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Impact Investing for an Evolving African Healthcare System

Emerald Group

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1. Executive Summary

Impact investing is an exciting and rapidly growing industry powered by investors who are determined to generate social and environmental impact as well as financial returns. This is taking place all over the world, and across all asset classes.

Impact investment today constitutes one of the more proactive and promising approaches on the responsible investment continuum, representing a huge opportunity to contribute to the implementation of the Sustainable Development Goals (SDGs), as well as the funding of inclusive and green businesses.
In order to deliver on the SDGs, developing countries will need to increase their level of public and private annual expenditures by tremendous amounts and impact investing has the potential to play a vital role in this regard, addressing critical social challenges, which often have long gestation periods.

This report begins by briefly explaining what impact investing is and bringing out the fine line of difference between Corporate Social Responsibility, Environmental, Social and Governance (ESG) Investments, impact linked finance and other similar but vastly different terms, often used interchangeably.

With concerns about climate change, human rights and social justice dominating popular culture today, this sector is experiencing an unprecedented growth spurt. The concept is coming up faster and faster, especially among those investors who are not only seeking a healthy financial return but also aiming to meet social or environmental goals. Through thorough secondary research, interesting statistics such as the expectations of the impact investors, targeted returns, and their mindset and motivation at the time of investing have been analyzed.

The major part of the report focusses on the potential of impact investing to address Africa's most pressing health challenges. Specifically, the potential of impact bonds to serve as ideal finance solutions has been explored. Impact bonds, if structured appropriately can achieve far reaching impact in bridging the gap that currently exists in this sector by fostering collaboration, shifting funds towards prevention, encouraging government efficiency and amplifying impact.

Instances of robust public-private partnerships entered into in the past, in the field of African healthcare have been cited. Recommendations for the implementing organizations, impact investors, the Government and society in general to further strengthen the impact investing culture have also been charted out.

Understanding what Impact Investing is

Section 2

2. Understanding what Impact Investing is

Impact investing is fast gaining ground today. It refers to investments made into companies, organizations and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return. Impact investing differs from socially responsible investing as it includes only those investments that have a predetermined clearly defined intentionality for achieving "measurable" impact alongside financial returns which may range from simply preserving the principal amount to matching the principal amount to even exceeding mainstream market returns.

Impact investors also focus on investing in social enterprises that do not just alleviate negative impacts but also generate net positive impacts which may be established in various ways – from creating jobs and employability to serving low-income consumers through housing, education, accessible healthcare or inclusive finance.

Impact investing challenges the long-held views that social and environmental issues should be addressed only by philanthropic donations, and that market investments should focus exclusively on achieving financial returns. The impact investing market offers diverse and viable opportunities for investors to advance social and environmental solutions through investments that also produce financial returns.

Impact investing appeals to many potential investors because it balances commerce and compassion. It also offers a broad range of options, as shown in the following diagram. Some strategies emphasize financial return while still seeking to benefit society. Other approaches put social impact first, accepting returns that vary from below-market rate to a simple repayment of principal. The continuum below depicts the same.

Commercial Investors:
Socially Responsible

Commerical Investors following ESG

Commercial Investors
Thematic Impact

Impact investors:
"Market Rate" Returns

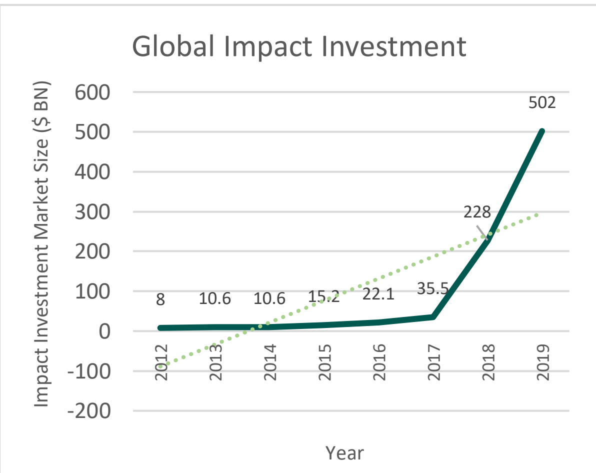
Impact Investors:
"Below Market Rate" Returns

Social Investors:
Social Return

2.1 Global Impact Investing Market

The overall impact investing industry Assets Under Management (AUM) was estimated at USD 502 billion as of the end of 2018. While aggregate AUM is estimated at USD 502 billion, individual investor portfolios vary widely in size- the average is USD 452 million, indicating that while most organizations are relatively small, several investors manage very large impact investing portfolios.

Asset managers have been nimble in spotting opportunities and are committing more and more funds as well as launching new funds focused solely on impact investing.



The rapid growth in impact investing has majorly three underlying reasons which have been identified while studying this sector:

1. Investors of all stripes are increasingly indicating a desire to direct their investments in a more impactful and socially conscious way. Norms are changing concerning the roles businesses play in society, and many

2. investors want to hold businesses accountable for broader impacts on their various stakeholders and the environments in which they operate.

3. Investors are increasingly understanding that investments with positive social and environmental impact are good business, providing greater opportunity to operate and improving profitability, especially in the long run.

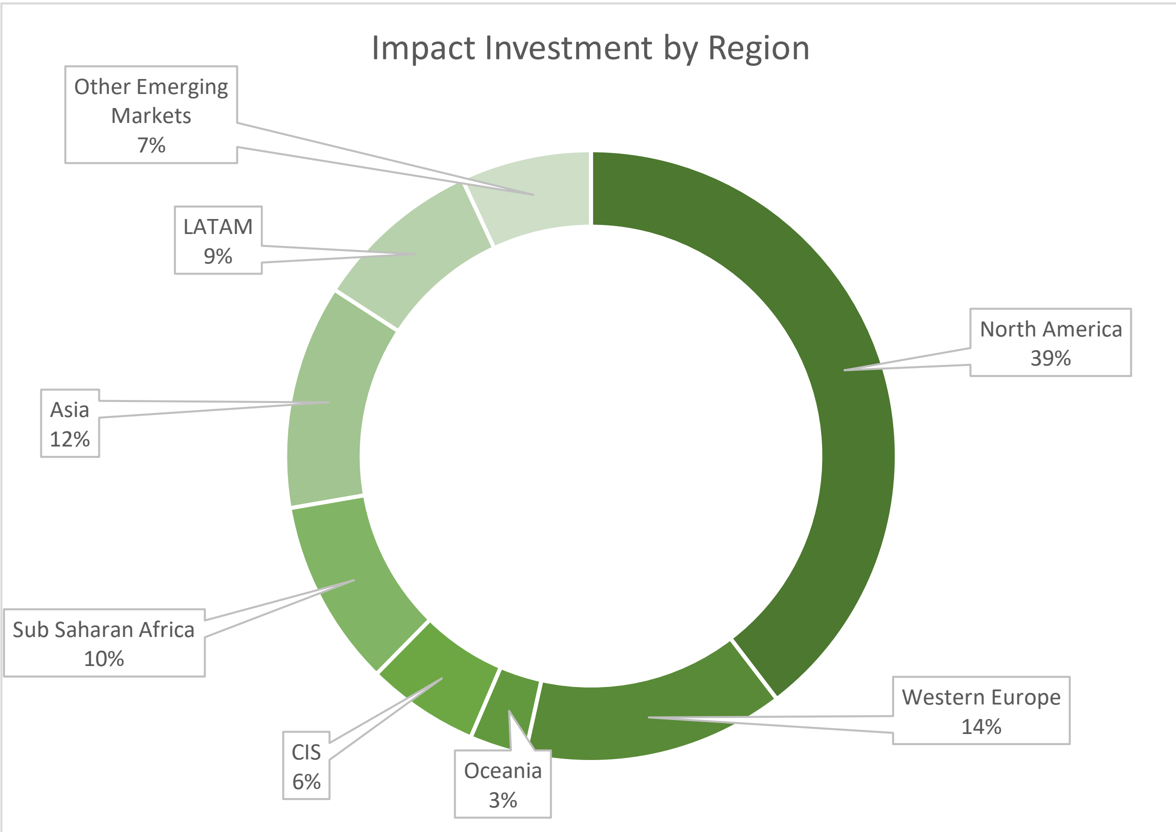
4. Investors are manifesting a desire to align with major global frameworks, specifically the Paris Agreement on Climate Change and the United Nations' Sustainable Development Goals (SDGs), which have explicitly called for private capital to finance solutions to social and environmental challenges.

