Mobilizing Private Capital for Family Planning through Blended Finance

HP+ POLICY *Brief*

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Introduction on Blended Finance and Family Planning

Blended finance is defined by the U.S. Agency for International Development (USAID) as the strategic use of public and philanthropic resources to mobilize private capital to achieve development outcomes (USAID, 2019). Blended finance has been robustly applied in select sectors, such as energy and financial services, with US$11 billion in blended deals structured annually (Convergence, 2020). However, the health sector represents only 3%–5% of these transactions and the use of blended finance for family planning represents a largely unexplored service area (ibid). Meanwhile, global needs to fund scale-up of family planning access considerably exceed the resources available, demonstrating an opportunity to use blended finance to leverage more support for this service area. Private investment in primary healthcare overall is another way that blended finance can address the family planning resource gap and could be more attractive to investors because it covers a broader range of services. This brief explores donor considerations for blended finance, the pros and cons of investing in health funds, and investment opportunities in family planning and primary healthcare.

Blended finance is designed to mitigate risk to investors and can be structured in a number of ways, including as concessional capital, guarantees, technical assistance funds, or design-stage grants. Donor funds are used to provide additional protection to increase the commercial viability and attractiveness of investments in innovative health projects. Table 1 defines these terms for blended finance structures and others often used in the context of blended finance.

Table 1. Investment Terms

Catalytic and concessional capital	Investment capital that is patient, risk-tolerant, and flexible in ways that differ from conventional investments. Designed to de-risk early-stage, small-scale, impactful investments with the goal to mobilize further capital from commercial investors. Catalytic capital typically expects capital recovery while concessional capital typically expects sub-market returns.
Convertible debt	A debt instrument that is converted into equity if the enterprise and/or program are unable to repay its debt. The debt instrument could also be structured to allow investors the option to convert to equity in order to capture a larger return if the investment does well.
Due diligence	An investigation or audit performed to confirm facts or details about a potential investment. This process typically requires an assessment of the financial records, management team, and enabling environment of the enterprise under review before entering into a proposed transaction.

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Table 1. Investment Terms (continued)

Early-stage financing	Financing that funds the first three stages of a company's development, including seed capital and start-up funding, up to and including Series A investments. Series A is considered the first significant round of venture capital financing (Series B would be the second round, etc.).
First-loss capital	The provision of capital that will bear first losses in the event of a negative investment outcome. It is a form of catalytic financing and is used to improve the risk-return profile for other investors, thus incentivizing participation of investors that would not have otherwise engaged (can be a one-off investment or part of an investment fund).
Growth financing	Financing that funds companies already in commercial operation with solid traction and existing customers. Such companies should be generating recurring revenue and experiencing solid growth, but still may not be profitable. Such financing typically occurs at Series B and later.
Guarantee	A financial backstop offered by a lending institution in which the guarantor will ensure that the liabilities of a debtor will be met, i.e., if the debtor fails to repay its loan, the guarantor will cover it. In impact investing, this is used as a tool to de-risk and catalyze commercial investment.
HealthTech	Digital and mobile technologies that support health systems through innovative models of health delivery, while also improving access and reducing transaction costs.
Impact investing	Investments made with the intention of generating a measurable social or environmental impact alongside a financial return.
Internal rate of return	A metric used in financial analysis to estimate the profitability of potential investments, measured by the annual rate of growth that an investment is expected to generate.
Outcome funding	A process whereby donor funds are disbursed only if an implementer achieves specific agreed-upon outcomes.
Senior tranche	Highest tranche of a security in which any losses on its value are only experienced after all other more junior tranches have lost all value. In blended finance, commercial investors typically join in the senior tranche, given their aversion to the higher-risk return ratios associated with investing in impact products. The senior tranche pays the lowest rate of interest.

