



OnPoint: OUTCOMES-BASED FINANCE, COVID-19 AND THE ROAD AHEAD

A View from the Ground¹

As the economic and social impacts of the COVID-19 pandemic continue to ricochet through markets and health systems across the globe, one thing seems to be clear: uncertainty in the near-term is a certain bet. Pandemics of this reach and their economic shocks, and the uncertainties it generates, are phenomena that affect political and economic decision-making, market expectations and behavior, and risk tolerance. COVID-19 is a health crisis, but it is not just a health crisis. Its economic and social impacts will be far-reaching, affecting populations of all income levels, but may disproportionately affect, as is often the case, poor and vulnerable countries and populations who are the least able to cope.

For **outcomes-based financing** projects in developing countries and emerging markets, the COVID-19 pandemic represents both a near-term **challenge** to projects under implementation but also a medium-term **opportunity** to support a paradigm shift on how aid and public spending can help build more prosperous, equitable, sustainable and resilient societies going forward.

In April 2020, Levoqa Impact Labs, in its role as the Impact Bond Working Group Secretariat, conducted a **survey of key outcomes-based finance (OBF) stakeholders and practitioners. Responses were received from 31 organizations** and spanned views on near term challenges, emerging solutions, and longer-term considerations and opportunities. The following discussion draws from these responses as well as suggestions and other consultations within the community of practitioners in outcomes-based finance.

Navigating Uncharted Territory

Outcomes-based financing projects, like most international development projects, are facing challenges that are without precedent. COVID-19 is still expanding and afflicting populations across the globe. Many stakeholders are struggling to understand this rapid flow of events and what these portend for current and planned projects.

¹This note is informed by ongoing consultation with members of the Impact Bonds Working Group (IBWG) and other stakeholders in outcomes-based finance ecosystem. This also incorporates feedback from the survey conducted by Levoqa Impact Labs of IBWG members on their views and responses to COVID-19. All views contained herein do not necessarily reflect the views or policies of any other organizations or individuals.

Common challenges facing practitioners of outcomes-based finance include:

- **An inability to deliver services:** Restricted travel, social distancing measures, business and institutional closures (e.g. schools), and restricted access to key facilities (including health facilities) are impacting programs' ability to deliver services as designed.
- **Dramatic shifts in priorities and needs:** Some implementing partners have been required to pivot from program delivery to emergency relief responses.
- **Project solvency:** Unable to deliver planned services and outcomes, some projects are being put on pause and risk the permanent loss of key staff who are indefinitely furloughed.
- **Evaluation challenges:** The shock of COVID-19 has impeded on-site data collection and planned field work for many projects, and may require rethinking evaluation approaches and metrics going forward.
- **Program dependency on specific schedules:** Programs designed around specific schedules, such as education programs that are typically designed around school years, may need to reconfigure their project timelines.
- **Virtual meets reality:** Globally, project implementors are turning to technology to deliver and work remotely. However, many OBF projects operate in contexts where access to quality internet connectivity, IT hardware and capacities to work online are not a given.
- **The unknown unknowns:** Uncertainty over the depth of the crisis and its impact on baselines, outcomes targets, beneficiary needs and vulnerabilities, the services required and the timing and means of delivery challenges project teams as they seek to reconfigure their programs to the new environment.

"The [Impact Bond Innovation Fund for Early Childhood Development's] main program activity of household visits has been suspended, due to South Africa's strict national lockdown ... A response strategy has been developed, to enable service delivery to continue in revised form. This includes messaging to convey information about COVID-19, health and hygiene, and early learning activities – plus continuation of regular personal contact with beneficiaries by Home Visitors via weekly phone calls, following up on the generic messages with specific content for each child/caregiver"

Volta Capital

"Since the program cannot be rolled out as expected [due to the COVID-19 restrictions], digital alternatives and distant support may replace the expected face-to-face intervention methodology. But there is a strong risk that the impact of the program will not be the same."

BNP Paribas

Adapting to the Challenge

Outcomes-based financing models place a premium on flexibility in delivery. True to form, this adaptive mindset is on display as stakeholders respond to the current crisis. Many providers, investors and outcome funders are collaborating to adapt existing projects, find immediate solutions and most importantly, to *continue services*.