The pie-chart below depicts how the total Impact Investment Assets Under Management (US $113.7 billion in FY 2017) are spread across the world.

North America, Western Europe and Oceania comprise the developed markets while the remaining (Commonwealth of Independent States, Latin America, Sub-Saharan Africa, Asia and others) constitute the emerging markets. Emerging markets together account for 45% of the Impact Investment Assets Under Management (AUM) with Asia and Sub-Saharan Africa at 22%.

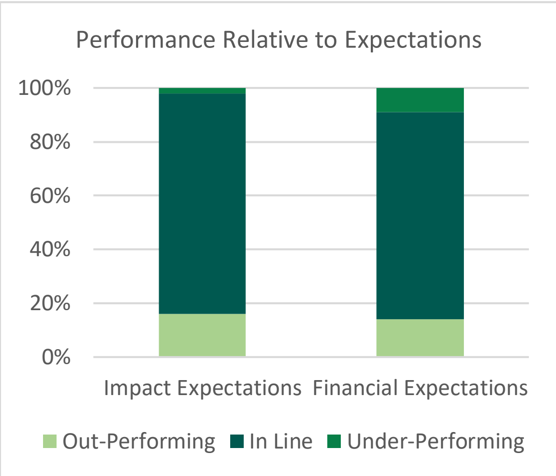
This is a much higher proportion than in traditional alternative investing as there is a vast demand for social investments in emerging markets, which is largely unmet by governments. The key sectors receiving allocation of Impact Investments AUM are: Energy and Microfinance, followed by Food & Agriculture, WASH, housing and healthcare.

The 2019 GIIN Annual Impact Survey released some promising figures with 40% of the World's leading Impact Investors aiming to allocate more Impact Investment AUM to the healthcare sector in the next few years to come.



2.2 Performance Relative to Expectations

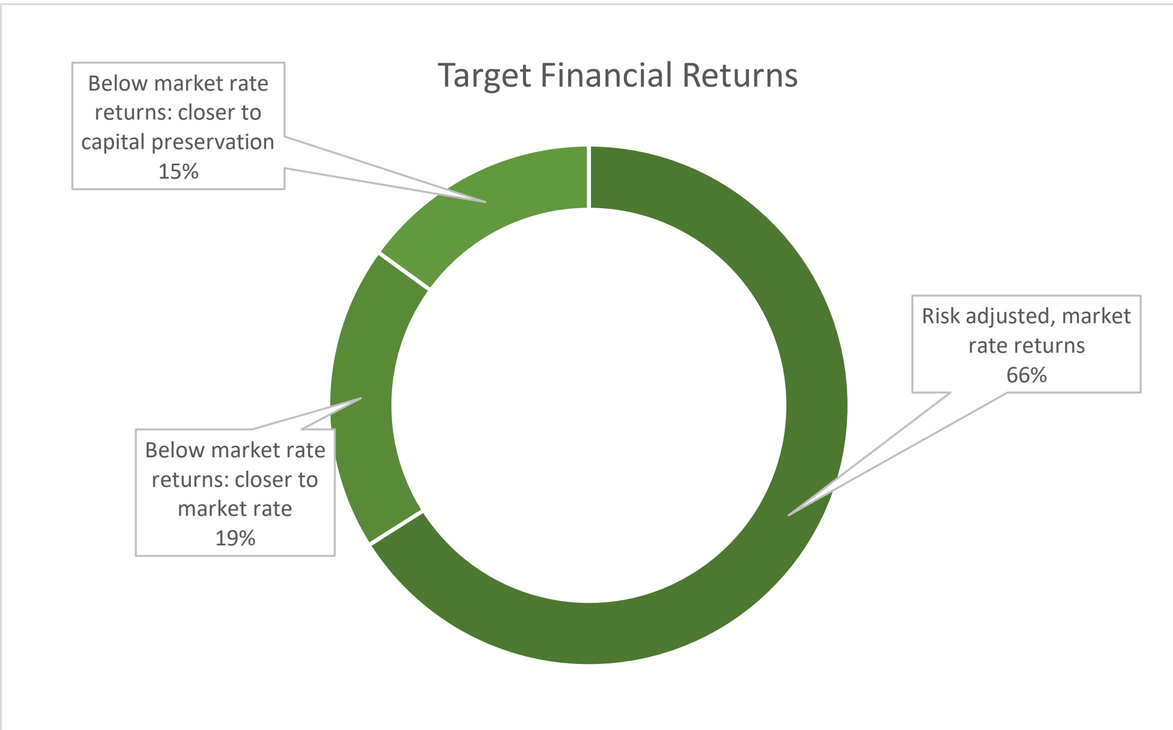
Over 90% of the investments made by World's leading Impact Investors reported performance in line with or exceeding both their social impact and their financial expectations. About 15% indicated outperforming their expectations since inception. Moreover, emerging-market investments generally outperformed developed-market investments, though with greater variance. (GIIN Annual Impact Investor Survey 2019)



2.3 Mindset and Motivation of Investors

Impact investors target financial returns along a continuum ranging from capital preservation to competitive market rate. Most impact investors have principally targeted risk-adjusted, market-rate returns (66%). A further 19% primarily seek below-market returns that are closer to market rate, and the remaining 15% target returns closer to capital preservation. (GIIN Annual Impact Investor Survey 2019)

Both impact and financial factors motivate impact investors to enter the market. The most common motivators for making impact investments relate to organizations' commitment to be responsible investors, dedication to their missions, and the pursuit of efficient ways to meet their impact goals. Contribution to a global agenda, such as the United Nation's Sustainable Development Goals or the Paris Climate Accord, were also a 'very important' motivator for making impact investments.



Understanding Africa's Progress Towards the SDGs and its Impact Investing Landscape

Section 3

3.Understanding Africa’s Progress Towards the SDGs and its Impact Investing Landscape

The 70th United Nations (UN) General Assembly meeting in September 2015 adopted the Sustainable Development Goals (SDGs) which offer the global agenda and key frameworks for priority areas and actions for its 179 member states over the next fifteen years.

African governments have traditionally supplemented public spending with inflows of official development assistance (ODA) from developed and other emerging markets, in order to meet the basic service needs of their populations. The 2008 financial crisis and the resultant volatility of ODA inflows left the governments of many African economies vulnerable to unpredictable fluctuations in available public expenditure. Declines in ODA have led to subsequent declines in public spending on development priorities, which could potentially jeopardize the ability of low-income households to access essential basic goods and services.

