



**OpenLMIS Sustainability - Meeting Post-Read  
Financing Tools, Types, Outcomes, & Impact**  
September 5, 2019



# Key Activities & High-Level Takeaways

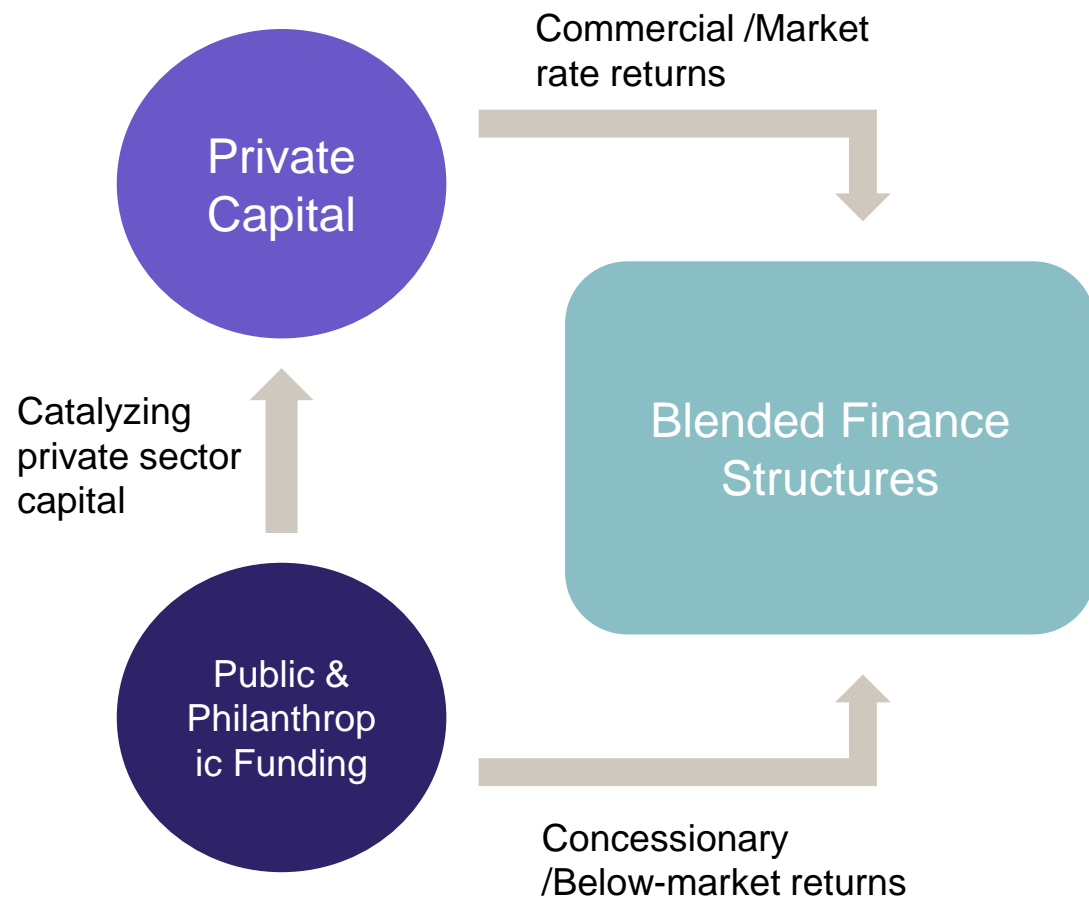
Innovative Financing Tools	OpenLMIS should explore blended finance options due to project risk
Types of Investors and Funders	These will vary based on investment objectives and OpenLMIS growth stage
Outcomes and impact	Impact investors/funders will look for both financial and impact returns



# Innovative Financing Tools



# Defining Blended Finance and its Benefits



- Blended finance structures combine philanthropic grants, insurance, or guarantees (concessionary funding) with private capital
- Impact investors use blended finance tools to bridge the gap between fully concessional and fully commercial returns and balance risk/return trade-offs
- Project risks that may require public or philanthropic grants to unlock private investment include (**OpenLMIS checks these boxes**):
  - Underdeveloped or illiquid local financial markets and regulations
  - Limited understanding of local markets and risks
  - Lack of accumulated data against which to measure impact/return
  - Political risk and corruption (for some countries)
  - Long time horizon for project financial returns



## How is the risk / return balanced in blended finance structures?

All layers share the same investment portfolio, but if there is a loss, the first loss (public capital) takes the first hit, thereby protecting the senior layers of investors.