Adaptive planning and actions that outcomes-based finance practitioners are using include:

- **Reprioritizing high-risk beneficiaries:** Many projects are assessing target populations to identify those cohorts most vulnerable to the social and economic impacts of COVID-19 and reconfiguring delivery models based on modified priorities.
- **Going virtual:** Several programs are exploring new or expanded online, digital solutions for service delivery and to perform remote verification of results.

“The [Municipality of] Cali SIB faces challenges particularly pertaining to the employment and retention of vulnerable people in stable and quality jobs, many of which are in the service industry and thus have been significantly affected by this crisis. Once again, the need to rely on the flexibility that characterizes outcome contracts becomes evident, and is emphasized as much-needed contingency plans come into play. As immediate actions, employment opportunities that have arisen within certain in-demand sectors, possibly with intervention conditions that were not considered in the initial design, for example virtual Interviews and call-centers that are operating remotely, are being preliminarily studied... [Other] possible alternative [support strategies] being evaluated or implemented by service providers and investors include: i) health coverage for the participants and their families, ii) transport and nutrition aid packages, and iii) additional psychosocial support lines.”

Fundación Corona

- **Integrating new services:** Some projects are looking into the integration of additional services and innovations that respond to the changing needs of beneficiaries and market conditions.
- **Upskilling, planning and preparing for ramp up:** Some programs are using idle time to plan for post COVID-19 by training staff and building capacity to ramp-up operations after response measures are relaxed.
- **Repurposing idle staff and facilities:** Programs may second idle staff and repurpose facilities to assist in the COVID-19 response until program activities ramp back up.
- **Strengthening existing contracts:** Programs are revising contracts to modify outcomes targets, indicators (e.g. shifting toward outputs), measurement methodologies and payment mechanisms.
- **Providing emergency funding:** Several organizations are exploring options, such as impact-linked emergency loans, to help implementation partners get emergency funding and ensure solvency until operations return to normal.
- **Increasing support for Governments’ COVID-19 responses:** Several respondents have expressed their support for Government efforts and related protocols, integrating health guidance and information into program material and activities.

While outcomes-based financing models may not be the most appropriate tools to support most immediate relief effort needs, several organizations are examining elements of outcomes-based approaches that could improve the effectiveness of relief funding. The *ixo Foundation*, for example, is building an **emergency procurement platform** and investigating leverage points in the supply chain where results-based incentives and blockchain technology could ensure access to essential goods and services for smaller countries and marginalized communities.

“Due to the lock down and travel restrictions in India and increased priority of COVID-19, the [Utkrish] impact bond has initiated online training and support to the small healthcare organizations participating in the impact bond - not only on Maternal and Child Health issues but also on COVID-19. The shift from ‘onsite’ training to ‘online’ training was a large adjustment. The impact bond is adapting to the many challenges from this change in approach and getting continuous feedback on how it can makes its online training more effective. The project has also been able to support the Government’s efforts to combat COVID-19 by incorporating messages and training about COVID-19 in the online training.”

Palladium

The Reopening and the Opportunity

Recovery from the impact of COVID-19 may dominate the focus of international development activity in the short- to medium-term. The social and economic knock-on effects of the pandemic will not be long in coming and will likely resonate for years. Hundreds of millions of people in developing countries may slide into extreme poverty, and recovery must grapple with the pandemic’s deep impacts on **food security, incomes and livelihoods, learning and health outcomes, and pre-existing gender gaps**. These challenges include the first five Sustainable Development Goals, and for good reason.

"[Outcomes-based financing] models can support governments and others to offer flexible financing, enable innovation which is critical and also ensure that the focus remains on outcomes especially in the sectors of health and economic support- critical in low and middle income countries."

British-Asian Trust

COVID-19 is likely to **strain Official Development Assistance and impact domestic government social sector spending** for the foreseeable future. Countries will also grapple with major disruptions to **trade, supply chains, investment flows and remittances** that will have major consequences on economic growth, productivity and living standards across the income spectrum.

All of the above suggests a future of **heightened need** for development intervention with **fewer resources available**. Those responding to the IBWG COVID-19 Survey almost unanimously identify a powerful **value proposition of the outcomes-based**

financing model in the medium-term to support sectors and populations hit particularly hard by the pandemic. By aligning incentives, leveraging data and harnessing the capital, knowledge and risk tolerance of stakeholders, these models can deliver cost-effective and measurable outcomes to vulnerable groups. No other development finance modality offers the same potential for innovation, market intelligence, flexibility, transparency and accountability.

