IMPACT INVESTING AND HEALTHCARE FINANCING IN AFRICA

Flying Doctors
HEALTHCARE INVESTMENT COMPANY

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CONTENTS

Impact Investing And Healthcare Financing In Africa

SECTION 1 Understanding the healthcare gap in Africa

1.1. What's the current state of healthcare in Africa?

Africa is home to 16% of the global population and growing quickly. A quarter of the 10 billion people living by 2025 will be in Africa.[1]

Many African countries struggle to provide adequate healthcare cover for their citizens. Africa bears 26% of the global disease burden, but accounts for just 2% of global health expenditure. Per capita, the rest of the world spends 10 times as much on healthcare.[2]

Although health outcomes have improved this century, more rapid progress is required. For example, Africa still has some of the highest maternal and infant mortality rates, and her citizens are expected to live for ten years fewer than their global contemporaries. Progress is stifled by barriers that hinder health systems from operating or scaling efficiently. From supply chains, healthcare delivery and medical education, there is limited capacity across the health value chain. Beneath all of these, African countries face severe financing constraints that transcend healthcare.

Africa is the poorest continent in the world and this poverty affects the health ecosystem. For instance, poor households cannot access clean water or proper sanitation, so 40% of the 800 million people without access to clean water live in Sub-Saharan Africa (Global Citizen). Inadequate sanitation contributes to poor health through the increased prevalence of waterborne diseases. Likewise, routine immunisations in developed countries are rarely performed in rural parts of Africa in the absence of reliable electricity or cold storage infrastructure. In the absence of this infrastructure, the World Health Organisation (WHO) estimates that 30 million African children suffer from vaccine-preventable diseases and African children under 5 account for three in five of all global deaths from vaccine-preventable diseases.[3]

Poverty and financing constraints prevent African countries from plugging these healthcare gaps, estimated at $66 billion a year.[4]

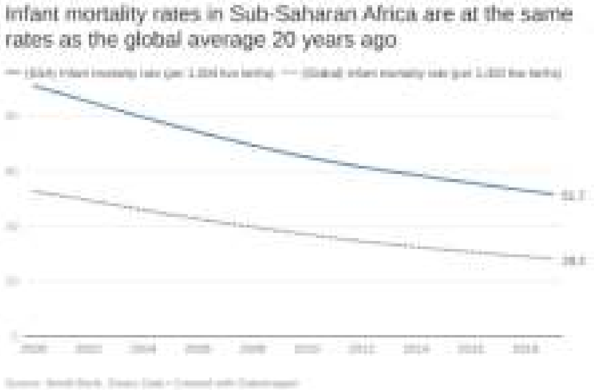
[Figure 1a, b & c: Life expectancy, maternal mortality rates, and infant mortality rates in Sub-Saharan Africa compared to global averages]

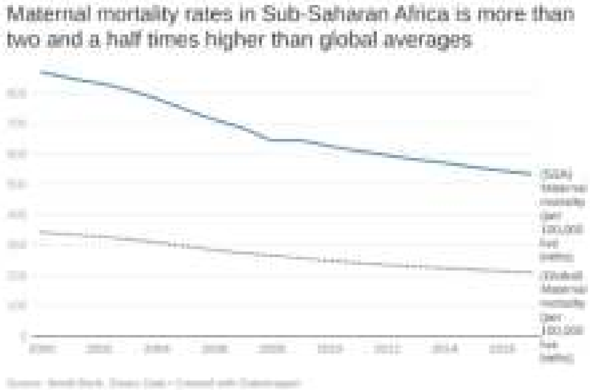
[1]"Africa's population will double by 2050", The Economist, 2020. See: Demography Africa's population will double by 2050

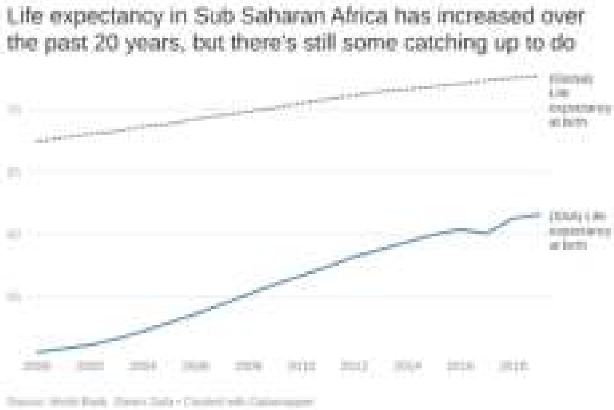
[2]"Closing Africa's health financing gap", Brookings, 2019. See: Brookings Blog: Closing Africa's health financing gap

[3]The World Health Organisation statistics on immunisations. See: Immunization

[4]"Healthcare and Economic Growth in Africa", United Nations Economic Commission for Africa (UNECA), 2019. See: Healthcare and economic growth in Africa







1.2. Why does healthcare look this way?

This poverty and funding problem manifests on both the demand and supply side of the healthcare ecosystem.

Demand refers to the need for health interventions and is driven by population demographics & density, living standards, etc. that determine the spread and impact of diseases. Supply refers to healthcare delivery, primarily the skills and resources needed to provide adequate healthcare.

Although supply challenges receive more attention, the demand issues are more complex. Most supply challenges can be resolved through increased long-term funding. Saudi Arabia is a case in point: they have addressed healthcare labour shortages by hiring overseas workers. Currently, about 80% of their medical personnel are foreign.[5]

Demand issues require more systemic economic interventions.

The first issue here is the high rate of population growth and urbanisation. Africa has experienced between 2.4% to 2.6% annual population growth since 1990—this is projected to rise to 2.9% up to 2050—and rapid urbanisation.[6]

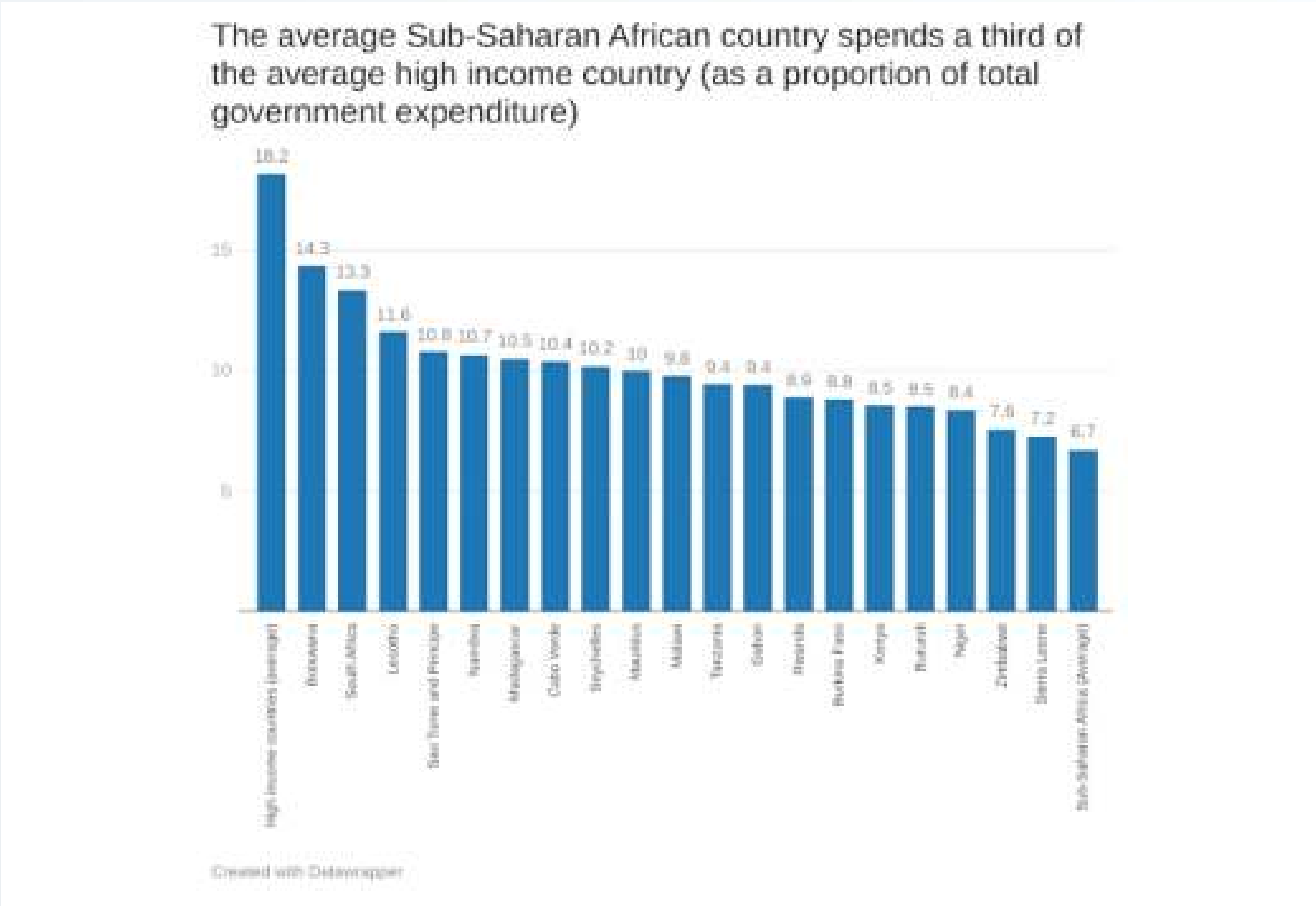
[5] Global Health Workforce Statistics, World Health Organization. See: WHO | What is the WHO doing about health worker migration?