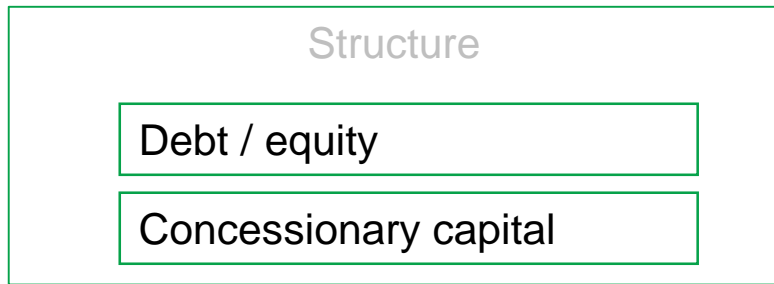


- Investors coming into the senior layers do not expect the same level of financial returns as they would have otherwise, because:
  - they are protected by the first loss (reduced risk), and
  - the lower returns generated by the investment portfolio meet their risk-return requirements.
- The first loss appeals to traditional donors:
  - Instead of investing a dollar in a cause they support, they can now invest in a first loss of an impact fund dealing for that same cause, and have a catalytic effect by attracting other investors.
  - In addition, this concessional dollar may not actually be lost and could even generate a return, meaning the donor gets to invest it again.

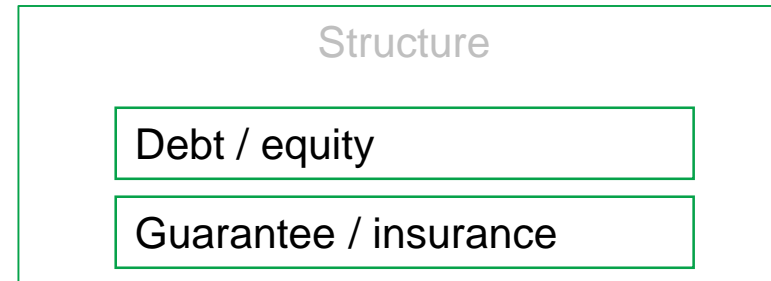


# Common types of blended finance structures

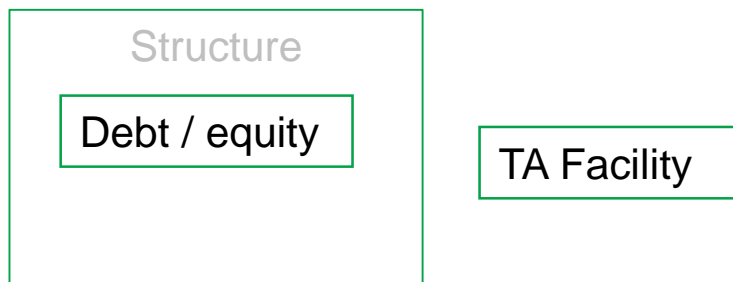
A donor or philanthropic entity could play a critical role in mobilizing private sector capital by providing: a grant or TA facility to support the structure, capacity building activities, guarantee or insurance to lower risk within the structure, etc.



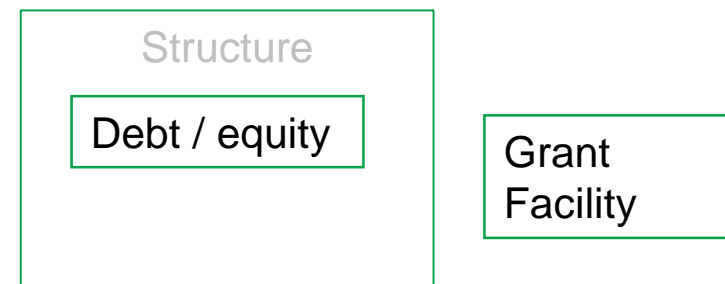
Public or philanthropic investors are concessional within the capital structure



Public or philanthropic investors provide guarantees or insurance priced below market rates



