

## PRIVATE SECTOR ENGAGEMENT

### OVERVIEW

This paper lays out the approach to private sector engagement for the Global Financing Facility. It was approved by the Investors Group in March 2016.

The Investors Group will retain the Private Sector as a regular item on their agenda and the Secretariat will provide annual updates, to be given at the last Investors Group meeting of every year, on the status of the strategic directions laid out in this paper. As the pathways for private sector engagement mature, additional consultation with the Investors Group will be sought as appropriate.

### BACKGROUND

The Global Financing Facility in Support of Every Woman Every Child (GFF) is a key financing platform of the UN Secretary General's updated Global Strategy for Women's, Children's and Adolescents' Health (2016-2030). The GFF is a country-driven financing partnership that brings together, under national leadership and ownership, stakeholders in reproductive, maternal, newborn, child and adolescent health (RMNCAH), to accelerate efforts to end preventable maternal, newborn, child and adolescent deaths by 2030 and improve the health and well-being of women and children. It is underpinned by International Health Partnership (IHP+) principles and serves to harmonize fragmented RMNCAH approaches, using existing structures and processes.

The GFF supports country leadership by drawing on the comparative advantages of the broad set of stakeholders involved in the RMNCAH response, including the financing of the World Bank Group, Gavi, the Global Fund to Fight AIDS, Tuberculosis and Malaria, private foundations and bilateral donors; the technical expertise and normative mandates of UN agencies; the reach and community-connectedness of non-governmental and faith-based organizations; and the capacity and speed of the private sector.

The GFF is positioned as a pathfinder for a new era of sustainable financing for development by shifting from a model that focuses solely on development assistance to an approach that combines:

- Mobilizing greater domestic resources (from both public and private sources);
- Attracting additional external resources;
- Employing innovative strategies for resource mobilization and service delivery.

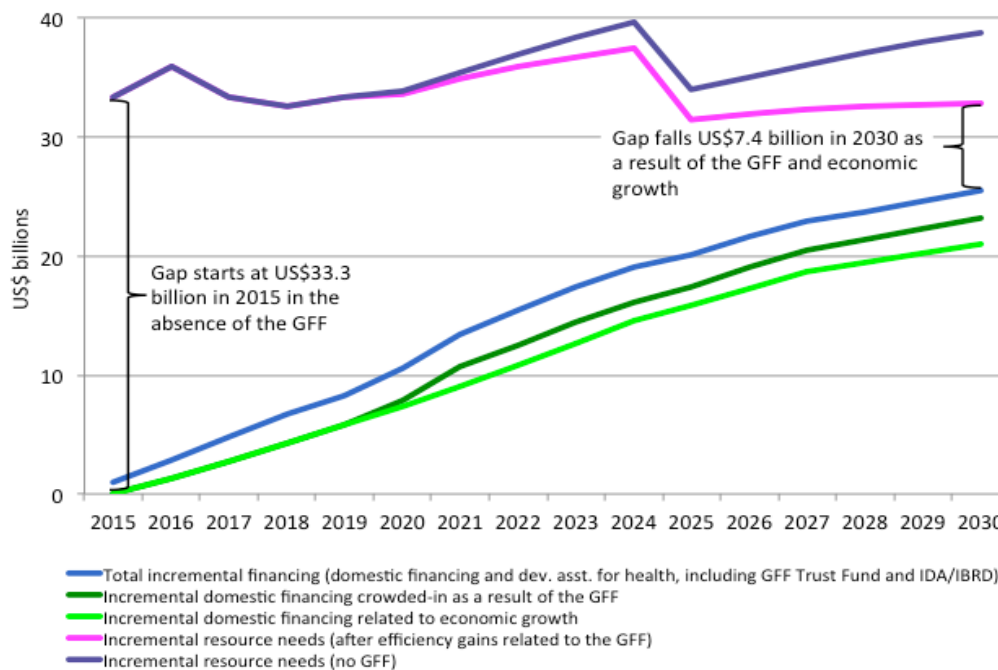
## OBJECTIVE

This paper lays out the proposed approach to private sector engagement for the Global Financing Facility and requests feedback and discussion from the Investors Group on the strategic directions and proposed deliverables for the GFF's private sector work in 2016.

## GFF AND THE PRIVATE SECTOR

The GFF has analyzed the financing needs for reproductive, maternal, newborn, child, and adolescent health (RMNCAH), which are estimated as US\$33.3 billion (US\$9.42 per capita) in 2015 for the 63 countries eligible for GFF support (Figure 1). The GFF uses smart, scaled, and sustainable financing to mobilize additional resources and generate efficiencies, and thereby close this gap.

