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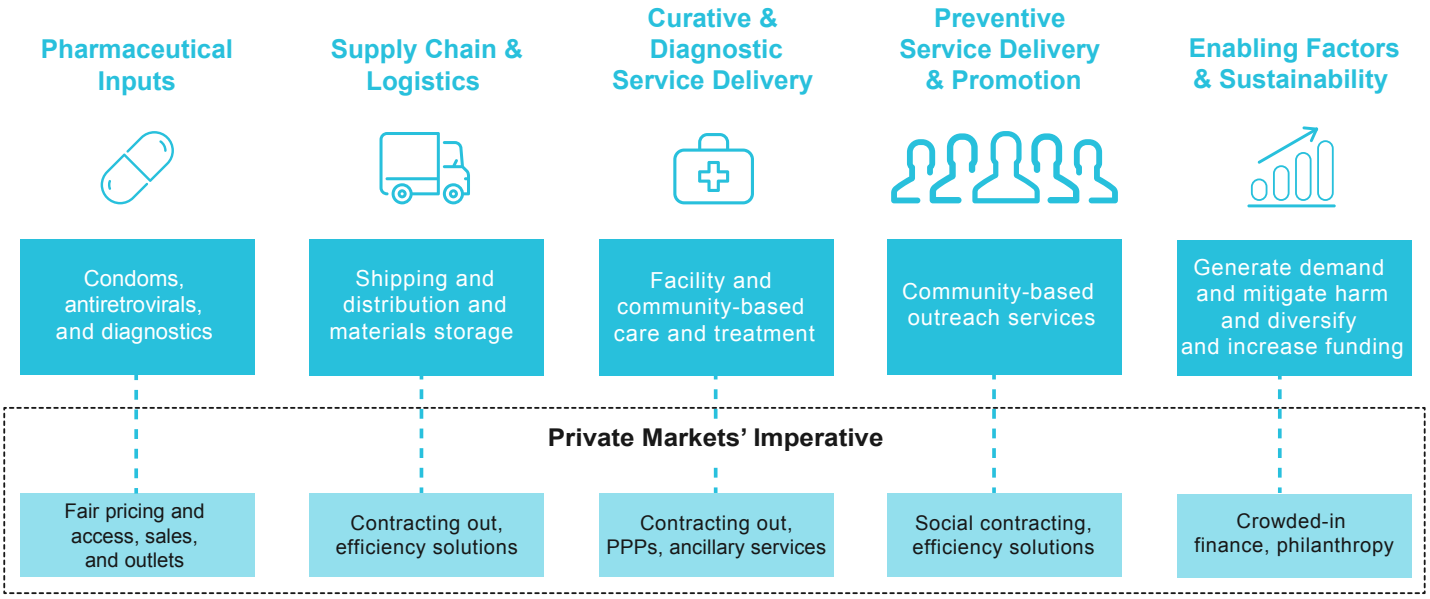
POSITIVE PURPOSE

Partnerships for Sustainability

Blended Finance Mechanisms to Crowd-In Private Capital to Achieve an AIDS-Free Generation

