IMPACT INVESTMENT PRIMER FOR HEALTH INNOVATIONS

UNITED NATIONS FOUNDATION
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OVERVIEW

The health innovation landscape is changing. Global health innovators can now take advantage of new funding mechanisms and models instead of relying on grant funding from global health and development organizations, governments, foundations, and international aid agencies. While the private sector has become increasingly involved through corporate social responsibility efforts, impact investors now have a growing presence. However, the field of impact investing remains relatively nascent, and many health entrepreneurs are still trying to understand who the players are, the differences among their funding models, how they function, and what the best ways are to engage them.

The goals of this primer are:

- To provide those new to impact investing with the main considerations that drive investors’ decisions
- To assess the major challenges and opportunities for innovators to tap into these new forms of capital to scale and sustain impact

We set out to better understand the burgeoning impact investment space, in particular as it relates to financing global health innovation. By shedding light on the differences between investors and outlining trends in this field today, we hope to help global health innovators think about the funding sources that are the best fit for their organization.
INTRODUCTION

An increasingly broad category of investors and donors identify themselves as impact investors or venture philanthropists. The goals they hope to achieve and their operating strategies are wide-ranging. The organizations they fund also vary greatly, spanning many sectors, geographies, and structures — nonprofit, for-profit, and hybrid models.

Given that funders, entrepreneurs, and investment mechanisms vary widely, it was unsurprising that we heard one resounding message from all parties: of utmost importance is finding the right match.

• “Sometimes the wrong money is worse than no money at all.”¹ (field thought leaders)

• “For us, it’s all about finding the right collaboration... The conversations we’ve had to date [with interested impact investors] haven’t felt like the right fit... Goals need to align around our plans to develop very reduced or free pricing for our model.” (innovative nonprofit)

Finding that match is not easy.

A “right” match is one that enables an organization to achieve its goals and overall vision. In a recent article, Alice Gugelev and Andrew Stern of the Global Development Incubator created a model that segments organizations to understand financing pathways.² In our interviews, investors expressed the need for such segmentation of global health enterprises — be they nonprofit or for-profit — to help funders and entrepreneurs understand the “right” forms of capital to raise.

Gugelev and Stern’s model segments organizations based on their objectives, such as replication, government adoption, commercial adoption, or sustained service. Defining a global health enterprise’s endgame early on can help an organization be strategic, rather than just opportunistic, in the investors they choose to approach and the pathway they chart to secure specific forms of financing.

This primer should serve as a starting point for global health innovators considering impact investment. Within each section there is greater complexity to be explored, but the aim is to provide an overarching introduction. The following covers:

• Definition of impact investing
• Overview of impact investors’ strategies
• Investment process
• Methods for overcoming challenges of early-stage investing
• Venture Philanthropy
• Role of grant funding
DEFINING IMPACT INVESTING

In traditional investing, the investor’s ultimate goal is to achieve greater financial returns than they would have achieved if their funds had lain fallow or been invested differently. **Impact investing is a unique sub-category because it seeks both social and financial returns.**

The Global Impact Investing Network (GIIN), a leading convener of the impact investing community, **defines impact investments as “investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.”** Each impact investor differs in how they define and prioritize the metrics and milestones that they hope to achieve and whether financial returns or mission impact take precedence.
Understanding how an impact investor considers investment opportunities can provide global health innovators with insight into the information that is used to gauge their success and potential, and also helps the innovator ensure a good investor match for their vision and goals. It also provides innovators with a better sense of the relevant information to present to the potential investor and the format in which to present it.

Impact investors are often frustrated that there are not enough investable opportunities in global health. Contributing to this challenge is that both investors and innovators are still attempting to understand one another. Ultimately, building familiarity and understanding between investors and innovators is a critical step as the best financing pathways for different social impact business models continue to be defined.

While health-focused impact investors employ different investment strategies, and vary in their target issue areas and due diligence processes, most look for solutions with potential to scale. They determine this potential by assessing the viability of an organization’s business model and the likelihood that it will lead to growth and improved health outcomes.

When assessing different impact investing groups, it is important to take into consideration the following characteristics:

- geographic and issue area focus
- definition of social impact and methods for assessment
- targeted growth stages
- forms of financing
- return philosophy

**FIGURE 1. INVESTMENT FIT**

Source: adapted from Schwab Foundation’s Social Investment Manual

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**FORMAL CRITERIA**

- Geographic Focus?
- Sector Focus?
- Investment Stage?
- Financing Instrument?
- Investment Size?

- **Knock-out Criterion**
  - Does the Social Investor provide financing for my region?
  - Does the Social Investor provide financing for my sector?
  - Does the Social Investor finance the current stage?
  - Does the Social Investor offer the right financing instrument?
  - Does the Social Investor provide financing in the amount needed?

- **Negotiable**
  - Does we share the same value set?

**INFORMAL CRITERION**

- Same Social Value Set?

