



Wilton Park



Report

**Private capital to achieve public health goals in Africa**  
**Reenvisaging private sector capital for health in Africa: the capital stack approach**

Tuesday – 16 November 2021 | WP1996

In association with:





## Report

# Private capital to achieve public health goals in Africa

*Reenvisaging private sector capital for health in Africa: the capital stack approach*

Tuesday 16 November 2021 | WP1996

Wilton Park, in partnership with the Global Business Coalition for Health (GBCHealth), Malaria No More, the Health Finance Coalition (HFC) and Amref Health Africa is developing a three-part series of interactive dialogues that aim to mobilize private capital and private enterprise to help achieve and accelerate public health goals for Africa.

### Session Goals and Objectives

- Outline the need for new thinking and approaches to financing health initiatives, with a particular focus on sub-Saharan Africa
- Provide a space for innovative thinking around financing for health in Africa and beyond, and introduce the capital stack approach as a new, scalable model
- Explore the conditions required for scaling blended finance investments where they are needed most, both thematically and geographically
- Explore the opportunities and challenges for the capital stack approach to substantially increase healthcare investments in Africa.

### Executive Summary

Sub-Saharan Africa is home to 16% of the world's population and 23% of the global disease burden, yet it claims only 1% of total health spending. This extraordinary gap between health needs and resourcing presents a major development challenge for the continent.

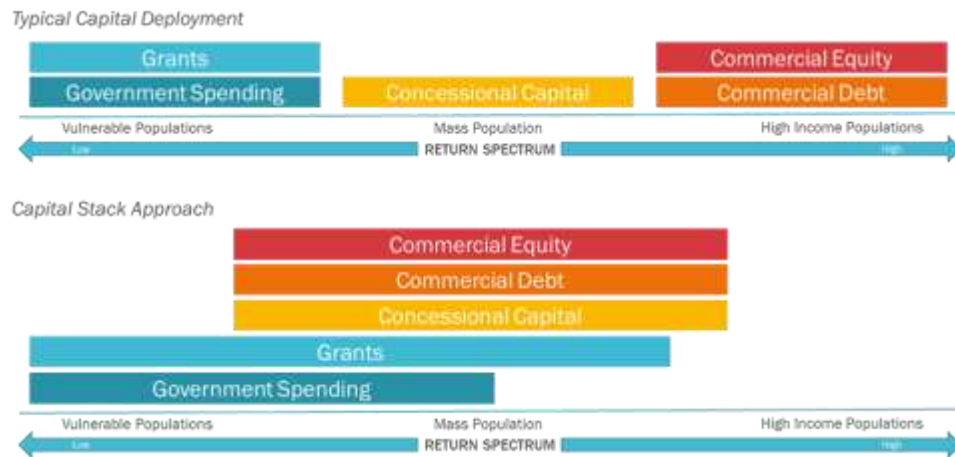
In his introductory remarks, World Health Organization (WHO) Director General, Dr. Tedros Adhanom Ghebreyesus highlighted this need for additional investment in public health in Sub-Saharan Africa, and emphasized the need for longer-term, patient capital investment from the private sector, and for greater collaboration between governments and private investors.

In response to this call for action to achieve Africa’s health goals, a new approach to investment in healthcare in Africa was presented, by Martin Edlund of the Health Finance Coalition.

This new approach encourages the positioning of private, return-seeking capital to co-invest alongside domestic and donor resources as a means of scaling transformative health solutions through private enterprise or public-private partnerships; this has been termed the Capital Stack Approach.

The Capital Stack Approach is essentially a blended finance method that encourages actors who share the same mission but have varying risk-tolerance and objectives to invest alongside one another. For this approach to work at the scale of the need, we need to overcome some fundamental challenges: 1) deal flow, 2) risk adjusted returns, 3) aligned co-investment.

*“This does not just mean more money, it means making better, smarter, and longer-term investments so that new resources, from whatever source are directed at more equitable access to health services and more equitable health outcomes.”*



The approach is mutually beneficial: concessional capital reduces risk and enhances the return profile for commercial investors; meanwhile, commercial capital creates efficiencies and increases leverage to make concessional dollars go further. By bringing these actors together across the “capital stack,” we aim to maximize impact for grant capital, provide sufficient risk-adjusted returns for debt and equity, and extend health benefits for participating governments.