[6] World Bank data. See: Population growth (annual %) - Nigeria | Data

Rapid population growth and urbanisation must be accompanied by corresponding increases in health spending for health outcomes to be maintained. However, neither GDP, living standards nor public spending on health have grown as consistently as the population.

As part of an Africa Union (AU) agreement, African governments pledged to allocate 15% of their annual budgets to health. 20 years on, however, only a few countries have reached that target (Figure 1),[7] with annual public expenditure on health averaging 10% (UNECA). This is not likely to change, given competing needs for scarce public resources. For example, African governments spend five times as much on debt servicing than on healthcare. This makes it extremely difficult to increase allocations to healthcare, without increases in wealth. It would mean that the money has to be taken from other areas, and as many areas in the public remit are underfunded, this would further cripple them.

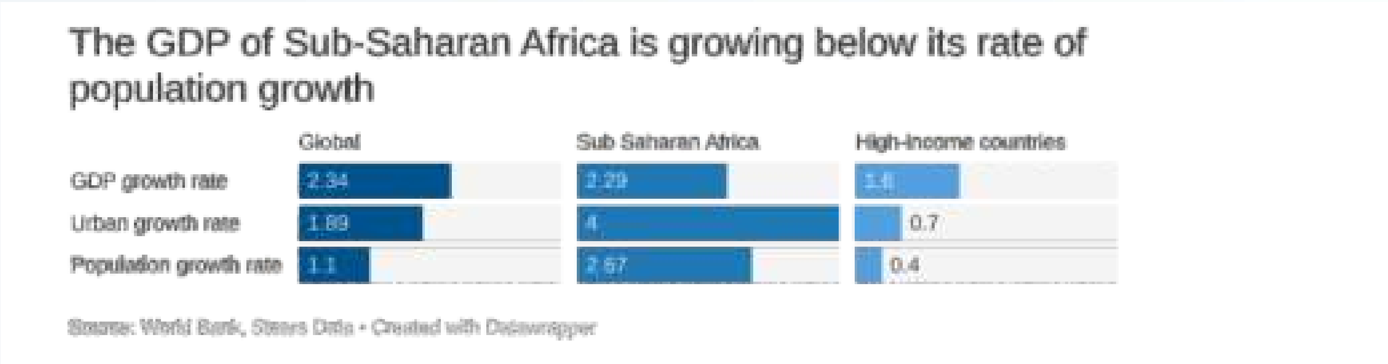
[Figure 2: Government health expenditure across Sub-Saharan Africa countries]



[7] World Bank data. See: Domestic general government health expenditure (% of current health expenditure) | Data

Meanwhile, rapid urbanisation without corresponding wealth creation has its pitfalls as it often results in a large share of the population living in slums or similar dense settlements with inadequate infrastructure for sanitation, water, and similar services. Rapid urbanisation increases pressure on already fragile health systems, through the increased spread of communicable diseases. For example, evidence from Kenya shows that children in urban slums have worse health outcomes than those living in rural areas.[8]

[Figure 3: GDP growth rates, population growth rates, and urbanisation rates in Sub-Saharan African compared to global averages]



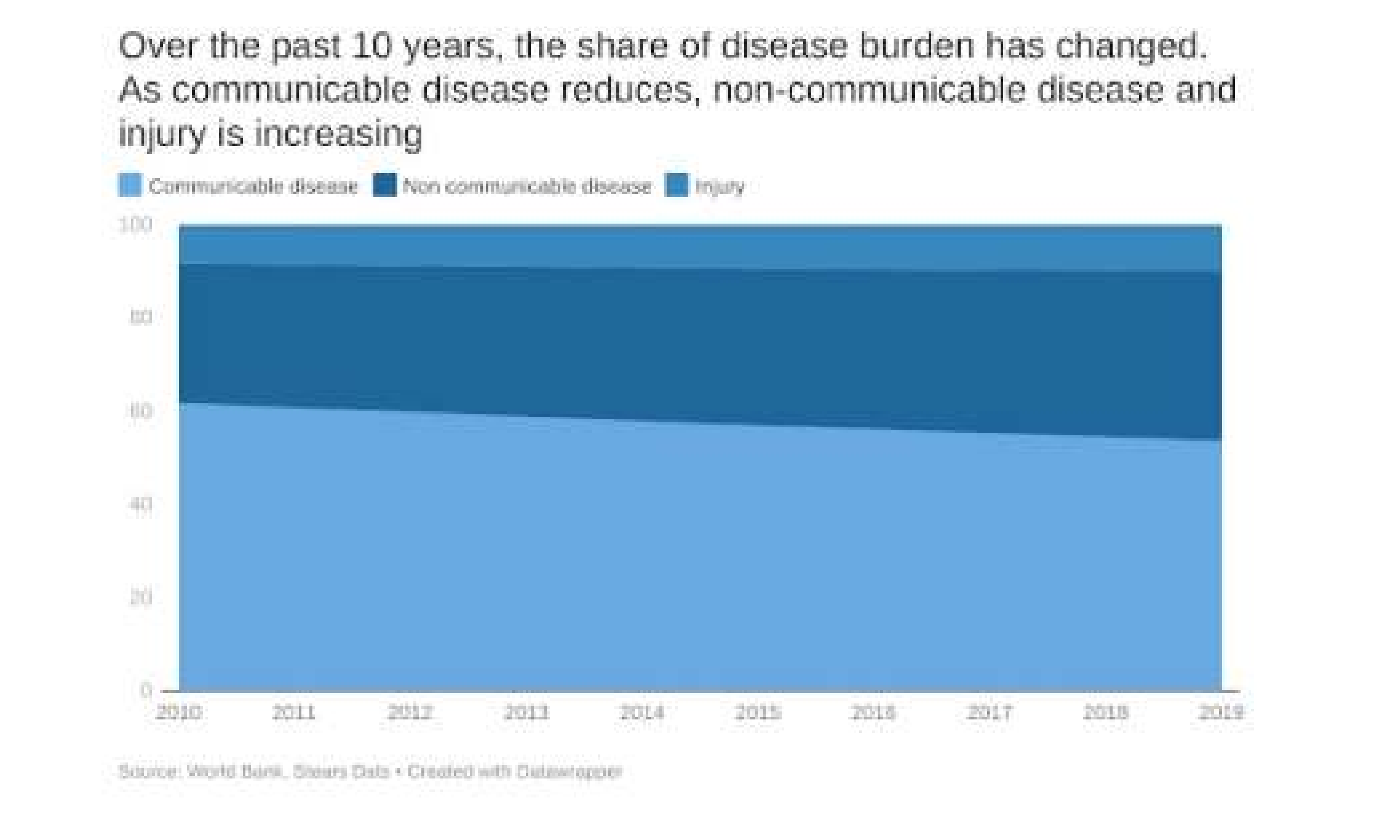
A separate, but related problem facing African health systems, is that Africa faces a 'triple burden of disease'.[9] What this means is that whilst communicable disease rates are still high, there is a growing presence of non-communicable diseases that stem from poor urban planning, unhealthy diets, and sedentary lifestyles, such as cancer, heart diseases, and so on. The third leg is disease arising from trauma and violence, driven again by rapid urbanisation and industrialisation without a corresponding development in infrastructure, regulation, or living standards. According to the WHO, 85% of all deaths from road traffic incidents are in low-middle income countries, even though they only have 47% of registered vehicles globally.[10] As Africa is still trying to solve one health challenge, others are emerging.