In order to deliver on the SDGs, developing countries will need to increase their level of public and private annual expenditures by approximately $1.3 trillion. Low income countries, the majority of which are located in Africa, will require US $342-355 billion annually to deliver on the SDGs, but will not meet these huge investment needs with their own domestic resources, and consequently there will be a funding gap of approximately US$130 -160 billion.

3.1 Key Takeaways

The Sustainable Development Goals (SDGs) are a collection of 17 interrelated global goals, detailed by the United Nations, that target ambitious progress by the year 2030 against a broad range of issues, including poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, the environment, and social justice. Meeting these goals will require several trillion dollars each year, an enormous amount by any standard. Governments and philanthropists on their own cannot meet these volumes of funding; substantial inputs from private capital markets are critically needed.

ODA flows to Africa are not expected to grow from current levels but rather decline and take on new competitive forms such as “blended finance” and “climate financing”. Further, the approaches and strategies previously employed by development and traditional financial sectors are not adequate and have yet to match the challenges of new imperatives to support inclusive, equitable, sustainable and resilient growth and development.

This makes it compelling for African countries to prioritize their own domestic capital formation and external resource mobilization efforts to address the huge funding gap.

3.2 The Impact Investing Landscape in Africa

The 3rd 'Financing for Development' Conference through the Addis Ababa Action Agenda called on businesses and investors to apply their creativity and novelty to solving sustainable development challenges, including the use of impact investment vehicles and solutions. In Africa, which offers an enormous untapped investment opportunity, the vast potential of impact investment models need to be harnessed, by mobilizing and channeling the enormous amount of private finance to contribute to the achievement of Africa's transformational development goals.

Thus, there is ample room for private sources of capital to play a major role in improving access to basic services in Africa. Over the last decade, private financial flows to Africa have started to rise, growing from 63 percent of total external resources in 2002-06 to over 70 percent in 2010-14. Investments have tended to focus on those sectors where the government cannot adequately deliver social services, such as healthcare, education and finance and where a viable market solution can provide goods and/or services.

In 2018, Africa received 15 percent of impact investment Assets Under Management (estimated $7.4 billion of AUM), with sub-Saharan Africa constituting the second highest regional allocation, globally and this prominent position in impact investment is anticipated to strengthen. A GIIN Survey indicated that Sub-Saharan Africa is the region the highest numbers of surveyed investors intend to increase investments into. That is, Sub-Saharan Africa is a significant region in terms of current impact investment activity and it seems as though its position will continue to strengthen relative to other regions.

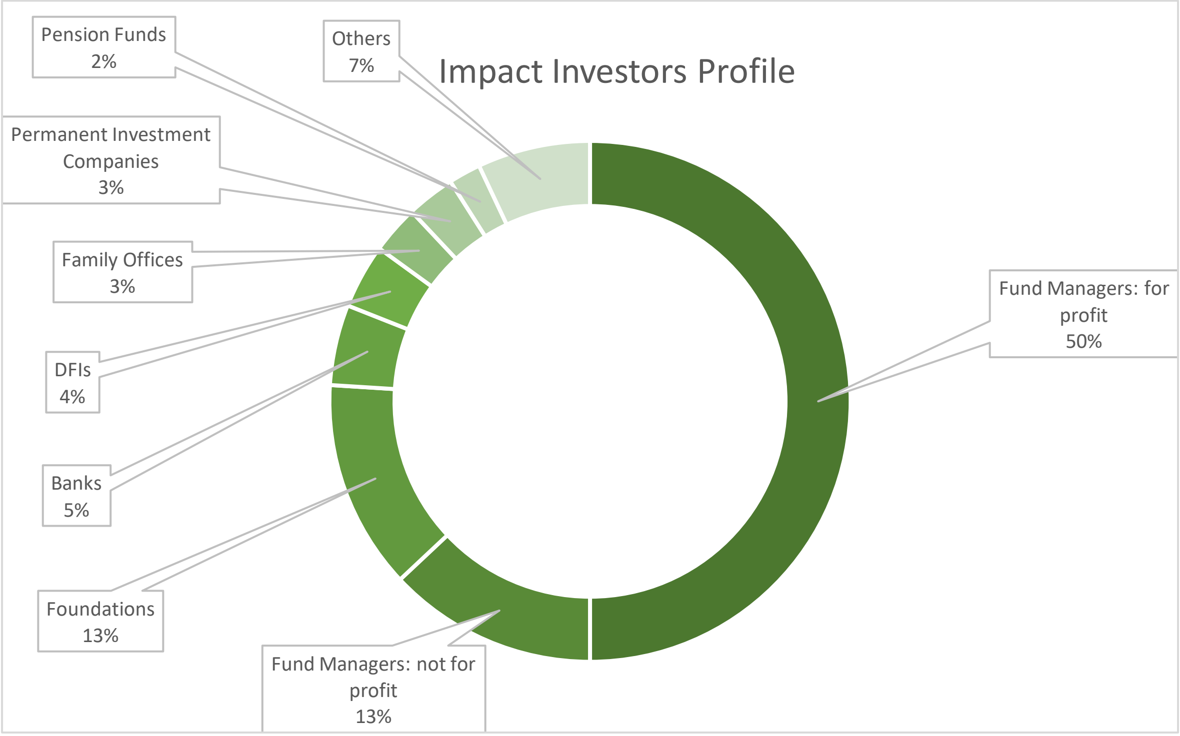
Impact investment has the potential to complement public spending and ODA, by crowding-in private sector capital and skills to reduce African economies' susceptibility to external shocks; providing a market-based solution to address socio-economic needs, and allowing ODA inflows and public spending to focus on addressing social needs for which there is no viable market-based solution.

3.3 The Impact Investor Profile of Africa

The global impact investor profile for the World's Leading Impact Investors below depicts that most of the organizations engaging in this activity are fund managers, followed by banks and DFIs.

However, the profile of African Impact Investors varies from the global scenario- it primarily includes fund managers and asset management funds, development finance institutions and donors, private equity managers, institutional investors and foundations.

from other investors either by providing catalytic capital or through partnerships. The World Bank launched the International Finance Corporation (IFC) in 1965 in order to support and invest in private sector development particularly in developing countries. The IFC has played a pioneering role in developing Africa's infrastructure as well as facilitating future investment and impact investment on the continent.



Investor Type	Typical Financial Products	Typical Sector Focus in Africa	Average Deal Size Range ($)
Development Finance Institutions	Equity, debt, mezzanine, quasi-equity, guarantees and grants for technical assistance	Infrastructure Agriculture Energy Financial Services	$5 million – over $50 Million
Fund Managers	Grants for relatively early stage enterprises: Equity, debt, inventory Finance Equity for enterprises in the growth stage	Infrastructure projects, agriculture, telecommunication, retail, financial services Access to basic services (food, health, education, water, energy) and social/ human development	Early stage finance: less than $50,000 Venture capital & private equity $500,00 - $1million
Foundations and Private Foundations	Equity, debt, grants, quasi-equity for seed stage and market building	Access to basic services, social/ human development, and market creating initiatives (i.e. associations, accelerators, competitions, networks)	$500,000 - $5 Million
Institutional Investors	Providing co-investments through debt (banks) or investing in funds (pension and insurance funds)	Projects (i.e. agriculture, energy, water, transportation, telecommunication) and growth stage of financial services, retail and real estate	

3.3.1 Key Takeaways

- The capital of DFIs is backed by – and therefore they are accountable to – their national governments as well as commercial investors. Their investment mandates continue to tend to align with the developmental priorities of these governments as well as the risk appetites of their investors. DFIs have been instrumental in catalysing the impact investing sector in Africa, not only through direct investments made into enterprises, but also by investing in funds, and providing technical assistance and/or the funding for such assistance.

