INNOVATIONS IN HEALTHCARE™

Context is Key to Investing in Health Innovation: Perspectives from Health Entrepreneurs in India, Kenya, and Mexico

The time is now for catalytic funders to learn to identify and respond to global health entrepreneurs' individual and varied growth needs

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WHITE PAPER

Source: ayzh

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PFIZER FOUNDATION SUPPORT

The Pfizer Foundation launched its Health Delivery and Social Innovation portfolio with the intention to broaden the use of its resources to magnify public health impact. The goal is to improve healthcare delivery and access for low-income populations by supporting healthcare entrepreneurs and enterprises and fostering local innovation.

The Pfizer Foundation has implemented this strategy using two mechanisms: impact investing that seeks to generate social impact, and catalytic grant making to develop the pipeline of social entrepreneurs and support their growth. The Pfizer Foundation Global Health Innovation Grants were launched in 2016 to help support promising innovations that improve access to quality healthcare for underserved populations in Africa, Asia, and Latin America.

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INSIGHT FROM THE SOURCE

INTRODUCTION

In emerging markets like Kenya, India, and Mexico, entrepreneurs are launching new and exciting ways to deliver healthcare. This groundswell of innovation is vitally important—many of these companies are poised to fundamentally change health and healthcare in their home countries and beyond. But the majority of fundraising support offered today in these ecosystems goes to help established businesses or blueprint-stage ventures—a trend that has left healthcare enterprises in early stages of growth struggling for high-quality backing.

Meanwhile, funders are interested in the potential of the global healthcare sector.* Some of them seek social impact, others are interested in financial returns, and still others are after a combination of the two. More recently, funders have honed their interest, looking to provide catalytic support to global health entrepreneurs to increase investment readiness, and, ultimately, achieve greater impact.

The potential for matchmaking is undeniable. And, with the burgeoning interest in innovation investment in emerging markets come many unknowns. For funders with the foresight to invest in emerging economies, the time is now to pioneer a new approach – one that is sensitive to context and that meets healthcare entrepreneurs where they are. This new approach focuses on rapidly building knowledge and expertise about innovators' markets and market dynamics, to build, as quickly as possible, a well-grounded understanding of how socioeconomic and political considerations influence the markets so that funders can weigh potential investments. This paper provides on-the-ground insight into how to do just that.

OUR APPROACH

With support from the Pfizer Foundation, Innovations in Healthcare facilitated three workshops between September 2015 and March 2016 in India, Kenya, and Mexico, in collaboration with local partners Intellecap, Open Capital Advisors, and New Ventures, respectively. Our primary intent with these workshops was to offer entrepreneurs the opportunity to build their capacity for fundraising. The workshops also provided organizers the opportunity to explore entrepreneurs' experiences related to securing financing.

We customized the content for each workshop to fit attendees' varying levels of experience. We also designed the content to educate entrepreneurs on types of capital available and strategies for engaging with funders. Each workshop lasted about five hours, allowing for lecture-style presentations, peer-learning opportunities, question-and-answer panels with various types of funders, and pitch practice sessions.

We have synthesized the contributions and viewpoints of individual entrepreneurs who participated in the workshops with landscape research conducted on Kenya (Box 1), India (Box 2), and Mexico (Box 3). Because each entrepreneurs' experience is different, our findings may not be generalizable to entrepreneurs in these three countries. However, these findings offer helpful insights, and, when paired with knowledge of the three operating settings, can help funders more effectively identify and respond to an entrepreneurs' individual needs. Because all participating entrepreneurs are members of the Innovations in Healthcare Network, we are able to be quite specific when identifying implications. (The views and opinions expressed by participants do not necessarily reflect the official policy or position of any individual organization listed. A full list of the organizations is included in the appendix.)

BOX 1

KENYA: A CLOSER LOOK

HEALTHCARE FOCUS: East Africa—Kenya in particular—has made great strides in the healthcare sector. According to the 2014 Kenya Demographic Health Survey, health indicators have improved overall, including declines in early childhood and maternal mortality rates. Access to primary healthcare services in remote areas has also improved, but variably, and remains a key challenge. To address this, healthcare providers are beginning to leverage technology through mechanisms such as clinical management systems, mHealth initiatives (e.g., SMS-based health reminders), micro-insurance schemes, and health services networks that standardize delivery [K1]. These approaches are early-stage; their impact remains to be seen.

HEALTHCARE ACCESS: The role of the private health sector in Kenya is growing, since public facilities are often overburdened and lack the capacity and resources to adequately serve patients. In rural areas, where demand is high, most care is provided through public facilities or small private clinics, which often lack supplies, present difficult working conditions, and provide poor compensation to health professionals, exacerbating the challenge of retaining health workers. But people in rural areas often have no alternative to public sector facilities because few private providers have offered a viable option for rural consumers. Under these conditions, meeting the needs of the healthcare consumer is difficult.

HEALTHCARE CHALLENGES: Though incomes are rising, most Kenyans do not have health insurance and out-of-pocket expenditures on health remain high. Out-of-pocket spending represents 67% of private healthcare expenditures in Kenya. Poor households spend one-tenth of annual income on healthcare expenses, threatening financial resiliency [K2, K3]. As a result, there is consumer demand for affordable and accessible health products and services. Shortfalls in availability and retention of clinical and management human capital make it difficult for enterprises to scale and achieve financial sustainability, deliver quality outcomes, and sustain investor confidence. The retention rate of healthcare workers in East Africa is significantly less than the World Health Organization's recommendation. Medical talent is moving to Western countries to escape poor pay and working conditions, lack of funding and other resources (e.g., supplies, medicines), and limited opportunity for professional development and growth [K4, K5]. Enterprises struggle to retain management talent—though the enterprises can identify and hire skilled managers, they are sometimes unable to pay them enough in the early years of the business.