[Figure 4: Breakdown of disease burden in Sub-Saharan Africa]

[8] Global "Health and health-related indicators in slum, rural, and urban communities: a comparative analysis", Mberu et. al., 2016. See: Health and health-related indicators in slum, rural, and urban communities: a comparative analysis

[9] "The triple burden of disease", Think Asia, 2017. See: Economic Issue

[10] WHO data. See: The burden of road traffic crashes, injuries and deaths in Africa: a systematic review and meta-analysis



Meanwhile, healthcare supply gaps stem primarily from underfunding. There are not enough health professionals available to serve the African population, with health worker density among the lowest in the world. Twelve countries have less than 5 skilled health workers (including nurses and community health workers) per 10,000 people, compared to a global average of 53 per 10,000.[11]

Even when there are enough health workers, they are unevenly distributed across the country, with a notable 'urban bias'. Rural and remote areas do not have enough health workers, with shortages twice as high as in urban areas. In fact, in countries such as Cote D'Ivoire, Mali, and Togo, over 90% of their physicians are located in urban areas.

When health workers are not migrating to cities, they are leaving the country. In Nigeria, for instance, there are over 72,000 doctors registered with the Medical and Dental Council, however, only 35,000 of these doctors practice in Nigeria. The rest have migrated in search of better working conditions and wages. As there is not enough funding to support the health sector, there is not enough money for salaries, and doctors can sometimes go months without pay—at the height of the covid-19 pandemic, health workers in Nigeria only received ₦5,000 ($14) hazard pay.[12]

[11] World Health Organisation data. See: GHO | By category | Skilled health personnel - Data by WHO Region

[12] "Nigeria, COVID-19 and the dearth of health workers", Journal of Global Health, 2020. See: Nigeria, COVID-19 and the dearth of health workers

88% of Nigerian doctors surveyed disclosed that they were actively seeking opportunities abroad and a quarter mentioned that increased funding in the sector is a direct solution to help curb the emigration of doctors.[13] Consequently, Nigeria has less than 20 health professionals per 10,000 people, yet the rate of Nigerian doctors emigrating to OECD nations doubled between 2000 to 2010.[14] As developed countries are realising just how critical health workers are and making it easier for them to work in their countries, African countries are in stasis, resulting in a 'brain drain'.

Prioritising an increase in funding to the health sector is critical. Studies have shown that aside from the improvements in health outcomes, there are links between economic growth and health. An increase in life expectancy by one extra year has been estimated to raise a country's GDP by 4%.[15]

1.3. How much is needed?

Health spending in Africa is completely inadequate. Beyond struggles to pay health workers, the continent suffers from infrastructure deficits (9 hospital beds per 10,000 people vs. a global average of 27)[16] and limited pharmaceutical activity, with Africa manufacturing less than 2% of the medicines consumed.

African countries need $66 billion a year to plug this gap, based on estimates from the World Health Report that suggests universal health coverage requires 4-5% of GDP. Taking 5% as the target for African nations, the required annual spend on healthcare would be $114 billion. Of this, approximately $46 billion is spent by African countries and a further $2 billion is provided by aid organisations.

Universal health coverage means that all individuals can receive the health services they require without suffering financial hardship. Using this means that $66 billion is likely to be an underestimate as there are still significant infrastructure and technology deficits that need to be addressed at the same time. However, universal health coverage is a great point to strive for, as coverage necessitates the availability of adequate health infrastructure, and is one of the Sustainable Development Goals (SDGs) set by the United Nations.

[13] "Emigration of Nigerian Medical Doctors: Survey Report", NOI Polls, 2018. See: Emigration of Nigerian Medical Doctors
[14] World Health Organisation, High Level Commission on Health Employment and Economic Growth. See: International migration of doctors and nurses to OECD countries: recent trends and policy implications
[15] Investing in Health for Africa, World Health Organisation. See: Investing in Health for Africa
[16] Healthcare in Africa Report, Knight Frank, 2020. See: Healthcare in Africa

The amount of funding needed varies across countries, so priorities will vary. For instance, Nigeria (32%) and Egypt (19%) together account for more than half of the $66 billion gap.[17]

UNECA uses seven indicators to determine the state of health stress of a particular country. These are: government health spending, out-of-pocket spending, density of skilled workers, disease burden, gross government debt, and average annual GDP growth rate.

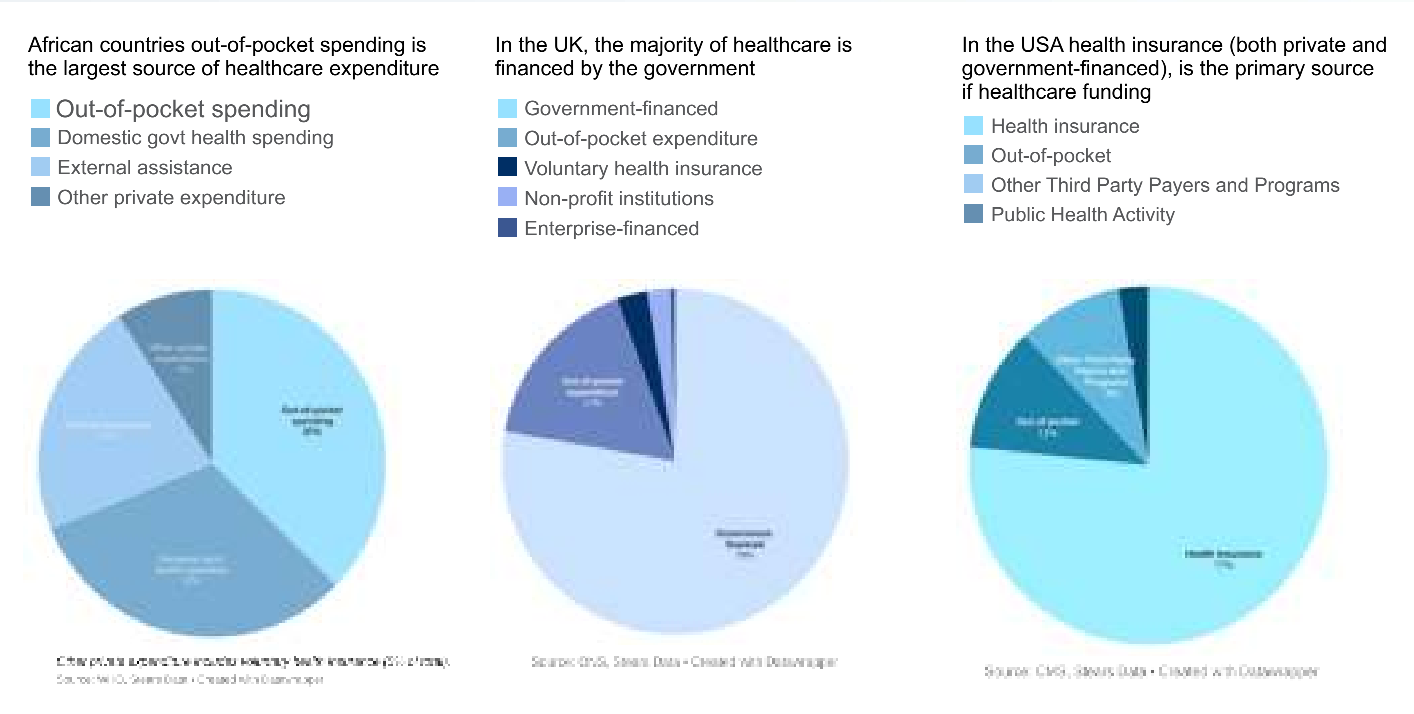
Based on these indicators, eight countries are considered severely health stressed (Angola, Chad, Mauritania, Nigeria, Sierra Leone, South Sudan, Togo and Zimbabwe), and twelve more are considered very health stressed. These twenty countries should be considered a priority, with the urgent need for immediate action.

