbursements enabling to be linked to results achieved from the beginning of the programme, and of introducing the experience of external investors, but requires the extra step of raising risk capital to sit alongside the Nutrition Outcomes Fund.

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