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Source: adapted from Schwab Foundation’s Social Investment Manual
GEOGRAPHIC AND ISSUE AREA FOCUS

Similar to grant funders, investors often have a dedicated geographic region or specific issue area they target. This is a relevant starting point to identify potential interested impact investors. It also helps health innovators to ensure they are working with an investor that has expertise in the organization’s geographic area and subject matter.

For example, the Mulago Foundation finances health, agriculture, energy, and education projects (among others) in Asia and Africa. Global Partnerships, on the other hand, is a non-profit that channels financial support for health services, green technology, and microentrepreneurs to organizations in Latin America and the Caribbean.

DEFINITION AND MEASUREMENT OF SOCIAL IMPACT

By definition, all impact investors intend to “generate measurable social and environmental impact.” However, there is variance in what investors define as impact, how they track progress over time, and the ways in which social metrics influence their due diligence processes. Conducting thorough research in this regard is advised to determine if the investor is a good fit.

The below framework illustrates where impact investors fall on the spectrum of “impact first” (i.e. foundations who expect zero financial return) and “returns first” (i.e. traditional investors who seek the best investment regardless of social outcomes).5

Even within the category of impact investors, there is a range of investment approaches. For example, we highlight here three equity investors that do extensive work in developing markets — Savannah Fund, Khosla Impact, and Acumen Fund — to illustrate how differently they prioritize social and financial outcomes in their approach.

FIGURE 2. INVESTMENT SPECTRUM

<table>
<thead>
<tr>
<th>IMPACT RETURN POLICY</th>
<th>FINANCIAL RETURN PRIORITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Traditional Philanthropy</strong></td>
<td><strong>Impact Investing</strong></td>
</tr>
<tr>
<td>Traditional philanthropy focused on achieving mission-related goals with no expectation around financial return.</td>
<td>Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside financial return.*</td>
</tr>
<tr>
<td><strong>Venture Philanthropy</strong></td>
<td><strong>Socially Responsible Investing (SRI)</strong></td>
</tr>
<tr>
<td>VC funding approaches used to promote start-ups and risk-taking social ventures.</td>
<td>Negative/positive screens aimed to avoid harm when selecting public companies (stocks) to include in an investment portfolio.</td>
</tr>
<tr>
<td><strong>Traditional Investing</strong></td>
<td><strong>Socially Responsible Investing (SRI)</strong></td>
</tr>
<tr>
<td>Exclusive goal is maximizing financial returns for investor.</td>
<td></td>
</tr>
</tbody>
</table>

* Definition used by Global Impact Investing Network (GIIN)
**Savannah Fund:** This classic technology venture capital investor focuses on emerging markets, specifically in East Africa, and distinguishes itself from the impact investor category because the fund has no explicit social impact goals. However, given Savannah Fund’s focus on high-growth technology ventures in Africa, it fuels local economies and can be regarded as an important investor for economic development. These development outcomes are not included in their due diligence process, which exclusively assesses the viability and growth potential of an entrepreneur’s proposed business model.

**Khosla Impact:** Khosla Impact similarly invests in for-profit ventures with high-growth potential, but they have a more explicit goal of solving socio-economic problems through their investments. Khosla Impact describes its process in the following way: “Our investment criteria looks at social impact as a binary, Yes/No question: Would this company, if successful, dramatically improve the standard of living for people in the bottom half of the world’s economy? If yes, we assess the opportunity as would a traditional venture fund.”

**Acumen Fund:** Driven by a mission to “change the way the world tackles poverty,” Acumen Fund makes both debt and equity investments in early-stage ventures that have real potential for viability, scale, and social impact. Social impact is of highest priority to Acumen, and they are willing to invest in organizations that yield a lower financial return if the case for significant impact and scale exists. Acumen does not publicize specific metrics they track per sector, but they expect their portfolio organizations to cause “customer ‘actions’ that link to measurable ‘outcomes’ and thus real ‘impact.’”

Whichever measures of social impact an investor chooses to incorporate into their due diligence process, they will review these metrics rigorously alongside an organization’s finances and assumptions around scale. Although metrics around improved health outcomes are notoriously hard to track and difficult to directly associate with specific prevention or intervention activities, it is important that global health entrepreneurs focus seriously on designing methods to track their progress against improved social outcomes.

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**TIP:** To determine a good fit, conduct thorough research in how investors define impact, how they track progress and how social metrics influence their due diligence processes.
There is not a standard list of metrics that investors use to assess the social impact of global health enterprises. Each impact investor tends to individually select the metrics that define their criteria for success. As a starting point, the IRIS catalog (a tool managed by the GIIN), contains 488 “generally-accepted performance metrics that leading impact investors use to measure social, environmental, and financial success.”9 The GIIN collaborated with the Center for Health Market Innovations to establish a specialized subset of approximately 50 metrics that applies to the health sector in particular.10 The suggested metrics are broken down into three categories that answer the questions “Who is being served?”, “What is being delivered?”, and “How is it delivered?” Quantifying answers to these questions can help global health innovators present data in a way that is relevant to potential investors.