Figure 1



Domestic resources play a major role in closing this gap at the country level. Currently private expenditure is a key component of domestic financing: private expenditure on health accounts for over 50% of total health expenditure in more than 60% of GFF countries\*. However, it is important to note that the bulk of this is from out-of-pocket payments, which are inequitable and fall disproportionately upon the poorest segments of the population. By working with countries on smart, scaled and sustainable financing the GFF intend to harness both public and private financing in an equitable way (while reducing out of pocket expenses) towards achieving RMNCAH goals. Analysis has also found that the flow of international private finance (US\$778 billion in foreign direct investment and US\$400 billion in remittances) now dwarfs Official Development

\* GFF Secretariat analysis of National Health Accounts

Assistance (US\$135 billion)<sup>†</sup>. Thus there is significant potential to develop innovative financing mechanisms to complement health financing work at the national level, by bringing international sources of private capital to the effort to improve RMNCAH results.

Beyond financial resources, the private sector<sup>‡</sup> is a critical health service provider for RMNCAH. Data on this are suboptimal and there is lack of consensus in the literature on the exact share of services provided by the private sector, but there is no dispute that in many countries it is significant. An analysis of Demographic and Health Survey (DHS) data from 2000-2012 across 46 LMICs found 36% of women receive antenatal care in the private commercial sector<sup>§</sup>. Similar DHS data analyses have found that over a third of deliveries with appropriate care take place in the private sector<sup>\*\*</sup>, as well as over half of all care for pediatric diarrhea and fever/cough<sup>††</sup>. DHS data also showed that between 27% and 30% of users in Sub-Saharan Africa obtained contraception from private sector providers<sup>‡‡</sup>.

It should be noted that there is great heterogeneity in the extent and types of private providers used across types of services, regions and income groups (Figure 2), but since in many countries the private sector is such a significant provider of services, it is essential that it be engaged in any effort to improve RMNCAH outcomes, and any effort to do so without its involvement will be incomplete.

---

<sup>†</sup> World Bank Annual Report 2015.

<sup>‡</sup> In the context of these analyses, the private sector defined as “any provider that is not a government or public health care provider; they may also be referred to as “non-state actors.” This includes traditional healers, informal drug peddlers, religious organizations, private not-for-profit providers, domestic and international non-governmental organizations, community groups, friends and relatives.

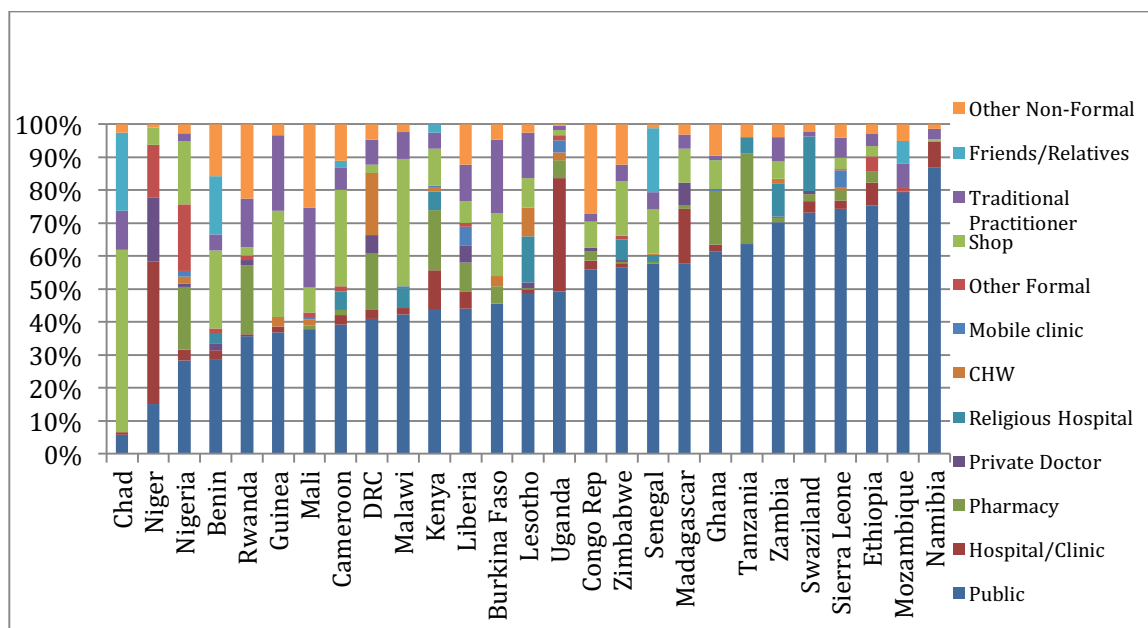
<sup>§</sup> Powell-Jackson T, Macleod D, Benova L, Lynch C, Campbell OMR. The role of the private sector in the provision of antenatal care: a study of Demographic and Health Surveys from 46 low- and middle-income countries. *Trop Med Int Health*. 2015 Feb;20(2):230–9.

