

Opportunities and Challenges for Global Health Impact Investors in India and East Africa

Lessons from the Global Health Investment Landscaping Project conducted by IPIHD, Calvert Foundation, Duke University's Center for the Advancement of Social Entrepreneurship and Investor's Circle

**The following executive summary is an overview and introduction of our presentation of the same title, and is intended to complement that document.*

OVERVIEW OF THE CURRENT LANDSCAPE

Impact-oriented investors are increasingly looking at global health as a sector of interest and focus. Drawing from interviews with more than thirty active impact-oriented investors (listed in the appendix), the majority of whom have invested in the sector, we conclude that despite its inherent challenges, several recent market developments have generated considerable growth in enthusiasm and activity around global health impact investing. Our review highlights that, especially in global health, impact investors need to understand specific market dynamics within the sector to ensure their capital is most effective and complementary to the financing of other public and private sector actors.

Why is there a general sense of optimism about impact investing in global health? Several themes emerged from our interviews:

- **Shifting population demographics and increased access to technology.** Health care demand has been on the rise due to a growing middle class and increased urbanization and mobility of populations in both India and East Africa. Further, improved access to information and technology has led to more awareness of health and healthcare. All of these factors have resulted in greater willingness and ability on the part of consumers to pay for health products and services.
- **Growing recognition of the role for the private sector in these markets.** Multi-national healthcare corporations are aware of these population trends and starting to move more aggressively into emerging markets where they see large future growth potential; at the same time, local and state governments are recognizing their limitations, and looking to the private sector to meet the rising health demands of their populations.
- **Sustained growth of the health sector in recent years.** Both geographic regions we reviewed (East Africa and India) have seen strong double-digit growth in healthcare spending in the past decade, with a large share of the growth in the private sector. These trends, coupled with the emergent double disease burden of communicable and non-communicable diseases in these regions, indicates that this growth shows little sign of slowing.

This optimism was tempered by perceptions of risks and challenges, primarily falling across four key areas:

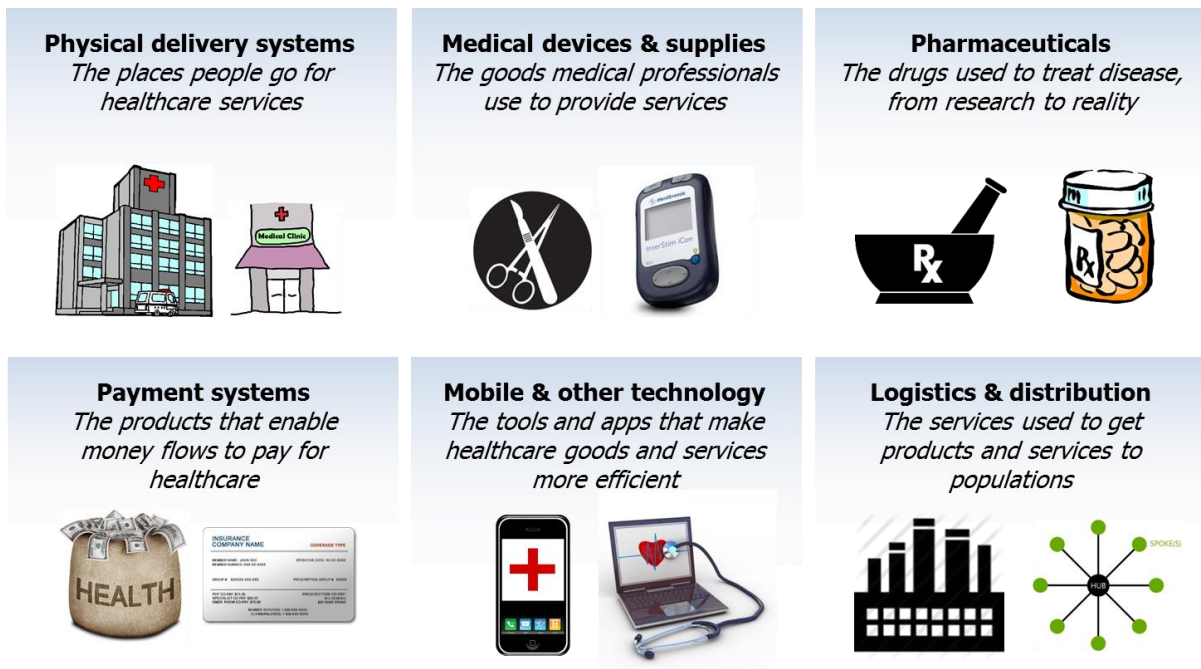
- **Fundamental health sector needs.** Many investors underscored a pervasive lack of consumer awareness about health, inadequate pipeline of trained medical professionals, and poor or fragmented quality standards.
- **Complex political environments.** Investors commented on the lack of coordination and trust between the public and private sectors, the instability around the regulatory environment, and the challenges that arise when the government is the main source of revenue for private businesses.
- **Business model challenges.** Investors highlighted the limited number of healthcare models that have scaled, the need for subsidized technical assistance for entrepreneurs, and the difficulty in sustainably serving rural and hard-to-reach populations.