GROWTH STAGES

Many impact investors focus their investments on organizations in one of four categories: seed/start-up, early/venture, growth, and mature. The table below summarizes characteristics of organizations in each stage to help an enterprise define its position along this trajectory.

For example, accelerators and venture investors make high-risk, early investments in organizations, typically in exchange for equity. When investors categorize their investments as “early stage,” health innovators should conduct further research into their investing history to understand whether these include pre-revenue enterprises.

However, debt funding is also not typically as accessible before revenue streams are established. Young organizations are also often advised against taking on many debt obligations early in their lifecycle, because to pay it off requires a strong revenue stream. To address this challenge, there are some investors which aim to improve access to loans for earlier stage entities, such as the Calvert Foundation through their Impact Asset program.

There is no formula stating which funding sources global health enterprises should seek at different stages of growth. The funding sequence each organization pursues should be determined by its unique business needs.

### TABLE 1. STAGES OF GROWTH: INVESTOR PERSPECTIVE

<table>
<thead>
<tr>
<th>Seed/Startup</th>
<th>Early/Venture</th>
<th>Growth</th>
<th>Mature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idea exists and is in development</td>
<td>• Product/service is developed and market demand has been confirmed&lt;br&gt;• Focus is on refinement: improve outcomes, pilot/test delivery, design path to sustainability &amp; scale&lt;br&gt;• Sales/delivery are up and running but not yet profitable&lt;br&gt;• Solid team is in place (funders often vet at this stage based on the confidence they have in the team)&lt;br&gt;• Risk at this stage is around revenue, commercialization, and establishing the viability of business plan&lt;br&gt;• Funders must have high-risk tolerance and provide latitude for testing/piloting</td>
<td>• Model is proven and revenue growth demonstrated&lt;br&gt;• Focus is on scaling, typically through introduction to a new context or geography&lt;br&gt;• Operational costs are covered through revenue, but enterprise is not yet profitable enough to fund its scaling efforts&lt;br&gt;• Pathway to scale is defined and funding is sought to pursue it</td>
<td>• Brand is recognized, wide adoption of product/services, achieved profitability&lt;br&gt;• Focus is on sustaining&lt;br&gt;• Profits are used to provide ongoing investment in team, systems, research and development&lt;br&gt;• New funding is pursued for expansion opportunistically and as aligned with strategic plan</td>
</tr>
<tr>
<td>Focus is on better understanding the market and designing the model</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products and services are in initial development phase</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer, consumer, and end user needs are being assessed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family, friends, and immediate network are likely sources of most financial support</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Probably receive only modest funding for early testing</td>
<td></td>
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</tbody>
</table>
model and growth demands. While enterprises can look to others’ approaches as examples, there is great value in working with an advisory body to identify the type of financing and the impact investor that is appropriate for their business model and stage of growth.

FORMS OF FINANCING

Investors use different types of capital to finance organizations depending on the organization’s growth stage and risk profile.

Broadly speaking, many traditional investment instruments can be categorized as a form of equity or debt.

**Equity investing:** When equity is purchased, an investor provides funding in exchange for some ownership of an enterprise. Public equities are ownership rights purchased on the stock market by shareholders. Private equity refers to funding provided in exchange for ownership of businesses that are not “public” or traded on the stock market. Nonprofits are not eligible for equity investment. Equity investors often choose to invest in businesses that they believe will grow significantly. They are willing to put in cash up front with the expectation that they will earn a significant amount back in the long-run if the business succeeds (financial returns). However, if a business does not perform well, they may lose on their investment. In this way, equity investing is regarded as riskier than debt investing but has the potential for higher returns.

**Debt investing:** Although nonprofits are not eligible for equity financing, they may access debt financing. Debt investments can take many different forms but are essentially loans. When a loan is provided, there is the expectation that the investment will be paid back over time, usually with interest returned in addition to the principal. The repayment schedule is usually pre-determined and therefore should be more predictable. Debt investors are comfortable funding enterprises when they are convinced there is a reliable source of revenue that will enable the enterprise to pay back the loan on an agreed upon schedule. If a business does exceedingly
well, a debt investor does not benefit additionally. If a business does poorly, debt investors are the first to be re-paid in the case of bankruptcy. Because of these factors, debt investing is regarded as less risky than equity investing, but the expected returns for investors are generally lower.

**Hybrid models:** In addition to debt and equity financing, there are other instruments that provide investors with a good compromise when an enterprise is too early-stage to ensure the repayment of debt financing, but the entrepreneur would need to sell too large a stake of the company for an equity investment. These instruments include those such as convertible notes and revenue-participating debt.

**Mezzanine capital** combines elements of debt and equity capital and represents a convenient financing alternative if pure equity or debt capital is not applicable. The interest payment can be linked to the profits of the company, whereas the total amount is repaid after a certain time period or converted into equity capital. The structuring flexibility makes mezzanine capital an attractive option for social entrepreneurs as well as social investors.