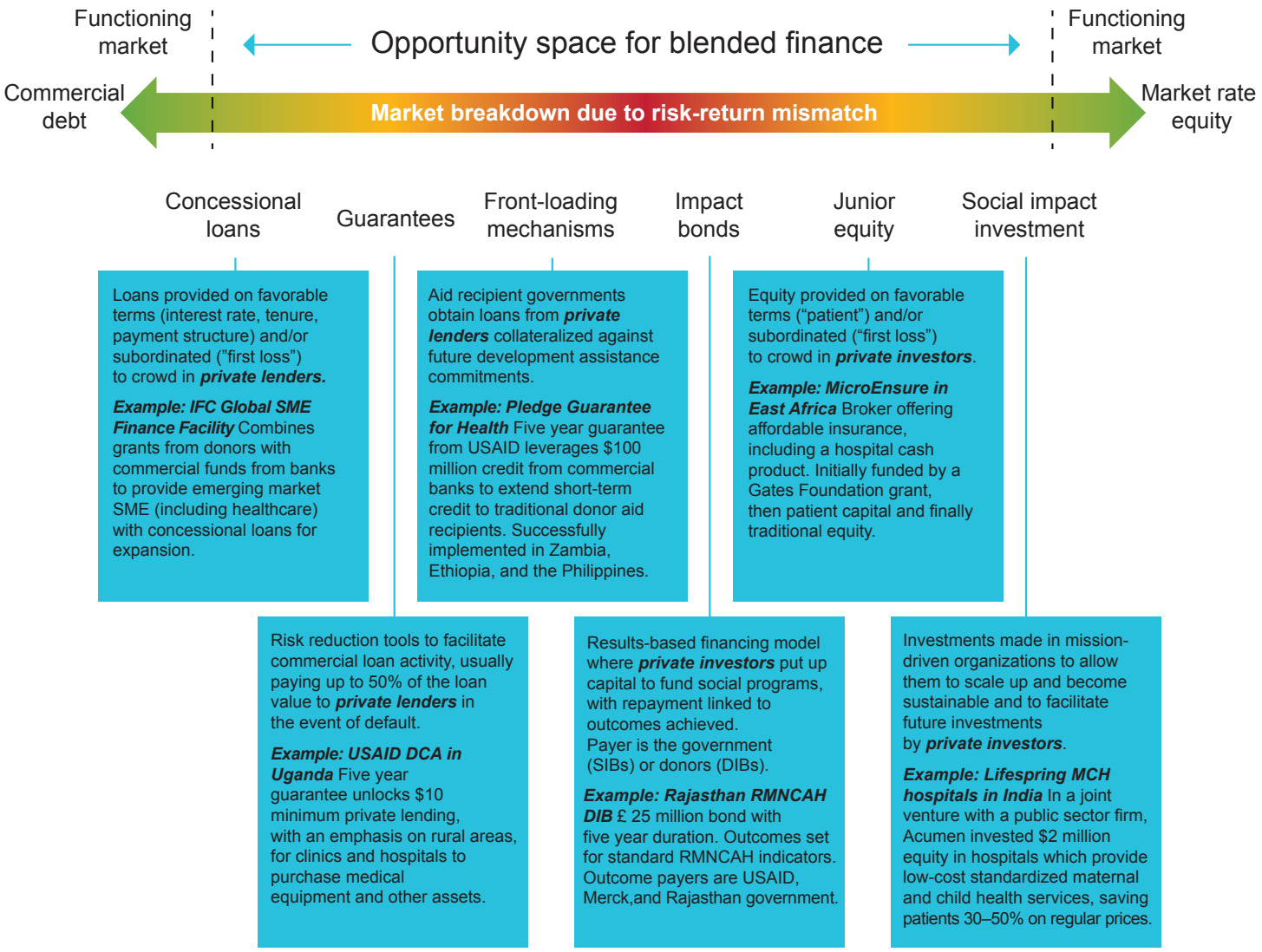
Governments, development partners, civil society, the private sector, and most importantly, people living with HIV are coming together to end the HIV epidemic by 2030. Last year, over 18.2 million people had access to antiretroviral therapy (ART).[i] Stakeholders agree that to ensure continual growth in prevention, care and treatment services to curb the epidemic, and to sustain ART coverage in the long term, government and donor funding will not suffice. Now is the time for the development community to identify components of the HIV response amenable to private sector market engagement, especially in economies where a willingness and ability to pay for services exists. This brief examines how blended finance mechanisms can be used to crowd-in private capital to scale up market engagement in the HIV response.

Figure 1: Components of the HIV Response: Private Market Perspective



What is blended finance? Blended finance strategically leverages development finance to mobilize private capital for emerging and frontier economies.[ii] In a functioning market, generally, the higher the risk of a project the higher the potential return offered. For some socially impactful projects, given the risk (or perceived risk), returns may not align with those required by the market. Here, a blended financing opportunity space exists to improve the risk-return dynamic to a level that "crowds in" the private sector. The mechanisms described in Figure 2 can be used by donors, governments, and other willing organizations to incentivize private capital participation. Each have their unique traits to reduce investment risk and generate incentives, and require careful consideration before application to a particular context. Illustrative applications of each mechanism are provided in the figure. Blended finance is an intermediate solution, which in some situations will lead to commercial sustainability as markets mature and information asymmetries subside. Palladium is applying many of these mechanisms to its own portfolio.

Figure 2: Blended Finance on the Investment Risk Spectrum



Note: Grants are not included in the above continuum but are a part of the blended financing landscape. Grants fund technical assistance and activities that proceed debt/equity investment or provide appropriate risk-adjustment to multi-investor development funds.
DCA: Development Credit Authority; DIBs: development impact bonds; IFC: International Finance Corporation; MCH: maternal and child health; RMNCAH: reproductive, maternal, neonatal, child, and adolescent health; SIBS: social impact bonds; SME: small and medium-sized enterprises

Blended Financing Solutions for HIV & AIDS

Further analysis of components of the HIV response from a private sector perspective could reveal opportunities where blended finance can promote market-based solutions and increase alternative financing, particularly in high-burden countries. Below are examples of blended financing platforms for HIV & AIDS.