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* For the purpose of this brief, we define the healthcare sector as the enterprises and institutions engaged in the production of medical equipment and supplies (including pharmaceuticals), as well as the operation of healthcare facilities and provision of care.

Although we do not intend for this report to serve as a definitive guide for investing in global health, our work here can contribute to improved capital deployment and, ultimately, accelerate the impact of global health innovations. In the sections that follow, we summarize the fundraising landscape in each country, with information on healthcare sector influences and specific fundraising challenges encountered by entrepreneurs in each setting. We conclude with a discussion of findings and implications for funders.

BOX 2

INDIA: A CLOSER LOOK

HEALTHCARE FOCUS: As in many emerging economies, India's disease burden is moving from primarily communicable to non-communicable disease. Environment, infrastructure, and other contextual challenges, such as pervasive malnutrition, also contribute significantly to poor health outcomes in India [I1]. The basic health needs of many Indian citizens remain unmet, as illustrated by health indicators such as the infant mortality rate, which remains a high 39 per 1,000 live births [I3], and the maternal mortality ratio, which is estimated to be 174 per 100,000 live births [I4].

HEALTHCARE ACCESS: The literature suggests that 32 to 40 million people in India fall below the poverty line every year due to health-related expenses, one of the major causes of impoverishment in the country [I5, I6]. Although some form of health protection is provided by the government and major private employers, health insurance schemes for the Indian public are generally basic, costly, and not widely available.

HEALTHCARE CHALLENGES: Training and retention of healthcare professionals present a challenge: it is estimated that India has only 1.1 nurses per 1,000 population, and even fewer physicians, at 0.7 doctors per 1,000 population [I7]. Hospitals offer less than one bed per thousand people. Despite policy to ensure public health facilities are close (an average of 2 kilometers) to households, the average distance is 9 kilometers [I8]. Though there are approximately 40,000 graduates from India's roughly 400 medical institutions each year, the majority accept positions in urban areas or abroad. New graduates often refuse to complete mandatory service in rural areas with weak healthcare infrastructure where they would face limited resources and poor working conditions [I9].

Initiatives like the National Rural Health Mission, investments in healthcare worker training, expansion of national and state insurance schemes, and policy measures to ensure access to essential medicines and other medical equipment, all indicate public commitment to improving access to quality healthcare [I1]. But government initiatives and schemes are difficult to execute because of limited—sometimes-mismanaged—resources. At 1.3% of GDP, India ranks among the countries with the lowest levels of public health expenditure.

BOX 3

MEXICO: A CLOSER LOOK

HEALTHCARE FOCUS: In recent years, Mexico's healthcare sector has shifted its focus from infectious to chronic degenerative diseases. While malnourishment, reproductive illnesses, and infectious diseases continue to persist among lower socioeconomic classes, tackling chronic diseases such as diabetes has become the new priority. Preventative healthcare has received less attention and resources. Diabetes, in particular, has been given significant scrutiny due to its extremely high prevalence rate and international ranking as one of Mexico's most critical issues.

HEALTHCARE ACCESS: Healthcare in Mexico is available both publicly and privately, though private care is perceived to be of higher quality. Public healthcare coverage, which is estimated to serve approximately half of the population, includes the Seguro Popular and two social security programs: Mexican Social Security Institute (IMSS) and Institute for Social Security and Services for State Workers (ISSSTE). Only 7% of Mexicans have private insurance, and of OECD countries, Mexico ranks highest on healthcare expenditures paid out-of-pocket (44% of total spending) [M1].

HEALTHCARE CHALLENGES: Though public programs are pervasive, the healthcare system is withheld from adequately providing essential healthcare services to nearly half of the population due to a lack of infrastructure, a lack of public funding, and a shortfall of medical supplies; and the quality of care provided in the public sector varies substantially. The availability of care also varies, and there are significant disparities between urban and rural areas. Demand for care exceeds supply at all levels of care, and this is especially true for primary care services where a lack of human resources and infrastructure limits the number of providers available to patients [M2]. Other significant challenges include wait times (it can take as long as eight months for an appointment) and unavailability of specialty care (e.g., highly specialized cancer treatment) [M2]. As Mexico's population begins to age, there are growing concerns about the additional strain on the healthcare infrastructure. Forecasts encourage a more proactive shift to preventative care in order to address healthcare needs early on.

FROM INSIGHT TO SYNTHESIS

TO SUCCESSFULLY GROW THEIR BUSINESSES, ENTREPRENEURS OPERATING IN KENYA, INDIA, AND MEXICO MUST NAVIGATE COMPLEX FUNDRAISING LANDSCAPES. Table 1 provides an overview of the fundraising landscape in each country. We describe the landscapes using four distinct categories: state of the sector, type of capital available, role of the government, and support mechanisms available to entrepreneurs.

STATE OF THE SECTOR refers to general trends in the healthcare space, including opportunity indicators and information on investments and exits in the previous year. There are clear opportunities in Kenya, India, and Mexico even though the number and total amount of capital investments and exits vary.

TYPE OF CAPITAL available across the three countries varies, as do the key players in each setting. We note, for instance, that the landscape in Kenya comprises several types of investors and funders, and a multitude of financial vehicles available for placing capital. In Mexico, the landscape offers fewer options; for example, grant capital is limited.

ROLE OF GOVERNMENT influences the way an entrepreneur thinks about financing; in some settings, like India and Mexico, government can be a key partner. We discuss this idea further in the sections that follow.