**Hybrid capital** contains elements of grants, equity and debt capital. The grant character can be explained through the fact that there are no interest costs and, in certain pre-agreed scenarios, the financing instrument is converted into a grant. Financing instruments with hybrid capital character include recoverable grants, forgivable loans, convertible grants and revenue share agreements described below.
• A **recoverable grant** is a loan that only needs to be repaid if an enterprise reaches a certain predetermined marker of success. If the enterprise fails to meet this marker then the capital is converted into a grant.

• A **convertible grant** is a grant that is converted into equity for the investor in the case of success.

• **Revenue share agreements** are risk sharing models where a share of future revenues go to the investor who finances the project.\(^\text{11}\)

**Mezzanine capital** combines elements of debt and equity capital and can be structured in several different ways to benefit both the investor and social enterprise. The interest payment on a debt investment can be linked to the profits of the enterprise, while the total amount of the loan can be repaid after a certain time period or converted into equity capital.

A full catalog of the financing structures used by impact investors goes beyond the scope of this introductory primer. Many investment firms use multiple strategies and financing instruments. The critical starting point for an innovator is to determine the characteristics (flexibility, time-horizon, legal issues) of capital that are best suited to help fuel growth. Once these needs are established, global health innovators should research investors and identify the investment approach that aligns with their funding needs. The graphic below can help guide organizations in determining the form of financing that is best suited to their organization.

**RETURN PHILOSOPHY**

Investors vary in their goals for financial return. While some seek market-rate returns, others may prioritize social impact and accept below-market-rate, or concessionary, returns. According to GIIN, 55% of impact investors primarily seek market-rate returns, 27% primarily below-market-rate but closer to market rate, and 18% below-market-rate but closer to capital preservation, i.e. recovering the funds they invested. Investors usually have a well-defined return target and this is an important piece of how they make investment decisions.\(^\text{13}\)

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**FIGURE 3. FINANCING FIT**

Source: adapted from Schwab Foundation’s Social Investment Manual\(^\text{12}\)
Because of the complex considerations involved, obtaining impact investment is a multi-step process. Open Capital Advisors, a financial intermediary based in Nairobi, has helped several organizations through the investment process and outlines the key activities that take place at each stage in Figure 4 below. This document should provide global health innovators with a strategy for the initial meeting and an understanding of the information investors will seek during the due diligence process.

**FIGURE 4. INVESTMENT PROCESS**

- **Initial Meeting**
  - Get to know the investor
  - Give them an overview of your business and your vision for growth
  - Discuss and align on next steps

- **Initial Due Diligence**
  - Review of financials, management team, and processes
  - Evaluation of macro environment, e.g. legal/regulatory issues, market conditions

- **Term Sheet**
  - Initial agreement about the structure of a deal
  - Used to solidify the deal and create momentum going forward
  - Usually non-binding

- **Further Due Diligence**
  - Deep dive into financials, production, systems, etc.
  - Assessment of compatibility of company
  - Evaluation of reliability of suppliers, purchasers, etc.

- **Closing and Investment**
  - Create final legal documents formalizing investment
  - Agree on disbursement conditions
  - Finalize deal (can take 3-6 mos.) and disburse money

These interactions will shape the relationship you have with your investor on an on-going basis.

Source: Open Capital Advisors
While understanding the investment process is important for all global health innovators, enterprises still in the proof of concept stages have additional challenges to overcome. For years, leaders within the field of impact investing have bemoaned the funding gap at the earliest innovation stage. In fact, a vast majority — 91% — of assets under management by a sample of leading investors who responded to the J.P. Morgan and GIIN 2015 impact investor survey were placed in growth and mature stage businesses. Because deals tend to be smaller early in an organization’s lifecycle, to some extent the concentration of capital at later stages is to be expected. Despite this trend, 90 of 146 respondents to the J.P. Morgan and GIIN survey have some allocation to the venture stage.

Early-stage organizations have few financing opportunities because they are largely still unproven and therefore riskier. However, obtaining early-stage investment is certainly possible. Health enterprises at this growth stage can reduce risk by focusing on their business model, building strong teams, and pursuing the right type of funding.

FOCUS ON THE BUSINESS MODEL

It is rational that investors have greater hesitancy around early-stage enterprises. Most of the expected outcomes (both financial returns and improvements on health indicators) remain hypotheses rather than proven results at this stage.

Respondents to the GIIN and J.P. Morgan 2015 annual impact investor survey reported the greatest contributor to risk in their portfolio was “business model execution and management risk” of the enterprises in which they invest. This was echoed in our interviews specifically with respect to global health innovations when one investor shared that “90% of the problems healthcare enterprises have are the same problems all new enterprises have — like bad financial management.” For global health innovators, these findings underscore the importance of focusing on developing their individual business acumen in addition to improving their product or service.