Currently, there is a lack of coordination among concessional and commercial actors investing in healthcare in Africa, which prevents “blending” through co-investment. Additionally, because many health enterprises are not financially sustainable, investment opportunities that offer risk adjusted returns are limited, cutting private sector healthcare enterprises off from scalable financing. As a result, there is a critical lack of large-scale, socially oriented investment opportunities within the African healthcare sector that meet commercial risk-adjusted return requirements. In addition, there is a perception within the market that investing in healthcare at scale to reach patients at the bottom of the pyramid is too risky and difficult.

### Key Messages from the Event

- To achieve Africa’s health goals a new approach is needed: one that positions private, return-seeking capital to co-invest alongside domestic and donor resources as a means of scaling transformative health solutions through private enterprise or public-private partnerships; this has been termed the Capital Stack Approach.

*“We need to create a system where the components of the capital stack reinforce each other and are linked to the public health priorities.”*

*“We need the public sector to support broader political commitments to fund health too, not just a private sector that is ready to make a financial commitment.”*

*“Africa is not capital short, we are short on capital absorption capacity”*

”

*“There is so much money out there in the market, but the various processes and the conditions required make accessing that capital almost impossible”*

- The financing gap to achieve the SDG 3 goals in Sub-Saharan Africa will not be achieved without better, smarter and longer-term investments. This includes engaging the private sector in a meaningful and sustainable way.
- Governments must lead the way in providing the optimal enabling environment for the private sector to operate efficiently, recognizing that its inclusion is necessary and moreover, beneficial. The multilateral system can play a convening and connecting role, ensuring that all relevant stakeholders and sources of finance are brought to the table, and facilitating lesson-sharing across countries and regions. Businesses must innovate and about how we can provide a scalable and sustainable solution for our partners
- While a lack of sufficient capital is part of the problem, Sub-Saharan Africa needs to significantly increase its capital absorption capacity. There are numerous opportunities that could be better leveraged, such as diaspora remittances. However, advances in capital absorption capacity for health require increased political commitment and financial commitments by all of the key stakeholders supporting health.
- Stakeholders must take a new approach – getting into “construction mode” and putting the capital stack model to work. Poor coordination must be recognized and addressed so that blending of finance can happen effectively and in order for health outcomes to be achieved at scale.
- Basic health systems must continue to be strengthened as a priority, if the benefits of new technology are to be realized and scaled.
- As countries look to utilize the capital stack approach, expertise is required to assist in structuring the projects or “deals” that will attract private finance. SME’s also require technical assistance in order to effectively manage and scale projects. A shift is required from a grant focus to projects that are constructed with multiple types of finance and attention to risk-mitigation. This is especially true in emerging middle-income countries where the international community needs to support the transition from SDG Funding to Financing.
- Demonstrative examples have already indicated that the Capital Stack approach can mitigate risks, enhance impact and deliver public health outcomes.

## **Case Study: Small and Medium Enterprise (SME) Financing for Primary Care Delivery**

COVID-19 and the subsequent lockdowns caused major liquidity problems for health SMEs in Africa. To address these imminent liquidity problems, The Open Doors African Private Healthcare Initiative (ODAPHI) is has come to the rescue with an emergency loan guarantee facility that makes more than USD 30 million in loans, provided by the Medical Credit Fund (MCF), available to private, small- and medium enterprise (SME) health providers in five African countries to ensure that they continue offering essential health services, to more than five million Africans. Guarantees are provided by a mix of private philanthropies and the U.S. International Development Finance Corporation.

ODAPHI is an example of a Capital Stack Approach to investing in healthcare in Sub-Saharan Africa in two primary ways: de-risking and enabling critical private sector investments through a program of loan guarantees and leveraging private sector capital to catalyse additional public sector investment.

*“Guarantee structures like these are clearly replicable with public sector commitment; we want to replicate this success in Lagos.”*

*“In addition to the de-risked financing, the additional technical assistance is critical to the success of this program.”*

*“Here it’s clear that the capital stack approach makes risks manageable for investors and the project partners.”*

*“Pilot programs like this are great to test out relationships, but we need to ensure they are replicable.”*