SUPPORT MECHANISMS exist to bolster entrepreneurs' efforts. The prevalence and robustness of these support ecosystems vary across the three countries; for instance, where Kenya's entrepreneurial ecosystem is nascent, India's is well developed.

FUNDRAISING CHALLENGES

In conversations with entrepreneurs, a number of fundraising challenges were identified. These are presented below by type of capital (philanthropic, investment, and public sector). Crosscutting challenges are also presented, highlighting difficulties entrepreneurs experience irrespective of capital type.

> "Raising funds is an art. Having an ombudsman can be a big help. So can having a history of success to point to, ownership of the program, and successful metrics.
>
> – Indian Healthcare Entrepreneur

TABLE 1

FUNDRAISING LANDSCAPES

	KENYA	INDIA	MEXICO
STATE OF THE SECTOR	• Significant interest in the healthcare sector • Catching funders' eyes: - Growing middle-class population concerned about quality - Increasing willingness to pay among lower-income consumers underserved by the public sector • In 2015, the healthcare sector saw: - Investments by non-development finance institutions totaling roughly US $50 million - No information could be found on exits	• Healthcare sector poised for growth • Catching funders' eyes: - Growing population interested in personal health and hygiene - Government efforts that prioritize health policy and spending - Significant, if underutilized, population of medical professionals • In 2015, the healthcare sector saw: - Private equity and venture capital investments totaling US $1.2 billion - 5 successful exits	• Significant interest in the healthcare sector • Catching funder's eyes: - Potentially high financial returns - Clear social value • In 2015, the healthcare sector saw: - Venture capital investments totaling US $69.5 million - 3 successful exits
TYPE OF CAPITAL AVAILABLE	• Multiple investment vehicles to support capital placement • Few funds focused specifically on healthcare • Key funder types: foundations, bilaterals, multilaterals and government institutions, corporations, development finance institutions, individuals • Investor types: angel investors, venture capital funds, commercial private equity funds, impact investors, family offices, asset managers, public market "retail" investors • Debt financing available, but at high interest rates	• Government has emerged as key funder • No funds focused specifically on healthcare • Grant funding limited, but philanthropic, other public-sector funding agencies rallying around initiatives like Grand Challenges • Investor types: high-net-worth individuals and angel investors, venture capital funds, commercial private equity funds, impact investors • Debt financing available, but at high interest rates	• Not one single seed capital, growth-capital, or private equity fund fully focused on healthcare—but several funds are investing in this sector • Public sector offers innovative approaches to financing • Grant funding is limited • Investor types: angel investors, private equity funds, venture capital funds • Debt financing available, but at high interest rates
ROLE OF GOVERNMENT	• Limited involvement in the private sector • Kenya recently devolved their health system so care delivery sits at county level • Decentralization in theory offers innovators easier access to public sector partnerships, but in practice, structures for these relationships are not yet in place	• Recently emerged as a key funder, with national budgets allocating funds for entrepreneurship and innovation • Initiatives like tax rebates for new businesses • Incentives for investors who support early-stage organizations	• Government dominates healthcare sector and is: - a potential barrier to market entry - an important funding partner - an important channel for reaching customers • Government turnover (every 3 years) introduces uncertainty as regulations change
SUPPORT MECHANISMS	• A number of incubators and accelerators exist, but most serve other sectors (e.g., energy) • Limited affordable/relevant business support services available to help entrepreneurs grow and raise finance • Intermediaries that help entrepreneurs navigate the innovation ecosystem and access support are also limited (such as Open Capital Advisors and Innovations in Healthcare)	• A number of incubators and accelerators exist; other platforms increasingly support entrepreneurial activity • Villgro, Healthstart, the Rural Technology and Business Incubator (RTBI), SeedSurge, IKP Knowledge Park, Venture Center, and HealthStart D-Labs are some incubators for Indian health entrepreneurs • Accelerators and hackathons (which offer shorter engagement terms) enjoy support of institutions like USAID, the Massachusetts Institute of Technology, and Harvard Medical School • Public-private partnerships and academic institutions have emerged as significant bolsters to healthcare innovation	• Accelerators and incubators provide critical strategic guidance—facilitating growth, providing mentorship support, and increasing investment readiness • New Ventures and other organizations go beyond support services to provide networking opportunities, and serve as intermediaries for investors interested in funding innovations • Such resources typically span sectors—aren't solely focused on supporting entrepreneurs in healthcare

> Donor requirements are changing and unless you hear it in time to respond, your response may be irrelevant.
>
> – Kenyan Healthcare Entrepreneur

PHILANTHROPIC FUNDRAISING CHALLENGES

Philanthropic capital fuels healthcare research, helps develop local talent, and supports other types of capacity-building—all necessary ingredients in fostering business growth in a given sector. Yet a number of key challenges limit entrepreneurs' ability to access philanthropic capital, including difficulty keeping up with changing donor interests and requirements, managing cash flow with grant funds in the mix, balancing multiple funders' interests, and, put simply, a shortage of this type of funding.

- DONOR INTERESTS CHANGE. Organizations seeking philanthropic capital must keep up with ever-changing donor interests and requirements. A significant level of effort is required to identify funding opportunities that align with an organization's mission.

- MANAGING CASH FLOW. Building a cash flow model that is heavily weighted with grant funds requires the ability to manage multiple funding streams, including adherence to donor requirements and activity timelines. It also requires careful planning to avoid gaps in funding.