- In West Africa DFI capital accounts for at least 60 percent of capital allocated to impact investments, and in East Africa DFIs account for 50 percent of capital invested in impact funds.

- Private foundations and private investors such as family offices, high-net worth individuals and angel investors, have played a pivotal role in developing the infrastructure of the impact investment sector, and have tended to provide more patient capital as well as the initial investment necessary to crowd-in other investors.

- Institutional investors are highly regulated investors managing large amounts of capital and trade in securities. They tend to be risk-averse and largely avoid small and risky investments. As a result, they generally participate in the African impact investing sector through intermediary funds invested in Africa - both private equity and other funds making impact investments.

- Given the nascent stage of many of Africa's sustainable social enterprises, equity capital has been seen as most appropriate. Fund managers taking equity in an enterprise tend to provide business development services and/or technical assistance before and after investment due to their inherent risky nature. Recent studies of impact investment trends in Africa's sub-regions also reflect a general tendency to deploy equity rather than debt capital, and show some focus on early stage sustainable social enterprises.

- Additionally, a number of funds have started to develop hybrid and quasi-equity structures to accommodate the growth stage of sustainable social enterprises in Africa.

Understanding Africa’s Healthcare Sector and its Scope of Impact Investing

Section 4

4. Africa's Healthcare Sector and the scope of Impact Investing

Africa's development challenges, it is the field of health. Only an overhaul could move Africa closer to United Nations Sustainable Development Goal Number 3 which asserts healthy lives and promoting well-being for all. Access to decent health care is a daily struggle for the sick, due to seriously underfunded national health systems, lack of basic infrastructure to provide clean water and electricity and a serious shortage of healthcare workers. The Ebola outbreak, which ought to be a wake-up call, instead ended up exposing the continent's flawed health systems. The statistics paint a bleak picture as well.

The World Health Organization (WHO), has estimated that Africa bears a quarter of "the global burden of diseases" but has access to only 3% of health workers and less than 1% of the world's financial resources (its share of global health expenditures is less than 1%). Worse still, it manufactures only a fraction—less than 2%—of the medicines consumed on the continent. Across the continent roughly 0.3-3 beds are available per 1000 persons.

Of the 31 countries worldwide recording an under-five mortality rate of at least 100 deaths per 1,000 live births in 2009, 30 were in sub-Saharan Africa. The average life expectancy across sub-Saharan Africa is 52.5 years, compared to 69.2 worldwide. In addition, infectious diseases continue to plague lives of the low-income Africans- and it is the only continent where deaths from infectious disease still outnumber deaths from chronic disease.

In comparison to other regions of the world, sub-Saharan Africa has the lowest ratings for well-being and the lowest satisfaction with health care. The World Health Organization (WHO) estimates that approximately 47 percent of the African population has low or no access to basic health care services. In addition, more than 800 million Africans do not have adequate sanitation services and almost 300 million live without access to clean and safe water, with devastating effects on their health and quality of life.

Barely a handful of African countries have met their pledge— made to the African Union—to pump at least 15% of their national budgets into health care (Botswana, Burkina Faso, Malawi, Niger, Rwanda and Zambia). Even in these countries, universal access to decent health care is still unrealized. In countries where one can get decent public health care, it comes at a price the majority can hardly afford. In some cases, a two-tier system gives the rich access to quality care through private health insurance while the rest have to put up with overcrowded and under-funded state-run facilities where they pay out of their pocket. Every year, lack of access to basic health care, mostly caused by poor funding, contributes to millions of deaths, untold suffering and harrowing health tragedies on the continent.

The worst part is the growing brain drain in Africa- with the incentive of higher pay and modern facilities, Africa's top doctors also stream overseas in search of greener pastures. In 2013, sub-Saharan Africa had a deficit of an estimated 1.8 million health workers. Out of the estimated global health workforce shortage of 14.5 million required for Universal Health Coverage (UHC) and SDGs, the African Region has the most severe health workforce (HWF) shortage and this is estimated to reach 6.1 million by 2030. This is against the backdrop of a vision to ensure that by 2030, all communities have universal access to health workers. As at 2015, the African Region had an average of 1.30 health workers per 1000 population, far below the 4.5 per 1000 required for Sustainable Development Goals (SDGs).

A study conducted by IFC with assistance from McKinsey & Company, estimates that over the next decade, US $25-30 billion in new investment will be needed in health care assets, including hospitals, clinics, and distribution warehouses, to meet the growing health care demands in sub-Saharan Africa. Fortunately, smaller enterprises have started addressing the need and various impact investors are interested in placing capital in health-related ventures.

4.1 Impact Investment in Africa's Healthcare Sector

Universal Health Coverage in Africa is beset by significant barriers including lack of financial resources, inadequate human and physical infrastructure and limited human resource capacity. Impact investors are increasingly showing an inclination to finance access to healthcare because they see significant opportunities to support innovative, low-cost models that make healthcare more accessible and affordable while also benefitting from widening gaps between healthcare demand and supply in emerging markets.

For healthcare specifically, impact investments can target various complementary facets of the health ecosystem, including physical infrastructure, financial solutions, emergency response, and drug, vaccine and diagnostic development. Direct investments into individual companies allow for targeted opportunities while fund investments enable portfolio diversification to balance risk and return.

Impact Investments built on debt and equity models, can broaden the landscape for sustainable health impact. Development and Social Impact Bonds have been a popular impact investment vehicle for the healthcare sector. These results-based financing solutions can be expanded to directly link investment returns to program outcomes.

4.2 Social Impact Bonds and Development Impact Bonds for the Healthcare Sector

A Social Impact Bond is an innovative financing mechanism designed to raise private-sector capital to expand effective social service programs. SIBs are a way to finance pay-for-success contracts, which allow government to pay only for results. If a program funded by SIBs achieves successful outcomes, which are defined and agreed upon in advance by all parties to the contract, government repays investors their principal plus a rate of return based on the program's success. If outcomes are not achieved, on the other hand, government is not obligated to repay investors.

SIBs are one tool within the wider impact investing market. They provide an opportunity to accelerate progress on longstanding issues by scaling up effective programs to reach many more people in need than would be possible through grant or government dollars alone. For foundations that make mission- or program-related investments, this impact can be even more powerful as foundations are able to recycle their capital into other projects to support their missions.

DIBs involve four main players:
1. Investors who provide the start-up or growth capital for an intervention and bear some financial risk

2. Service providers (also referred to as implementing organizations) who use the capital to implement the intervention

3. Outcome funders (also referred to as outcome payers) who agree to repay investors their principal plus some rate of interest if the intervention reaches certain previously agreed-upon targets.

4. An independent third party, who must verify the results generated by the intervention before the outcome funder repays the investor.

An intermediary organization can also assist with the design of the DIB, the search for investors, and generally facilitate negotiations between all involved parties.