The loans offered by the MCF were quickly disbursed to SME facilities, stabilize operations, and thereby sustaining health capacity and critical access to care for low-income patients. This credit financing is enabled and de-risked for MCF through a loan guarantee facility that will cater to two different sets of financing needs. As a result of the COVID-19 pandemic, many SME healthcare facilities that normally would have sufficient cashflow to meet standard SME underwriting criteria are unable to do so. To respond to this need, the guarantee facility provides a variable guarantee offering a three-tiered coverage of 50%, 65%, and 80% on net principal losses to be determined at the time of placing the loan under guaranty coverage, depending on the risk associated with the loan, and how much financial protection MCF views the loan will need. In addition, these loans are paired with technical assistance and training from SafeCare, a member of PharmAccess Group, to ensure that providers are able to respond rapidly to the spread of COVID-19, and further de-risking the investment. With this guarantee ODAPHI has enabled the Medical Credit Fund to lend directly into the most acute financial and public health crises in a century, targeting private healthcare provider most relevant to the response to the COVID-19 pandemic.

This investment required to capitalize the guarantee is also a blend of private and public funds. An initial commitment of \$1.5 million from three private philanthropic foundations then catalysed \$18.4 million in guarantee commitments from the U.S. International Development Finance Corporation (DFC) and the U.S. Presidents Malaria Initiative (PMI). Together, this effort unlocks more than \$30 million in loans to SME health providers.

### **Case Study: Public-Private Partnership (PPP) Models for Primary Care Delivery**

The Partnership for Primary Care (P4PC) seeks to improve access to quality healthcare in Makueni County through a PPP agreement between Amref Health Africa, Philips and the Government of Makueni County (Kenya). This is the first comprehensive healthcare PPP for primary care of its kind. The project aims to set an example of how a PPP can support the achievement of UHC and create a blueprint for other parts of Kenya and the African continent.

Through a 12-year PPP-agreement, the consortium of Amref and Philips will build the community health system to full capacity, upgrade key facilities, roll out social health insurance, and provide oversight management for the entire primary care system in Makueni County. At the same time, the Government of Makueni County will enhance facility infrastructure, increase staff capacity and improve supplies.

This type of public-private partnership model is at the heart of what the Capital Stack Approach is about. It is the sharing of responsibilities in particular which defines the strength of this partnership, as well as its ability to realise a systematic transformation of the healthcare system in Kenya towards a system in which primary care plays a more prominent role in achieving Universal Health Coverage (UHC). After considering delivery strategies ranging from purely public sector through to full delivery of primary clinical services by the private sector, a partnership approach was selected, maximising the strength of each partner. Makueni County will deliver clinical services throughout its primary healthcare system, with increased capacity and numbers of staff, and improved delivery of supplies. At the 85 facilities to be upgraded, Makueni County will be responsible for facility infrastructure upgrade, mostly through renovation of existing buildings.

The private Consortium will provide equipment at the 85 upgraded facilities to ensure improved capability and enable enhanced quality of services. It will provide primary care system management, deploying 40 private cluster managers, covering all 224 public primary health facilities, training staff and setting up or improving Community Health Unit functionality.

### **Case Study: Performance-based Financing for Malaria Outcomes**

The Outcomes Fund to Fight Fevers (OFF) is a global health financing vehicle to scale quality private sector products and innovative delivery models with performance-based financing and product subsidies to more effectively address malaria and other febrile illnesses. Critical to the impact of this fund is aligning the private sector products with public sector health policies.

Within the context of the OFF example, the Capital Stack Approach works on two levels: first, aligning the incentives and interests of different donors and investors; and second, within the technical implementation of the funds investments to align private sector products to support public sector goals.

Ultimately, resources in the order of hundreds of millions of dollars will be required to improve fever case management at scale in the private sector. The OFF is designed to maximize contributions by working with the constraints and strengths of various funders. The OFF acknowledges that donor institutions and countries are more willing to invest in innovate private sector models if the outcomes are assured and verified, which they can do as “Outcomes Funders” in the structure. Meanwhile, “Impact Investors” are willing to provide smaller sums of risk capital to finance innovation by covering the set-up, technology implementation, working capital costs, and initial subsidy payments under the mechanism. These investments will then be recouped as the results are achieved, and either repaid to investors or rolled over into the next project. Under the proposed structure, these disparate funder interests are not only accommodated, but they are mutually reinforcing and enabling.

Critical to the impact of this fund is the alignment of the products and practices in the private sector with national public health policies and capturing data from private sector providers to inform public health decision making, resource allocation, and policies—especially in the context of pandemic preparedness and response.

*“Health requires more creativity than other sectors on the structuring and types of financial instruments.”*

#### **Rebecca Affolder, Alexander Honjiyo**

Wilton Park | 14 December 2021

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