<sup>\*\*</sup> Benova L, Macleod D, Footman K, Cavallaro F, Lynch CA, Campbell OM, Role of the private sector in childbirth care: cross-sectional survey evidence from 57 low- and middle-income countries using Demographic and Health Surveys, *Trop Med Int Health*. 2015 Sep 28. doi: 10.1111/tmi.12598

<sup>††</sup> Grépin, Karen A, The role of the private sector in delivering maternal and child health services in low-income and middle-income countries: an observational, longitudinal analysis, *The Lancet*, Volume 384, S7

<sup>‡‡</sup> Ugaz, Jorge I, Chatterji, M, Gribble, J, Mitchell, S. Regional trends in the use of short-acting and long-acting contraception accessed through the private and public sectors. *International Journal of Gynecology and Obstetrics* 130 (2015) E3-E7

**Figure 2: Source of care for pediatric curative care, poorest quintile by type of provider (Sub-Saharan Africa)<sup>55</sup>**



Recognizing the fact that health systems in most countries are “mixed” – with a blend of public and private service provision – the GFF works across both public and private sectors. It facilitates drawing in additional resources and knowledge from the private sector by emphasizing the importance of policy and planning process that are inclusive of the private sector in GFF countries, and by supporting specific mechanisms at the global and country levels to best leverage private sector resources, capacity and innovation for RMNCAH.

Reflecting the heterogeneity of the private sector in health, there is a broad range of actors for the GFF and country governments to engage with at global, regional and national levels. These include (but are not limited to):

- Service providers (e.g., private doctors/clinics/hospitals/midwives/pharmacists);
- Pharmaceutical manufacturers;
- Medical technology companies;
- Financial sector:
  - National (e.g., banks, financial institutions, investors);

<sup>55</sup> World Bank Group analysis of DHS data from Montagu (2010)

- International/regional (e.g., private investors in International Bank of Reconstruction and Development (IBRD) <sup>\*\*\*</sup> or International Finance Corporation (IFC) <sup>†††</sup> bonds, private equity firms investing in healthcare companies);
- Private insurers (e.g., technical or administrative services for government sponsored health insurance schemes);
- Management and logistics:
  - Supply chain/distribution companies;
  - Management consulting firms supporting development of management capacity (Technical Support Units);
- Information and communications technology firms (e.g., mHealth companies, technology firms working on big data, such as in the context of civil registration and vital statistics [CRVS]);
- Private training institutions that develop human resources for health
- Key business actors in other sectors that relates to health (e.g., energy firms that can supply electricity to remote health facilities, companies working on water and sanitation).

## **GFF APPROACH TO PRIVATE SECTOR ENGAGEMENT**

The GFF seeks to use the flexibility of its trust fund and the expertise of its facility partners to draw in the financial resources and capacity of the private sector to help countries achieve RMNCAH target outcomes. In line with the general GFF principles, the GFF's private sector engagement will be equity-driven and prioritize the most disadvantaged women, children, and adolescents. Private sector engagement around the GFF will be values-driven, with an emphasis on social impact rather than purely commercial returns.

### **Pathways for engagement with private sector**

The GFF has three main pathways for private sector engagement in the short run:

1. Developing **innovative financing mechanisms** to catalyze private sector capital for Investment Case financing;
2. **Facilitating partnerships** between global private sector and countries;
3. Leveraging private sector capabilities in **countries to deliver on Investment Case objectives**.

All three pathways will require involvement of various GFF partners (including UN agencies, bilateral donors like USAID, multilateral financiers such as Gavi and Global Fund, and World Bank Group institutions such as the IFC) based on the comparative advantage of each institution in working with the private sector. In some cases the GFF Secretariat might be best placed to lead,

---

<sup>\*\*\*</sup> The International Development Association (IDA) and the IBRD are the two main lending arms of the World Bank Group. IDA focuses on lower income and/or debt-distressed countries, while IBRD lends primarily to middle-income countries.