Transaction is associated with a grant-funded technical assistance facility



Transaction design or preparation is grant funded



# Types of blended finance project examples in the health sector

Instrument	Definition	Example
Debt buy-downs	Donor commits to paying off part/all of the principal or interest of a loan, contingent on achieving health milestones	The World Bank established a trust fund with grants from donors to buy down credits, or loans, by the International Development Association for polio-eradication programs in Pakistan and Nigeria based on their polio immunization results
Development impact bonds	A pay-for-success model that ties payment to the attainment of a pre-determined social outcome. Stakeholders include outcome funders, investors, service providers, and independent evaluators	USAID is an outcome funder for the Utkrisht impact bond aimed at improving maternal and newborn health outcomes by working with private health facilities to achieve rigorous quality accreditation standards
Guarantees	Partial protection to lenders willing to extend loans to developmentally important but underserved sectors such as health	DCA partnered with the USAID Uganda Mission and the Government of Sweden to provide a 7-year, \$3 million loan portfolio guarantee (LPG) to the Centenary Bank to increase access to credit for the Ugandan private health sector
Impact investment funds	Funds that make investments into companies and organizations with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return	\$1 million in grant funding provided by USAID that helped the Medical Credit Fund raise \$17 million from a mix of public and private institutions to provide credit to health SMEs in Africa
Leasing	A contract between two parties where one party (the lessor) provides an asset for use to another party (the lessee) for a specified period of time, in return for specified payments	The Asian Development Bank (ADB) provided a \$75 million loan on favourable terms, i.e. with a longer tenure, to enable Yingda International Leasing in China to lease out modern medical equipment to public hospitals in underdeveloped regions that were otherwise unable to access long-term finance
Milestone-based financing	Grant funding that is disbursed to recipients if and when pre-determined outputs or outcomes are achieved	Ujjwal, a program designed by DFID to set up a network of 280 franchisee clinics for quality family planning and reproductive health (FP/RH) clinical services in underserved rural areas, had 70 payment milestones based on defined outcomes verified by a third-party assessor





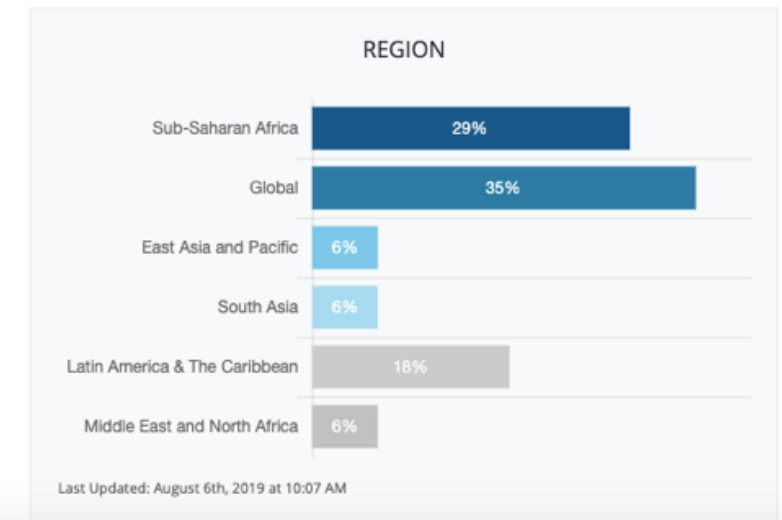
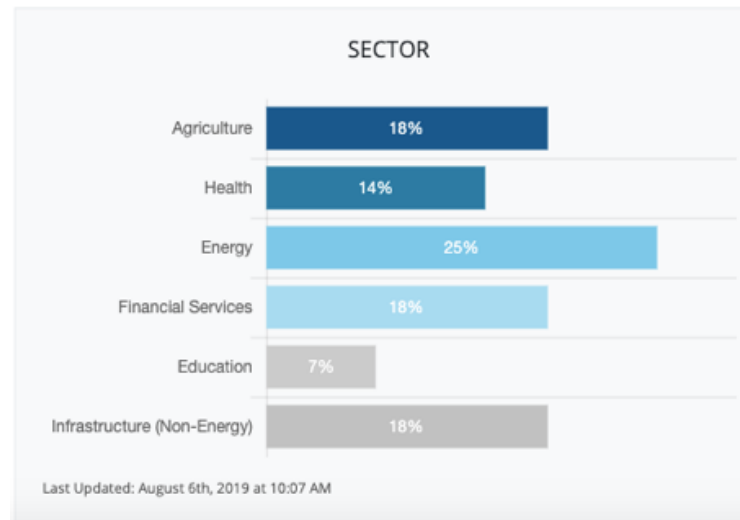
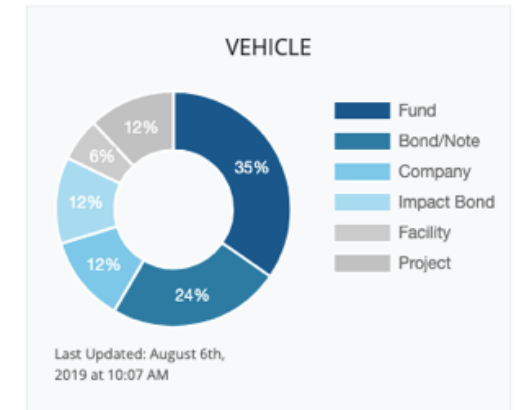
# OpenLMIS could apply for blended finance design funding