1.4. Who provides current funding?

In general, healthcare spending is covered by four categories: public spending (government expenditure, government-financed health insurance), out-of-pocket expenditure, private health insurance, and non-profit spending (aid). It is important to understand where funding is coming from, in order to gauge which areas need more support.

In Africa, low public spending and low health insurance penetration (currently at 3% in Nigeria, for instance),[18] means that a considerably higher proportion of spending is out-of-pocket (37% compared to a global average of 22%).[19]

[Figure 5a, b & c: Breakdown of health financing in Africa and other countries]



[17] "Healthcare and Economic Growth in Africa", United Nations Economic Commission for Africa (UNECA), 2019. See: Healthcare and economic growth in Africa
[18] Healthcare in Africa Report, Knight Frank, 2020. See: Healthcare in Africa
[19] World Bank data. See: Out-of-pocket expenditure (% of current health expenditure) | Data

There are a few issues with the structure of health spending in Africa. In other economies, there is a trade-off between government expenditure and health insurance. That is, where government spending is low, health insurance penetration is higher. That is not the case in Africa, where most spending is out of pocket.

The health sector is fragmented and inefficient, so treatment costs are high. In Nigeria, the average cost of a consultation ranges between $27-110, whilst 40% of people in Nigeria earn less than $380 in a year.[20]

While facilities try to keep their costs low, they can end up doing this at the detriment of their patients. For instance, at one general hospital in Lagos, Nigeria, the neurologist only visits once a week, meaning that patients needing CT scans have to hope that they will only need one on a Friday.

Many Nigerians and Africans simply cannot afford to pay for their healthcare. There needs to be increased funding to healthcare facilities in order to increase standards of care, increase access to critical infrastructure, provide funding to medical personnel, and increase efficiencies that can help to drive down costs.

1.5. Why is health spending important?

African governments spend little on healthcare compared to their developed-nation counterparts on healthcare. On average, sub-Saharan African nations spend about $45 per capita, whereas North America governments spend a hundred times more ($4,500), and the UK, seventy-five times more ($3,400 per capita), according to the World Bank.[21] In general, high-income countries spend around $2,000 per person on healthcare. These countries spend so much on healthcare because it is profitable to do so, as there are strong links between the citizens' and economic prosperity. Broadly speaking, strong public health systems drive productivity and spur economic growth.

Improving the capacity of Africa's healthcare systems is an opportunity to work towards a number of Sustainable Development Goals. Healthcare has impacts on well-being, education, gender equality, and economic growth—all part of the SDGs. Health affects economic growth by reducing the burden that illness has on productivity and future income. It has impacts on production losses due to worker illness and increases the productivity of workers, as well as reducing the absenteeism rates in children and helping to improve learning (WHO).[22] A healthy nation can also divert resources to other uses that may have ordinarily been used for health. Cross-country studies have found links between health and economic growth, even for specific diseases. For example, a 10% decrease in malaria is associated with a three percentage point increase in annual economic growth.[23]

The economic benefits of healthcare investment will be explored in greater detail in subsequent sections.

[20] Poverty And Inequality Report, National Bureau For Statistics (Nbs), 2019. See: 2019 Poverty And Inequality In Nigeria
[21] World Bank data. See: Domestic general government health expenditure per capita
[22] Better Health for Poorer Children, World Health Organisation. See: Better Health for Poorer Children
[23] The Business of Health in Africa Report, IFC. See: The Business of Health in Africa

1.6. Covid-19 in context: ensuring global health security

More than ever, the last 18 months have highlighted the interconnectedness of global health and economic systems. Weaknesses in health systems anywhere are a threat to health and prosperity everywhere.

Covid-19 has shown us that infectious diseases know no borders, which means that it is in each country's best interest to ensure that there are robust systems around the world. The effects of the pandemic have filtered through all countries and shocked industries and economies, creating an urgent need for financing mechanisms to address pandemic preparedness. According to the Global Health Security Report published in October 2019, global health security was weak globally, and no country was determined to be prepared for an epidemic or pandemic, perhaps a forewarning.[24] Healthcare investment is desperately needed to ensure we do not need this warning again.

Another revelation is the weaknesses of global supply chains, specifically when it comes to the health value chain. A traditional focus on cost control and efficiency has created a global health ecosystem where a handful of countries are responsible for global medical supplies. China and India produce the majority of active pharmaceutical ingredients (drug components), with China alone producing 40% of the global supply.[25] They are also a major supplier of global personal protective equipment (PPE), medical devices, and antibiotics. This presents a major dependency risk, and early on in the pandemic, many countries experienced disruptions to supply partly due to border closures and especially due to a decision by the government of China to nationalise control of production, diverting all production to domestic use. While this left dependent countries such as the US with supply constraints, it has precipitated efforts to diversify global health supply chains.

[24] Global Health Security Index, John Hopkins Centre for Health Security, 2019. See: Global Health Security Index

[25] "U.S. Dependence on Pharmaceutical Products From China", Council on Foreign Relations, 2019. See: US Dependence on Pharmaceutical Products From China

SECTION 2 Assessing impact investment as a solution to shortfalls in African healthcare financing

2.1. Why is private sector investment a good solution?

As outlined in Section 1, the underlying constraint Africa faces with healthcare delivery is poverty. On the demand side, living standards and economies have not progressed fast enough to contain the spread and impact of diseases, leading to increased demand for health services that Africans are too poor to afford. On the supply side, funding shortfalls—particularly in the public sector—limit countries' ability to improve healthcare capacity.

Therefore, alternative funding avenues are required to address this. The intuitive answer will often be 'the government should increase allocations to funding the healthcare sectors', but we know from history that this is much easier said than done. Even when commitments have been made to increase healthcare funding, governments either could not or would not meet those commitments. In many emerging economies, there are competing claims to scare public finances. Healthcare is not the only sector that needs increased funding.

For example, if Africa's largest economy, Nigeria, were to commit to spending similar amounts on healthcare as developed countries, it would look something like this:

The UK spends $3,400 per capita, and the US $4,500. With a population of roughly 200 million, this would mean Nigeria would have to spend between $680-$900 billion. To put it into context, Nigeria's annual GDP is roughly $450 billion.
Even if African governments did increase healthcare funding, that money would have to be taken away from another area. Governments simply lack the resources to be able to do this. Therefore, they will struggle to bridge the gap in funding.

This is the first reason why it is imperative to increase private sector participation in healthcare financing.