<sup>†††</sup> The IFC is the private sector arm of the World Bank Group.

while in others, GFF partners might have the necessary experience, relationships and/or country presence required to implement a specific initiative. Additionally, the GFF secretariat will leverage ongoing partner private sector initiatives by identifying synergies and areas for potential joint initiatives, as well as work with partners to define how their organization's continuing private sector engagement can best be aligned under the broader GFF private sector approach. To deliver on its private sector agenda, the GFF will also coordinate with existing private sector partnership networks and learning platforms (e.g., HANSHEP, PMNCH, and Managing Markets for Health) and build on the work done under initiatives such as African Health Markets for Equity (AHME).

Cutting across all three pathways is the role of the GFF in stimulating and promoting innovation. Disruptive innovations and new business models can play significant roles in helping health systems leapfrog existing constraints, thereby making a major contribution to ending preventable deaths by 2030. The GFF has an important role to play in promoting engagement with the private sector to help identify and attract these kinds of innovative solutions and then to support countries to bring successful innovations to scale. The GFF's efforts in this space will be linked with the nascent EWEC Innovation Marketplace, which will play a key role in identifying promising innovations, and with other partners that have considerable experience in bringing innovations to scale, such as Gavi and the Global Fund.

## 1. Pathway 1: Innovative Financing Mechanisms

The GFF has a unique opportunity to **broker impactful financing structures and effective, market based solutions for investments into RMNCAH**. With the right incentive structures in place, the GFF could raise additional financing for countries and support private investment in RMNCAH. While the criteria to guide GFF investment in innovative finance will be defined in the upcoming months, some potential vehicles are:

- **Pay for Performance Structures:**

Example 1: GFF-IBRD performance based loan buy-down:

GFF is working with the World Bank IBRD Treasury and Development Finance on performance-based IBRD loan buy-downs for IDA and IBRD countries. IBRD raises funds from capital markets for loans that select GFF countries will receive to finance investments in health systems.

As a function of meeting agreed upon country-specific performance metrics, borrowing countries receive “buy-down” payments from the GFF to bring the IBRD loan to concessional terms.

This loan buy-down mechanism allows countries to access greater resources than grants alone, and increases domestic investment in health by easing the restriction of constrained IDA envelopes that face competing funding demands from several other sectors.

*GFF comparative advantage:* The GFF brings the combined World Bank Group's ability to raise private capital, provide country loans and technical assistance for designing and

monitoring performance-based financing (PBF) for health systems (building on the experience of Health Results Innovation Trust Fund), along with flexible trust fund resources for buying down loans to concessional terms where targets have been met.

Example 2: Development Impact Bonds (DIBs):

GFF partner Grand Challenges Canada (GCC) – a government-backed innovation fund focused on supporting global health initiatives – has provided a grant (~18 months) to fund the Kangaroo Foundation’s train-the-trainer model for Kangaroo Mother Care (KMC) in Cameroon and Mali.

GCC is simultaneously in the early stage of exploring with the Government of Cameroon and the World Bank Cameroon task team whether a Development Impact Bond (DIB), a type of outcomes-based financial instrument, could be used to fund KMC rollout at scale in Cameroon beyond the grant period.

Given that investor money is at risk, DIBs create strong incentives to put in place the necessary feedback loops, data collection and performance management systems to test and refine – and to build a credible proof of concept for – a KMC scaling model with relevance beyond Cameroon. The contractual focus on outcomes – as opposed to inputs – means that service delivery has the flexibility to adapt as necessary to overcome identified barriers to KMC adoption.

*GFF comparative advantage:* The DIB brings together GCC, the GFF partner’s expertise in supporting innovation for improving health outcomes, and the Government of Cameroon’s existing experience with performance-based financing through the HRITF.

- **Catalytic Financing for Private Investment:** To bridge the financing gap for RMNCAH, it will be necessary to draw in private capital on a large scale from investors with a focus on socially impactful solutions. These “impact investments” are often beyond the reach of commercial investors due to the high risk, transaction cost, difficulty to scale, and cost of funding involved, leading to a financing gap for borrowers. To achieve this, GFF will use catalytic grant funds to reduce risk for investors (IFC, other development finance institutions and private investors) to make investments focused on improving access to affordable quality RMNCAH health services and products for key target populations, particularly the most disadvantaged women, children, and adolescents. The GFF’s flexible grant funding could be leveraged through various financial instruments (e.g., grants, guarantees, concessional finance) as appropriate, based on the needs in RMNCAH priority areas as identified from a comprehensive landscape analysis in GFF countries.