Convergence is the global network for blended finance.

**Convergence offers feasibility study and proof of concept funding** for practitioners to design catalytic blended finance vehicles that aim to attract private capital to global development at scale. Through this funding, Convergence also aims to foster market-wide learning.

Feasibility study: Funding to explore the feasibility of the vehicle, particularly ability to attract private investors, as well as to develop the high level vehicle structure.

**Convergence will award grants between USD 50,000 and USD 200,000 for feasibility studies.** Promising feasibility studies funded through the Open Window will be considered for follow-on proof of concept funding.



Source: Convergence





## Convergence Funded Project Example: Design of Strengthening Health through Invoice Financing Technology (SHIFT)

- Convergence awarded a proof of concept grant to Total Impact Capital and Capital Tool Company in Q3 2018 to pilot SHIFT program in Kenya.
- SHIFT is a blended finance solution designed to increase access to finance for healthcare SMEs by allowing pharmaceutical distributors to turn their invoices/accounts receivable into collateral, thereby unlocking longer-term credit for their small and medium-sized enterprise (SME) customers (i.e., pharmacies and clinics).
- It is the first asset-backed securities transaction in Kenya for healthcare SMEs.
- Issue targeted: A highly fragmented and inefficient supply chain hampers the distribution of medicines in Kenya. One of the key challenges is a lack of access to finance.
- Convergence's grant will support the team with the structuring, legal, and technology validation work for a pilot in Kenya. SHIFT has received strong interest to date from local distributors, commercial banks and pension funds to participate in the pilot transaction.



