

Lowering private investor risk to build a healthier country



A slew of highly innovative, private local and international, socially conscious companies are starting to improve healthcare outcomes in southern Africa – with some garnering investor returns of between 8% and 10% on debt funds and up to 35% in equity returns.

This emerged in a panel discussion entitled ‘Investing for impact’ during the Inclusive Healthcare Innovation Summit organised late last month by the University of Cape Town’s Graduate School of Business (GSB), based at the Mother City’s Foreshore. On the panel were several pioneering social financiers whose forte is unlocking and sourcing funding while minimising risk to enable projects that provide financial and social returns across a wide spectrum.

These are specialists in ‘bang-for-buck’ social impact through new financing instruments that identify the interests of each party and align them to achieve outcomes that all can commit to. The global trailblazer in social impact bonds (SIBs), the UK-based Social Finance, has now begun a feasibility study on boosting local job creation with the GSB’s Bertha Centre for Social Innovation and Entrepreneurships and Genesis Analytics, funded by the South African National Treasury and the Flanders Development Agency. The research coalition is also looking at education and health as potential areas for SIBs.

With donors cutting back funding since the global financial meltdown 6 years ago, governments, especially in developing countries, are looking for new ways to pay for services provided traditionally by non-governmental organisations. Jane Newman, the International Director of Social Finance, told the Cape Town seminar that in the UK preliminary data suggest that the first SIB is contributing to a relative decline in re-offending among former prisoners. There are 14 SIBs currently commissioned in the UK.

Other areas of exploration for SIBs include early identification and self-management of diabetes, and social clubs and programmes for elderly people to mitigate the burden of mental health disorders and accidents/emergencies. ‘We’re a financial intermediary – our philanthropic-leaning founders’ challenge to us was, “can you bring a



Jane Newman, International Director of the UK-based Social Finance. Picture: Chris Bateman.

financial lens to tackle social issues, and use that to raise broader capital?” We don’t divert money already available in any sector, but rather look at modest investment costs in prevention to generate savings and social benefit down the line – for which it’s much easier to make a case,’ she stressed.

Comprehensive ‘blue-collar’ healthcare at a fraction of ‘usual’ premiums

A local company that has gained traction since pioneering affordable low-income-based health insurance 6 years ago, is CareCross Health, whose off-shoot OCSACare, provides ‘full-spectrum, unlimited primary care’ for blue-collar workers at just R214/month (contributed by employers). Their scheme’s target members are people earning less than R5 000/month. OCSACare has now built up a network of 1 400 contracted private GPs, and a similar number of dentists, optometrists, radiologists and pathologists to provide a ‘one-man, one-doctor’ service that directly reduces health-related or dysfunctional (read overburdened) State-clinic related absenteeism. According to Statistics South Africa, absent workers cost South Africa more than R12 billion/year – with a third of public sector workers absent for health reasons, compared with just over 9% in the private sector.

Drawing from among the more than 80% of South Africans unable to afford the traditional higher-end medical aid premiums (often ten times the premium, though two or

three have followed the CareCross example), OCSACare today covers 25 000 members – and throws in company education and treatment programmes to tackle the two most common chronic conditions: hypertension and diabetes. The preventive focus includes regular reports to management on illness in the workplace, which allows companies to track and address the most common health complaints.

OCSACare’s CEO, Annie Radmanovic, cites the Constitution to remind people that the onus for providing quality healthcare lies not only with government. ‘We’ve been able to prove that bringing affordable private healthcare to all in South Africa is possible,’ she says. CareCross MD, Dr Reinder Nauta, says that remunerating GPs through risk-share models, e.g capitation, ensures an appropriate level of medical care at an affordable price point. This form of remuneration will also underpin the fee models proposed by the National Health Insurance.

Wyer emphasised that it was ‘all about de-risking investments; the less risk, the less return – but a safer, more palatable investment’.

CareCross wasn’t the only company looking at innovating fee models. Dr Brian Ruff, General Manager of Discovery Health, noted on several occasions at the summit that the current fee-for-service model was unsustainable. Nauta quipped that CareCross is ‘a not-for-loss company,’ intimating that companies who make money in healthcare are often frowned upon, but without profit there is no sustainability.

Access to cheaper medicines now on the horizon

Managing the Cadiz sub-Saharan Investment Support Fund (Cadiz ASSIST) is former US Agency for International Development (USAID) and World Bank facilitator, Terry Wyer, now Senior Manager, Global Partnerships and Impact Investment at Cadiz Asset Management, the Investment Manager of the Southern African Regional Programme on Access to

Medicines (SARPAM), Africa Medicines Impact Investment Fund (AMIIF). His team recently completed a Department for International Development-funded market assessment on medicine access for low-income communities in South Africa, Lesotho, Namibia and Botswana. They are also in a USAID partnership to finance and develop a product using grant funding and private sector capital (in this case mainly South African pension fund capital) to reduce risk on high-impact investments in South Africa.