- BALANCING GRANTS AND OTHER INVESTMENTS. Balancing grant revenue with other investments requires an appropriate and legally acceptable mechanism for receiving funds, as well as an ability to manage multiple funders' interests and perceptions. In India and Kenya, for-profit entrepreneurs cited confusion around their ability to accept philanthropic funds and the structures that would be required to facilitate these types of investments.

- LIMITED GRANT CAPITAL. In some settings, there is limited grant funding available to test new ideas. In India, grant capital of any type is not widely available. Though a few funders, including Grand Challenges Canada and the Bill and Melinda Gates Foundation, and increasingly select private sector corporate social responsibility (CSR) initiatives are active in this space. Notably, in 2014 India implemented new guidelines that require companies to spend 2 percent of their net profit on CSR [I10].

INVESTMENT FUNDRAISING CHALLENGES

Across all three countries, we noted increasing interest in the healthcare sector among investors of all types. For most, and particularly impact investors, the space is relatively new, and in all three settings there are limited (if any) funds focused solely on healthcare. For these reasons, raising investment money can be challenging, due to the difficulties of working with investors who are not local, problems navigating dissimilarities in financial and business standards, aligning expectations around impact and returns, and barriers to accessing debt.

- INVESTORS ARE NOT LOCAL. Many impact investors placing capital in Kenya and Mexico have headquarters in Europe or the United States—and their foreign investment committees lack understanding of the market context in these two countries. These impact investors have a hard time getting familiar with the market and often require substantial education on the business and economic environment before they are willing to invest. A poor understanding of the market context limits investors' ability to identify good ideas and assess risk, to feel confident moving forward with a deal, and to serve as an effective advisor to investees. From the entrepreneur perspective, cultivating this type of investor translates to a high level of effort equipping investment officers with every piece of information about the business in addition to all the relevant market data, which is often limited or unavailable. In Kenya, this trend has started to shift as the presence of East Africa-based investors placing capital is recently increasing.

- DIFFERENT FINANCIAL AND BUSINESS STANDARDS. When entrepreneurs are able to engage with a foreign investor, they often struggle to provide the information requested because of different financial and business standards. In Kenya, for instance, entrepreneurs often lacked the experience, expertise, and time required to develop the type of financial information foreign investors desire.

> Investors, particularly in the social space, need to appreciate the challenges associated with running an enterprise, both from an internal perspective or building an organization, but also the challenges of grappling with the ecosystem. Many times an entrepreneur has to build both the ecosystem and the organization.
>
> – Indian Healthcare Entrepreneur

- DIFFERING VIEWS ON IMPACT AND RETURN EXPECTATIONS. Impact is an ambiguous term, and defining desired social or financial outcomes is an important conversation for entrepreneurs and investors to have early in the process. Measuring impact is also particularly challenging in these settings where public health data are of poor quality or non-existent. With regard to return expectations, high financial returns are often difficult to achieve alongside social impact when serving low-income markets. When investors' expectations around return timelines are informed by other sectors with much shorter investment horizons, entrepreneurs and investors both may experience a mismatch between the expected investment horizon of a given fund and the time required to provide meaningful returns in the healthcare sector.

- INACCESSIBLE DEBT. In all three countries, debt financing has not been a common source of funds for entrepreneurs in the healthcare sector, primarily due to high interest rates.

A CLOSER LOOK | ALIGNING EXPECTATIONS

WHO: ayzh (pronounced 'eyes')
WHAT: Medical Device and Supplies—designs, manufactures, distributes clean birth kits in partnership with local health institutions (for-profit)
WHERE: India (and Afghanistan, Haiti, Honduras, Laos, multiple African countries, and the US)
ISSUE: Lack of funder understanding about for-profit social enterprises

ayzh was committed to a for-profit model from the beginning, knowing that a non-profit model was not successful with many maternal health "give away" products. Since this model was unusual, investors who were approached early did not embrace the risk—and even suggested ayzh consider becoming a nonprofit. Another issue: because the product is not based on intellectual property, investors struggled to understand the need for this product and its promise as the basis for a viable business. Once the first investor was on board, it was easier to get additional investors.

TAKE-AWAY FOR FUNDERS: Don't discount a healthcare innovation because you haven't seen it before. Take the time to understand the market, business model, and financial projections.

> "Maternal health was not seen as a business. It was typically a grant-based area. So I think the difficult part was convincing people that what we were doing was a viable business and that we could make money.
>
> – Zubaida Bai, ayzh founder

> "Now the challenge is about government revenues and the risk the company is willing to take.
>
> - Indian Healthcare Entrepreneur

PUBLIC SECTOR FUNDRAISING CHALLENGES

Government can be an important and difficult funding partner. Innovators that have received government funds have cited the following challenges:

- DIFFICULTY ACCESSING GOVERNMENT FINANCING. Sometimes the roadblocks are experienced from the very beginning. For instance, existing government financing schemes in Mexico are often difficult to access and typically only available to large and proven models.

- THE GOVERNMENT MOVES SLOWLY. Typically, the due diligence process is laborious and slow. Government payments in Mexico and India are frequently delayed, which can have severe cash flow implications for organizations with limited assets.

- OTHER FUNDERS WARY OF GOVERNMENT. While partnering with the government offers a promising path to scale, it is a notoriously unreliable payer, and many investors are wary of partnering with models in India and Mexico that rely too heavily on the public sector.

- GOVERNMENT TURNOVER CREATES RISK. In Mexico, once a contract is established with the government, it may be lucrative, but it also has a tendency toward risk, since government turnover every three years may lead to dissolution of established agreements and changes in regulation.