Example: GFF Investment in Medical Credit Fund

The GFF business plan identifies a need to support small and medium healthcare providers with improved access to working capital. GFF is in early discussions with Medical Credit Fund (MCF), run and managed by PharmAccess, to be the first potential recipient of GFF’s catalytic grant funding for private sector investment, through a blended finance investment alongside IFC and other commercial and impact investors.

The proposed GFF grant would go towards MCF’s “first loss” fund, thus reducing investor risk and enabling private investment into the fund at lower interest rates. This infusion of

commercial investor capital will in turn support the expansion and continued affordability of MCF's loan program for end-borrowers. The scale-up of MCF's loan facilities for small and medium sized healthcare providers across Africa (which is coupled with technical assistance to borrowers and local banks on financial management and quality of care with PharmAccess's SafeCare initiative) will improve MCF's long-term sustainability and reduce the need for donor funding.

GFF funding will also enable high quality monitoring and third party evaluations to assess quality of care improvements and patient reach by income level.

USAID also has experience as a guarantor with similar risk-sharing facilities through the Development Credit Authority, as well as with MCF and PharmAccess, and will provide input to the GFF discussions.

*GFF comparative advantage:* The collaboration with IFC will leverage their financial expertise, private investor partnerships and wide experience with health investments in developing countries, as well as their Treasury's ability to raise private sector capital for health investment. The GFF grant financing and partner expertise will catalyze socially impactful private sector lending from a diverse group of investors into an area of high need in health systems (access to capital for small and medium providers), as well as contribute to the global evidence base on impact investing and its sustainability.

## 2. Pathway 2: Facilitating partnerships with global private sector

The GFF launch has attracted great interest among private sector actors at the global level, who are keen to bring their resources and expertise to countries through **sustainable business models and partnerships** along the RMNCAH continuum of care.

The GFF facilitates partnerships for **innovation, global public goods and resource mobilization** to match specific needs in country Investment Cases (e.g., technical assistance for supply chain improvement, medical technology procurement, innovative service delivery, etc.). This brings together the resources and expertise of GFF global partners, including private sector, for country needs.

While entry points for engagement will be largely linked to Investment Cases, the GFF recognizes the value of retaining the necessary flexibility to take advantage of other opportunities that can benefit countries and strengthen the global knowledge base on private sector.

Partnerships may be of three types:

- **Between private sector and specific countries**

Example: Safaricom, Merck, Philips, GSK, Huawei and Kenya Healthcare Federation EWEC commitment to provide resources and expertise for RMNCAH in 6 high-burden counties in Kenya, in a partnership being coordinated by UNFPA and in alignment with GFF.



*GFF comparative advantage:* Brings together GFF private sector and development partners (UNFPA and World Bank) to strengthen public-private dialogue, and identify and implement innovative private sector solutions for county RMNCAH priorities. This builds on existing work by the World Bank Health in Africa team, and the GFF prioritization process and financial resources at county level provide a platform for engagement, as well as access to wider private sector partners for additional solutions.

- **With private sector for global public goods**

Example: GFF is working with DITTA<sup>+++</sup>, WHO and various medical technology companies (GE, Philips, Siemens, others) to address requests for support on procurement of medical technology from several countries.

*GFF comparative advantage:* The GFF can support countries to access private sector expertise for efficient and transparent procurement that are based on sound health technology assessments through a neutral platform by bringing in DITTA, an umbrella body for medical technology companies. This platform builds on the WHO's existing toolkits on procurement, along with World Bank procurement expertise and relationships with Ministries of Health and Finance. A pilot workshop to bring together the various elements of support for some countries in Africa is being planned.

- **With global private sector to mobilize resources for countries**

Example: GFF is in discussions with GBCHealth to bring in private sector companies as outcome payers for performance-based financing program results in GFF countries. This raises additional financial resources for countries from private sector and incentivizes success for health outcomes.

*GFF comparative advantage:* Brings together GFF private sector partners for country needs and builds on the HRITF experience in performance based financing for health.