The second reason is that private sector involvement can help to bring in increased standards, quality, and service offerings that would not otherwise be easily available from the public sector alone. This could be through investing in infrastructure or technology that the public sector cannot afford, or by providing services that the public sector does not have the capacity to invest in. By providing these services, equipment, and skills, private sector investment can help to raise the standards and quality of care within the health sector. For example, in 18 Sub-Saharan African countries, respondents to a survey remarked that they were more satisfied with skills, equipment and drug supplies of private hospitals.[26]

[26] The Business of Health in Africa Report, IFC. See: The Business of Health in Africa

2.2. The economic impact of private sector Investment

Health systems contribute to economic prosperity, directly and indirectly. Directly as an industry in its own right, encouraging investment, providing growth, and exporting medical goods and services. Indirectly due to the effects health systems have on national health, such as higher labour productivity, life expectancy, and educational participation, along with the economic benefits these provide.

Improving the business and investment landscape

Healthcare investment represents a significant business opportunity. When done right, it can generate significant returns for investors, as well as substantial positive externalities from increased standards, strengthening the healthcare ecosystem, and attracting investors into other sectors of the country. It can help to solve the issue of dwindling FDI in many African nations and spur improved regulations that lead to improved ease of doing business.

According to the International Finance Corporation (IFC), the private sector already delivers about half of Africa's health products and services.[27] However, because the market is fragmented and disorganised, the opportunities generated for investors and the general public are largely untapped.

Healthcare is a significant investment opportunity that is yet to be fully explored. It is a business and in many African nations it has not been treated as such.

The Business and Sustainable Development Commission estimates that the value of opportunities for businesses addressing health-related challenges will be worth about $259 billion by 2030, with the potential to create 16 million jobs.[28] Furthermore, Africa is set to house 14% of all business opportunities in health and wellbeing, second in the world only to North America, by the year 2030.[29]

As many Africans are used to paying for below-average private healthcare, there is an opportunity to address this growing market and deliver quality healthcare. There are also many high-value opportunities that can be tapped, such as healthcare tourism. Outbound healthcare tourism from Nigeria alone is worth an estimated $1 billion. If investors were able to bring the quality healthcare standards into Nigeria that these patients seek abroad, they would be able to capture a good proportion of this market.

India is a favoured destination for Nigeria's healthcare tourists, seeing about one-fifth of the traffic. Some of the reasons Nigerians have cited when travelling there are affordable care, quality of services provided, and the infrastructure and technology available. If these existed at scale in Nigeria, investors could capture a large amount of revenue from a fast-growing sector.

[27] The Business of Health in Africa Report, IFC. See: The Business of Health in Africa
[28] "Better Business Better World: Sustainable Business Opportunities in Africa", Business and Sustainable Development Commission, 2017. See: Better Business Better World
[29] Ibid

Furthermore, one of the decisive factors for an investor apart from the growth opportunity is profitability. The good news is that healthcare investment is profitable and can offer significant returns. Studies have found that clinics targeting middle and income populations in urban centres can deliver net profits of up to 30%.[30] The growing African middle class means that there is a larger share of the population able to afford this level of treatment. Successful examples have been seen in high-end primary care centres in Lagos and Ghana (Lagoon Hospitals and Nyaho Medical Clinic, respectively).

On the other end of the spectrum, high-volume, low-cost hospitals operating a volume model—some treat 100 patients per doctor each day—can expect to see annual revenues up to $5 million, from set up costs below $3 million, according to the IFC.[31] This implies a profit margin of around 66%, lending further credence to the assertion that healthcare —regardless of the target demographic—can provide good investment returns.

Healthcare investment is a defensive investment strategy that will balance portfolios, to help protect investors against significant losses from market downturns. The healthcare sector is relatively protected, as it is a necessity. Further to this, it is a counter-cyclical sector, gaining jobs faster during a recession relative to normal periods. As well as diversification in sectors, diversification in geography is also welcome due to the current economic climate. The economic slowdowns due to covid-19 have seen interest rates plummet to near-zero in the developed world, but African markets still have double-digit interest rates, which presents an opportunity for providers of debt.

Whilst healthcare investment is financially viable, it is important that investors in the market do not just seek financial returns, given the social impact of transformed health systems. For this reason, impact investment should be considered as a key model for private investment in healthcare for Africa.

Increasing employment

Healthcare investment can drive significant job creation. As of 2019, the UK's National Health Service (NHS) was the fifth-largest employer in the world encompassing 1.5 million employees.[32] Moreover, the global demand for health workers is growing rapidly; for instance, experts anticipate an 18% growth rate in the demand for new jobs in the healthcare sector in the US.[33] And many developed countries are creating opportunities for health workers from developing nations to help fill in these gaps—further widening inequality. Investment in healthcare is a pathway out of poverty as there is a high and growing demand in these sectors. If developing nations do not take advantage of this, they will struggle to break the vicious cycle of low health leading to low productivity and low growth.

[30] The Business of Health in Africa Report, IFC. See: The Business of Health in Africa
[31] Ibid
[32] "Who is the world's biggest employer?", World Economic Forum, 2015. See: Who is the world's biggest employer? The answer might not be what you expect.
[33] "Health Care Jobs Projected To Continue To Grow Far Faster Than Jobs In The General Economy", Health Affairs, 2018. See: Health Care Jobs Projected To Continue To Grow Far Faster Than Jobs In The General Economy

Of course, another lens to look at the health sector is through financial inclusion. An employer of that size is a huge enabler to financial inclusion. One of the reasons that people cite for not owning bank accounts is irregular income and unemployment. According to EfInA, Nigeria's leading government initiative advocacy for financial inclusion, those reasons represented 35% and 20% of the unbanked population, respectively. Increasing employment opportunities through the health sector will help to drive financial inclusion, which further drives positive externalities through increases in consumption, savings, and investments.

Increasing productivity

Ultimately, healthcare is a social and merit good. All human beings deserve access to adequate health services, and this benefits society as a whole. The World Health Organisation asserts that improvements in healthcare access lead to improvements in education, as children are less likely to miss school, and improvements to worker productivity.[35]

These generate positive externalities for businesses operating in the country. For instance, if a firm such as Nestle operated in Nigeria and had workers missing due to regular and treatable illnesses, where these workers are able to access affordable, quality medical care, these instances are likely to reduce and increase Nestle's productive output.

Employment in the health sector is also a way of upholding gender equity. Seeing as healthcare is a powerful tool for employment and a major growth area, it can also be one that is used in order to address gender equality. A WHO analysis of 104 countries found that 7 out of 10 workers in the health and social sectors are women (particularly in nursing and midwifery roles), contributing over $3 trillion annually in value to global health.[36] The participation of women in the global health workforce is extremely valuable, and ensuring that this is replicated in African countries would contribute to SDGs related to gender equality and economic growth.

Developed nations prioritise healthcare participation because they understand how fundamental thriving public health systems are for the economy and society.

However, the past year has highlighted that countries need to look beyond their domestic health systems and at the global health ecosystem, which is only as strong as its weakest links.

[34] EFInA Access to Financial Services in Nigeria 2018 Survey, Enhancing Financial Innovation and Access. See: EFInA Access to Financial Services in Nigeria 2018 Survey

[35] Investing in Health for Africa, World Health Organisation. See: Investing in Health for Africa

[36] Gender Equity in the Health Workforce, World Health Organisation. See: Gender equity in the health workforce: Analysis of 104 countries

2.3. What is impact investment?

According to the Global Impact Investment Network (GIIN), impact investing is defined as 'investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return', with three characteristics that define impact investors:

- The expectation of a positive financial return over the life of the investment.
- Stated intentionality of creating a social or environmental impact.
- Commitment to measure and track the impact.

This means that investors cannot just decide to invest in healthcare and call it 'impact investment', they need to have a demonstrable commitment to said impact.

A simple example of impact investment can be found in India, a country with similar demographics and healthcare needs as many in Africa. Established in 2001, and now with a fund size of $34m, the Acumen Fund was seeded by the Rockerfeller Foundation, Cisco Systems Foundation, and individual philanthropists. The Fund invests in businesses that directly serve the poor, have economically sustainable business models and have significant innovation elements. For example, Acumen invested equity into Ziqizta healthcare to help them grow their services and fleet of ambulances, with their investment totalling $1.5 million.[37] They aimed to address a lack of reliable ambulance or emergency medical service response.

