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## **U.S. Agency for International Development Report to Congress on Private-Sector Financing in Global Health**

The U.S. Agency for International Development (USAID) submits this report pursuant to Section 7019(e) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2020 (Division G of Public Law 116-94.), which incorporates the requirements of Senate Report 116-126:

*The Committee is aware that adequately financing health needs in developing countries will require increased private sector financing, in addition to sustained philanthropic and public global health assistance. Not later than 90 days after the enactment of the act, the USAID Administrator, after consultation with the World Bank Group President, the World Health Organization Director-General, and relevant representatives from the private and philanthropic sectors, shall submit a strategy to the appropriate congressional committees to encourage significant increases in private investment capital to address global health challenges in developing countries.*

### **Background**

Despite substantial public and philanthropic investments and progress, much work remains on the part of the international community to help promote greater mobilization of domestic public-sector funds and more private-sector financing for global health. Innovative-financing models have mobilized more than \$100 billion in resources for development since 2000, but less than ten percent of that in global health, which highlights the need for more blended-finance vehicles for health.

One of Administrator Green's top priorities is empowering national governments and partners to achieve locally sustained results, mobilize public/private revenues, and accelerate enterprise-driven development. USAID has developed a Vision for Financing Self-Reliance, which includes the key pillars of creating an enabling environment for private investment and cultivating functioning financial markets. USAID's Private-Sector Engagement Policy also embraces market-based approaches to development challenges.

Coordination across USAID, within the U.S. Government, and externally is key to developing a cohesive strategy for innovative and blended financing aligned to country and global health priorities. To develop this report, USAID held consultations with private-sector firms and technical experts from the World Bank (WB) and the World Health Organization (WHO).

USAID's Bureau for Global Health (GH) has pursued activities that enhance self-reliance and cooperation with the private sector by applying market-based approaches to global health. GH supports private-sector innovators; uses strategic planning, market-shaping, and innovative financing to scale proven interventions; and has several partnerships with private-sector firms. GH also develops strategies that support financing for self-reliance, by working with national governments to prime health markets for greater private-sector participation and increase the availability of private-sector data for policy and financing decisions. In addition, GH works through national health-financing systems to increase private providers' efficiencies, and with governments to increase their receptivity to private-

sector participation in health care. This report focuses on current and proposed efforts to accelerate private-sector financing for global health.

## **Coordination and Consultative Process to Determine Our Priorities**

Since 2016, USAID and the WB jointly have convened an annual conference, the Annual Health Financing Forum, which brings health and finance professionals from around 50 countries to discuss strategic approaches and innovative interventions to mobilize private capital for health, enhancing host-nation capabilities to increase and regulate private-sector contributions to health. In addition to highlighting the opportunities for developing and scaling-up market-based approaches, the conference also facilitates discussions among Ministries of Health and Finance on adequacy and equity in the mobilization and allocation of domestic resources for improved health outcomes. USAID and the WB have collaborated with other donors, such as the Governments of Norway, Canada, and Japan, as well as the Bill and Melinda Gates Foundation, Merck for Mothers, and civil-society partners, to establish the Global Financing Facility (GFF), an innovative-financing mechanism to contribute to eliminating preventable maternal, child, and adolescent deaths. As a public-private partnership, the GFF has helped mobilize more than \$2 billion in private capital by deploying a range of innovative financing tools, including a Sustainable Development Bond series focused on the health and nutrition of women and children. USAID is currently working with the private-sector team at the GFF to identify countries in which to use USAID's [Blended Finance Report](#). USAID also has been in talks with the International Finance Corporation, the private-investment arm of the WB, on a Blended Finance Facility for Health. Additionally, USAID has had a high-level collaboration in digital health under the banner of the Donor Principles, which the WB and the World Health Organization (WHO) have endorsed. The WHO is also a natural partner, given its support for strengthening political will and financing for self-reliance at the country level.

USAID also consulted with more than 100 public, private, and philanthropic stakeholders to develop the *Unleashing Private Capital for Global Health Report*, available at <https://www.usaid.gov/cii/private-capital>. Stakeholders consulted include the U.S. Development Finance Corporation (DFC); the United Kingdom's Department for International Development (DFID); Union Bank of Switzerland (UBS) Optimus Foundation; Credit Suisse; Becton, Dickinson and Company; the Bill and Melinda Gates Foundation; the Rockefeller Foundation; Acumen; the Rise Fund; TEAMFund; and Convergence.