- **Flawed financing environments.** We heard about the mismatch between capital available and capital needed across the sector, as well as the siloed and fragmented nature of existing financing sources.

A FRAMEWORK FOR APPROACHING INVESTMENTS IN GLOBAL HEALTH

Global health can be defined in many ways and encompasses a broad range of activity. Based on the experiences of those we interviewed and our own experiences working in the sector, we broke down the market into six sub-segments that were considered “investable” to analyze the role for impact investors (Exhibit One below). We didn’t examine investment opportunities in health education and awareness, health workforce development or medical training, or early stage research and development, all of which we believe still need significant donor or public sector support.

Exhibit One: Sub-segments in global health, page 7 of the presentation



We used this segmentation as the basis for developing a screening mechanism to help investors approaching the sector, in an attempt to channel more capital towards its appropriate uses based on characteristics and intent. The result of our analysis is a two-step process: (1) understanding the market context and (2) assessing the enterprise’s capital needs within that context.

Step One: Understanding the market context

To understand the market context, we developed a framework (Exhibit Two below) that describes common market challenges at the intersection of the health sub-sector and target population. Based on those challenges, we further describe the characteristics of capital (timing, flexibility, structure) appropriate to fund enterprises operating within those contexts.

For example, the cell in the upper leftmost corner of the grid describes the market failures pertinent to delivery systems targeting rural Bottom of the Pyramid (BoP) populations. This cell is shaded light green, indicating the critical role of grant capital in this setting. This is based on our finding that most healthcare delivery enterprises exclusively serving these populations require subsidization given the low patient loads, high costs of distribution, and limited ability to pay. On the other hand, we found those

enterprises that serve urban or peri-urban high income populations across the sub-sectors can typically access traditional private equity or bank debt to finance their start-up and growth given the population density and willingness to pay among their consumer base. The sweet-spot for impact-oriented investors are the business models, particularly those that are asset-backed or technology-based, that serve the urban BoP or middle income consumers. Cross-subsidization (i.e., serving multiple populations with various income levels) is also a popular model used by social enterprises to balance revenue and mission to create a sustainable business.

Exhibit Two: Framework for Step One, page 28 of the presentation (definitions of market challenges provided in the appendix)

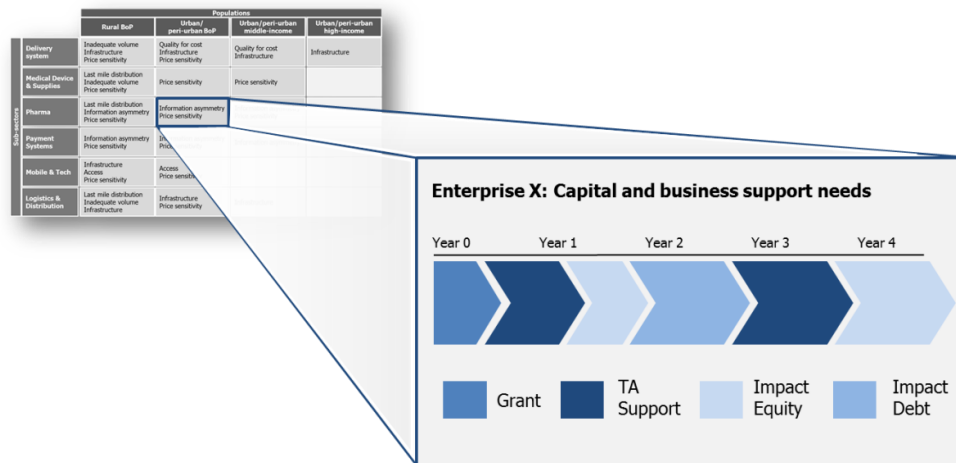
		Populations			
		Rural BoP	Urban/ peri-urban BoP	Urban/peri-urban middle-income	Urban/peri-urban high-income
Sub-sectors	Delivery system	Inadequate volume Infrastructure Price sensitivity	Quality for cost Infrastructure Price sensitivity	Quality for cost Infrastructure	Infrastructure
	Medical Device & Supplies	Last mile distribution Inadequate volume Price sensitivity	Price sensitivity	Price sensitivity	
	Pharma	Last mile distribution Information asymmetry Price sensitivity	Information asymmetry Price sensitivity	Information asymmetry Price sensitivity	
	Payment Systems	Information asymmetry Price sensitivity	Information asymmetry Price sensitivity	Information asymmetry	
	Mobile & Tech	Infrastructure Access Price sensitivity	Access Price sensitivity		
	Logistics & Distribution	Last mile distribution Inadequate volume Infrastructure	Infrastructure Price sensitivity	Infrastructure	

Grant
 Impact capital
 Traditional capital

Step Two: Assessing the enterprise's real need

Once the market context and the nature of the required capital are understood (grants, impact, or traditional capital), investors can evaluate where an enterprise is on their capital raising journey to determine the appropriate instrument (equity, debt, etc.). For Step Two, we reference the common framework of capital layering (Exhibit Three below), which can be used to assess the capital needs of an enterprise based on their stage of development.