The Fund has led to a higher number of available ambulances, and developed training programs to train emergency care doctors. The investment horizon is 5 to 10 years with an option to allow investors to seek an exit around 5 years, while the portfolio has a gross return potential of 10-15%.

2.4. Of all the investment options, why impact investment?

Impact investment seeks to create social good while making a profit, so this type of investment will not seek profit at the detriment of society. It sits between philanthropy and traditional commercial investment on the spectrum between aid and pure commercial investments.

While aid and pure commercial investments can also be deployed to bridge the health funding gap, impact investment has unique advantages over both.

Aid or philanthropy does not seek any return of capital, so there is less scrutiny over how funds are used—less emphasis is placed on innovative or efficient use. Traditional commercial investment, on the other hand, lacks the appreciation of the social angle of health investments, and, while it may generate positive returns, countries would miss out on other social and economic benefits.

Hence, impact investing is a perfect fit for the African health ecosystem.

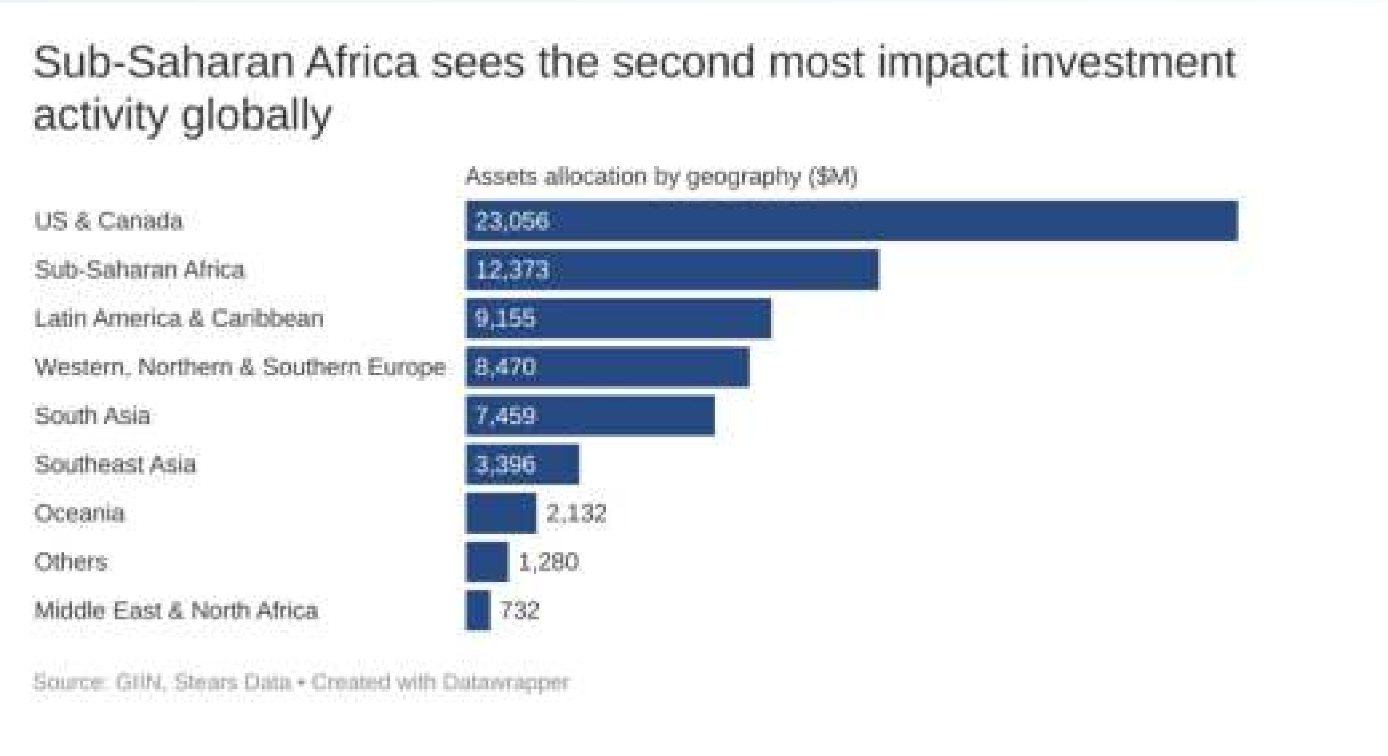
[37] Investing for Impact: Case Studies Across Asset Classes, Bridges Ventures. See: Investing FOR Impact

Investors can still seek financial returns as it is not aid or philanthropy, making it a sustainable investment option for private institutions. Moreover, because it has an aim of creating social good, it is unlikely to be exploitative to society. As there needs to be a commitment to societal impact, both financial returns and social impact are measured when assessing the investment, meaning that recipient countries should be left better off in every way.

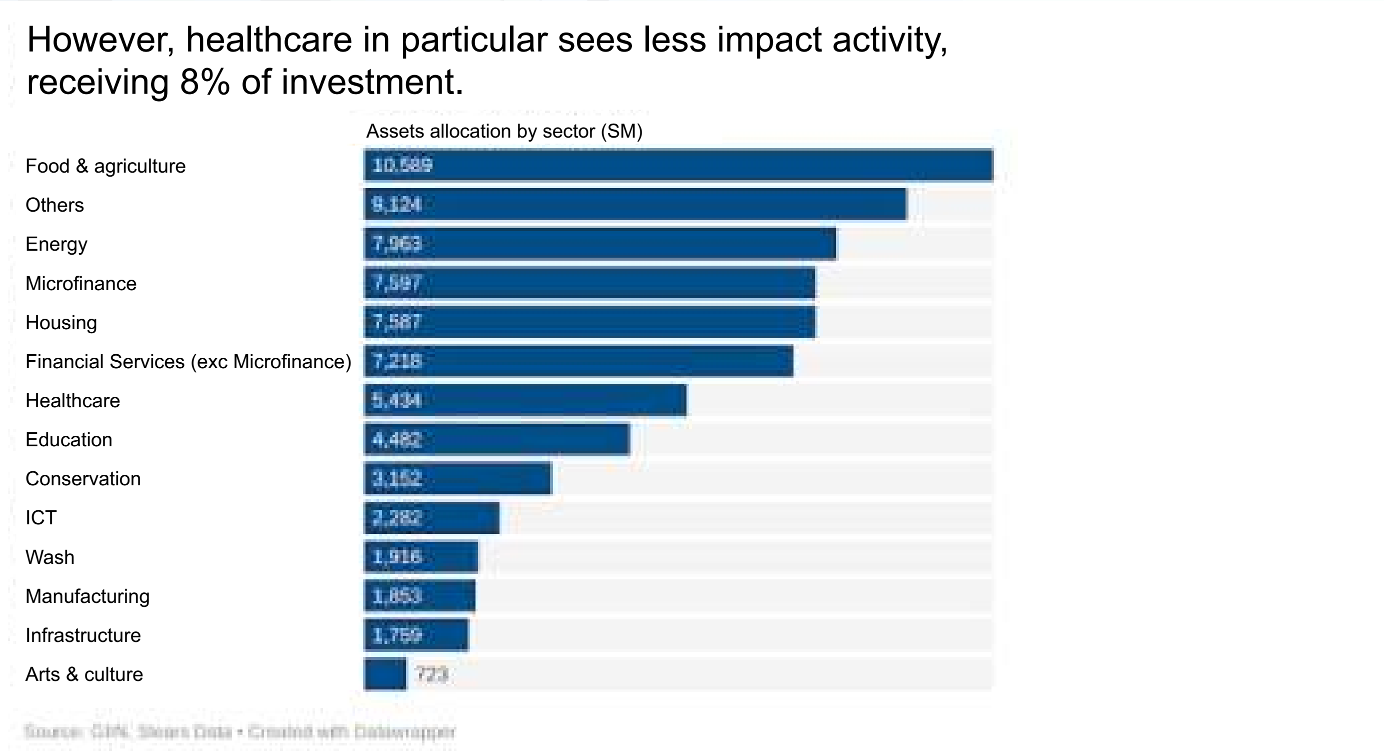
Investors can also take creative, hands-on approaches to ensure the balance between financial and social considerations, and ensure that both the investor and investee are getting the best out of the investment. For instance, according to the Global Impact Investment Network, investors mentioned that they will often include either technical assistance grants or subsidies, or business support and guidance to their target companies in order to increase non-technical/managerial capacity and ensure the success of the business model.[38]