In considering investment opportunities, investors expect an enterprise to have a clear business model that includes, for example, a plan for sourcing and inventory management, and a strategy for working capital maintenance. They also look for the enterprise to have conducted a market analysis to identify the customer base, the enterprise’s market position, and their value proposition. Especially important for early-stage innovators is a credible growth plan. At a minimum, the plan should:

i. include milestones & budgets;

ii. reflect concrete steps that have already been taken toward achieving stated milestones; and

iii. demonstrate an understanding of the resources (financial, technological, staff-related) that the business will need.

Investors also expect to understand up front how their funds will be used. Innovators should know the amount of capital that is needed, where it will be channeled, what the projected return is for the investor, and how long it will take to achieve those returns. This is also important for the innovator’s internal planning and to ensure that an investment provides sufficient capital to pursue their stated goals. Selected resources providing further guidance for social enterprises developing their business model are included in the Appendix.
BUILD STRONG, FLEXIBLE, SMART TEAMS

There are some early stage investors who are willing to make risky investments in enterprises that are pre-revenue when they have confidence in the founders. Investors seek out entrepreneurs who take a sophisticated approach toward the market they want to access, have built a strong team, and are agile. Among this team, investors specifically want to ensure there is sufficient expertise in the given area (e.g. HIV/AIDS), experience in the local context, and business acumen to manage strategy development and finances. Most important is a leader that inspires confidence in the team as well as the investors.

PURSUE FLEXIBLE FINANCING TO BE ABLE TO LEARN FROM FAILURE

When a funder chooses to invest in a startup, they are eager to see it succeed. Funders recognize that it takes a lot of experimentation before startup enterprises get their models quite right. Global health entrepreneurs, funders, and thought leaders in the field emphasize the importance of pursuing flexible financing at early stages because of this need to test, fail, and iterate.

Impact investors understand that flexible funding early in an organization’s life cycle is essential. Many leading impact investors and donors are interested in finding ways to collaborate and design innovative financing approaches to address this need.

• “In the U.S. many tech investors these days have an accepted approach to let an enterprise have no revenue at its start as long as the investors gauge that there is a sizable enough market potential to justify a one year investment. The same standards aren’t yet built out in the impact investing space, especially since the metrics to track around social impact are hard to gather.” (investment advisor)

• “Lots of organizations try to find funding wherever they can. It’s important to educate around getting the right kind of money… With venture capital investment in the U.S., you are betting on people and business models with no strings attached. We need more of this mindset in the global health market to not tie up capital in knots.” (funder)

This is likely why, in addition to an expanding field of private impact investments, more grant funders are modeling strategies off of venture capital firms, such as Mulago Foundation, Echoing Green, and USAID’s Development Innovation Ventures (DIV). The funding they disburse as “venture philanthropists” is usually unrestricted and provided alongside resources that extend beyond cash — such as access to networks and advisors.
A distinct type of impact investor is the venture philanthropist. Venture philanthropy arose out of a need to develop a more effective model of investing donor dollars to achieve greater social impact and financial return.\textsuperscript{20} The recent rise of venture philanthropy within the past 10 years bore out of the global economic crisis which started in 2008 when governments and many sources of traditional funding had to cut their budgets.\textsuperscript{21} Funders have looked to models from the private sector to determine how to achieve the best return on investment for their limited resources. Increasingly, traditional donors such as private foundations, corporate donors and even government bodies are applying venture capital strategies to invest in nonprofits, startup organizations or ideas with a social mission. Often, this means that the investments made are in early stage startups that may be considered higher risk, but have potential to make a significant social impact.

Using a venture capital approach means that the venture philanthropy organization plays a hands-on role in helping the investment recipient build capacity, become sustainable, and achieve scale. This approach of providing financial and nonfinancial resources for nonprofits sets venture philanthropists apart from traditional donors and impact investors. Distinct characteristics of venture philanthropy include:\textsuperscript{22}

- **Strategic framing:** Tend to engage in targeted investing rather than widespread giving
- **Scale of intervention:** The aim is to address systems and sectors, rather than individual organizations or projects
- **Sector focus:** Usually more broad than traditional donors in that venture philanthropists will invest in nonprofits, private sector companies, and government organizations, across all sectors
- **Funding mechanism:** Funding can come in the form of grants, loans, equity or investment
- **Engagement style:** More hands-on than traditional grant donors and provide nonfinancial resources such as technical assistance, management training and capacity building
- **Engagement periods:** Can be five to ten years rather than one to two years of a traditional grant donor
- **Culture and capabilities:** Focused on innovation
- **Success criteria:** Focused on outcomes and impact rather than inputs and outputs

The main difference between venture philanthropy and impact investing is that creating positive social impact is the primary driver and creating a positive financial return is a secondary driver.\textsuperscript{23} Financial returns generated from investments typically flow back to the venture philanthropy organization to be used for future investments.\textsuperscript{24}