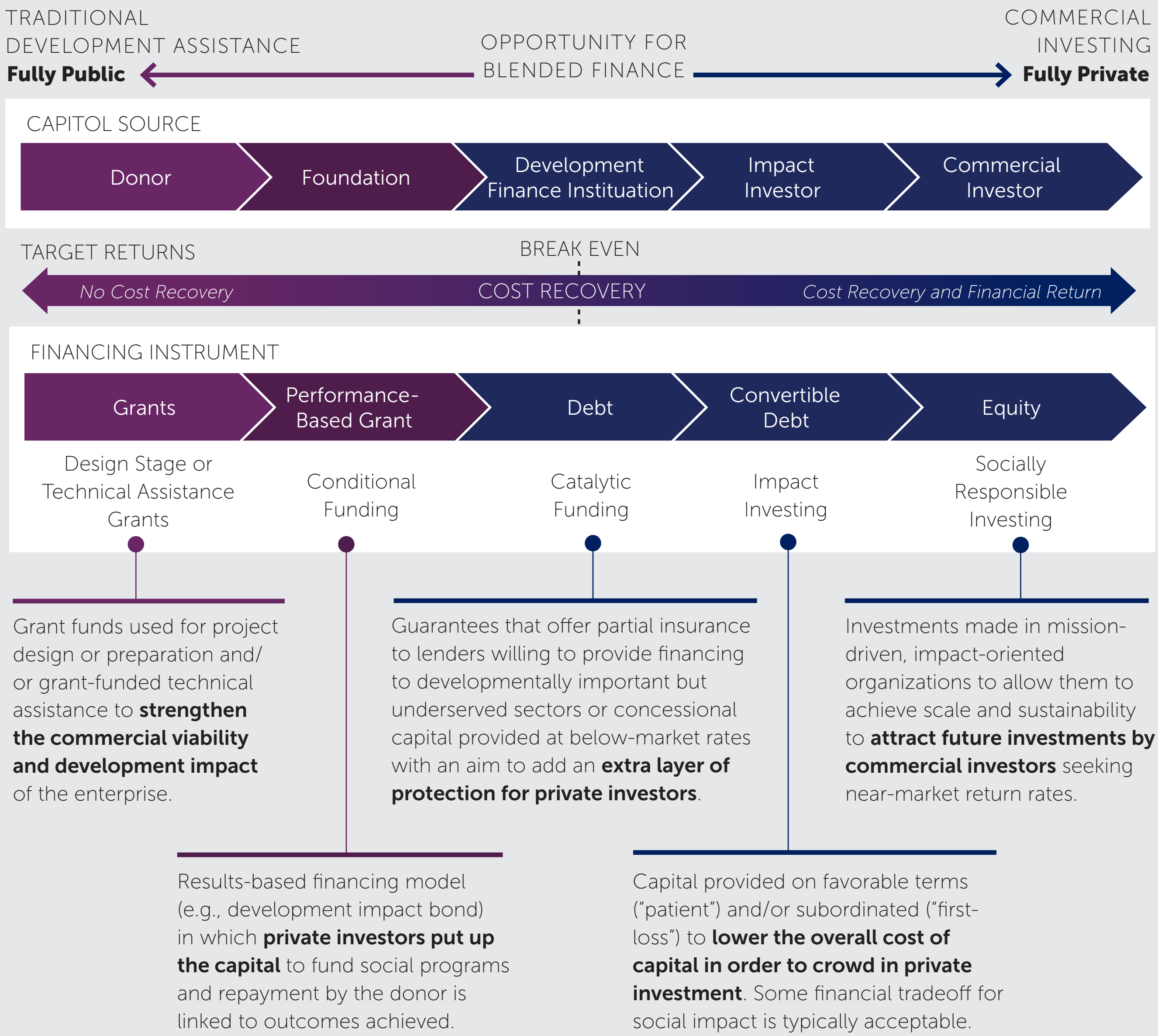
Source: Convergence, n.d.; Investopedia, n.d.; USAID, 2020

Donor Considerations for Blended Finance

There are several elements of a blended finance deal that a donor should consider when evaluating a potential opportunity. These variables include the type of investor to target for partnership and the type of blended structure to apply to the deal, which may dictate the financing instrument used. Figure 1 shows where these variables would typically lie on a continuum of financing sources ranging from traditional development assistance (far left) to commercial investing (far right).