The working of a SIB/DIB is indicated below:

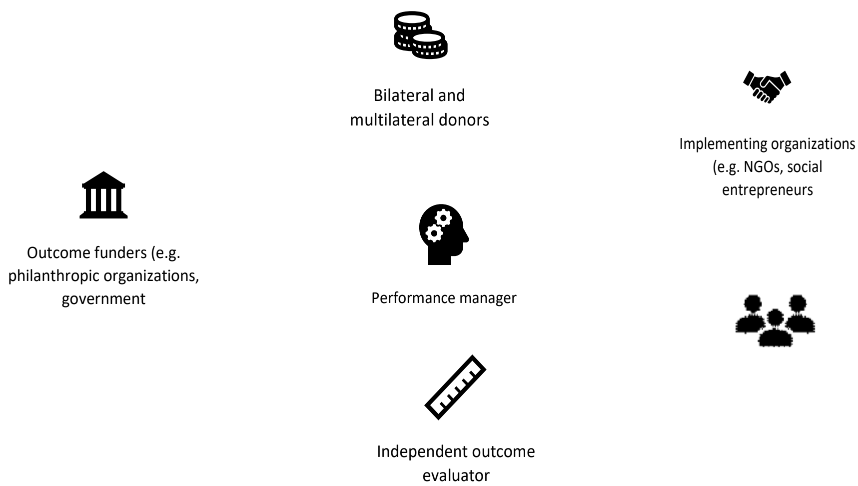
Investors commit working capital upfront to service providers with an expectation of meeting target outcomes
1

Implementing organizations deploy solutions using this working capital to target beneficiaries
2

Performance manager tracks performance, manages risks, prepares reports to facilitate decision making
3

An independent valuator assesses impact of solutions and develops an outcome report for the outcome funders
4

If targets are met, outcome funder pays investors the principal and a rate of return. If targets are not met, there is no or partial pay out
5

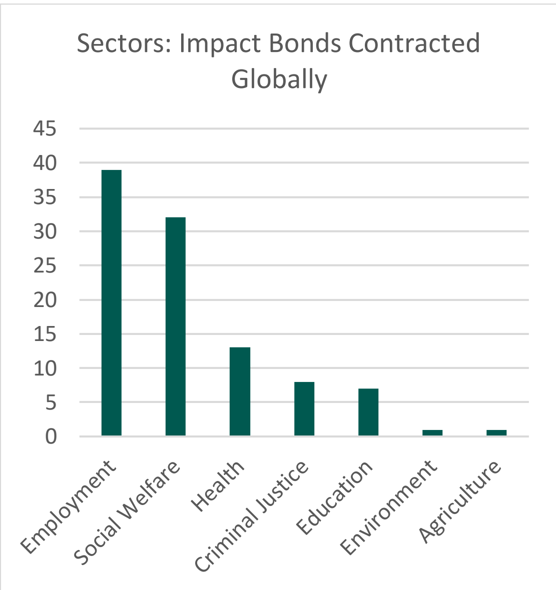


4.3 Impact Bond Statistics

There are 176 impact bonds that have been contracted globally till date of which around 28 (contracted or in design phase) have been in the healthcare sector (including the treatment of cataracts, nutritional education for prediabetic women, and improved maternity care). The average contract length for these Health Impact Bonds has been 54 months and the sum of upfront capital has been $24 million.

While many Impact Bonds contracted so far have been in the developed countries, in the developing world, there are roughly 11 DIBs and 6 SIBs-health, education and employment being the leading sectors. Statistics show that South Africa has the greatest number of impact bonds in design.

The bar graph below depicts Impact Bonds contracted by Sector globally as of 2017. The focus areas for these impact bonds has been on preventive care and reducing indirect cost of illnesses.



4.4 Mindset While Entering into an Impact Bond

While the basic structure of impact bonds in developing countries has tended to follow the same patterns observed in high-income countries, a key difference is the greater need for a risk management element. Implementing impact bonds in low- and middle-income countries involves the development of contextual understanding about the needs of outcome payers and investors in a riskier environment than the one faced by the parties in high-income countries. For SIBs in high-income countries, one of the driving forces has been the idea that the payment by government is drawn from the future cost savings provided by successful preventive interventions. In developing contexts—and particularly in DIBs, in which the outcome payer is not the government—quantifying the value of interventions to each organization is much more complicated, and in these cases future savings are less likely to be a driving force.

4.5 Proposed segments for Impact Investment in Africa

1. Preventive care for infectious diseases such as Malaria and HIV-AIDS
2. Maternal and Child Care
3. Health Insurance

In sub-Saharan Africa, infectious diseases such as malaria and HIV/AIDS cause 69% of deaths. Though short-term aid can be delivered, and one can try to develop innovative vaccines or treatments for these diseases, the real issue is the danger of a weak healthcare system.

It is believed that public–private collaboration would expand the risk-pooling arrangements. In recent years, there have been several instances of such public-private partnerships in these segments which have turned out to be a huge success. Analyzing their deal models, the agreement terms and the impact generated can help investors and the general population understand the massive role they can play in eradicating these diseases.

4.5.1 Malaria

Africa is finally making progress in the fight against malaria, the leading cause of deaths in the region. Much progress in the malaria fight has been the result of global partnerships and funding schemes established in 2000. A distinguished partnership is the Roll Back Malaria (RBM) initiative, which was set up by WHO, the United Nations Children's Fund (UNICEF), the UN Development Programme (UNDP) and the World Bank. Under the RBM, over 500 development groups, private- and public-sector organizations and research and academic institutions have pooled their resources and expertise to fight the disease.

Between 2000 and 2015, malaria mortality rates in Africa fell by 66% among all age groups. Among children under five, who are the most vulnerable to the disease, fatalities fell by 71%, from 694,000 to 292,000 deaths, during the same period. Yet despite recent progress the fight is far from over for Africa, the epicentre of this disease. In the previous years, approximately 88% of the 214 million cases and 90% of the 438,000 malaria deaths reported worldwide occurred in the WHO African region which includes Algeria but excludes Sudan and Somalia. African children account for over 80 percent of malaria victims.

Africa's key challenge is thus confronting what still needs to be done for which Governments would need to concentrate on providing access to basic health care and medication, training more community health workers and extending medical insurance coverage- all through creative and robust partnerships with the private

sector and opening the sector up to receive large chunks of impact linked finance.

Refer to Appendix 1 to further understand the impact linked finance deals that have been entered into and executed to make a headway in alleviating this deadly disease Malaria.

4.5.2 HIV-AIDS

HIV continues to be a major global public health issue. The vast majority of people living with HIV are located in low- and middle- income countries, with an estimated 68% living in Sub-Saharan Africa. New HIV infections declined by 14% between 2010 and 2015 in Eastern and Southern Africa, the world's most affected region, and by 8% in West and Central Africa.

However, despite Africa's success in combating HIV/AIDS, challenges remain that require a sustainable response. The progress has not been evenly shared among those affected by HIV. In July 2016, UNICEF announced that AIDS is still the number one cause of death for those aged

10–19 in Africa. With roughly 1.1 million people newly affected by HIV in 2018 and 4,70,000 who have died from AIDS related illnesses in 2018, much work remains to lay the foundation to end the AIDS epidemic.