# Types of Investors & Funders



# Type of Investors, Funders, & Returns Vary Based on Investment Objectives

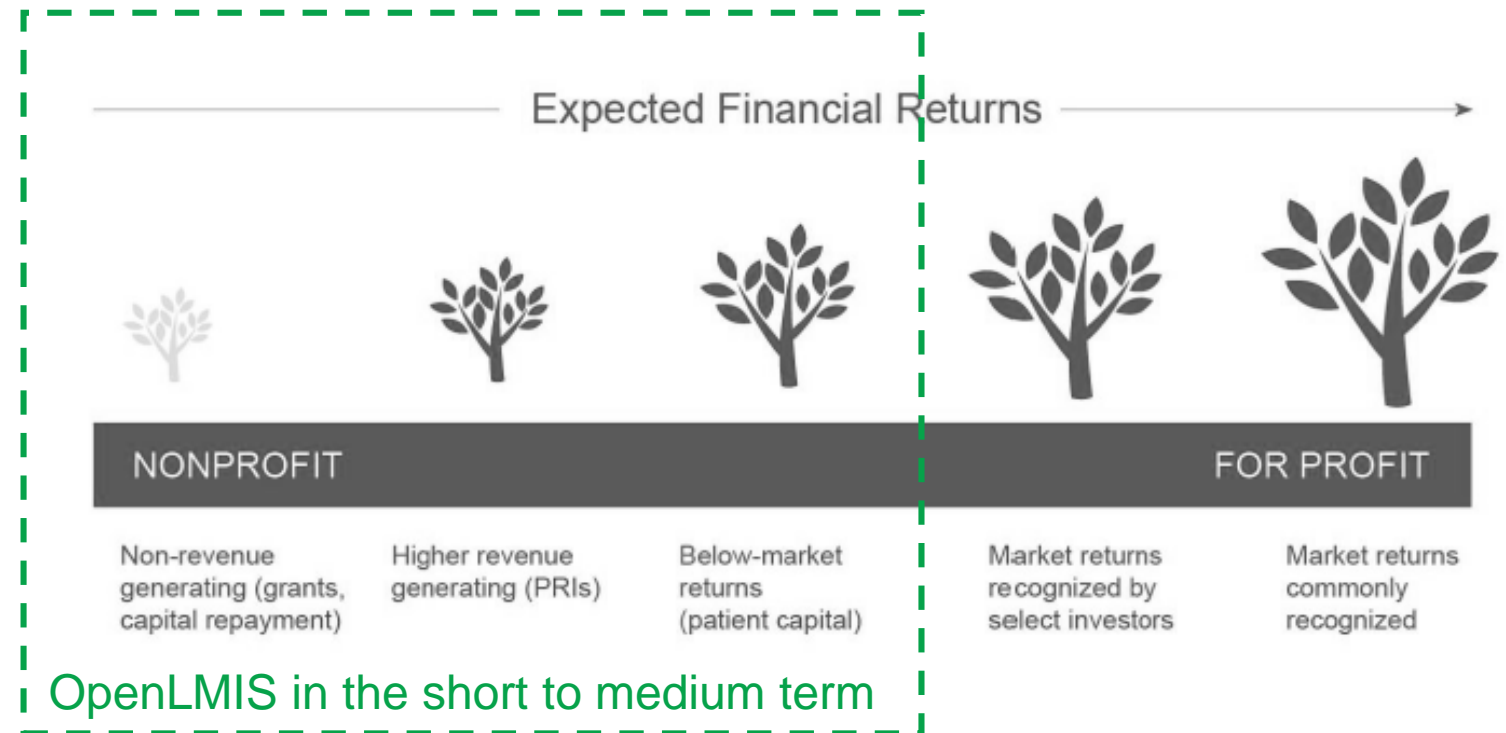
	Responsible Investing		Impact Investing			
	Traditional	Responsible	Responsible 2.0	Finance-first Impact	Impact-first	Philanthropy
Focus	Emphasis on profit maximization with limited or no focus on environmental, social, or governance (ESG) factors	Passive management of ESG risks across a wide range of factors in order to screen out investments from portfolio consideration	Active focus on ESG opportunities as value drivers to screen in investments measured against social or environmental metrics	Deliver a measurable ESG return by focusing on opportunities that provide a market-rate or market-beating financial return	Emphasize measurable environmental, social, or governance returns that may require some financial trade-off	Focus on one or more issue areas where the attainment of ESG goals requires a 100% financial trade-off
Impact Intent	None	Neutral	Modest	High	High	Maximum
Return Intent	Maximum	Maximum	Maximum	High	Moderate	Low to None
	← Finance-Only		Purpose Investing		→ Impact-Only	

OpenLMIS in the short to medium term



# Type of Investors & Funders Vary Based on Growth Cycle Funding Needs

- A wide range of investors and instruments is needed to meet the changing needs of businesses at different stages of the growth cycle.
- Early-stage investments in building the market infrastructure and funding early-stage innovators/startups typically provide low to no market returns. At this stage grants and funds play a critical role, with “patient capital” instruments like PRIs playing a bridging role for investees that are growing their businesses but are not yet able to access commercial funding.





# Who is Making Impact Investments?

Impact investment has attracted a wide variety of investors, both individual and institutional:

- Fund Managers
- Development finance institutions
- Diversified financial institutions/banks
- Private foundations
- Pension funds and insurance companies
- Family Offices
- Individual investors
- NGOs
- Religious institutions

## Recommended approach:

- Created framework of impact investment funds based on the following framework:
  - Impact investment focus
  - Geographic focus
  - Asset class
  - Stage of investment
  - Minimum investment size
  - Financial return requirements
- Created list of investors and foundations that focus on health → continue to hone in on short-list
- Investor outreach for early feedback



# What Would OpenLMIS Need to Pitch to Investors?

Product  
Viability

Revenue  
Potential

Growth  
Potential

Alignment  
to Social  
Impact



# Outcomes and Impact





***OpenLMIS provides access to affordable and context appropriate medical supply chain software for national health systems – which are essential in emerging markets.***

### **VISION**

All countries have the logistics data they need to effectively manage their health supply chains leading to healthier communities.