Given this key difference, venture philanthropy organizations may use a different approach and criteria for investment. A portfolio manager at USAID’s DIV describes their three-pronged approach to assessing potential investments: 1) Scalability, 2) Evidence and 3) Cost-effectiveness. The applicant should be able to demonstrate that their project is “a totally innovative process or that it can replace something that is the status quo right now.” It is also critical that an applicant provide data to validate the claims.\textsuperscript{25}

Even after an applicant receives funding and becomes an investee, evidence, data and demonstrated results are still keenly measured. Similar to a traditional venture capital fund, grantees in venture philanthropy will be held accountable to goals and metrics established at the beginning of the partnership. Rather than
dispensing a lump-sum of funds at the beginning of the project, funds are distributed once key milestones are reached. Each organization’s goals and metrics are customized to each organization depending on their stage in the path to validation. Examples of metrics include revenue, user growth and other outputs that are proxies for impact. Successful programs are ones that have not only hit their milestones, but are also experiencing exponential, rather than linear growth. Successful organizations can demonstrate that they are moving along a path of sustainability and often they are validated by additional partnerships and/or investment. One of the factors that an organization like USAID’s DIV looks for is the grantee’s ability to attract additional investment and resources.
In addition to financial resources, venture philanthropy organizations provide technical resources and capabilities building assistance to grantees. An organization like USAID’s DIV can draw on the resources of USAID and its partners around the world. These synergies created out of the network can often help lead to growth and scale.

Other key differences that an investment recipient will need to understand before working with an organization that applies venture philanthropy methodology include:26

- The venture philanthropy organization may conduct due diligence on the recipient from a business plan review to an assessment of the organization’s management capacity.
- Some venture philanthropists may take a role on the organization’s board.

The financial and nonfinancial resources that venture philanthropists provide can significantly help strengthen an organization. However, working with a venture philanthropist may not be right for every organization. Like impact investing and other forms of funding, it is important to find the right match. As one law professor notes, private foundations using the venture philanthropy model in an effort to be more strategic and accountable have also increasingly become controlling and too metrics focused.27 It is important that the investment recipient clearly understands the targets they are expected to meet.

**HOW MEDIC MOBILE RECEIVED $70,000 IN VENTURE PHILANTHROPY FUNDING**

Medic Mobile, a San Francisco, CA based nonprofit, builds web and mobile solutions that help health workers provide better care. Medic Mobile successfully attracted $70,000 from a venture philanthropy firm to scale its antenatal care work. For this project, community health workers use Medic Mobile’s tools to register pregnant women into a database accessible to community health clinics. Reminders are automatically sent to expectant mothers and health workers about future appointments. This intervention is able to improve access to healthcare and maternal and child health. Medic Mobile shares its experience on how it was able to attract funding and its advice for other nonprofits.

**Q: What was the process and how long did it take Medic Mobile to obtain funding?**

**A:** Medic Mobile’s contacts in the San Francisco Bay area were able to introduce them to venture philanthropy investors in Asia. Medic Mobile then pitched the investors about their concept. After a month-long discussion and negotiation, the investors gave Medic Mobile $70,000 over three tranches. The one month time between pitching and funding is relatively fast. Because of Medic Mobile’s relationships with other potential investors, a third party company had already gone through a due diligence or thorough “audit” of the organization, the project, and its financials, allowing for this quick turnaround time. This report served as a “gold stamp” for the organization. The due diligence process took about one year.

**Q: What are the key differences between applying for funding from venture philanthropists and other traditional donors?**

**A:** The recipient has to be able to show impact at scale and demonstrate that there is a clear and defined path to scale. Most importantly, the organization should be able to support their assertions with evidence. Similar to a traditional venture capital firm, some venture philanthropists might want to see that the organization also has a plan for financial sustainability or demonstrate that they will be able to raise funds from others or that there will be uptake from an entity such as the government.

**Q: What advice would you give other nonprofits seeking funding from a venture philanthropist?**

**A:** “Finding the right investor is like a marriage. You’re in it for the long term and you better get along.” Organizations should vet the potential investor and engage in conversations with them. It is critical to ask questions about the other types of organizations the venture philanthropist has invested in and why, to understand what venture philanthropy and impact investing mean to them. It is important to understand how they are gauging success and what metrics they’ll be examining.
The growing list of actors in today’s funder landscape for global health innovations— from private investors to venture philanthropists and government agencies to traditional foundations— presents a great opportunity because it increases the amount of capital available. However, it also complicates the landscape, making it more difficult to understand which funding sources are the “right match”.

Recommendations on which type of financing (grant, debt, equity) an organization should pursue and in which order depend greatly on unique attributes of the enterprise— its business model, immediate needs, and access to financing options. Because of this, no overarching “best practice” model exists for how organizations should stagger donor versus investor funds if using both.

Receiving grant funding does not render a global health enterprise ineligible for private investment. In the impact investing field today, most thought leaders believe that grant funds continue to play an important role in supporting health enterprises and should not be wholly supplanted by impact investments. However, discussion remains as to when grant funds are most useful.

