EVENT 1:
DEVEX WORLD
JUNE 12, 2018

NEW FUNDING MODELS: PRIVATE SECTOR SOLUTIONS TO IMPROVE HEALTH CARE QUALITY

MSD for Mothers is MSD's 10-year, $500 million initiative to help create a world where no woman dies giving life.
MSD for Mothers is an initiative of Merck & Co., Inc., Kenilworth, NJ, USA.

5 WAYS TO MOVE FROM ACTION TO TRACTION ON INNOVATIVE DEVELOPMENT FINANCE

With only 12 years left to achieve the Sustainable Development Goals, the international community will need to innovate to bridge the funding gap, estimated at some $2.5 billion each year, and look into the solutions offered by new funding models. To succeed, it is imperative to understand how to better leverage private capital to fund the investments lacking to reach the Global Goals.

At Devex World 2018 in Washington, D.C. on June 12, Devex and MSD for Mothers hosted a roundtable discussion bringing together key experts from government agencies, international finance institutions, the private sector, and development contractors to discuss how innovative financing models and blended finance can be scaled and used as solutions to accelerate progress towards the SDGs.

During the session, the group of experts looked at the best practices that are currently being implemented, and how to amplify and replicate these new funding models.

5 WAYS TO “WALK THE TALK”

Five ways to advance this conversation emerged from the session.

1. Bridge the linguistic divide.
As new financial instruments imply partnerships between stakeholders operating in different industries, it is important to develop a common language when discussing innovative financing. Having a common lexicon — with shared language and metrics will build trust between the development community and the private sector.

Investors need more knowledge of the global development market and opportunities. The information needs to be packaged in the right way so investors understand why, where, and how to invest. The tools are there, but education is now key. How do we identify the correct impact metrics for private investors to join in?

2. Build enabling environments.
For the private sector to boost its investment in developing countries, the right business environment must be in place. This includes good governance, eradication of corruption and business friendly economic policies.

When country governments take the lead in innovative financing models, the rate of success is high – even if they are not providing the funding in the short term. With an enabling environment, private sector players are able to take on the risk in the interim.

3. Move to a customer-based approach.
It is important to move to an era of demand-driven development where beneficiaries are treated like empowered customers. Global development is one of the only industries that does not actively talk about customers. Including people on the ground as part of the process is critical. It is also vital to be able to talk about intrinsic customer value.

4. Understand the costs associated.
Before engaging in a partnership to develop a new financial instrument, stakeholders need to understand: What’s in it for me? What’s the minimum cost? At what point do we engage?

Developing an impact bond or building a blended finance mechanism takes time and money. So how can we get to a place where we can reduce these costs, streamline the creation of some of these mechanisms, and standardize to allow some of these mechanisms to scale?

5. Identify the right instrument for specific interventions.
Although impact bonds have an interesting potential to provide flexibility and incentives, we can often jump to the idea of taking a project to scale too quickly. It is important to be more nuanced in the way we apply and talk about innovative financing. Impact bonds are one of the tools in the toolkit.

Participants discussed the need for more evidence in order to understand value for money. With so many new tools, it is crucial to identify which ones work best and in which situation. Therefore, there is a need to generate greater evidence on both the design features that make these mechanisms work, and their subsequent evaluation.

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This meeting was the first of a series of five workshops which aim to pave the way for increased collaboration between financiers, private sector and global development contractors around new funding models, including private sector solutions. Key action points drawn from the session include devising a common lexicon of terms, to ensure stakeholders operating in different industries are using shared language and metrics. Key is also to share metrics and results from innovative financing models, gathering success stories/challenges, and distinguishing which financial models work best and in which context.

Key questions during the discussion

- Are we doing enough to leverage private sector financing for global health goals?
- Which innovative financing models/blended financing mechanisms can help accelerate progress?
- How can we move from multiple conversations to identifying the best practices?
- There are a number of tools. Which practices/tools should be amplified?
- How can we develop a set of recommendations, which incorporates differing perspectives and identifies key landmarks?
- Which stakeholders need to be involved in the conversation to allow for an enabling environment?
- How can we get private investors interested?

Key points made during the session

- The gap between the finance, global health and development sectors needs to be bridged to ensure for positive outcomes and to reduce transaction costs: it's time to work together. The people on the ground must be a key part of this process.
- There should be continued investment in the appetite for experimentation, risk and change.
- A common lexicon of innovative finance terms is needed.
- Innovative financing models are hard to scale. Costs need to be reduced to streamline mechanisms.
- Good examples and evidence of what has worked is crucial: sharing feedback and insights.
- There is a chronic lack of intermediaries: we need a more specialized skill set.
- Investors require more knowledge about the markets and opportunities.
- The tools are there. Education is now key.

Key take-away questions

- How should we bring partners together?
- What are the incentives for private sector partners?
- How do we identify the right impact metrics that private investors can use to effectively jump in on these investments?
- What metrics are we are going to use to understand what the right tools are and how and whether they are impactful or not?
- How can we ensure that development mechanisms benefit the end user?
- When should impact bonds be scaled?
- How can we get to a place where we reduce costs, streamline mechanism creation and standardize to allow for scaling?

The next sessions aim to delve into how the development community can move from multiple conversations to developing a set of recommendations, and how to shift from endorsing these to internalizing them.