GOVERNMENT INTERACTION AND INNOVATIVE MODELS IN MEXICO

Most healthcare in Mexico is provided by the government, so working with the government can offer a clear path to financing products and services—and sourcing customers. How an innovator interacts with the government can be a useful way to characterize innovative models. This relationship can be described in three ways: integration, aggregation, or hybrid. Models that seek to partner with, merge with, or be financed by the public sector are integrators. Aggregators operate independently of the public sector, aggregating their own care delivery systems and customer networks. Models that partner with the public sector and serve private sector customers are hybrid models. To-date, aggregators and hybrids have been most successful in making quality services available. There are few examples of successful integrators—perhaps because it is so difficult to communicate a compelling value proposition to the public sector [M2].

CROSSCUTTING FUNDRAISING CHALLENGES

A few challenges appear consistently across countries and funding types, including time limitations, a limited understanding among entrepreneurs of their own capital needs, a mismatch of available capital and entrepreneurs' capital needs, and difficulty connecting with potential sources of capital.

- TIME AS A BARRIER TO FUNDRAISING. To scale a business, entrepreneurs must juggle fundraising and running their business, each task a full-time job in itself. The successful entrepreneurs are the ones who develop relevant skill sets, build strategic plans, recruit a strong team, and are open to delegation.

- LIMITED UNDERSTANDING OF CAPITAL NEEDS. Entrepreneurs voiced uncertainty about the type and amount of capital required for growth, often because they had not yet outlined a strategic plan for growth.

- DIFFICULTY ALIGNING CAPITAL TO GROWTH NEEDS. Even when an entrepreneur does have a plan for growth, it can be difficult for them to identify and align appropriate capital with their true stage of growth. In many cases, that is because there are too few types of capital available. Entrepreneurs in India, for example, struggle to access capital beyond start-up support, and in both Kenya and India, more capital is needed to support the validation stage of growth.

- CONNECTING WITH FUNDING PARTNERS. Securing capital depends on relationships. Yet, many entrepreneurs reported difficulty establishing connections with investors and grantors. For example, closed groups of angel investors in Mexico are difficult to access without personal connections or educational degrees from top business schools, and entrepreneurs often fail to obtain relevant contacts in the government, the main gatekeeper of the Mexican healthcare industry. Entrepreneurs in Kenya also cited access to, and information about, investors as a key challenge. In this case, geographic distance to international investors works against these types of connections.

THE RIGHT BLEND AND AMOUNT

Many funders in Kenya have shown interest in placing capital with organizations "ready to scale," and impact investors tend to focus on established and commercially viable enterprises. Because there is limited risk-taking capital available to support the earlier, validation stage, companies that are not yet ready to scale are incentivized to skip key steps in development (e.g., refining product or service design, systematizing processes). Time spent refining the solution to meet consumer needs and iterating on the business model to ensure viability is critical to an organization's ability to establish the market traction most funders are seeking.

Mexican entrepreneurs face a similar struggle with identifying the right type and amount of capital. Entrepreneurs in Mexico who are preparing for scale are typically interested in capital that allows them to maintain ownership of the company and at a favorable valuation. This often translates to interest in grant funding or mezzanine debt. Yet these offerings are limited. There is a dearth of grant funding available through local foundations, and there is limited flexible capital available, particularly for organizations younger than four years [M2]. Impact debt that is available tends to come with prohibitively high interest rates (e.g., 18%).

A CLOSER LOOK | NEEDS AND CAPITAL MISMATCH

WHO: PENDA HEALTH
WHAT: Healthcare Delivery—chain of outpatient clinics offering quality affordable primary care to low- and middle-income individuals (for-profit)
WHERE: Kenya
ISSUE: Mismatch of capital and early business needs

Early on, Penda had difficulty securing grants from foundations and instead raised capital from angel investors in the form of convertible debt. Over the next few years, grants were secured and the business model was refined. As the organization works to raise scale-up equity, the existing debt on its balance sheet makes it harder to reach terms that are palatable to Penda and investors.

TAKE-AWAY FOR FUNDERS: A strong base of grant capital early on would have allowed Penda the time and space to refine its business model and be better poised for equity investment when the time was right.

> When you're early on and risky, I really do think that's the time for a grant organization to come in and put some super-risky capital in.
>
> Nicholas Sowden, Penda Health Founder

THEME: SERVING THE UNDERSERVED: DISADVANTAGED POPULATIONS

KENYA | Recognizing the opportunity to achieve both social impact and financial returns by targeting low-income consumers, impact investors are increasingly looking to invest in scalable business models that prioritize cash flows and focus on providing consumers at the bottom of the pyramid (BOP) with value (understanding that these consumers make daily trade-offs comparing quality and price when making a purchasing decision).

Yet, the complexity of the healthcare market in Kenya makes growing a successful business difficult, and financially sustainable models focused exclusively on BOP consumers are difficult to execute and scale, due to low incomes and limited market size (in terms of overall population). For this reason, a number of Kenyan entrepreneurs are broadening their target population to low- and middle-income groups as they work to achieve financial viability.

INDIA | The healthcare industry in India is estimated at $60 billion, with approximately half that figure attributed to healthcare delivery. Yet, the market's main customers are poor, rural households. In fact, more than 20 percent live below the World Bank–defined poverty line of $1.90 a day [I3]. A number of business models have emerged to address the shortage of quality, affordable healthcare, particularly in remote areas. These models have tended to cluster in the primary care and medical device space, and several private enterprises have demonstrated scale. Because India's population is increasing in both urban and rural regions, opportunity for market-based solutions is also growing as viable markets spread.

Although some form of health protection is provided by the government and major private employers, health insurance schemes for the Indian public are generally basic, costly, and not widely available. Recently, successful public-private partnerships with insurance schemes are slowly increasing the availability of insurance and making in-patient treatment increasingly affordable for disadvantaged populations.

