Improving Health Outcomes with the Right Support to Private Health Start-Ups

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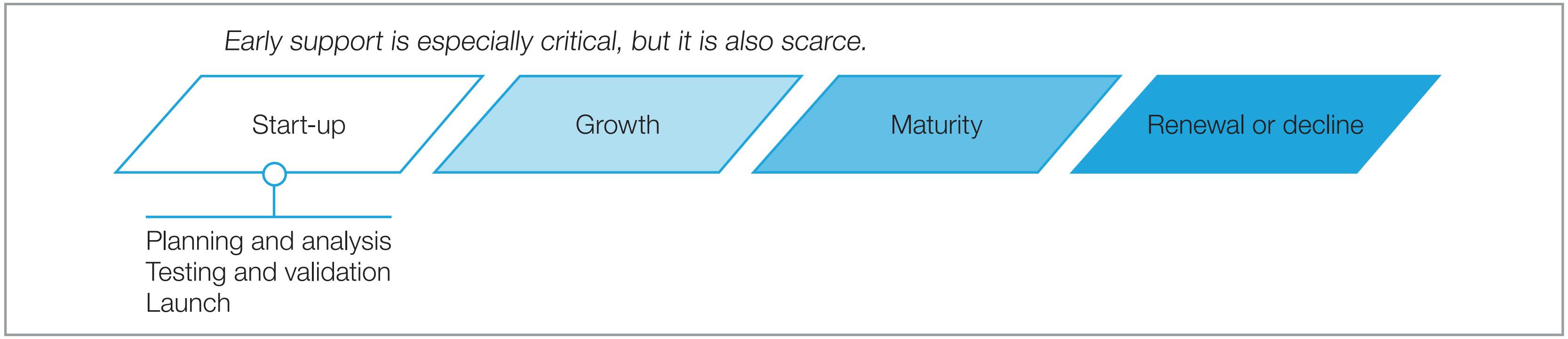
Introduction

The private healthcare market in low- and middle-income countries (LMICs) has grown significantly in the last decade and increased in importance during the COVID19 pandemic (Kazeem et al., 2022). Private health market actors and innovators include a range of businesses from private clinic and pharmacy networks to providers of digital health solutions and pharmaceutical manufacturers. They work across all health areas and play an important role in driving innovation for increased health impact, especially in response to emergencies and shocks.

Many of these health entrepreneurs, however, struggle to scale their ideas into viable businesses. After launch, many fail as expenses pile up—such as staffing and product development—before a solid customer base and accompanying revenue is in place. While in this phase (sometimes called the "valley of death"), businesses are too large for microfinance loans, but too small and early-stage for most private financing available in LMICs. The right mix of business development services (BDS) and financing is key to success. In the health sector in LMICs, this support is not widely available (Helms et al., 2019). Ironically, one cause of this business support gap in health is the volume of funding that has come to LMICs over decades from donors and development assistance. When people's lives are at stake, the most expedient path to impact has generally been through grants for direct services and commodity procurement. However, as new health issues stretch limited public resources, innovations and new actors to deliver services and commodities are required. Ideally, these will be enabled by BDS providers and novel forms of blended and private capital (Cheney, 2022; CII, 2021).

In this brief, we explore private capital and BDS for health, focusing on the early phase and present two examples of enterprises that successfully moved from the start-up to the growth stage. The business lifecycle is generally divided into four stages (see Figure 1): start-up, growth, maturity, and either renewal or decline. The lack of funding and BDS for start-up—planning and analysis, testing and validation, and launch—limit the investment pipeline and, therefore, the potential for health enterprises to thrive and contribute to improved health outcomes.

Figure 1: Business Lifecycle Stages



Blended Finance for Health Start-Ups

Early-stage enterprises require concessional and patient capital, but these are often lacking in LMICs, especially in the health sector. Local lenders, investment funds, and private equity are well established in LMICs, active in energy, agribusiness, and manufacturing. Microfinance organizations have decades of experience lending small amounts to individuals and small businesses. However, capital available in the health sector for early-stage enterprises is often insufficient, arising from financiers' perception that they do not have enough experience in the sector to effectively determine risk and from a related perception that health is a high risk/low reward sector because it is usually perceived as a basic right or public good. Healthcare enterprises focused on business-to-business or digital retail models tend to be more investment-friendly due to their perceived growth and profitability potential. However, the private health sector is diverse: some of its actors are very profitable while others may not offer meaningful financial returns against the perceived risk but do have the potential to make, or are already making, valuable health impacts while sustaining their businesses.