### **MISSION**

Collaboratively develop shared, open source software to improve health commodity distribution in low- and middle-income countries.



# Performance Indicators & Typical Indicator Questions

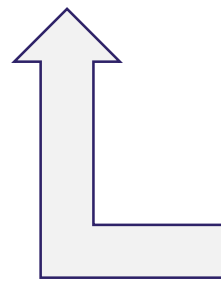
- For traditional investors, financial and operational indicators are important to measure and track
- For impact investors, an additional impact metrics component comes into play
- Note that for OpenLMIS, operational efficiencies are achieved both at the organization level as well as the customer level (health clinics, hospitals, etc.)
- Operational efficiencies increase both financial and impact returns

**FINANCIAL**

- What is the ROE/ROA?
- What is the Return on Investment?
- What is the NPV and IRR?
- What is the payback period?

**IMPACT**

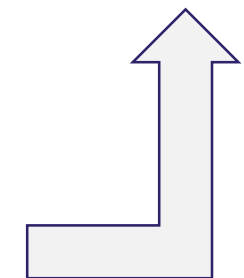
- How many households are reached?
- Is there increased access to affordable healthcare?
- Are last mile populations being reached?



Operational efficiencies increase financial returns

**OPERATIONAL  
(OpenLMIS and its customers)**

- What is the % of each vendor's expected orders that were delivered on time and in full?
- What is the average days for product arrival at port/airport vs warehouse?
- How quickly can software product customizations be developed?
- How quickly can maintenance issues be resolved?



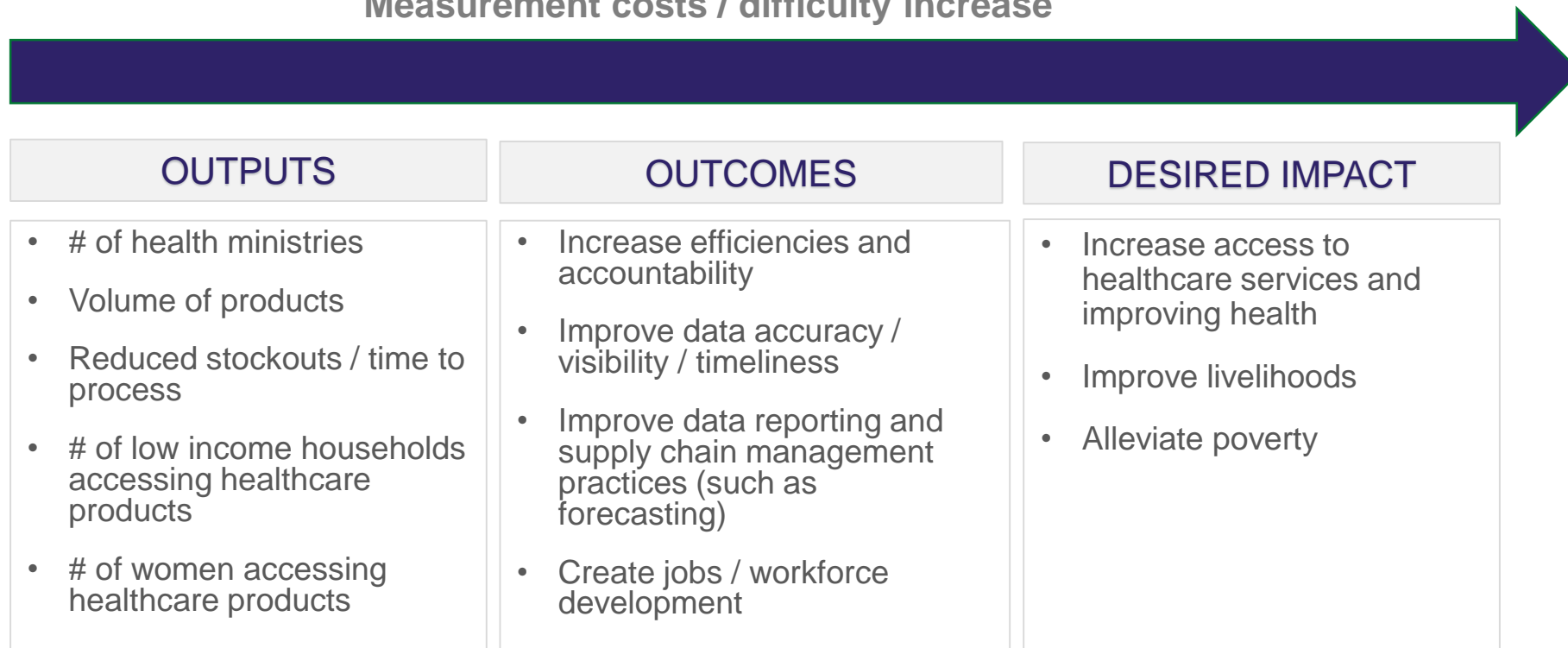
Operational efficiencies increase /scale outcomes and impact