### **3. Pathway 3: Leveraging private sector in countries for Investment Case needs**

The GFF recognizes that private provider presence in health varies across countries, income groups and types of care, and encourages countries engage with those private sector actors who are most relevant for their health system, in service delivery and beyond.

The GFF approach relies on country platforms based on the principles of inclusivity and transparency. The country platform is responsible for preparing an Investment Case that sets out priorities for RMNCAH, health systems and multi-sectoral programming. The Investment Case is oriented towards helping countries achieve their 2030 development goals and considers shifts in the structure of the country's economy will occur over that timeframe, which in many countries will involve the changing role of the private sector.

---

<sup>+++</sup> Global Diagnostic Imaging, Healthcare IT, and Radiation Therapy Trade Association

A key component of this is designing and implementing solutions involving the private sector to achieve RMNCAH objectives, thus harnessing private sector resources, technical expertise, and innovation. For example, partnering with national or regional mobile phone service providers can provide access to data that strengthens CRVS systems (a GFF priority area), and also enables targeted service delivery to populations with the greatest need. This provides valuable efficiency gains, a guiding principle of the GFF. Engagement with the private sector in the course of developing Investment Cases and health financing strategies is important for introducing such elements into the process, helping ensure that they include the kind of long-term, transformational orientation that the GFF is trying to spark.

Recognizing the complexity of this process and the limited capacity of most governments to engage with private sector, detailed guidance on including private sector in the GFF process is being developed. The GFF will also support governments with technical assistance to establish an inclusive regulatory environment and build internal capacity for sustained private sector engagement in health. Guidance will be provided to private sector actors to help identify pathways and specific opportunities to partner with governments for improved RMNCAH outcomes, while respecting national procurement guidelines. Knowledge products developed through GFF activities (e.g., private health sector assessments for various countries) will contribute to expanding the global knowledge base on private sector.

The GFF approach in countries has been tailored to the local context and priorities. Some early examples of country-level private sector engagement that are under development include the contracting of private service providers through the performance-based financing mechanisms in Cameroon, setting up loan facilities with local banks with a mix of public and private financing to provide affordable loans to small and medium health providers in Uganda, and working with counties in Kenya in the context of devolution to develop implementation plans that include private sector solutions.

## **KEY CHALLENGES**

The GFF faces some key challenges in its private sector engagement:

- The breadth of the GFF approach creates many possible areas of engagement with the private sector and there is a need to define priorities and criteria for GFF investment;
- There are limited data and analytical work available globally on private sector in health, necessitating further analysis of options for GFF to pursue (particularly in pathways 1 and 2);
- In many countries, coordination structures within the private sector, and between the private sector and government are inadequate, which means that support is needed to ensure that the private sector is engaged in a manner that fully leverages its capabilities.

## **CONCLUSION AND NEXT STEPS**

Recognizing that the GFF is a new mechanism, the proposed approach has been to develop a strategy for private sector engagement that is focused on 2016, rather than embarking on a

lengthy planning process to prepare a multi-year document. This document identifies key concrete actions for the year while also laying the foundation for a longer-term strategy.

As a starting point for the discussion, the GFF secretariat has an initial suggestion for key deliverables for 2016, by pathway:

- Pathway 1: Innovative Financing Mechanisms
  - IBRD performance-based buy-down in at least 1 country;
  - GFF criteria for innovative finance defined, analysis of investment landscape and possible opportunities to leverage GFF and partner funds and expertise for maximal development impact;
  - GFF catalytic private sector financing: Medical Credit Fund grant for improving access to capital for small and medium providers in Africa;
- Pathway 2: Facilitating partnerships with global private sector
  - Process for private sector to get involved in GFF, including criteria for GFF private sector partnerships and support for scaling RMNCAH innovations;
  - Medical technology assessment and procurement support for countries to reduce inefficiencies;
  - GBCHealth deal to bring private sector outcome payers for performance based financing in health in at least 1 country;
- Pathway 3: Leveraging private sector in countries for Investment Case needs
  - Appropriate inclusion of private sector in all GFF Investment Cases
  - Focused private sector engagement in at least 2 GFF countries.
  - Draft of guidance for countries on private sector engagement for GFF approach, including country platforms;

To lay the foundation for further engagement, the deliverables for 2016 will also include an analysis of GFF partner private sector engagement initiatives and potential areas of synergy, along with additional opportunities for potentially impactful GFF-private sector partnership (e.g., market shaping and improvements in supply chains). This will help inform the longer-term approach to GFF's engagement with the private sector.