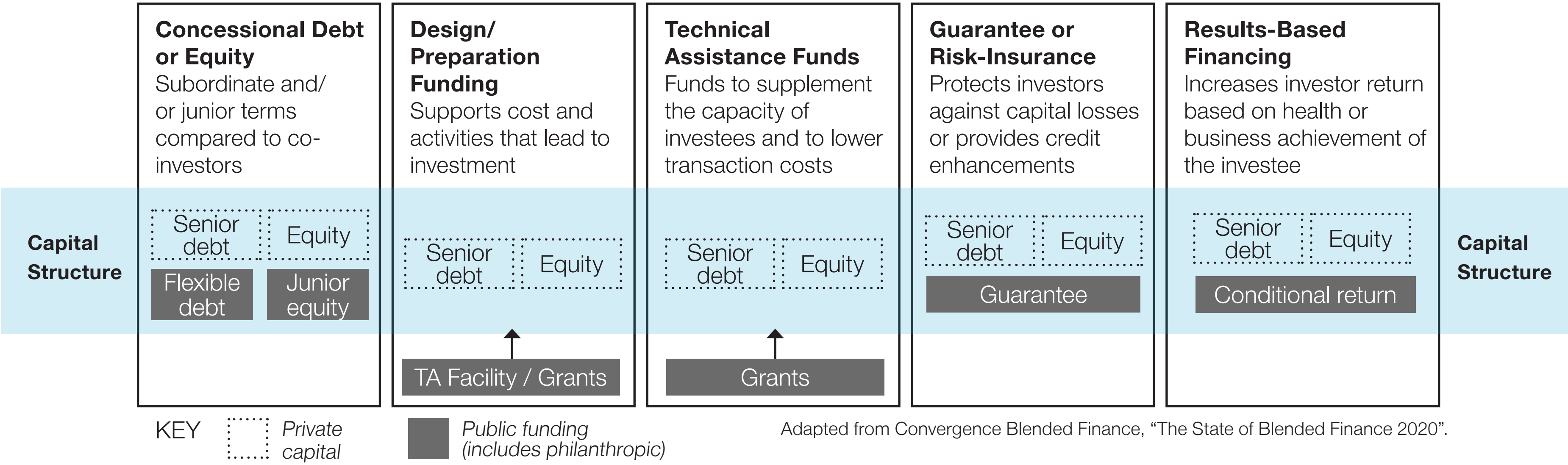
In this financing landscape, blended finance can help fill the gap. Blended finance can mobilize private capital by using donor or philanthropic capital to improve the risk-reward profile of a transaction or portfolio making investments more attractive. (Philanthropic and donor capital are often referred to as concessional capital, when the terms are much more generous than those in the commercial market, or soft funding when there is no financial return requirement.) Blended finance takes many forms. It can be a financial structure in which both concessional capital and private commercial capital participate. Alternatively, donors can play an indirect role by creating an investible pipeline or by providing technical assistance alongside a financial transaction. The blended finance field is constantly innovating (see Box 1 for an example) and therefore there is no exhaustive list of instruments. Figure 2 depicts typical combinations of donor or philanthropic capital and private financing.

Local market conditions, the enabling environment, and the type of private capital available in a country influence the choice of blended finance instrument structure. Beyond addressing the actual financing constraints at hand, the enabling environment plays an important role in determining whether a specific instrument can be structured. The spectrum of available financial partners differs in each context and one cannot assume that all players can be induced to engage nor that all instruments are feasible in all contexts. These considerations are highly market-specific—local, knowledgeable financial advisors are required to facilitate structuring and assess barriers to financing for viable private health enterprises. Donors have access to blended

Box 1. Emerging Blended Finance Solutions

Credit guarantees have been used to increase lending to health sector small and mid-sized enterprises in Africa for more than a decade. While credit guarantees can be useful in expanding financial access, they can be expensive, can take 9-18 months (or longer) to design and negotiate, and have extensive reporting requirements. New models including performance-based grants, which entail financial incentives based on the number, value, and type of loans to target populations or sectors, are less expensive and more nimble.

Figure 2: Illustrative Blended Finance Categories and Roles of Donor Capital



Adapted from Convergence Blended Finance, "The State of Blended Finance 2020".

finance tools and other market development interventions as options to address barriers.

Beyond context restrictions, current blended finance instruments usually require proof of past business performance and high potential for success and so are not always accessible to early-stage health enterprises. Credit guarantees reduce the risk profile for investors. Development impact bonds and social success notes aim to improve access to finance for health businesses and initiatives by increasing the reward for the private investor. Past performance is critical in determining this risk-reward profile for using these mechanisms. In the case of the Utkrisht Maternal Health Impact Bond in India, for example, it was necessary to have evidence of the past performance of service providers in making successful improvements to their skills and define investment targets and an expected rate of return. With lack of past performance and potential for default, early-stage health enterprises remain and unlikely target for lending by LMIC banks and investors.