In Kenya, the prevalence of HIV among women 15–24 years old (3.6%) is twice that for men of the same age (1.8%). To strengthen the response for girls and young women, the new Prevention Revolution Roadmap in Kenya integrates the twin goals of scaling up structural programs on microfinance with gender-based violence reduction programs and cash-transfer programs which reduce girls' vulnerability, keep them in school and reduce the number of new HIV infections. Impact linked finance models can play a major role here.

Up till now, a limited number of innovative financing instruments have contributed a very modest share of funding toward domestic HIV/AIDS programs. However, private investments provide an important vehicle to deliver strategic, rights-based, sustainable responses to HIV through:

1. New opportunities to explore options for innovative funding and service delivery
2. Identifying specific steps to enhance inclusiveness for key populations
3. Using available evidence to understand better the health and economic benefits of timely, rights-based, smart HIV investments
4. Eliminating inefficiency in HIV programs

South African National Aids Council (SANAC) is leading the design of an HIV Prevention and Treatment SIB that would seek to improve uptake and adherence rates of antiretroviral treatment (ART) and preventive measures among sex worker populations in Gauteng Province. Supportive of the initiative, the Global Fund has allocated $3 million in Catalytic Funding to support the SIB's launch. The target number of beneficiaries are 4000-6000.

4.5.3 Health Insurance

In the few African countries where national medical insurance schemes exist, they serve only a minority (WHO). In Ghana, only a third of the population receives medical insurance under the country's National Health Insurance Scheme. Nigeria's national scheme covers less than 3% of its citizens. South Africa spends more on voluntary private health insurance as a share of total health expenditure (42%) than any other country in the world. Yet this scheme covers only 16% of the population. The country, which has unequal access to health care among different socioeconomic groups, has started rolling out a single National Health Insurance System that will provide free healthcare to all South Africans.

Refer to Appendix 2 to further understand the impact linked finance deals that have been entered into and executed and private intervention undertaken to make a headway in providing health insurance to the masses.

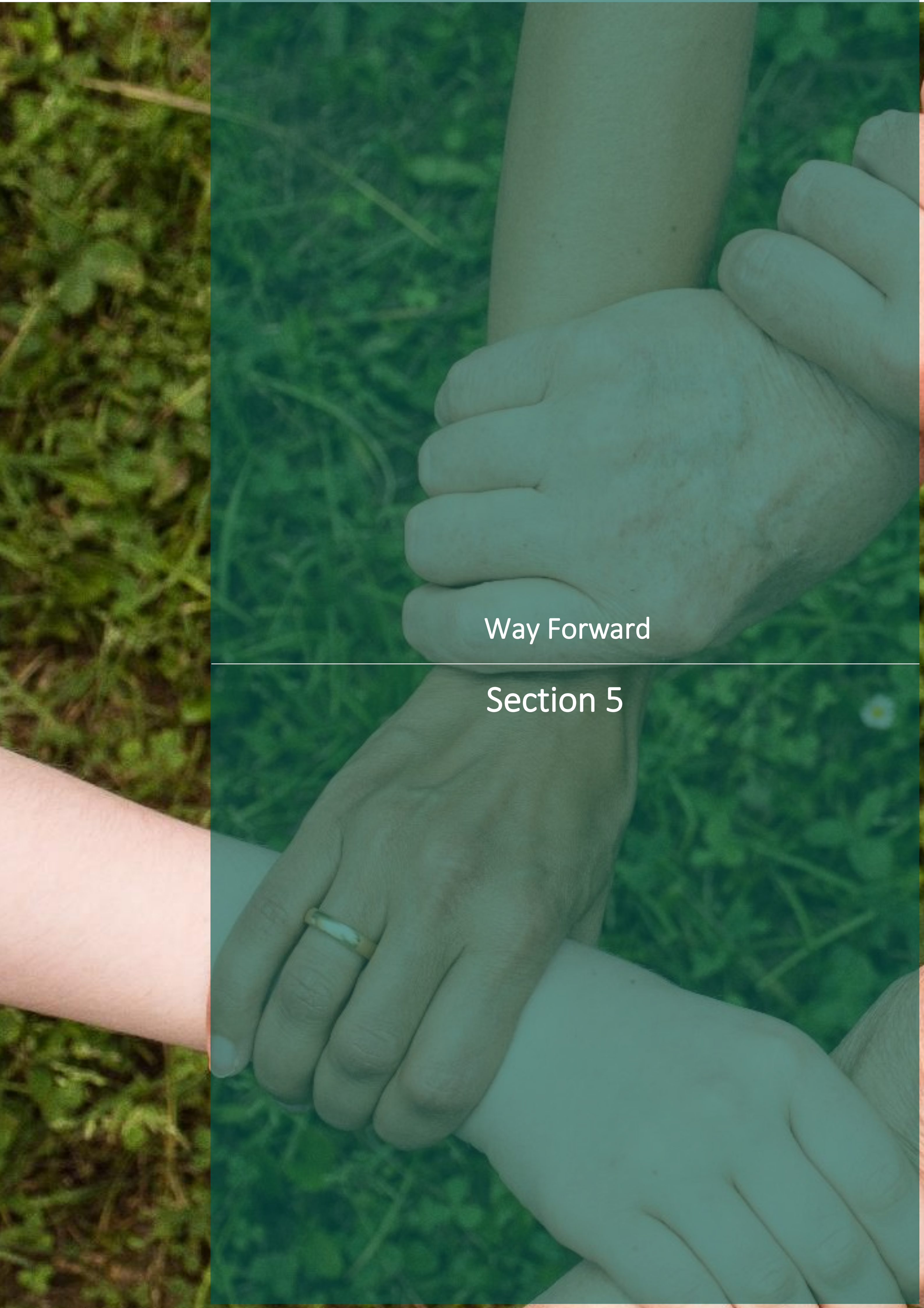
4.5.4 Maternal and Child Healthcare

Sub-Saharan Africa has experienced the highest neonatal mortality rate in 2018 at 28 deaths per 1,000 live births, followed by Central and Southern Asia with 25 deaths per 1,000 live births. A child born in sub-

Saharan Africa or in Southern Asia is 10 times more likely to die in the first month than a child born in a high-income country.

A Development Impact Bond has been recently launched in Cameroon to fund a health practice that will save and improve hundreds of newborn lives in Cameroon.

Refer to Appendix 3 to understand the objectives of entering into this bond, the parties involved and the impact it aims to generate.



Way Forward

Section 5

5. Way Forward

While traditionally, investors believed that the financial returns on high social-impact projects were most likely to be unrewarding, impact investors globally have proven that it is possible to invest in positive socio-economic and environmental impact while being financially sustainable. This has further fueled the growth of impact capital disbursements across emerging economies.

Impact investment as a practice remains nascent in Africa but has the potential to significantly contribute to the continent's economic growth and development objectives. Instead of focusing on governments as the major financiers and providers of healthcare, the priority should be to encourage private-sector initiatives whose goal is "to provide affordable access to high quality health care for low-income households.".

5.1 General Recommendations

1. Bolster Education and Training
Education and training of professionals in finance and business is necessary to increase awareness of impact investing, maintain the integrity of practice, and drive talented human capital into the industry. There has to be tangible proof that impact-linked finance is working successfully and generating the envisioned results. Impact-linked finance needs to find an academic home that can drive independent research, contribute to building the field and creating an evidence base and involve further stake-holders. It can also drive educational programs to disseminate knowledge and build skills for its application.