Note that Figure 1 depicts generalizations meant to be illustrative, not strict rules. Typically as one moves from left to right on the continuum—from fully public capital sources toward fully private ones—the most appropriate type of financing instrument will change as will the expected return on the investment. For example, a debt investment is generally less risky than equity, but will also have a lower expected rate of return. With the objective of catalyzing private capital to achieve health outcomes, the sweet spot where USAID should position itself for blended finance is near the middle of the continuum. At this spot, catalytic funding mechanisms will be structured so that donor funds are not expected to cover an entire intervention the way a typical grant would, but instead help incentivize private investment to assist in financing impactful health enterprises. For example, donors serving as a first-loss investor reduces risk for other investors and, therefore, is a blended structure that appeals to many private investors.

Figure 1. Blended Structures, Investors, and Investment Types



Adapted from: Convergence, n.d.; USAID, 2020

Another key consideration from a donor's perspective is how much donor financing will be required to catalyze the private investment. Typically, the more private capital that the donor aims to raise will also increase the donor funds required. The terms from an actual blended mechanism for health developed under the USAID Bureau for Economic Growth, Education, and Environment (E3) had USAID agreeing to a 16 percent first-loss liability. Table 2 outlines the potential size of a donor's obligation for a blended mechanism using the 16 percent first-loss assumption. For example, US$10 million in anticipated private capital raised would require US$1.6 million in donor funds, while US$50 million in private capital raised would require US$8 million in donor funds. The blended mechanism could be structured in any number of ways and the liability could vary widely, depending on how much private capital both the fund manager and/or donor wanted to raise.

Table 2. Illustrative Donor Funding Obligation for Blended Finance

Donor's First Loss Liability	Target for Private Capital Raised	Donor Funding Required
16%	$5 million	$800,000
	$10 million	$1.6 million
	$25 million	$4 million
	$50 million	$8 million
	$100 million	$16 million

Source: First loss liability forecast using USAID's E3 Bureau's blended finance mechanism terms.

The time horizon of the investment is another variable that donors should consider. It may take years before the impact and financial return of an investment is realized in a measurable way. This is because it often requires a lot of time to establish a strong track record to attract and receive follow-on investment capital. Enterprises may actually have negative net income during the early stages of scaling up a business. With this in mind, finding a more mature partner that is further along in establishing its business may, in some cases, make more sense than trying to start an intervention from scratch.

Health Funds

There are several advantages to structuring blended finance through investment funds instead of individual enterprises. Though still a relatively new concept, investment funds with a focus on positively impacting health outcomes in low- and middle-income countries do exist and donors may find them a more appealing option for participation in blended finance. The biggest advantages of health funds compared to individual investments are that funds diversify investment risk and reduce transaction costs. However, there are also some disadvantages, such as reduced influence over investment decisions. See Table 3 for a summary of some pros and cons of investing in health funds.

Table 3. Pros and Cons of Investing in Health Funds

PROS	CONS
☑ More value for money, given high transaction costs and level of effort required to set up each blended mechanism.	☒ Longer timeframes may not align with donor planning or budget cycles; capital requirements may be arduous for USAID Mission pipelines.
☑ Portfolio of investments naturally diversifies risk and offers broader appeal to private investors (avoids "putting all your eggs in one basket").	☒ Portfolio pipeline development may be challenging and time consuming, which may prolong the fundraising timeline.
☑ Returns from one highly successful enterprise in the fund portfolio may more than offset poor or average performance of other enterprises.	☒ Donor has less influence over investment picks, fund strategy, and technical assistance priorities of portfolio companies.
☑ Donor funds may not be required as a permanent contribution to the capital base of the investee.	☒ Fund investment focus may have only tangential links to family planning.
☑ Opportunity to leverage expertise of investment professionals and their networks.	☒ Fund managers and investment officers may not have deep, technical healthcare-specific expertise.