More models are needed that use donor or philanthropic capital to make the "valley of death" shorter and/or more shallow. Donors can use their grant capital to stimulate creation of new blended finance mechanisms that attract private investment in early-stage businesses. Early soft funding is particularly important to help founders do the testing and customer validation private investors require. Early soft funding also helps founders avoid early dilution and over-indebtedness so founders are better positioned to negotiate and their businesses remain attractive investments. Global initiatives such as grand challenges (e.g., Saving Lives at Birth) and innovation funds (e.g., Development Innovation Ventures) are successful models that provide financing and technical assistance to early-stage enterprises. Table 1 provides examples of blended finance instruments, with links to the projects. If these and other models can be better localized to match the health needs of each country and be coupled with a vital innovation and BDS ecosystem, it is likely that the number of health enterprises progressing through start-up to sustainable growth will increase.

Table 1. Categories and Examples of Blended Finance Instruments

Blended Finance Instrument (category)	Description	Example
First Loss Guarantees (Concessional debt of equity)	A risk-reduction instrument that pools funding from donors/ philanthropic capital willing to take the loss first if the investment is unsuccessful. The structure allows funding to be deployed to businesses more traditionally thought of as too risky or lacking in sufficient past performance.	HEAL Fund
Advanced Market Commitments (Guarantee or Risk-Insurance)	A market promotion mechanism that incentivizes private investments to create products by guaranteeing purchase of the item later alongside the private sector to ensure break-even volumes.	COVAX
Credit Guarantees (Guarantee or Risk-Insurance)	A partial protection to lenders willing to extend loans to developmentally important but underserved sectors such as health. It is often coupled with technical assistance to banks for creating the loan product and to identify and prepare social enterprises for the loan.	Open Doors African Private Healthcare Initiative
Social Success Note (Results-based Financing)	A pay-for-success model that provides affordable debt tied to outcomes. If the social enterprise achieves a predetermined social outcome, a philanthropic outcome payer offers the lender an additional incentive.	Uganda Water Purification
Development Impact Bond (Results-based Financing)	A pay-for-success model that ties payment to the attainment of a pre-determined social outcome. Agreements include outcome funders, investors, service providers, and independent evaluators.	Utkrisht Maternal Health Impact Bond

Business Development Services for Health Start-Ups

A range of intermediaries or entrepreneurial support organizations (ESOs) deliver BDS using different methodologies and approaches in early stages. As enterprise founders work through start-up, tailored and hands-on support can position them for long-term growth. For example, ESOs can work with entrepreneurs to ensure they understand what customers want and to continuously gather feedback to refine the business product or service (see Table 2 for examples). This design thinking is especially important in the health sector, where businesses often must segment target customers for either health impact or revenue. ESOs that support design-thinking may have higher portfolio survival rates (see Box 2).

To successfully transition to the growth stage, the management structure should test and improve the feasibility and credibility of any business plan presented to investors. Legal, accounting, and audit services are critical to ensure compliance and the good governance that investors require and to support sustainable operations. Services for regulatory certifications, registration, and reimbursement eligibility must be especially rigorous for medical services, products, and devices.

In LMICs, ESOs provide valuable services that small businesses cannot afford. Donor support has an important role here. ESOs play a strategic role in the business ecosystem by addressing market gaps, creating efficiencies, and finding partners to help with business challenges, connecting communities of practice and convening pre-competitive coalitions. ESOs often operate at national and regional levels to provide services that already exist in high-income markets and so can draw from lessons learned there.

The lack of funding and BDS for start-up steps limits the investment pipeline and especially affect social enterprises and founders from marginalized communities. Enterprises that balance profit-seeking with delivering improved health outcomes are especially poorly served in their early phases where investors are looking for profit. These enterprise founders often lack the time, income, assets, business savvy, and social networks to raise meaningful sums from friends and family and are less attractive to commercial investors. BDS support can help level the playing field for middle- and working-class founders, female founders, and other marginalized communities.

Entrepreneurs coming from the health professions (doctors, nurses, pharmacists, public health experts) often lack business expertise. A wide variety of skills including financial modeling and talent management and concepts ranging from product-market fit to unique selling proposition are not usually part of the education or training of healthcare professionals, but they are critical for starting, operating, and scaling a business. Early access to technical assistance, coaching, and training in business and management can enable the successful pivot from health care practitioner to health sector entrepreneur.