2. Convening of a public private dialogue platform
This would enable in securing the commitment of African policymakers and investors to advance the impact investment sector in Africa. This PPD should also consider the current scope and best practice of impact investment, and discuss the parameters of a comprehensive definition for impact investment that is relevant and applicable to the African context. Regional impact investment networks can play a key role in building the industry's infrastructure and body of knowledge through facilitating the sharing of best practice and undertaking relevant research.

3. Government Intervention
African national governments are to under-take efforts to create an empowering policy and regulatory environment to facilitate the advancement of impact investment. This includes continuing to work towards improving the overall ease of doing business as well as the improved functioning of financial markets. Governments are also to provide evidence-based incentives and benefits to encourage impact investment into key areas, as well as to support the growth of sustainable social enterprises and inclusive businesses.

4. Developing a robust sector-specific approach
A focused, sector-specific approach holds huge potential to drive down transaction costs and create robust synergies.

Outcome funds should be developed and started where donors (and potentially investors) pool their resources and target predefined impact objectives along the SDGs. These strategic outcome funds can enable demand for impact-linked finance and stimulate a market for impact. Over time, development of powerful impact-linked finance solutions will involve creating a family of impact-linked finance instruments, covering all kinds of financial solutions (debt-based, equity-based, or mezzanine).

5. Expand Impact Investment Products
The accessibility of impact investments must be increased by developing products suitable for the full spectrum of investors (from retail to institutional) and to accommodate the capital needs of various types of investees (including innovative early-stage businesses operating in frontier markets). This will help translate the current, latent demand for impact investments into a higher volume of activity.

6. Establishing Standards
Till date, there are no commonly defined and agreed-upon standards and principles regarding impact-linked finance. Design principles and quality standards should be introduced in order to define the applicability of the concept; guide and simplify the implementation of impact-linked finance solutions; enable broad replication; ensure effectiveness; prevent dilution and enable the most effective use of impact-linked finance models and transactions.

7. Pursue transparency measures
The industry should identify clear and well-defined metrics for measurement. For example, it could standardize dual-performance metrics relevant to Africa at a sector level with local and global industry bodies. It could also collaborate with credible third parties such as credit rating agencies and chartered accountants to measure, audit, and report impact.

8. Focus on Capacity Building
In order to pool the latest knowledge; make best practices and practical implementation guidelines available; and engage more stakeholders, an open knowledge platform is of vital importance. This platform, hosted by a consortium of practitioners, academics, and experts should continuously serve the growing community of stakeholders in impact-linked finance. Incubation programs for capital facilitators who want to engage in structuring impact-linked finance transactions and for enterprises who want to participate in such solutions can build the capacity for an augmented application.

9. Harnessing technology to evolve over time
As impact-linked finance picks up, the role of technology will become more central over time to reducing costs and increasing transaction speed. This could include remote sensors and Internet of Things for impact data generation, data verification with blockchain, the use of machine learning for outcomes identification, and pricing. In particular, technology can help to create and enable a market and price discovery for impact.

5.2 Proposing Impact Bonds to lift Africa's Healthcare Sector

Impact bonds blend impact investing, results-based financing, and public-private partnerships. In an impact bond, private investors provide up-front capital for social services and are repaid by an outcome funder contingent on the achievement of agreed-upon results.

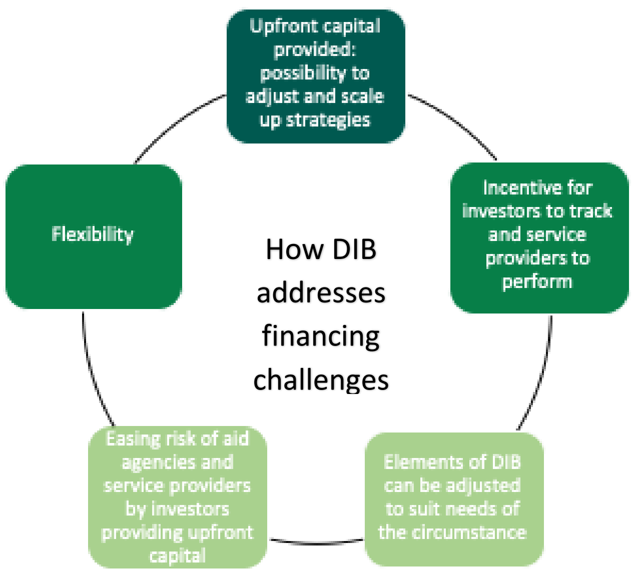
DIBs are like other financing mechanisms that tie payments to results, but they differ in a few key ways. DIBs connect multiple organizations under at least one contract, require an upfront transfer of funds to the service provider, direct payments to investors on progress toward outcomes, and do not compel the implementing organization to deliver services in any one manner.

DIBs have the potential to address a three-part coordination problem which have been responsible for the status quo in many low- and middle-income countries (LMICs):

1. The struggle organizations face to attract enough low-cost and flexible funding or capital to support the scale-up of socially valuable services, even if the delivery of such services can potentially generate a profit.

2. The hesitation of private investors to supply low-cost capital to projects that do not generate a sufficiently high financial return, even if they have substantial social value.

3. Resistance from donors and philanthropists frequently utilizing ex post, input-based funding approaches whereby they only cover incurred expenses for preapproved program inputs. Such funding approaches may limit the ability of recipients to innovate for impact, limit access to upfront financing, and fail to create mechanisms that allow public and private funding to be combined for scaled-up service provision.



DIBs tackle the three-part problem by basing payments on verified changes in outcomes, introducing private-sector approaches to the oversight of service delivery, and being flexible enough to adapt to the needs of all the involved parties.

1. Implementing organizations can adjust their service delivery execution strategy at any point if they determine another approach might work better. They have the funding to innovate and quickly implement new strategies based on their knowledge of the local context since investors in a DIB supply funding upfront. Outcome funders and investors only want to see changes in outcomes that can satisfy a third party's rigorous and independent assessment.

2. Analyzing the concept of impact bonds, it suggests that a main source of innovation in a DIB comes from the investor. The risk posed to the investor if the intervention fails is meant to incentivize the investor to guide the service provider in tracking its progress and responding to setbacks. The reputational risk to the service provider acts as another incentive; the service provider is consequently encouraged to seek out and use the investor's feedback.

3. Many elements of the DIB model can be adjusted to fit the needs of the parties involved. Impact bonds can be structured as individual transaction impact bonds or impact bond funds. In an impact bond fund, the outcome payer defines a price per outcome that it is willing to pay and then service providers bid on one or more of the outcomes. This can serve as a more cost-efficient contracting model.

4. Aid agencies may also find it politically difficult to divert funds from a remedial intervention toward a promising preventive intervention. DIBs address this issue by shifting the upfront financing requirement to the investor. The fact that the financial return on a successful intervention comes from a reputable outcome funder with a strong balance sheet, rather than the cash flows of a service provider, eases some of the risk investors take on by providing funding upfront.

5. The flexibility afforded by the DIB model also provides an opportunity to align organizations that approach the same problem differently. The process of developing a DIB would require organizations from all three sectors to outline their respective priorities and seek out areas of overlap.

Conclusion

Section 6

6. Conclusion

The trajectory of African development currently faces a substantial challenge: sustaining the impressive economic growth rates already witnessed in several countries, while adequately contending with deep challenges to social and environmental development.

With the introduction of the SDGs, the private sector has been greatly influenced to channel capital towards addressing some of the most critical social and environmental challenges that the world currently faces.