A 2015 survey in Nigeria showed that investors declined to fund Nigerian healthcare institutions because of existing management structures or due to the fact that healthcare facilities are not structured to raise capital or run as a business (they are often structured as sole proprietorships without a technical board of directors).[39] Where this is missing, the support provided can help to transform the way health facilities and institutions in Africa are run, and if this is the key issue with investment into some institutions, it helps to remove a major investment barrier.

[Figure 6a & b: Impact investment values in Sub-Saharan Africa for health and other sectors]



[38] The Landscape for Impact Investing in West Africa, Global Impact Investment Network. See: The Landscape For Impact Investing In West Africa
[39] Nigerian Health Sector: Market Study Report, PharmAccess Foundation. See: Nigerian Health Sector



2.5. What are impact investors already funding?

The first point to note is there is currently very little impact investment activity in African health ecosystems.

Emerging markets account for half of the global impact investment market, with Sub-Saharan Africa specifically making up about 18% of total assets under management. However, healthcare is a small slice. The low penetration of impact investment in healthcare, as well as the fast growth predicted in the market over the next 10 years signals a major opportunity for bold investors.

Here is a snapshot of the impact investment landscape in Africa.

West Africa[40]

- There are 46 investors with direct DFI (direct investment), accounting for about 97% of impact capital deployed, making up $6.5 billion. Of this, Nigeria accounts for 28% of capital deployed.
- Health investment has accounted for only 12 out of 394 (3%) deals between 2005-2015, and $52 million capital deployed.

East Africa[41]

- There is a much larger market for non-DFI investments in East Africa, with the split being roughly 50/50 between DFI and non-DFI in terms of number of deals.
- However, deal size is different. With $7.9 billion DFI and $1.4 billion non-DFI impact capital disbursed in direct deals.
- Healthcare accounts for about 30 out of 550 (5%) of non-DFI (direct) deals and 10 out of 410 (2%) DFI (direct) deals.

[40] The Landscape for Impact Investing in West Africa, Global Impact Investment Network. See: The Landscape For Impact Investing In West Africa
[41] The Landscape for Impact Investing in East Africa, Global Impact Investment Network. See: The Landscape For Impact Investing In East Africa

Southern Africa[42]

- Southern Africa sees a similar amount of DFI and Non-DFI investments, with 503 Non-DFI direct investments and 650 direct investment deals (excluding South Africa domestic activity).
- Excluding domestic activity, South Africa accounts for over three-fifths of non-DFI ($5.7 billion) impact investing and about half of DFI ($16.7 billion).
- Only 9 of 503 deals (1.7%) non-DFI are health-related and 10 out of 650 (1.5%) are DFI.

2.6. Where to invest?

Every segment of Africa's healthcare ecosystem is ripe for investment, but different investors will be interested in accessing different parts of the market in various countries. For instance, the size of the investment, the length and the risk are all relevant considerations. Some opportunities are highlighted below.

Health service provision accounts for roughly half of Africa's investment opportunity, according to the IFC. Healthcare provision includes direct interaction with the patients at health institutions, such as hospitals and diagnostic centres. There are many opportunities within the spectrum to look into, from investing in large hospitals to smaller specialist facilities. Indicators show that compared to other segments within health, providers that offer local essential services tend to be less affected by economic downturns. So, health service provision may be ideal for investors that are looking for long, lower-risk investments. There is also a range of investment sizes to participate in, depending on the type of facility. The investment could include providing funding to existing institutions or greenfield investments.

The pharmaceutical industry is capital-intensive but promises very high investment returns—the median gross profit margin for large pharmaceutical companies is about 75%.[43] This is a prime opportunity given that up to 90% of the drugs used in Africa are imported, which pushes the prices up and makes health treatment even more expensive and inaccessible for Africans.[44] It is also a critical opportunity to strengthen the existing pharmaceuticals sector because of the poor quality of drugs on the market. Studies have shown that a large proportion of the drugs circulating in Nigeria have below optimal levels of active ingredients.[45]

Investment in the pharmaceutical industry is also a key method to diversify the production of health products and start to build a more robust and flexible supply chain. Investment in **supply chains & distribution** is necessary to increase the accessibility of medical products. Supply chains in lower-income countries are fragmented and inefficient, with lots of room to scale. The AfDB recently agreed on a pharmaceutical strategy to support investment in this area, with Nigeria being a key focus area.[46]

[42] The Landscape for Impact Investing in Southern Africa, Global Impact Investment Network. See: The Landscape For Impact Investing In Southern Africa

[43] "Profitability of Large Pharmaceutical Companies Compared With Other Large Public Companies", Ledley et. al 2020. See: Profitability of Large Pharmaceutical Companies Compared With Other Large Public Companies | Drug Development | JAMA

[44] "Should sub-Saharan Africa make its own drugs?", McKinsey & Co, 2019. See: https://www.mckinsey.com/industries/public-and-social-sector/our-insights/should-sub-saharan-africa-make-its-own-drugs

[45] The Business of Health in Africa Report, IFC. See: The Business of Health in Africa

[46] This was expressed in a stakeholder conversation. See the Bank's expression of interest letter here: https://www.afdb.org/sites/default/files/request_for_eoi_afdb_health_infrastructure_and_pharmaceutical_strategies_may_2020_updated.pdf

Although very profitable, financial crises affect pharmaceuticals more directly than other subsectors, although the sector tends to rebound quickly, particularly in transition economies.[47] Another risk is that due to the capital-intensive nature of the industry, it will take years for the investor to see return on their capital.

As there are huge deficits in the number of health professionals available in many African nations, investment in medical education is needed to help bridge these gaps. The private sector can help meet the demand for trained medical professionals. In the Democratic Republic of Congo, for instance, between 2001-2003 the number of medical and nursing grads doubled, largely as a result of private-sector-led efforts.[48]

2.7. Case Studies of Impact Investment in Africa

Impact investment in Africa is still nascent, so there is not as much information on how impact investments or impact investment funds are performing. However, there are a few case studies worth highlighting.

Case Study 1: Evercare [49]

The Evercare Health Fund, initially managed by the Abraaj Growth Markets Health Fund, has made $75 million worth of investments across Africa and South Asia, with a view to target lack of access to medical resources and inefficient healthcare systems to improve health outcomes.

The fund recently opened Evercare Hospital in Lagos, Nigeria but is looking to create a network of healthcare facilities (tertiary hospitals, labs, imaging centres, etc.) to share resources. Investments of this kind can help to create significant improvements in healthcare in Nigeria by creating a network of healthcare facilities, providing training for medical staff, and bringing best in class equipment and facilities to Nigeria. These investments can help validate the idea that healthcare can be profitable in Nigeria.

The Fund seeks to create or maintain jobs for 7,500 health workers and train 5,200 more in Africa and South Asia. The fund has pledged $1 billion towards healthcare in emerging economies. It is relatively new (with investments from this fund starting in 2016) but is a step in the right direction for Nigeria.

According to the CDC Group, one of the investors in the fund, the expected impact will be to address limited access to medical resources and inefficient healthcare systems across Africa and Asia. The investment will allow a focus on improving healthcare in the areas of non-communicable diseases, as well as maternal and infant health.