FROM SYNTHESIS TO NEXT STEPS

The challenges detailed above point to a lack of alignment and understanding between funders and innovators—a situation that is not surprising, given the recent rapid growth in the healthcare innovation landscape. There is real opportunity for funders to pioneer a new approach to supporting healthcare entrepreneurs in these settings. Below we illustrate five keys to closing the gap between funders and innovators, and detail our recommendations for a fundamental shift that will help innovative business models grow and change healthcare for the better.

Source: Clínicas del Azúcar

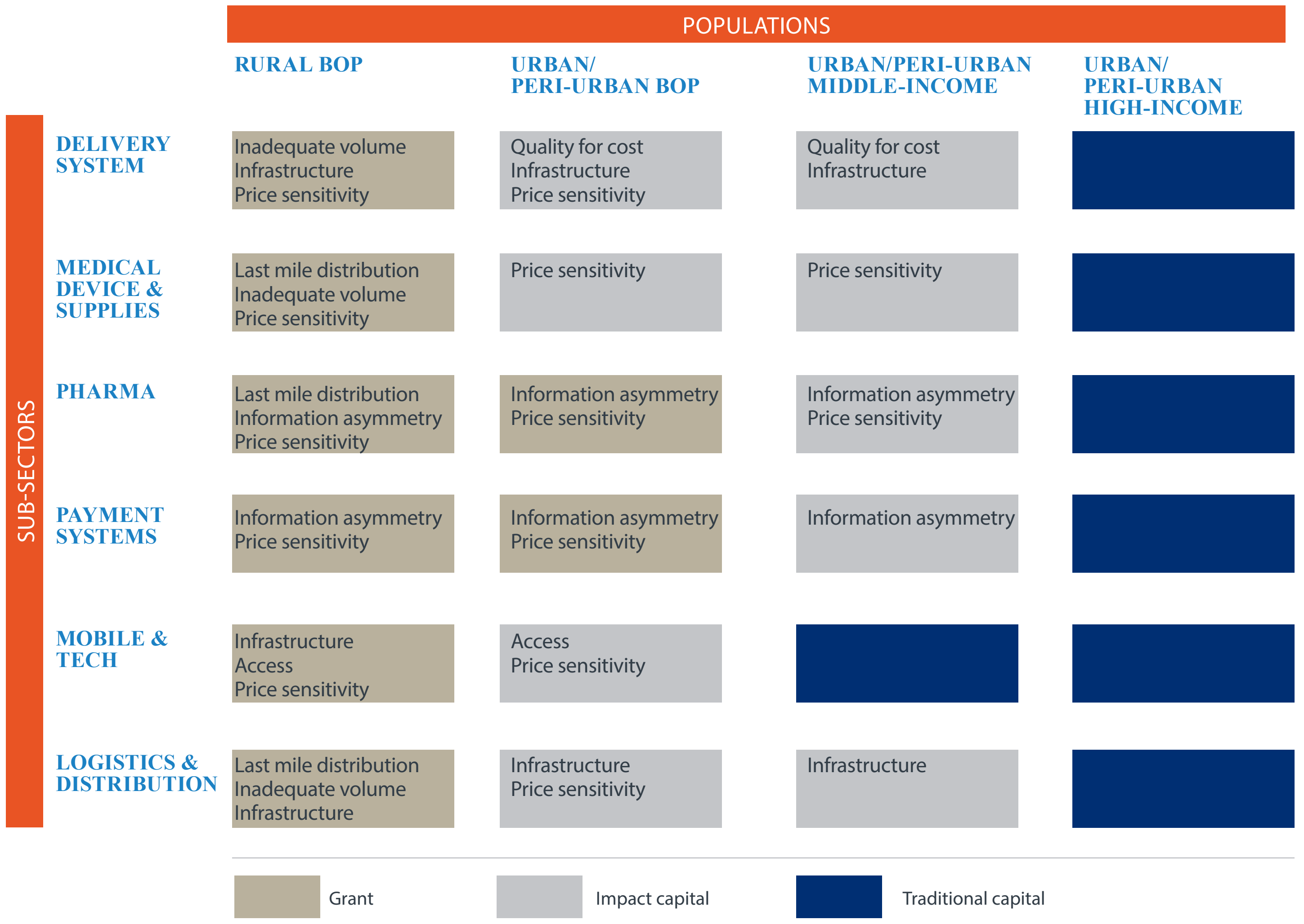
1. LAY THE GROUNDWORK: CONDUCTING DUE DILIGENCE IN EMERGING MARKETS IS HARD AND MAY REQUIRE LOCAL PARTNERS TO HELP IDENTIFY BEST-SUITED CAPITAL.

Funders looking to deploy capital wisely in new markets must first explore and understand the particular market challenges (e.g., inadequate volume, infrastructure, price sensitivity) at the intersection of the target population and healthcare sub-sector (e.g., physical delivery system, medical device & supplies, pharmaceuticals). That might mean partnering with local investment firms, funders or intermediaries. With that intelligence in hand, funders can go on to consider the type of capital that best meets the needs of the enterprises operating in those contexts. The framework below developed as part of the Global Health Investment Landscaping Project does exactly that—and is a helpful resource for funders interested in being more intentional about placing capital in developing countries [see Graphic 1]

[Featured Resource: Healthcare Innovation in Latin America and the Caribbean: A Focus on Emerging Trends and Market Opportunities in Brazil, Colombia, and Mexico. 2016. Published by Innovations in Healthcare, Durham, NC (USA).]