Some feel grants are essential in the proof-of-concept stage:

- “Our plan is to rely on grant financing to jet fuel us at the beginning in the pre-revenue stage — while we prove the concept and build a user base — and then we’ll turn to equity financing to really grow.” (mHealth startup)

Some believe grants are most useful for specific purposes:

- “Grants make sense when the market itself is completely unknown—i.e. no one knows if people want X or can pay for X, but X is proven to be good for them… where there is no viable ‘customer’.” (impact investor)

- “Grant funding is useful for the very early stage, and even a necessary component to get things off the ground… but I don’t like it in perpetuity. You can’t fund the same thing on grant funding forever.” (impact investor)

- “Even for well-established enterprises, grant funding can be used to cover elements like large scale monitoring and evaluation efforts to be able to demonstrate impact when seeking additional funds.” (donor)

Others think donor funds make follow-on private investment more challenging by distorting the market. This occurs when enterprises that do not have a proven, viable business model in a competitive context are able to survive due to donor funding.

- “The market has been flooded with free money for early-stage proof-of-concept companies, which completely distorts the market and makes it hard for private investors to come in later in the business cycle.” (impact investor)

- “We are very cautious when we look at areas that have traditionally been donor funded, for instance mHealth or rural energy— in these sectors you might find many players in the ecosystem dependent on donor funding or NGOs to deliver their work… there is risk of being ‘crowded out.’” (impact investor)
While grant funding does not require recipients to produce a return on investment, it’s important for global health enterprises to recognize that grants do contain hidden costs, including significant time and resources dedicated to reporting, and the potential distortion of resource allocation due to differing priorities between the donor and the social enterprise. Understanding these costs should help innovators assess the trade-offs between grant funding and impact investment.

When moving from a grant model to private investment, it is important to explain to impact investors the particular purpose that grant funding was able to serve (e.g. monitoring and evaluation, piloting a new product or approach, or providing working capital in the very early stages), and that private investment will help the organization in a different manner — to facilitate market growth.

The main takeaway from these discussions was that an organization should be specific in its plans to use grant funding if also considering private investments, and that it should not be considered a solution for long-term funding.

TIP: Enterprises should recognize that grants do contain hidden costs, including significant time and resources dedicated to reporting, and the potential distortion of resource allocation due to differing priorities between the donor and the social enterprise.
Identifying the ideal funding sources to allow an organization to grow and succeed is a challenging endeavor; however, the growing interest of impact investors in global health enterprises is a positive development. It has the potential to bring more capital to the space and with it greater opportunity to support impactful innovations with the right type of financing as they grow.

Because not every health enterprise is meant to be a high-growth, for-profit entity seeking equity investments, alternative methods should be developed to sustainably finance those global health innovations that operate best as NGOs or through government adoption. As the impact investing field continues to mature and more analysis is done around global health investments in particular, these schemas will develop more clearly.

We hope this primer has been useful in starting your exploration into impact investing, in understanding the factors that an investor considers, and in thinking about the endgame and financing path that will help your organization work towards its long-term goal.
This primer is meant to serve as a brief introduction to impact investing for global health innovators. Organizations interested in pursuing impact investing should consider the following resources when determining the investor that is the right fit and when readying their enterprise for investment.


- Social enterprises must have a strong business model to be sustainable and to attract investors. This document leads organizations through a series of recommendations that help to create an attractive and impactful business model.


- This resource specifically targets Global Health Social Enterprises interested in attracting investors. It aims to help organizations develop their business model, screen potential funders and investors, and deliver a strong pitch.


- In order to persuade investors of an organization’s impact, global health innovators must be able to effectively communicate their impact. This article provides recommendations of evidence-based solutions for health-related social enterprises to improve their communications strategies.


- This report targets social entrepreneurs considering various funding opportunities. It is a user-friendly document that takes an organization through the step-by-step process of selecting the right type(s) of capital, finding the right investor, the investment process, and how to best prepare for a meeting with potential investors.


http://healthmarketinnovations.org/document/iris-health-metrics-ms-excel (metrics in Excel format)

- Developed in conjunction with GIIN, CHMI provides health innovators with a standard set of metrics that can be easily understood and are relatable to investors.


- This OECD resource provides a deep explanation on how many organizations working on funding global development issues are redefining their operating model. The study explains the distinguishing characteristics of venture philanthropy from traditional funding models.

**METHODOLOGY & WORKS CITED**

During the summer of 2015 we read extensively from the body of articles, whitepapers, and reports that have been written over the past decade about this growing field of impact investing. Between June and October 2015, we also spoke with 21 investors, health entrepreneurs, thought leaders in impact investing, advisors, and accelerators about their experiences.