Box 2. SPRING Accelerator

SPRING was a five-year US$23.2M project providing grants and other support to 75 businesses in nine countries, including 17 health-related businesses to scale innovative products and services to improve the lives of women and girls.

By the end of the project, SPRING had helped crowd-in private capital, assisting 48 businesses to secure more than US$38M in follow-on investments. Supported companies increased their revenue by an average of 58 percent and reached more than 2.5 million girls in East Africa and South Asia.

SPRING used donor funding to help private companies apply design thinking to hone their business model, build their capacity, and link to follow-on capital to continue scaling. It engaged start-up and growth-stage companies with tailored BDS to help them achieve greater impact and a positive financial return. Areas of support included understanding the target audience and competitive advantage, research, and planning for the first phase. The second tranche of support included how to revise and scale the business model, marketing for growth, and program planning.

Palladium led this initiative, which was jointly funded by the U.S. Agency for International Development (USAID), the Nike Foundation, the UK Foreign, Commonwealth & Development Office (FDCO); and the Australian Department of Foreign Affairs and Trade (DFAT).

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Table 2. Examples of Entrepreneurial Support Organizations

Type of ESO	Description
Incubator	Support structures that help early stage start-ups transform from idea to venture, by offering advisory services, workshops, and hands-on training that guide entrepreneurs in defining and refining their business models and value propositions with the goal of becoming sustainable businesses.
Accelerators	Programs that offer cohort-based support to growth-stage ventures for fixed terms—anywhere from six weeks to several months—by providing advisory services, mentorship, workshops, access to peer and investor networks, and other resources.
Venture builders	For-profit organizations that support and partner with entrepreneurs to drive early-stage ideas on a direct path to scale, often embedding and/or hiring additional leadership for venture growth across their portfolio of companies.
Coworking Spaces	Shared physical office facilities and meeting spaces; networking and collaboration opportunities; and basic administrative services, while encouraging peer learning to start-ups, small companies, and independent workers through a range of flexible contracts to fit organizational size.
Innovation/ Tech Hubs	Centers for learning, ideas, co-creation, and community that nurture innovative ideas and market disruption, and support creative ways of solving problems. (See Box 3)
Transaction advisors	Entities that support businesses to develop financial models, structure deals, shape communications, and engage stakeholders for preparation to meet investors.
Management consultants	Groups that advise on a variety of strategic and operational matters to support revenue growth, cost effectiveness, market entry, pricing, and other issues to aid in business growth and cost recovery.
Accountants/ Legal advisors	Specialized experts—usually with legally recognized or regulated credentials—providing legal, regulatory, tax, audit, and other financial management services.
Fund managers	Entities with fiduciary responsibility of investment funds across a range of capital and asset classes. These entities provide BDS aligned with their area of expertise to help ensure success as defined through an investment and/or impact lens.
Development consultants	Entities working at the intersection of the public and private sectors to help ventures navigate topics, ranging from core business issues to the policy-enabling environment, to other issues within the entrepreneurial ecosystem.

Box 3. Tech Hubs

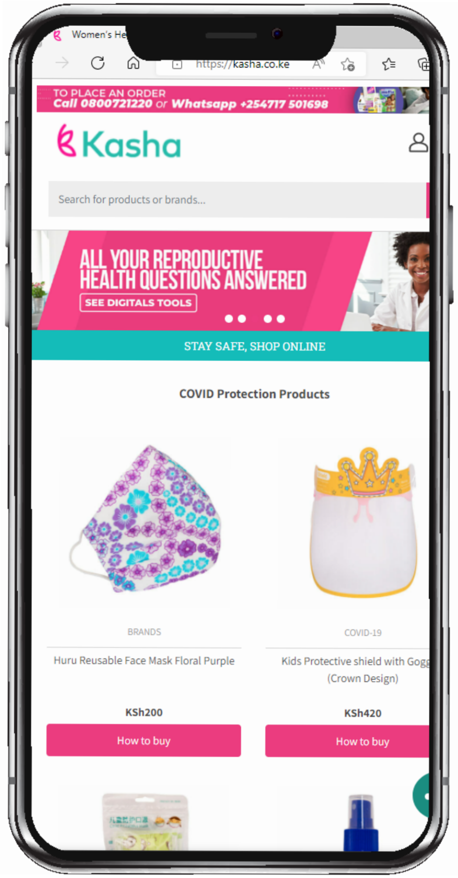
Across Africa, almost half of the existing tech hubs are nonprofit or donor-funded organisations that offer two types of support: (1) in-kind, including training, advice, and facilities; and (2) financial support through programs. Hubs normally adopt three main revenue streams: (1) a membership fee to use facilities; (2) donor funding to sustain operations and run start-up support programs; and (3) consulting *(Afrilabs, 2019).*