[47] World Industry Outlook: Healthcare and Pharmaceuticals, Economist Intelligence Unit. See: Healthcare and pharmaceuticals
[48] The Business of Health in Africa Report, IFC. See: The Business of Health in Africa
[49] Details on the Evercare Health Fund can be found here: https://www.cdcgroup.com/en/our-impact/fund/evercare-health-fund/

Case study 2: African Development Bank[50]

The African Development Bank invests in the provision of quality health services in Africa. They invest in health systems that provide access to quality services and health industries that foster economic growth, technological innovation, and job creation. They conduct this work in unison with other areas such as education and social protection in order to create long-lasting systemic change, and to invest in the systems that also affect health outcomes, that also manifest due to poverty.

Whilst the Bank invests in various projects across Africa, such as health infrastructure in countries like Nigeria, through Federal and State Governments, there are also private equity funds that the Bank invests in to bolster Africa's health sector.

One of these is the $20 million Equity Vehicle Health in Africa Fund. It is an institutional capacity building project focused on providing risk capital and technical assistance to African healthcare SMEs. It targets health services providers, laboratories, health insurers, and pharmaceutical and distribution chains, as well as healthcare education.

The second is the Razoritte Healthcare Africa Fund, which was birthed after the Covid-19 pandemic highlighted severe deficiencies in African healthcare delivery and a need to boost the infrastructure. The Bank saw a gap for healthcare-focused private equity funds in Africa and approved $10 million worth of equity investment, which is expected to increase bed capacity by 1,500 and create over 500 jobs.

Case Study 3: NEST for all[51]

The objective of NEST is to provide high quality maternal health services primarily aimed at the middle class in Senegal. I&P invested in NEST, taking 36.6% equity, as well as supporting NEST to raise additional funds to develop the market potential of the NEST clinic and finance medical care for those in need. I&P also provides grants for technical assistance programs and non-financial support in the form of governance, fundraising, management team support, and operational management. The clinic has been successful in improving access to healthcare for middle- and low-income women, raising awareness around reproductive health, and increasing employment and employment conditions of their staff.

[50] Details on the Health in Africa Fund can be found here: https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/health-in-africa-fund

[51] Details about NEST can be found here: https://stories.evpa.eu.com/nest-investisseurs-et-partenaires/

Case Study 4: The Lagos-American Speciality Hospital (LASH)[52]

LASH is currently being developed in Lagos, Nigeria, as a 50-bed speciality hospital. It aims to capture a slice of the $1 billion healthcare tourism market.

Although the initiative does not qualify as an impact investment using GIIN's definition, it has a clear social impact element through medical training. It seeks to bring back Nigerian doctors that have been practising in the diaspora for decades and re-import the skills, knowledge, and expertise they have acquired. As it is capturing the high-end segment of the private health market—like a hospital-hotel—it will mainly cater to the 60,000 Nigerians who would otherwise seek treatment abroad, importing the best-in-class international knowledge, equipment and technology.

LASH will also go further to help curb the emigration of Nigerian doctors, by pairing younger Nigerian-based doctors with more experienced returnee doctors to shadow them for a period of time and adopt the international knowledge and standards. They will be paid for the tutelage and once over, will have the opportunity to become a LASH doctor.

By doing this, they are providing training and learning opportunities to Nigerian doctors, as well as viable employment opportunities.

[52] Information about LASH can be found here: https://www.lashng.com/

2.8. What are the options for investment?

Although the chosen investment vehicle and strategy will be driven by the precise features of the investor and investment opportunity, there are some general considerations to make.

Direct or indirect investment

Indirect investment is where investors deploy capital into intermediaries (fund managers, commercial banks) who then use that capital to invest in enterprises or projects. Investors may choose to invest indirectly to establish a local presence by proxy. African markets are heterogeneous and suffer from asymmetric information, so providing capital to institutions with local knowledge and relationships is a useful hedge, particularly for first-time investors on the continent.

Another reason they may do this is due to transaction costs—for instance, where investors want to disburse capital to SMEs (which is important in the highly fragmented health market). Larger investors may not be geared towards investing in small deals and indirect investment allows them to outsource investment decisions to local experts.

Direct investment is when investors deploy capital directly into the project. They may decide to do this for larger projects that require larger amounts of capital, or where they consider it to be less risky. Direct investment also gives the investor greater control over the assets they are investing in, so in sectors and markets that the investor has strong skill and knowledge in, they may decide to invest directly.

Debt or equity

According to the Global Impact Investment Network (GIIN), most impact investors tend to favour debt financing as it is less risky, requires less active management and provides a clearer exit path. In West Africa, particularly, expected returns (for all impact investment sectors) lie between market and just below-market returns (between 13-17%).[53]

The main issue with equity financing is that success is tied to the success of the company in Africa, where impact investing is a relatively new area (three quarters of African impact funds were launched since 2000), with healthcare especially only being a small slice of the pie, so there are not many examples of successful exits.

Furthermore, investing in Africa requires patient capital. In the US, the average asset holding period is 4.5 years, and 4.1 years in Europe. Africa's holding period is 5.1 years.[54] Although this does not seem like a significant difference, these averages include traditional commercial investment. Impact investment is likely to have even longer asset holding periods due to its dual aims of both social and financial impact.

An innovative instrument for impact investors to consider is quasi-investment, where capital has both debt-like properties and equity-like functions, based on a company's future cash flow projections, suitable for smaller and earlier stage companies. This type of financing could be a priority to consider for Africa's healthcare market, as the majority of companies are SMEs.

[53] Sizing the Market for Impact Investing, Global Impact Investment Network. See: Sizing the Impact Investing Market
[54] Investing in Development in Africa, Investisseurs & Partenaires. See: Investing in Development in Africa

SECTION 3 Next steps for African countries

Impact investment into healthcare is a viable mechanism to help improve health outcomes, whilst improving skills and providing employment in Africa. However, there are actions that African countries can take to prepare to seek and raise investment, by making themselves more attractive to would-be investors.

Government

The government plays a key role in helping to attract investors into the country. They can do this in the following ways.

Improving the regulatory environment: There is a need for clear, up-to-date regulation and consistency in terms of policy direction. For example, investors highlight that in Sierra Leone, outdated commercial laws date back to the 1960s and lack alignment with modern-day business practices (GIIN). Regulation is needed in order to develop and enforce quality standards.

Improving the ease of doing business: Many African countries have neglected the role of the private sector, and this needs to change. They need to improve the business environment, through measures such as tax incentives, or eliminating the burden of double taxation of foreign private companies. There is also an opportunity to protect minority investors and make clear rules on resolving insolvency to protect smaller companies and reduce the risks of investment.

Perceptions of impact investment: There is a local perception in Africa that impact investment equals charity-lite. If we want to encourage the local private sector to act, this is something that needs to change. It does not imply low financial returns, and investors can be educated about the wide-reaching benefits in order to encourage them to pursue such a strategy.

Healthcare facilities

Improving investment-readiness: Governance and management skills or target institutions are lacking. Many hospitals, for instance, are set up as sole proprietorships without appropriately trained and skilled personnel in senior management positions. They are not set up to have robust business systems related to financial, human resource and operational management which makes it difficult for investors to gauge profitability and sustainability. Health institutions need to start acting to structure their facilities like they are businesses.

To date, there has been little impact investment activity covering healthcare in Africa, for various reasons as the report describes. Addressing healthcare issues in Africa is not straightforward, and will need a multifaceted approach, however, it is clear that private investment is imperative to begin addressing these challenges. Furthermore, impact investment is a key vehicle to do this, whilst delivering tangible returns for investors. The business of healthcare investment in Africa is viable, it just needs investors to pave the way for others. In turn, it can be proven to drive economic growth and drive further investment. The phrase 'health is wealth', aptly describes this opportunity.