Exhibit Three: Framework for Step Two, page 30 of the presentation



APPLYING THE FRAMEWORK – THREE CASES

To bring this framework to life, our research summarizes the capital raising experiences of three healthcare enterprises; a delivery system targeting the urban/peri-urban BoP and middle-income segments, a payment system targeting rural and urban population segments, and a mobile & technology platform targeting all population segments. These cases also highlight some common difficulties experienced by global health enterprises during their fundraising journeys.

- **Wrong vehicle at the wrong time.** Penda Health, a chain of outpatient clinics, received an early debt investment before they had adequately refined their business model. They soon realized that they were not ready for this kind of capital and had to raise grants to finance further market testing and business model refinement. Now that they are ready for growth, the early debt on their balance sheet is hindering their ability to raise equity.
- **Free but restrictive capital.** MicroEnsure, an insurance company for BoP populations, received a large injection of grant capital early in their development with strict requirements for its use. While the grant money helped fuel their growth, it limited their ability to grow in the directions they believed were required for long-term sustainability. They ultimately returned a portion of the funding to raise more flexible capital.
- **Greater patience required.** Sproxil, an anti-counterfeiting technology company, needs patient, flexible capital due to the extra expenses it incurs to build the market around it. When Sproxil enters a new market, the up-front costs associated with market-building are significant, resulting in longer time-frames to break-even. This is a common challenge for social entrepreneurs operating in imperfect markets.

These cases, combined with the feedback from our investor interviews, suggest the critical need for investors to be intentional about fitting capital (in characteristic and instrument) to the organization's true needs instead of requiring organizations to reshape themselves to serve investor needs.

STARTING A BROADER CONVERSATION

The objective of our research was to develop a deeper understanding of the current global health investment landscape to inform funders seeking to deploy capital as well as enterprises seeking to raise it. While we believe this work has the potential to contribute to greater coordination and alignment of capital in the sector, we do not intend to provide a definitive answer for how to invest in global health. Instead we seek to share the lessons from current practitioners, stimulate conversation among those

current and prospective actors in the sector, and raise more awareness of the needs and opportunities in global health impact investing.

APPENDIX ONE: Interviewees



Andrew Taylor, Grand Challenges Canada
 Bart Schaap, Medical Credit Fund
 Ben Midberry, Deutsche Bank
 Biju Mohandas, IFC
 Bonny Moellenbrock, Investors' Circle
 Brian Cayce, Gray Ghost Ventures
 Cathy Clark, CASE at Duke
 Cedric DeBeer, Soros Economic Development Fund
 Christian Etzensperger, ResponsAbility
 Christine Kapkusum, Acumen Fund
 Dan Schonfeld, Vital Capital
 David Easton, CDC
 Dessislava Dimitrova, World Economic Forum
 Emre Ozcan, Boston Consulting Group
 Jenny Flezzani, Pfizer Foundation
 Jenny Yip, Gates Foundation

Johanna Posada, Elevar Equity
 Julia Fan Li, Lions Head Global Partners
 Mark Paper, Business Partners Limited
 Mark Straub, Khosla Impact
 Mitchell Strauss, OPIC
 Monique Dolfig, Medical Credit Fund
 Oliver Withers, SARPAM
 Onno Schellekens, PharmAccess
 Rachele Haber-Thomson, Investors' Circle
 Raghavendra Badaskar, Intellectap
 Richard Greenberg, OPIC
 Ritu Verma, Ankur Capital
 Roger Garman, SIDA
 Samir Malviya, Unitus Impact
 Varun Sahni, Impact Investment Partners

APPENDIX TWO: Definitions

Inadequate volume: Most business models serving Bottom of the Pyramid populations are low margin and thus require significant volume to breakeven. These requisite levels of volume for products and services can be hard to reach in rural, sparsely populated areas. For insurance companies, this makes data collection and risk pooling even more difficult.

Infrastructure: Areas where significant infrastructure improvements are needed for businesses to operate effectively, e.g., real estate, roads, electricity, communications tools, etc.

Price sensitivity: For business models that depend on low-income clientele, price is a key driver of consumer decision making. This is nuanced as low prices also influence consumer perception of value.

Last mile distribution: The act of getting products or services to remote rural areas, which is often very costly and time-intensive.

Information asymmetry: Where consumers do not have access to the information or data they would need to understand the value of a product or service (e.g., the value of insurance). This typically requires additional consumer education, which can be difficult and costly.

Access: Products or services that require or depend on the use and availability of specific technologies like mobile / smart phones, computers, etc.

Quality for cost: For healthcare delivery, consumers do not always make rational tradeoffs between quality and cost