From Start-up to Growth – Health Sector Enterprise Success Stories

Success Story #1: KASHA

Kasha is a platform for women's health and self-care in East Africa. Through Kasha, anyone around with a basic mobile phone can confidentially order products for menstrual care, pharmaceuticals, contraceptives, HIV/AIDS, beauty products, and mother and baby care products. Kasha's customer base is predominantly low- and middle-income individuals in rural areas, which aligns with Kasha's aim to increase last-mile access to affordable products, information, and services. To date, Kasha has delivered millions of products across Kenya and Rwanda to over a half-million customers and reached almost 700,000 men and women with health information. The Kasha team is growing its B2B business, leveraging its digital platform to supply partners with services such as a last-mile distribution option, customer insights, and a digital channel for disseminating information.

Kasha's early-stage funding was supported by angel and impact investors; its business development aided by the SPRING Accelerator. As Kasha grew, it diversified its funding with a shift to more commercial investors, development finance institutions, and corporate strategic investors. This included one of the Development Finance Corporation's first health investments, at roughly US$1 million. Kasha is still interested in working with donors but finds it more sustainable to work as a service partner rather than a grantee.



Success Story #2: SEHAT KAHANI

Sehat Kahani is a women-owned and -led telemedicine-based platform in Pakistan with a vision to democratize healthcare access by leveraging technology and a committed network of doctors. Individual consumers, corporate employees, and patients in hard-to-reach areas can access doctors via a mobile application and intermediary-assisted telemedicine facilitation centers.

Founded in 2017, Sehat Kahani obtained grant funding and business development support to prove its product market-fit and to gain traction during its start-up stage through programs such as the SPRING Accelerator. Other support, such as Unilever Young Entrepreneurs Awards for Sustainable Enterprise, CRDF Global, i2i Accelerator, and ISIF Asia helped expand its operations and skills in financial modelling, HR expansion, and business planning. Since then, Sehat Kahani has shifted toward commercial equity financing—in 2021, it raised a pre-series A round for US$1 million through early-stage venture capital funding.

Sehat Kahani's leaders considered early on how they could grow their business and transition from equity-free funding to venture capital equity funding. Early support from concessional financing was critical in testing, adapting, and scaling service lines and client-facing business operations. Importantly, this early financing did not dilute the company's female ownership. The company takes pride in being a sustainable impact business from the outset—developing service lines for revenue generation, including user fees, corporate retainers, and subscriptions. One learning is that donor-funded support can equip enterprises for private investments through capacity building in areas such as financial modelling, investor preparations, and access to early-stage networks of seed investors. Especially in Pakistan, female entrepreneurs often struggle to find mentors and advisors to guide them.

Conclusion

The entrepreneurial ecosystems in most LMICs are under-developed and the demand for start-up and growth financing and BDS far outstrips accessible supply. Many potentially profitable enterprises never secure the resources they need to launch or grow, impeding innovation and competition. This also limits the number of viable opportunities available to private investors interested in later-stage companies. The inadequacy of early funding and BDS leads to unrealized potential for high-growth commercial health enterprises. It is especially troubling to see that even businesses successfully serving customers have trouble securing the funding required to grow fast enough to scale. Many social enterprises seeking to balance profit with meaningful health outcomes show returns that would enable self-sufficiency at scale but are not sufficiently attractive to commercial actors. It is therefore important to coordinate and appropriately sequence BDS and financing to ensure that entrepreneurs and business operators have access to support and advice to secure and deploy available funds in the sector.

Likewise, it is important to ensure that more BDS are provided by sustainable ESOs instead of as projectized assistance. As one example, the SPRING accelerator which ran from 2014–2019 provided valuable services to 75 enterprises (see Box 2), including two health enterprises—Sehat Kahani and Kasha—which are currently thriving. Perhaps there would be even more success stories to share if the accelerator project were designed with a plan to transition into a sustainable enterprise or was set up as a social enterprise from the start.

The COVID19 pandemic has highlighted the vital role that private sector growth and innovation play in the health sector. The pandemic presents a unique opportunity to showcase the need and to accelerate support to the health ecosystem with targeted financing and BDS for private health enterprises. A dedicated focus on start-ups will help ensure that innovation and inclusivity drive the sector and deliver lasting health impact.

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