Can private equity deliver on equity?

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In June 2009, a new Health in Africa Fund was launched by the International Finance Corporation (IFC), the branch of The World Bank group mandated with supporting and expanding the private for-profit sector. This Fund will be managed by Aureos Capital, a private equity fund manager focusing on emerging markets. Through investment in small- and medium-sized private providers, the Fund will attempt to "[help] low-income Africans gain access to affordable, high-quality health services."[1] The Fund, currently supported by the IFC, the African Development Bank, the Bill & Melinda Gates Foundation and the German development finance institution DEG, is a key component of the IFC's US$ 1billion Africa health strategy and it targets initial commitments of US$ 100–120 million.

The Fund's establishment was inspired by the IFC's health strategy, which entails harnessing private capital and private sector providers to improve quality and coverage of health services.[2] The IFC clearly sees a potential for the private sector to improve health outcomes for the poor; less clear are the theoretical and empirical bases on which this enthusiasm is grounded.

The main underlying assumptions behind a greater role of the private sector in provision of health services are: that the market can ensure optimal allocation of resources; that private firms can improve quality of care through their focus on measurable results; and that the private sector can use its flexibility to adapt to changing supply and demand factors. Market forces, however, can determine the most appropriate allocation of resources only under the assumption of perfect market conditions and in the health sector this assumption doesn't hold. Asymmetric information between consumers (patients) and suppliers (health professionals) prevents consumers from adequately determining their own needs and making rational choices; and many key health interventions have a high propensity to positive external benefits, which tend to be underprovided by private for-profit markets.[3] Economic theory also predicts that the profit-making incentive, dominant in the private sector, creates challenges to health care by segmenting access along income/quality lines.

Accordingly, there is no empirical basis to argue that private providers outperform the public sector in terms of access to, quality and equity of health care.[4,5] On the contrary there are concerns on the quality of privately provided care,[6] as the poor generally use the lowest quality and most informal end of the private-sector spectrum.[7]

The new Fund is unlikely to improve access or quality of care unless it is complemented by initiatives to strengthen the public sector capacity to regulate, train, oversee and subcontract (where appropriate) private providers, interventions that, according to a recent systematic review,[8] have the potential to improve the impact of private sector provision in poor communities. In addition the Fund would also require the development of risk-pooling and subsidy mechanisms, so that privately-provided services can be offered free at the point of delivery. If it fails to do so, there is a concrete risk that the Fund, contrary to its objectives, will contribute to the entrenchment of two-tier health-care systems and to a further concentration of human and financial resources in services catering to affluent urban dwellers.

The establishment of the Fund has not been accompanied by a public debate about its appropriateness and little information is available on its accountability mechanisms. A new initiative disjointed from other aid mechanisms doesn't seem consistent with the process of streamlining the aid architecture envisaged under the International Health Partnership and related initiatives; and its focus doesn't align with the recommendations by the High Level Taskforce on Innovative International Financing for Health Systems, which expressed caution on the role of the private for-profit sector.[9] Making the private sector work equitably for the poor is no simple task: it is not immediately apparent that the fund manager, Aureos Capital,[10] possesses sufficient experience in health financing and health systems to succeed in its objectives.

The objectives of the health strategy of The World Bank (of which the IFC is part) include leveraging its comparative advantages in fostering better collaboration between the public and the private sectors.[11] Strengthening stewardship and oversight capacity in the public sector to work more effectively with the private sector is a worthy endeavour. But the IFC's raison d'être is private sector growth. It is not clear whether, in case private sector provision is seen as an objective in itself, a sufficient focus can be kept on the public sector dimension of public–private collaboration.

The new Fund's progress should be monitored closely by a separately funded and independent third party evaluator, to ensure that its benefits truly accrue to the poor and that additional resources flowing to the private sector don't exacerbate the loss of public sector health workers. ■

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