Implemented or Underway

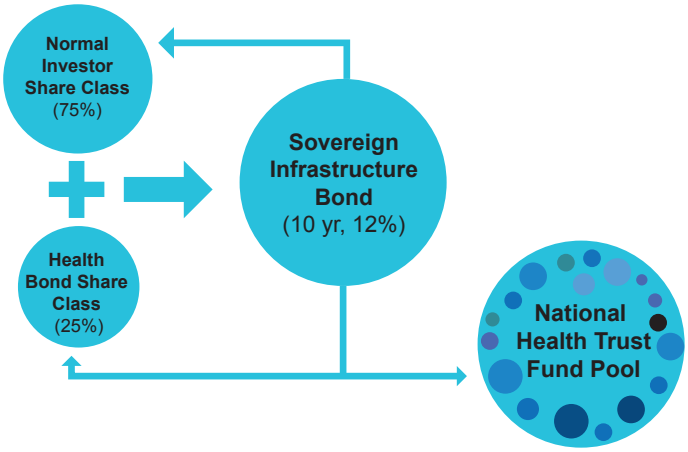
- DCA guarantees crowded-in commercial capital to help private health providers scale up their businesses. Simultaneously, technical assistance was provided to banks to develop new financial products for targeted borrowers (see box).
- Acumen Investment Fund has disbursed $1.75 million to BroadReach, a healthcare social enterprise that taps the excess capacity of private practitioners in South Africa to provide HIV care and treatment to poor patients who could otherwise not afford to pay. BroadReach pays doctors directly on a per patient basis for their services.

PEPFAR-funded DCA loan guarantees in Ethiopia facilitated $13.4 million in credit to health SMEs enabling 74 new loans from commercial banks. These include private health clinics, with many first time borrowers.[iii]

Potential

- Diaspora bonds or outcome-oriented funds can finance community-based outreach programs targeting key populations in Global Fund transition countries, leveraging funding from private investors and foundations.
- An HIV DIB can be modeled after an existing malaria DIB, which aims to raise at least $3.5 million from private investors (e.g., Nando's has committed $1.5 million).
- Global Fund has proposed a health bond that will seed trust funds in certain African countries. The health bond is a special class of sovereign debt that is used to fund government infrastructure projects. Socially minded investors would agree to sweep 50% of the yield into a health trust fund (see Figure 3).

Figure 3: Option for Financing a National Health Trust Fund



Palladium is well-positioned to facilitate blended financing for health and HIV

This work lies at the intersection of the HIV and health financing activities conducted under the Health Policy Plus project (funded by USAID and PEPFAR) and Palladium's blended financing expertise. Technical assistance may be provided to support analysis on country enabling factors and improving the regulatory and policy environment through advocacy campaigns. Market research on the capacity of public and private institutions to execute blended mechanisms and the private health sector and financial market landscapes can inform how products should be structured and identify the best blended financing opportunities. Lastly, Palladium can help shape markets to enable increased access to financing from innovative sources by building the capacity of the private sector to stabilize and grow these new markets. With Palladium's array of in-house capabilities, it is able to take on the challenges of facilitating blended financing for health from start to finish.

- **Impact Investment Advisory Services:** Palladium strengthens the investment ecosystem through research and analysis, blended finance mechanism structuring and governance design, and technical assistance to leverage private investment.
- **Development Credit Guarantees:** Palladium supported DCA programs in West Africa targeting several sectors, including health, with guarantees enabling access to finance from commercial banks, savings and loans associations, microfinance institutions, and social investment funds.
- **Development Impact Bonds:** Palladium has pioneered the use of impact bonds in a development context, inspired by recent successes in mobilizing private funding to achieve social impact through the Rajasthan Maternal and Newborn Health Impact Bond.
- **Impact Investing/Asset Management:** Palladium sources opportunities to make investments financed through its own capital alongside third-party investors that generate both financial and social returns in emerging markets. Palladium is presently constructing an investment portfolio.
- **Strategy Execution:** Palladium has helped companies, governments, NGOs, and coalitions to design, translate, execute, and govern business strategies that solve their challenges and build capacities, including credit-readiness.

i UNAIDS. 2016. Get on the Fast Track. Geneva, Switzerland: UNAIDS.
ii WEF and OECD. 2015. Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders. Geneva, Switzerland: WEF.
iii Wolday, A., W. Butterfield, F. Jiffar, and L. Ahlstrom. 2016. Opening Doors: A Performance Evaluation of the Development Credit Authority (DCA) in Ethiopia. Addis Ababa, Ethiopia: USAID.

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CONTACT

Arin Dutta
Director Practice Area, Health

1331 Pennsylvania Ave NW, Suite 600
Washington, DC 20004
T +1 202 775 9680
Arin.Dutta@thepalladiumgroup.com