## **USAID's Current Efforts in Private Financing for Global Health**

USAID has several ongoing efforts to mobilize new sources of funding, or to use our existing funds more efficiently and effectively, including the following:

**Results-Based Financing** is a funding approach wherein USAID and other founders tie payments to implementing partners to the achievement of specific health outputs or outcomes. One innovative form of results-based financing is a development-impact bond (DIB),<sup>1</sup> which mobilizes additional resources, typically from the private sector. For example, USAID's *Utkrisht* DIB aims to reduce the number of maternal and newborn deaths in the State of Rajasthan, in the Republic of India, by improving the quality of care in private health facilities. In this structure, private capital from UBS Optimus Foundation covers the up-front costs of improving the private clinics, while USAID and Merck for

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<sup>1</sup> DIBs are not bonds per se but an innovative results-based financing structure.

Mothers pay back the investment only if the project meets specific targets, particularly the accreditation of the facilities. This allows for a more-efficient use of resources and more flexibility in implementation, and shifts risk to investors.

USAID also launched the world's first sanitation DIB in the Kingdom of Cambodia with iDE and the Stone Family Foundation. The \$10 million DIB will contribute to universal coverage of sanitation in six Provinces, aiming to make a total of 1,600 villages free of open defecation, which will prevent the contamination of drinking water and the spread of disease.

USAID is also funding outcome-accelerators that could streamline the process of sourcing, structuring, and supporting DIBs and other results-based financing programs, including social-impact bonds and milestone-based payments.

**Blended Financing** is an approach that mobilizes new private capital for global health by combining funding from different sectors to change the risk and reward profile. A long-standing example of a blended-financing tool is USAID's Development Credit Authority (DCA),<sup>2</sup> which provides guarantees to local banks to reduce their financial risk and encourage lending to health facilities or enterprises, which, in turn, has positive impacts on global health. With the help of the DCA, USAID/Uganda provided Centenary Bank with \$3 million in financing over seven years to private-sector health care providers. In its first year, the facility achieved 50 percent utilization of the lending, with an overall utilization rate of 80 percent and a default rate of 0.5 percent. As of the end of February 2020, the DCA and its associated staff have migrated to the new U.S. International Development Finance Corporation (DFC). The establishment of the new DFC provides USAID with opportunities to explore new uses of loan guarantees, as well as other financing instruments to mobilize additional private capital for local health care providers and small and medium-sized enterprises (SMEs).

To build internal knowledge of, and capacity for, using blended-financing tools, USAID developed the **Blended-Finance Roadmap**, which outlines a step-by-step approach to understanding health-financing challenges and structuring blended-finance transactions to address those challenges. For example, USAID's Mission in the United Republic of Tanzania conducted analyses to identify the need for a revolving working capital fund to help faith-based organizations that are facing funding shortages for drugs and health commodities because of delayed reimbursements from the Tanzanian national health insurance fund.

In addition, the Sustainable Financing Initiative (SFI), funded by the President's Emergency Plan for AIDS Relief (PEPFAR) and led by USAID, also works with national governments to mobilize their domestic resources, including private capital, through blended-finance models, and to increase the efficiency and sustainability of the HIV response. In Tanzania, the SFI provided funding for technical assistance that leveraged \$1.8 million in DCA-backed loans and \$4.5 million in non-DCA loans from the private sector to expand the delivery of HIV care at private facilities.

**New and Ongoing Financing Partnerships** engage more private-sector funders in global health. GH recently launched the MOMs (Maternal Outcomes Matter) Initiative, in collaboration with the DFC, Merck for Mothers, and Credit Suisse, to provide \$50 million in investment to companies focused on maternal health in sub-Saharan Africa. It announced the first investment, LifeBank, at the World

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<sup>2</sup> Please note that the DCA has transitioned to the new DFC and been renamed the Mission Transaction Unit.