International donors and philanthropic actors have slowly begun to phase out traditional development aid approaches on the African continent and are developing innovative models for driving development through private sector partnerships – such as impact investing.

The Development Impact Bonds contracted in the health sector globally, including in Africa have had an enormous positive impact and have the power to lift up this sector. They have met the outcomes targeted at the beginning of contracting the deal and have gone a long way in proving that impact investing can be profitable as well. However, the impact linked finance and impact bonds market is at a very nascent stage currently. There is thus, an urgent need to strengthen the identity of Impact Investing, change the Paradigm that governs investment behavior and expectations, expand Impact investment products, develop tools and services, bolster education and training and enhance policy and regulation.

An appropriately designed impact investment deal, particularly impact bonds with pre-defined metrics and measurable impact standards, have had far reaching impacts in the past and have immense potential to solve some of the most pressing social challenges of today by their ability to focus on outcomes, encourage government efficiency, foster collaborations, shift funding towards prevention and amplify impact.

Impact Investing has significant potential to lift up Africa's healthcare sector, achieve its Sustainable and Millennium Development Goals and drive it towards Universal Health Coverage.

Appendix 1

1.1 Goodbye Malaria: Mozambique Malaria Performance Bond

In 2013, Nando's and partners committed to establishing the Goodbye Malaria Trust (GMT), to pilot the Mozambique Malaria Performance Bond (MMPB): a development impact bond that aims to address the funding gap for malaria interventions by increasing funding for, and the efficiency of, malaria interventions through a pay-for-performance mechanism.

An initial $25 million bond will be piloted in the Maputo Province in Mozambique, funding malaria prevention efforts that will reach 1.1 million people. As part of this commitment, Nando's and partners will establish the Bond Against Malaria Mozambique (BAMM) Operating Company, which will manage the implementation of the MMPB intervention operations on the ground.

If the malaria interventions funded by the MMPB are effective in reducing incidence rates by 30 percent or more by year three, the public-private coalition behind MMPB will repay investor principal with 5 percent interest; if the interventions are ineffective, investors are repaid 50 percent of their principal with no interest and are absolved of further commitments.

1.2 A to Z Textile Mills

A to Z Textile Mills is a joint partnership between Sumitomo Chemical, ExxonMobil, and UNICEF which had been forged to develop a long-lasting insecticide treated bed net for malaria prevention. In 2003, the trio had called on Acumen Fund to identify an African partner capable of distributing the technology.

A to Z was Acumen's prime candidate to make the nets, as it had been in operation for more than 25 years and employed more than 1,000 people. Instead of awarding A to Z a grant- the conventional form of financing in the global health field -Acumen provided a USD 325,000 three-year loan with a 6 percent annual interest rate. The initial financing contract stipulated a royalty-free technology transfer of the nets from Sumitomo Chemical, and helped A to Z purchase new, specialized bed net weaving machines. In 2005, an additional USD 675,000 of capital structured as partly debt and partly a grant was committed to test the viability of a retail market distribution strategy. Following the successful technology transfer, Sumitomo Chemical and A to Z each invested USD 7.5 million in follow-on financing to start a joint venture. By 2006, the textile firm had repaid its first loan to Acumen, and it is on schedule to repay its second. Acumen was the only partner willing to risk the initial capital to prove the company's capacity to produce the nets. In 2013, A to Z was producing 30 million nets a year, selling them to international aid agencies and its staff of 7,000, who are mostly women, has made the company one of the largest employers in Tanzania.

1.3 Living Foods

Living Goods (East Africa) was established in 2007 to sell essential healthcare

products through a door-to-door operating approach. Today there are more than 1,000 Living Goods community health promoters working in Uganda and Kenya through a micro-franchise model.
It initially received grant capital from foundations, which was followed by investment capital from investors including the Omidyar Network, and the company reached break-even in 2011.

The trained health promoters go door-to-door in rural neighborhoods selling malaria medicine, fortified cereals, vitamins and soap and larger items such as stoves, solar lanterns and bed nets. Living Goods sets it prices 20 to 40 percent below local retailers in an effort to better service its target clientele. According to Living Goods, its agents treated 62,000 children, supported 25,000 pregnancies, sold 37,000 units of vitamin-fortified foods and distributed 30,000 clean stoves to clients in 2012.

In addition to the social impact, product sales generate sustainable income for the healthcare promoters, helping overcome the high turnover that has plagued volunteer community health worker initiatives while also fostering the development of modern healthcare.

Appendix 2

The PharmAccess Foundation-Mobile Health Insurance

In 2000, the PharmAccess Foundation (based in Amsterdam) was founded to make HIV/AIDS treatment accessible in Africa through public and private partnerships with multinational companies operating in the region. The group, through private companies, runs small but fast-growing medical insurance schemes for the poor in several African countries. It is active in Ghana, Kenya, Namibia, Nigeria and Tanzania, where it offers health insurance through private public partnerships.

The scheme is rapidly gaining popularity with both health care beneficiaries and providers. In 2013, PharmAccess launched the mHealth mobile health wallet which runs on a mobile phone and is used solely to pay for health expenses. The project scored a 90% success rate when the women responded positively to a preliminary survey, with more than three-quarters expressing willingness to save their own money for health in the wallet. Success with partnerships, two years later, PharmAccess partnered with Safaricom, Kenya's largest mobile telecom, and M-Pesa, a mobile money transfer service, to launch a mobile health wallet called M-Tiba (m stands for "mobile" and tiba means "medical treatment" in Swahili).

M-Tiba allows users to save money in their mobile phones to pay for medical services at designated medical facilities. So far M-Tiba has over 100,000 registered users with access to 120 health care providers in Nairobi and some areas outside the city. It is an innovative event driven towards the attainment of universal health coverage and offers several other advantages such as giving donors access to the poor at virtually no cost to provide health entitlements and giving health care providers access to real-time digital payments with medical and financial data collection.

Appendix 3

Cameroon Kangaroo Mother Care DIB

Every year, 20,000 newborn babies die in Cameroon primarily due to Low birth weight (LBW) and prematurity. Kangaroo Mother Care is a proven and globally recommended health practice for babies born early or small, which involves holding the baby skin-to-skin on the mother's or other caregiver's chest, ideally feeding them only breastmilk, minimizing time in hospital and having close follow-up of the mother and baby once they return home. KMC offers even greater protection against newborn mortality than traditional incubator care.

This USD 2.8 million DIB is the first DIB globally to focus on newborns, the first DIB to focus on maternal and child health in Africa, and whose design has been led by the government of Cameroon. With the financial support of the Government of Canada, Grand Challenges Canada will provide USD 800,000 dollars in upfront funding to upgrade health facilities and train health practitioners.

The Fondation Kangourou Cameroun will use the capital to build critical infrastructure, purchase specialized equipment, and provide professional KMC training for staff and ongoing support in health facilities across Cameroon.

As outcomes are achieved – notably an increase in access to quality KMC and the resulting improvements in weight gain for LBW or premature newborns – the Government of Cameroon via the Ministry of Public Health, with the support of the Global Financing Facility (USD 2 million), and Nutrition International (USD 800,000) as outcomes funders will pay Grand Challenges Canada for each unit of outcomes achieved.

Emerald Group
08-129 WeWork, 8th floor, The Offices 4,
One Central Dubai World Trade Center, Dubai, UAE
+971 58 628 9889
https://www.emerald-mg.com