# Impact Logic Chain

- Investors and shareholders are increasingly asking about impact created and the legacy “number of people reached” indicator is not enough
- Measuring impact can be costly and difficult due to external factors and attribution issues
- Balance needs to be made between what can be measured in the short-term (outputs) versus medium-term (outcomes) that ultimately lead to the long-term (desired impact)

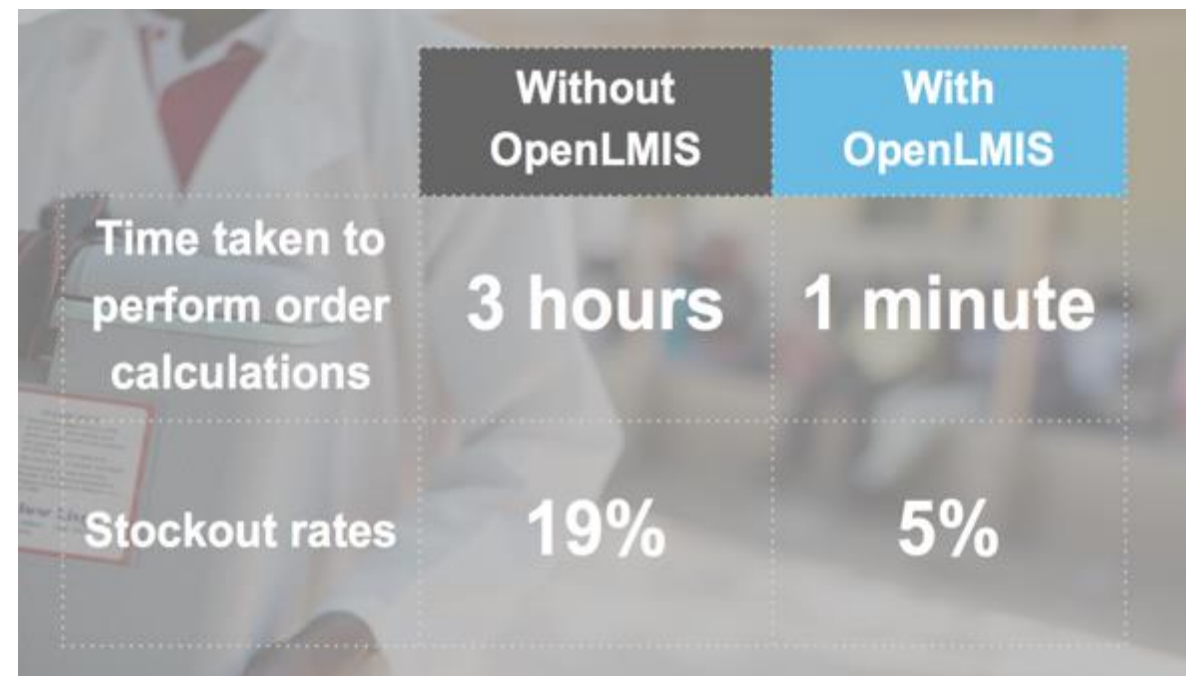
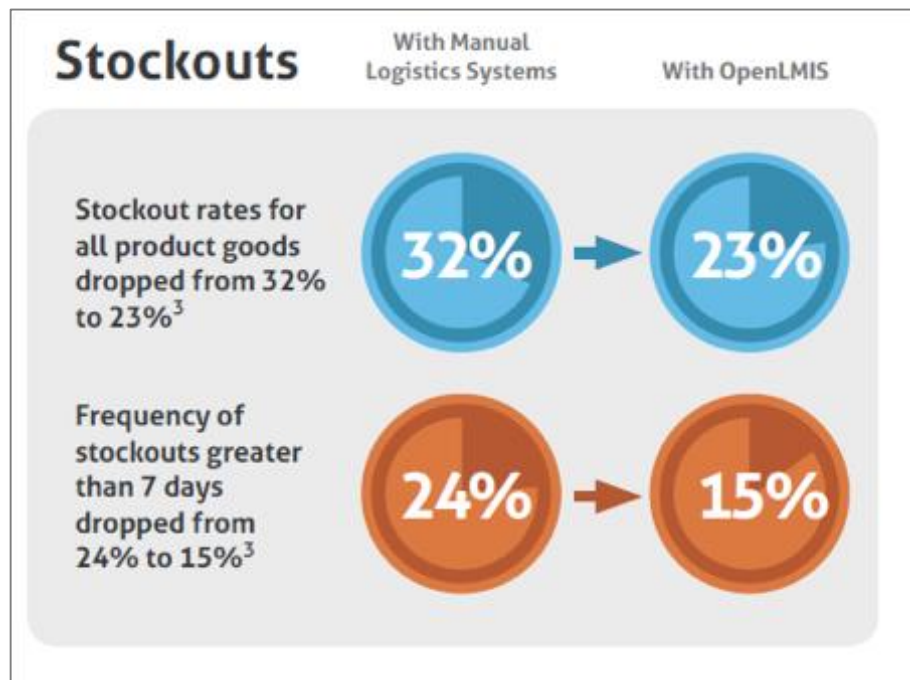
Measurement costs / difficulty increase