Economic Forum in January 2020. The investment will support LifeBank’s efforts to expand access to blood and blood products for mothers on the African continent. To date, the company has moved more than 18,000 units of blood and blood products between blood banks and hospitals, which has helped save more than 4,400 lives. This investment will help LifeBank grow its operations and supply an expected one million additional units of blood. GH also supports an initiative that combines financing from several donors to advance digital health.

In addition, for more than a decade, USAID has worked collaboratively with the pharmaceutical industry and the WHO to ensure the accurate forecasting of demand for drugs to expand the drug-donation program for neglected tropical diseases (NTD). In Fiscal Year 2018 alone, the pharmaceutical industry donated more than \$3.2 billion in drugs to treat NTDs for programs USAID supports in the developing world. USAID’s NTD program—in partnership with the pharmaceutical industry— has reached more than one billion people and made a major contribution to the full elimination of some diseases in countries and subnational geographic areas.

**Ongoing Technical Assistance** through projects funded by GH also helps to engage the private sector as part of USAID’s overall investments in global health. For example, the Family-Planning Market Analyzer (<http://fpmarketanalyzer.org/>) is an online market-segmentation tool and health-financing primer used to stimulate local private-sector engagement to mobilize local resources for health. These online tools and resources provide USAID colleagues, host-country governments, and partners with both informational resources on financing and an interactive roadmap with preloaded data for 64 countries, which results in context-specific options for financing of voluntary family planning. USAID’s projects have also strengthened the capacity of local providers to obtain payment for health care provided in Ghana’s National Health Insurance System and redesigned the reimbursement for TB treatment in the Central Asian Republics, to reduce the costs of treatment within the overall system.

### **Strategic Approach for New Opportunities to Mobilize Private Financing for Global Health**

USAID is committed to exploring new opportunities to mobilize more private capital for global health. In April 2019, GH launched the *Unleashing Private Capital for Global Health Innovation Report*, which outlines innovator and investor-support opportunities. Building on that report, USAID is now exploring the establishment of a private capital fund for global health by using a blended-finance model, which will likely focus on digital health, a growing priority for USAID.

### **Potential Challenges in Using Innovative and Blended-Financing Tools**

USAID recognizes that innovative and blended-financing tools can be difficult to structure, require significant time and specific skill sets, and must align to the needs of health care in the context of USAID global health programming. Efforts like the outcomes-accelerator, which would have a central entity that structures and supports DIBs or other financing mechanisms, could help streamline the process and reduce the time and resources required, while also ensuring integration into health care. We also see a need to build local capacity to source, structure, and oversee deals in-country. The *Blended-Finance Roadmap* and other resources enable USAID to assess and establish blended-finance transactions with in-country partners worldwide. Over time, national and local governments need to support and finance these models for long-term sustainability.

More education on global health investments is required to attract private investors, who typically have

been wary of engagement with the health sector, given the perceived lack of transparency and complex regulatory environment. For example, USAID and partners could make available to private investors guidance on regulatory constraints and product-launch strategies for health investments.

### **Anticipated Future Funding Commitments**

Moving forward, USAID recognizes that as domestic resources grow and emerging economies become more attractive for capital markets, innovative and blended-financing tools can increase the flow of capital from impact investors to support global health interventions, which will help move communities on the Journey to Self-Reliance. Flexible funding, from USAID and other donors, is critical to catalyze new private-sector funding. While innovative and blended financing tools to date only account for a small portion of total resources deployed by USAID, the Agency is committed to exploring how to expand their use across our portfolio and assess the impact of these approaches on the quality and coverage of high-impact health interventions.

USAID also continues to pursue reform efforts to diversify our local partner base, implement innovative procurement mechanisms, and strengthen the skills of our workforce to use these innovative financing approaches more. USAID has been conducting regional training for staff at our Missions on ways to employ a broader suite of financing tools for global health, and recently conducted a training in Asia focused on private-sector engagement and blended finance. GH also recently issued a Broad Agency Announcement for Private-Sector Partnership on Emerging Zoonoses and Antimicrobial Resistance (AMR), which, through a co-creation step built into the procurement process, will leverage the unique expertise, positioning, and commitments of the private sector as agents of change in developing innovative solutions to preventing and mitigating the risk from emerging zoonoses and AMR.

Through these efforts and others, USAID's goal is to leverage additional sources of funding across a diverse spectrum of partners to create greater measurable global health impact.