Blended Finance, Social Impact Bonds, and investments in global health

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Today’s talk

- **Theory**: Blended Finance modalities during SDGs and COVID19
- **Proactive**: Determinants whether Blended Finance can work
- **Ways forward**
- **Takeaway**: The proof is in the pudding
Blended finance is the strategic use of development or public finance for the mobilization of additional finance towards sustainable development in developing countries.

*source: OECD*
Relationships of Innovative Financing Models

- Innovative Finance
- Result-based Financing
- Blended Finance
- Development Impact Bonds
- Social Impact Bonds
- Public-Private Partnership
- First-Loss Capital
- Guarantee
- Technical Assistance
- Advance Market Commitment
- Other innovative instruments
Blended Finance as a solution to attract private investment

Mitigate
Business risk, currency risk and political risk for private investors

Attract
Private capital from pharma/med-tech corps, impact investors, high net worth individuals, banks, etc.

Bridge
From reliance on concessional financing towards more self-sustaining financing approaches

Create
A leveraging effect on the development assistance and donor funding
## Blended finance transactions in the health sector

### Blended finance transactions by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>$12,242 Million, 6% of all blended finance deals</td>
</tr>
<tr>
<td>Financial Services</td>
<td>$6000</td>
</tr>
<tr>
<td>General</td>
<td>$7,397</td>
</tr>
<tr>
<td>Agriculture</td>
<td>$2,851</td>
</tr>
<tr>
<td>Infrastructure (non energy)</td>
<td>$1,403</td>
</tr>
<tr>
<td>Health</td>
<td>$759</td>
</tr>
<tr>
<td>Health Sector</td>
<td>$42</td>
</tr>
</tbody>
</table>

### Health related transactions by instrument (US $m)

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilities</td>
<td>$7,397</td>
</tr>
<tr>
<td>Funds</td>
<td>$2,851</td>
</tr>
<tr>
<td>Companies</td>
<td>$1,403</td>
</tr>
<tr>
<td>Projects</td>
<td>$759</td>
</tr>
<tr>
<td>Impact Bonds</td>
<td>$42</td>
</tr>
</tbody>
</table>

Data Source: Convergence, 2011-2019 blended finance transactions
Social Impact Bonds and Development Impact Bonds

1. Signing the RBF agreement
2. Upfront working capital
3. Paying for achieved results
4. Governance flow (agreement)

Results Funder: Government, foundation, bi/multilateral or private donor

Incentivized Agent: Investor

Service Provider

Verifying results (independent evaluator)

Financial flow
Verification by independent evaluator
HFI identifies four determinants that guide blended finance solutions for NCDs
Challenges:

- High upfront and administrative costs
- Requires high-quality data to support outcomes payments
- Still lacks awareness in most low- and middle-income countries

Opportunities:

- Ideal mechanism to de-risk large scale investments in health where investors may be wary of cause & effect
- Emerging market friendly - Most blended finance initiatives are targeted towards EMs
- Strategic shift of investment risk can offset transaction costs
- Clear shared value between public & private sector
HFI’s role as Bespoke Broker

Investment and Business Case Algorithm

Brokerage of Investments

Decision Factors → HFI Guidance and Expertise → Investment Modalities
The HFI Expand Bond (A Pay-for-outcome Development Impact Bond)

PRIVATE INVESTORS

HFI broker

Debt or Equity Investment
Principal + Interest Dividend

OUTCOME FUNDER

Payment based on predefined outcomes

PATIENTS

Payment for products/services through insurance or other provisions

PRIVATE BUYER

Payment for electricity, usage of electronic record

PHARMA, SEED FUNDING DONORS, CORNERSTONE INVESTORS

Seed Grant
Medical Equipment
Electricity, Water, Internet

SPECIAL PURPOSE VEHICLE

Capital for Operations

SERVICE PROVIDER

INDEPENDENT EVALUATOR

Verification of Outcomes

Report Verification Results

Investment Capital Flow
Outcomes Funding Flow
Service Flow
Medical Credit Fund (MCF): A First Loss + TA Example

**Size & Location:**
$50 Million, Sub-Saharan Africa

**Fund Objective:**
Build private healthcare value chain to enable healthcare companies to increase and improve quality, scale and efficiency of patient service

**Structure:**
MCF has an innovative ‘layered capital’ structure, blending catalytic first-loss capital, technical assistance grants, and debt financing

**Impact:**
- 1,760 SMEs financed
- 2,400 staff trained
- 79% improved quality of care
- 58% of patients are from low-income category
- Only 5% default rate

Source: Convergence
Thank You

Please reach out to us at 
andrea@healthfinanceinstitute.org
to discuss partnership opportunities
Appendix
Forging **impact investment partnerships** for the **most burdensome diseases** worldwide.

<table>
<thead>
<tr>
<th>Decision Factors</th>
<th>HFI Guidance and Expertise</th>
<th>Investment Modalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Quality of data systems</td>
<td>• Roadmap</td>
<td>• Blended/Innovative financing models (e.g. DIBs, SIBs)</td>
</tr>
<tr>
<td>• Lag between intervention</td>
<td>• Support structuring investment deals</td>
<td>• Health bonds</td>
</tr>
<tr>
<td>and impact</td>
<td>• Feasibility assessments</td>
<td>• Domestic resource mobilization</td>
</tr>
<tr>
<td>• Human development stage</td>
<td></td>
<td>• Traditional aid</td>
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<tr>
<td>• Diseases and disease profiles</td>
<td></td>
<td>• Other</td>
</tr>
</tbody>
</table>
The HFI Expand Bond  (A Pay-for-outcome Development Impact Bond)

**Size & Location:**
$20 Million, Kenya & Nigeria

**Fund Objective:**
Setup and manage Primary Health Care Clinics in SSA region to provide low cost PHC to underprivileged communities

**Structure:**
2% AUM + 20% Carried Interest PE-based Structure
$10M Seed Grant from Phillips, $10M USAID grant
10% coupon paid annually if targets met

**Proposed Impact:**
- Directly aiming to solve SDG 3.4
- Provide PHC services to approx 150K patients in 1Y
- Designed to cater to variety of NCDs
The HFI Expand Bond  (A Pay-for-outcome Development Impact Bond)