Their overall goal with AMIIF and their international partnerships is to ‘catalyse’ private sector investment into the health space. ‘Large capital inflows means traction and large-scale social impact,’ says Wyer. His company provides investment and technical assistance; in the process looking at the financial health of the prospective partner business, their marketing plan, credit-scoring models and other needs, but, most importantly, their social impact. ‘So far we’ve not had a single default on these high impact projects. We’re actively looking for investors and viable businesses,’ he adds. Heavyweight partners include the US government, Standard Bank, UKaid, Greater Capital, African Management Services Company (AMSCO), Re-action! Consulting, ETM Analytics, Axis (administration), Grant Thornton and BLC Legal Counsel.

Carlijn Nouwen is a partner in Dalberg’s Johannesburg office (Dalberg being a strategic advisory firm working to raise living standards in developing countries and address global challenges). She has extensive expertise in solutions that facilitate bank loans to the health sector – something virtually unheard of prior to the advent of innovative low-risk social impact financing.

One of the most all-embracing instruments that Nouwen presented is HUGinsure, the first-ever insurance entity dedicated to social impact projects. HUGinsure is a joint venture between D Capital (Dalberg’s impact investment arm) and Hollard Insurance, currently piloting its first products. Unlike a guarantee, HUGinsure provides a way to unpack, manage and spread risks. Says Nouwen, ‘The banks’ major concern is how quickly they’ll get their money back. We insure very specific risk related to the loans, in partnership with major insurance players [Hollard Insurance, Lloyd’s of London].’



Terry Wyer, SARPAM Investment Manager.
Picture: Chris Bateman.

What benefits does HUGinsure bring? Among other things, emergency relief organisations will no longer need to use such huge dormant disaster-relief funds to be ready to jump in the next humanitarian crisis. A HUGinsure policy will act as a ‘comfort wrapper’ for banks to give organisations such as Save the Children a credit facility in case disaster strikes. Hundreds of millions of rands ‘sitting doing nothing’ can be freed up to work for social good.

Dalberg has worked extensively on advance purchase agreement mechanisms, which enable projects that might otherwise never gain traction and secure predictability. Where this involves farmers, they can rest easy that they’ll sell at a fixed price.

In Mozambique, D Capital has designed a development impact bond to fight malaria in partnership with private sector players and the government of Mozambique. The first issuance of the bond is expected later this year.

‘De-risking’ makes it possible – and palatable

Asked what the typical range of returns was for investors, Wyer said it depended on the type of organisation and where on the social and financial returns spectrum they were aiming. ‘For example, mines get uptime for their workers via malaria interventions and this is all they need with regards to return

expectations, but South African investors are usually looking for 8 - 10% on debt funds as well as social returns and in equity we’re looking at 25 - 35% return expectations from even some of the so-called development institutions. As you go north into Southern Africa you can expect larger returns but still get tremendous social impact.’ Wyer emphasised that it was ‘all about de-risking investments; the less risk, the less return – but a safer, more palatable investment for organisations making these investments.’

Nouwen told seminar delegates that impact investors in malaria control received a 5 - 10% return on their investment, ‘if we’re successful.’ Newman, quizzed on her experience of social issue areas that did *not* lend themselves to the mechanism, said it was ‘about speed of return on investment and depth of the social issue – you’ve seen the graph with the peak of expectation, trough of desperation and the platform of productivity – we’re hoping we’re some way towards the last.’ She said confounding factors included lack of good or accessible data, explaining, ‘with prisoners, police computers make access easy, but with drugs and alcohol it’s more difficult.’

‘Our philanthropic-leaning founders’ challenge to us was, “can you bring a financial lens to tackle social issues, and use that to raise broader capital?”

In closing the session, the Bertha Centre’s Director, Dr François Bonnici, remarked on the growth of the social finance sector, saying ‘As this panel has demonstrated, we are seeing the emergence of financial instruments designed specifically for social enterprises and organisations that are creating impact in their communities, these instruments are creating investment opportunities for impact-oriented investors and partnership opportunities for governments and corporations. We see this space continuing to grow exponentially in size and significance.’

Chris Bateman
chrisb@hmpg.co.za

S Afr Med J 2014;104(5):327-328.
DOI:10.7196/SAMJ.8085