**INTERVIEWS**

Andreas Zeller, Managing Partner, Open Capital Advisors
Amie Patel, Principal of Emerging Markets, Imprint Capital
Athul Ravunniarath, Summer Associate, I-DEV International
Beth Bafford, Director of Investments at Calvert Foundation (healthcare portfolio)
Bidisha Bhattacharyya, Head of Financial Technology, Village Capital
Hannah Schiff, Sr. Associate of Research, Global Impact Investing Network (GIIN)
Jacqueline Edwards, Director of Partnerships, Medic Mobile
Jay Evans, Asian Regional Director, Medic Mobile
Jonathan Hera, Senior Portfolio Manager, Grand Challenges Canada
Kate Nolan, Head of Startup Growth, 1776 (global incubator and seed fund)
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Sarah Friedman Hersh, Sustainability Research, Calvert Investments
Stevie Valdez, Senior Associate Impact Investing & Market Development, Global Alliance for Clean Cookstoves
Steve Snyder, Partnerships & Development Manager, Dimagi Inc.
Thomas Schumacher, Portfolio Manager, USAID: Development Innovation Ventures (DIV)


“How to Apply for an Investment.” (n.d.) Acumen Fund.


“Strengthening health systems in developing countries through private investment: Lessons from the Global Health Investment Landscaping Project (GHILP).” By Beth Bafford, and Sarah Gelfand. (January 2015). Produced by the Calvert Foundation.


“Values-Based and Impact Investing: An Introduction,” by Lisette Cooper, Kate Huntington, David Lynch, Elizabeth Hardy, and Emily Porter. (Feb 2014) Produced by Athena Capital Advisors.


## Examples of Impact Investors and Venture Philanthropists

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<th>Financing structure</th>
<th>Function as</th>
<th>Sector focus</th>
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<td>Acumen Fund</td>
<td>Patient (long term) equity &amp; debt capital</td>
<td>Nonprofit</td>
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<td>Bamboo Finance: Oasis Fund</td>
<td>Private equity</td>
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<td>Calvert Foundation</td>
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<td>Gray Ghost Ventures</td>
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<td>Grand Challenges Canada: Transition to Scale (Phase II)</td>
<td>Grants, possibly debt or equity</td>
<td>Venture-inspired development</td>
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<tr>
<td>LGT Venture Philanthropy</td>
<td>Debt, equity &amp; grants</td>
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<tr>
<td>Mulago Foundation</td>
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<td>USAID:DIV</td>
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<td>Stage focus</td>
<td>Geo focus</td>
<td>Typical Investment Details</td>
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<tr>
<td>Early to mid stage, in process of scaling</td>
<td>Africa, India, Pakistan, Latin America</td>
<td>Timeline: 7-10 years Size: $250k-$3mil</td>
</tr>
<tr>
<td>Commercially viable companies</td>
<td>Africa, Asia, Latin America</td>
<td>Size: $3-7M (significant minority position with board seat)</td>
</tr>
<tr>
<td>Indirect investor to CDFIs (Community Development Financial Institutions), microfinance institutions, social enterprises &amp; funds</td>
<td>Global</td>
<td>$185 million invested across 200+ current projects</td>
</tr>
<tr>
<td>Grants: promising, early stage loans: sustain/expand already proven solutions</td>
<td>Latin America &amp; Caribbean, starting to consider E. Africa</td>
<td>Average loan size $1000</td>
</tr>
<tr>
<td>Early stage, venture capital investments</td>
<td>South Asia &amp; Sub-Saharan Africa</td>
<td>Size: $1m-$5m</td>
</tr>
<tr>
<td>Established proof of concept, ready to transition to scale</td>
<td>Low- and middle-income countries</td>
<td>Size: Up to CAD 1,000,000 (approx. USD $750,000) Timeline: 2-3 years</td>
</tr>
<tr>
<td>Early stage (market identified, team built, developed product)</td>
<td>Low- and middle-income countries</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Young and growth stage Grants used only when profit-oriented models are not feasible or reasonable</td>
<td>Latin America, Africa, India, Southeast Asia, Europe and China</td>
<td>Timeline: 3-7 yrs Size: $200k - $10M</td>
</tr>
<tr>
<td>Early stage &amp; scaled solutions</td>
<td>Africa, Asia</td>
<td>Typical range: $500k-$900k</td>
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<td>3 stages: proof of concept, testing to prep for scale, transition to scale</td>
<td>Health, Energy, Food Security, Poverty, Youth, Governance, Nutrition, Water</td>
<td>Size varies by stage: $25k-$15M</td>
</tr>
</tbody>
</table>
ENDNOTES


7 “Our aim in investing patient capital is not to seek high returns, but rather to jump-start the creation of enterprises that improve the ability of the poor to live with dignity,” from What is Patient Capital? (n.d.) Retrieved on August 11, 2015. <http://acumen.org/ideas/patient-capital/>


16 Ibid.

17 Ibid. p. 9

18 Nolan, Kate. Interview by Alex Romano. Phone call. Washington, DC, Jul 2015.