HEAL Fund

An example of a health-focused investment fund is the HEAL Fund, managed by Bamboo Capital Partners and the Stop TB Partnership. Table 4 summarizes key characteristics of the HEAL Fund, which is attempting to raise US$75 million, of which US$15 million would come from a donor serving as a first-loss investor.

Table 4. HEAL Fund, Summary of Terms

Fund Characteristic	Targets
Fundraising goals	**$75 million total** = $60 million private capital + $15 million donor funds
Blended structure	Donor provides **20% first-loss liability**
Portfolio and ticket size	50 deals ranging from $250,000 to $2 million **(average deal size of $1.5 million)**
Expected rate of return	**15% net internal rate of return** for senior investors
Timeframe	**10 years**
Geography	**Africa**, South and **Southeast Asia**, Latin America
Investment strategy	**HealthTech**, mHealth, disease agnostic
Stage of companies	**Seed, Series A**, Series B
Social impact metrics	**Health outcomes** (e.g., number of patients accessing care), quality of care
Fees	**2.5% management fee**, 20% carried interest

Source: Bamboo Capital Partners, 2020

Investment Opportunities in Family Planning and Primary Healthcare

Over the past year, the USAID-funded Health Policy Plus (HP+) project has convened multiple virtual meetings and key informant interviews with development partners, family planning experts, development finance experts, and impact investors to explore the potential of blended finance for family planning. These solution-oriented forums were designed to allow participants to build upon each other's perspectives to identify new, high-potential opportunities to explore and design. The forums documented expert opinions arising from discussions on family planning challenges and opportunity areas to consider for blended finance engagement, summarized in Table 5.

Table 5. Family Planning Challenges and Opportunity Areas

Financing Challenge	Opportunity Area
Distribution and point of sale	Expanding access to family planning services through non-traditional health sector distribution locations (e.g., drug shops and pharmacies).
Market introduction/shaping and market access	Using blended finance to jump-start introduction of new products and identify market opportunities.
New direct-to-consumer technologies	Spurring innovation for telemedicine offerings and direct-to-consumer delivery.
Family planning value chain	Improving linkages between private market players in each step of the product creation and supply process.

Experts believe there are existing market opportunities with the potential to expand the voluntary and affordable use of modern contraception in low- and lower-middle-income countries while generating a viable market return for investors. Types of enterprises in which blended finance can be used to jump-start and advance solutions that can address the family planning challenges mentioned previously are listed in Table 6, along with the value proposition for family planning. The table also offers an example of a firm that provides a similar service and has already received venture capital to scale up operations or an example of an organization working on a similar intervention. These firms and organizations, though not necessarily directly servicing family planning clients, can be studied as models that can be repurposed to address family planning objectives more directly. The strategy of bundling family planning with women's primary healthcare products and services can also expose enterprises to a broader customer base, making these firms more appealing to investors. These ideas can be a starting point for conversations on how to research, develop, and build potential solutions and blended financing models to present to USAID and other donors for consideration.

Table 6. Enterprise Types Ripe for Blended Financing and Their Value Added for Family Planning

Type of Enterprise	Value Added to Family Planning	Example
Remote training for healthcare workers	Uses e-learning to increase access to training for healthcare workers while reducing costs and addressing the shortage in human resources for health.	elearning for healthcare
Telemedicine	Increases access to family planning services through e-prescribing, remote consultation, and remote adherence counseling, while reducing opportunity costs to the client.	Babylon, Inc.
Remote education for demand-generation	Improves cost-effectiveness of community demand-generation interventions that have proven to increase the use of modern contraceptives in low- and middle-income countries.	CribMD
Direct-to-consumer delivery	Increases access to family planning products through e-commerce platforms and innovative, confidential delivery to the client's home or office (e.g., drone).	Kasha Inc.
New point-of-sale outlet	Increases access to family planning products at more convenient local pharmacies/drug shops. A vertical marketing strategy can attract clients to these locations.	BlueMagnet
Distribution	Improves business-to-business linkages of firms and entrepreneurs in the health product supply chain through a digital technology network, thereby improving the efficiency of distribution.	Healthy Entrepreneurs

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