OBF practitioners responding to the survey cited numerous potential opportunities for OBF operations in the medium-term, such as:

- Systemic interventions to support livelihoods and food insecurity that result from disrupted supply chains, including agricultural production;
- Outcome-based interventions to inject liquidity into communities;
- Agricultural input schemes to provide support to farmers and sustain food production;
- Supporting preventative measures for common, curable diseases;
- Strengthening disease data and health surveillance;
- Strengthening front line and community health workers;
- Improving technology and modern learning tools for education;
- Support for remote schooling in low resource settings;
- Education interventions to remediate lost time in classrooms;
- Employment and skills development in sectors essential to national recoveries;
- Sanitation and hygiene and social behaviors that prevent the spread of the virus;
- Programming conditional business grants to achieve specific outcomes for SMEs; and
- Increasing women's participation in all of the above.

"Following on from shorter-term emergency responses currently being deployed, medium to longer-term outcomes-based programming could be especially important for the sustained management and reduction of COVID-19 globally."
UNILEVER

From Recovery to Resilience

Behavioral economics highlights the human habit of discounting both the lessons of the past and the science-based scenarios of the future. While the COVID-19 pandemic is without historic precedent, it is *not* a Black Swan event. Medical experts and scientists have for several years been warning of the inevitability of such a global pandemic. However, this crisis is an opportunity to generate the additional funding and support for **building resilience** against *future shocks and disruptions* into service delivery ecosystems, health systems and local economies.

Resilient systems are not *immune* to shocks and disruptions, but strive to reduce material impacts, recover and preserve capability as quickly as possible. Resilience is a form of adaptive risk management, using evolving data, market intelligence and embedded processes to inform a continual cycle of action, learnings and improvement – a way of working that embodies the ethos of outcomes-based approaches.

Outcomes-based financing mechanisms may prove a potent tool for **catalyzing systems-focused investments** and new partnerships to build resilience. It is well-placed to promote an adaptive, data-driven mindset in organizations and institutions, and to support social entrepreneurs with the incubation that spurs resilient solutions in the form of products and tech-based services that help communities and organizations manage their exposure and risk.

The Road Ahead

COVID-19 is a *crisis* that offers an *opportunity* to expand and scale outcomes-based finance for development interventions as the world recovers. It is further an opportunity to build resilience against the threat of future crises. However, several key themes emerged in the IBWG COVID-19 Survey responses which must be addressed if outcomes-based finance is to become a major force in development finance in the post-COVID-19 era, including:

- **Urgency in the upstream:** Upstream investments need to begin immediately so that a pipeline of outcomes-based financing instruments is in place to accelerate recovery efforts in sectors critical to national recoveries. Long lead times, great market uncertainty and new design challenges will require creative means of blending funding to carry out this upstream work.
- **An imperative to deliver scale:** The magnitude and depth of the pandemic's impact will require pay-for-performance instruments and modalities that can mobilize funding at scale. These modalities should *pool larger amounts* of donor funding, leverage cutting-edge technologies and *tap capital markets* and emerging investor interest in COVID-19 response and recovery.
- **Re-thinking OBF under uncertainty:** COVID-19 recovery will pose a host of design challenges for outcomes-based contracting. Designing "crisis-resilient" outcomes-based programs which can adapt to evolving needs will require stakeholders to work through shifting baselines, expanded needs of beneficiary populations, new thinking on metrics, measurement, and contracts among other challenges.
- **Addressing challenges with outcomes-based approaches that already existed pre-COVID-19 crisis.** It is imperative to reduce transaction costs, to shift from individual pilots (such as Impact Bonds) to platforms that crowd-in donors, investment capital, and domestic governments, and to replicate and scale models that work. These pre-crisis challenges will only be amplified by the COVID-19 pandemic and the post-crisis world.
- **Capturing learning and emerging best practices.** Given the speed at which the pandemic is taking over countries, learning efforts on what is working and what is not during the crisis should be accelerated as much as possible. Through learning hubs such as Oxford's GoLab and the Brookings Institution, the outcomes-based financing community can systematize and capture learnings, such as on renegotiations of contracts and alternative measurement approaches, and identify standardization opportunities in the near future.

If progress is made on all of the above, outcomes-based finance can play a vital role in the COVID-19 response and recovery, delivering value, and adaptable and tailored outcomes to the vulnerable populations it is trying to serve.