GRAPHIC 1

TO ADDRESS THE CHALLENGES, THE INTENT AND CHARACTERISTICS OF THE CAPITAL BECOME IMPORTANT



SUB-SECTORS	POPULATIONS RURAL BOP	 URBAN/ PERI-URBAN BOP	 URBAN/PERI-URBAN MIDDLE-INCOME	 URBAN/ PERI-URBAN HIGH-INCOME
DELIVERY SYSTEM	🟫 Inadequate volume Infrastructure Price sensitivity	⬜ Quality for cost Infrastructure Price sensitivity	⬜ Quality for cost 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

Source: Opportunities and Challenges for Global Health Impact Investors in India and East Africa. 2015.
Published by the Social Entrepreneurship Accelerator at Duke (SEAD), in collaboration with Calvert Foundation, The Center for the Advancement of Social Entrepreneurship (CASE) at Duke, Innovations in Healthcare, and Investors' Circle, and funded by USAID

2. DETERMINE THE BEST FIT: FUNDERS SHOULD DRAW ON THEIR EXPERTISE, OR CONSULT WITH EXPERTS, TO DEPLOY FLEXIBLE FUNDING STRUCTURES THAT FIT WITH LOCAL CONTEXT AND STAGE OF DEVELOPMENT.

Once funders have a deeper understanding of the ecosystem, they can move on to consider the needs of the enterprise and offer capital that fits. Where is the enterprise on the capital-raising journey? Referencing a common framework for capital layering helps to assess the capital needs of an enterprise based on its stage of development. Intermediaries like Innovations in Healthcare can often help with these development assessments. A few investors, like Eleos Foundation and the Global Innovation Fund, have also taken this approach, and may serve as a resource for other funders interested in learning from their experience so far.

Funders who are creative and flexible in designing financing options that meet entrepreneurs where they are—rather than requiring them to reshape themselves—will likely find they have a greater impact all around. Milestone-based conversion and profit sharing debt are examples of structures that may help to fill a significant gap by providing financing sources to meet entrepreneurs' ongoing cash flow needs while delivering long-term returns that align with investor expectations [K9]. See Graphic 2 for a description of the ways capital characteristics vary across types of funding.

GRAPHIC 2

CAPITAL CHARACTERISTICS VARY ACROSS (AND WITHIN*) TYPES OF FUNDING

	CHARACTERISTICS OF CAPITAL	INTENT OF CAPITAL	BEST-SUITED TARGET BENEFICIARIES
GRANT	• Provided through a programmatic lens (typically specific to disease type/health issue or population) • Varies in flexibility (exact timeline/use of funding dependent on grant agreement)	• To achieve a health output or outcome for target population • To conduct research or business development • To catalyze investment	• Lowest-income, most disadvantaged populations and communities (typically rural or hard to reach)
IMPACT CAPITAL	• Typically more creatively / flexibly structured • Patient, appetite or longer return timeframes in recognition of market complexities • Potential for larger volumes than grant capital	• To achieve a health output or outcome through a market-based solution • To achieve a financial return, not always commensurate with risk • To catalyze future investment	• Low to middle income populations • Lowest-income, most disadvantaged populations
TRADITIONAL CAPITAL	• Structured similarly to traditional asset classes / financial instruments • Much larger volumes than impact and grant capital	• To achieve a financial return commensurate with risk (real or perceived) • To track impact of investment	• Middle to high income populations with ability to pay higher prices for quality products and services

* These statements are not always applicable for every player in the respective 'type'

Source: Opportunities and Challenges for Global Health Impact Investors in India and East Africa. 2015.
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3. THINK BROADLY: FUNDERS SHOULD TAKE A "MORE THAN MONEY" APPROACH WITH ENTREPRENEURS AND SECTORS OF INTEREST TO HELP FACILITATE GROWTH.

Money is not the only investment needed in global health innovation. Entrepreneurs often need training, technical assistance, and mentoring on topics such as financial planning and projections to optimize their efficiency, effectiveness, and investment readiness. Funders can provide this support themselves, work with intermediaries, and even facilitate peer-learning opportunities between more experienced entrepreneurs and emerging leaders to help develop a stronger innovation pipeline. Funders can also support studies in regions or on topics of interest to better understand trends and ecosystem characteristics that promote or hinder the development and scale of healthcare innovation.

THEME: BUSINESS SUPPORT FOR ENTREPRENEURS

KENYA | This country is increasingly recognized as a hub for innovation, yet there are limited affordable and relevant business support services available to help entrepreneurs grow their business and raise finance [K5]. Intermediaries like Open Capital Advisors and Innovations in Healthcare, which help entrepreneurs effectively navigate the innovation ecosystem and access support, are limited, despite an appetite for such connections [K6, K7]. Resources and talent however, are increasing in this space [K6], and commercial entities and higher education institutions are beginning to invest in entrepreneurship and innovation centers. Overall, the support ecosystem could benefit from increased coordination.

INDIA | The significant buzz around innovation in India has helped generate an expanding number of resources to support entrepreneurs' growth and financing efforts. A number of incubators and accelerators exist in India, and other platforms are increasingly offering support for entrepreneurial activity. Villgro, Healthstart, the Rural Technology and Business Incubator (RTBI), SeedSurge, IKP Knowledge Park, Venture Center, and HealthStart D-Labs are all examples of incubators accessible to Indian health entrepreneurs. Accelerators and hackathons, which offer shorter engagement terms, are also prevalent and have been supported by institutions like USAID, the Massachusetts Institute of Technology, and Harvard Medical School. Public-private partnerships and academic institutions have also emerged as significant bolsters to healthcare innovation in the country.

MEXICO | The support ecosystem for health entrepreneurs in Mexico is robust and growing. A number of accelerators and incubators exist to provide critical strategic guidance, including a range of services aimed at facilitating growth, providing mentorship support, and increasing investment-readiness. In addition to providing valuable support services, organizations like New Ventures and others provide networking opportunities and serve as intermediaries for investors interested in funding innovations [M2]. It is important to note, however, that these players span sectors and are typically not solely focused on healthcare.

4. COLLABORATE: FUNDERS CAN WORK TOGETHER TO INCREASE EVERYONE'S CHANCES FOR IMPACT.

As the global healthcare innovation ecosystem grows, collaboration between funders is becoming more commonplace. That is happening for a variety of reasons. Collaboration with local funders can provide on-the-ground intelligence about market challenges and identify less well-known opportunities. Global funders with deep expertise in certain health subsectors can help identify opportunities and challenges unknown to funders without that subsector experience. And, most importantly, there is a real opportunity for funders to explore opportunities for collaboration across the capital spectrum, and to build a more robust and cohesive financing pipeline for promising innovations. It takes different types of funders working together to help structure capital that is most responsive to the innovator's needs, whether that means better handoffs or new, innovative capital structures.

5. BE CLEAR: FUNDERS SHOULD PROVIDE GUIDANCE AND TRANSPARENCY AROUND THE GRANT/ INVESTMENT PROCESSES.

The due diligence process required to make a grant or investment is involved and time-consuming—for funders and for entrepreneurs. To help increase the efficiency and effectiveness of this process, funders can help entrepreneurs understand the process and timeline. This approach is especially important when investing in parts of the world, like East Africa, where innovators often have less financial and operational rigor than many investors expect.

[For further reading: Smart Impact Capital online modules. 2016. Made available by The Center for the Advancement of Social Entrepreneurship (CASE) at Duke and the Social Entrepreneurship Accelerator at Duke, Durham, NC (USA). www.caseonlinelearning.com]

A CLOSER LOOK | THE "RIGHT" MONEY

WHO:	Clínicas del Azúcar
WHAT:	Healthcare Delivery—one-stop shop offering quality, patient-centered diabetes prevention and treatment (for-profit)
WHERE:	Mexico
ISSUE:	Finding the right type of investor

Clínicas del Azúcar currently has six clinics in Monterrey, Nuevo León and has proven its model is profitable at the clinic level. While maintaining current operations, they continue fundraising. Company leaders remain driven by the social aim of their organization, and they feel it is imperative to find an investor that shares their ultimate vision but can also help them scale aggressively. This might be an impact investor, a strategic partner, a private equity fund, or a combination. For this innovator, the importance of finding the "right" money to scale nationwide is a clear priority.

TAKE-AWAY FOR FUNDERS: Social entrepreneurs are passionate about the problems they are working to solve. Taking time to get to know them and set clear return expectations (both social and financial) early in the process are important steps to take when conducting due diligence on global health enterprises.

> Our doors are open to find a funding partner that is aligned with our mission while enabling us to aggressively scale our operations.
>
> Miguel Garza, Clínicas del Azúcar Chief Financial Officer

PIONEERING A NEW APPROACH TO SUPPORTING HEALTHCARE ENTREPRENEURS

Today's emerging healthcare markets are bustling hubs of innovation and entrepreneurship, where many promising enterprises provide unique products and services. Funders interested in fostering the growth of these enterprises must understand the unique contexts within which global health innovators operate in order to provide relevant support and deploy capital most effectively.

This brief highlights a number of key implications, which we hope will provide a useful launching point for investors interested in playing a catalytic role in this space. Though entrepreneurs in India, Kenya, and Mexico identified a number of key challenges, perhaps the most exciting insight is the opportunity that exists for funders to pioneer a new approach to supporting healthcare entrepreneurs in these settings. This new approach helps funders understand and work with broader socioeconomic and political considerations that influence market dynamics and the potential return on their investments in healthcare innovations. Despite the trials associated with fundraising, solutions are achievable, particularly when key players come together. Relationships are key, and the results from these human connections will be critical to fostering the success of healthcare innovation in emerging markets.

APPENDIX

FULL LIST OF WORKSHOP PARTICIPANTS BY COUNTRY

INDIA
Arogya Finance
ayzh
Bodhi Health Education
Forus Health
LV Prasad Eye Institute
Narayana Health
Noora Health
Sevamob
Sproxil
Swasth Foundation
Vaatsalya
World Health Partners
Ziqitza

KENYA
Afya Research Africa
BasicNeeds
Changamka MicroHealth
Jacaranda Health
MicroClinic Technologies
MicroEnsure
NorthStar Alliance
One Family Health
Penda Health
Riders for Health
Safe Water and Aids Project
World Health Partners
ZanaAfrica

MEXICO
Medicall Home
Pro Mujer
BIVE
Clínicas del Azúcar
PACE MD
COFAS Hospitals
Clínica SIM
AccuHealth

Source: Penda Health

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ABOUT US

ABOUT INNOVATIONS IN HEALTHCARE

Innovations in Healthcare is a leading global network supporting the scaling and adaptation of promising healthcare innovations worldwide. We aim to improve healthcare and advance health by sourcing, strengthening, scaling, and studying the best healthcare innovations globally. We were co-founded by the World Economic Forum, McKinsey & Company, and Duke University in 2011, and operate as a nonprofit organization hosted by Duke University in North Carolina, USA. Over five years, we have developed a network of 67 leading healthcare innovators working in 49 countries and serving over ten million people.

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