# OpenLMIS' Reported Impact Statistics

OpenLMIS has reported significant operational efficiencies and improvements in health supply chain performance, which is valuable to impact investors.





# Additional operational efficiency indicators that could be measured for OpenLMIS

- **Inventory Turnover:** Measures how well an organization is able to move its inventory. Helps in understanding supply chain efficiency, buying practices of the company and gauge demand for products.
- **Inventory Accuracy:** In theory, physical inventory should always match the numbers shown in the inventory management software database. Unfortunately, there's often a significant disparity between what's shown and the real situation. This can result in unexpected backorders and increased inventory costs.
- **Delivery/Shipment Times:** Important to meet customer's needs.
- **Cash-to-Cash Cycle Time:** This can assist in accurately calculating the cash-to-cash cycle time from paying for supplies to selling the finished product to customers, providing the average duration of the cycle. This metric can help companies increase the efficiency of their supply chain. With the ability to track the average cash-to-cash cycle, companies can make improvements, thus freeing up resources for other uses.
- **Health Facility Reporting Rates:** Facility reporting rates indicate how widely the LMIS is being utilized and how much of the required data is, therefore, available to reach decisionmakers to influence supply decisions.
- **Percentage of Facilities Stocked Out of Each Life-Saving Commodity:** This indicator measures the lack of product availability and the inability of a facility or program to meet clients' needs with products and services.
- **Percentage of Service Delivery Points (SDPs) that Offer Clients Access to Life-Saving Commodities and Services:** This indicator measures the percentage of SDPs (and community level, where applicable) in a country that offers clients access to life-saving commodities and related healthcare services.





# Sustainable Development Goals (SDG)

In September 2015, the General Assembly adopted the 2030 Agenda for Sustainable Development that includes 17 SDGs. Building on the principle of “leaving no one behind”, the new Agenda emphasizes a holistic approach to achieving sustainable development for all.





# Alignment of SDGs with OpenLMIS' Activities

- As the impact sector continues to evolve at a rapid pace, impact measurement activities have become increasingly important but yet to be standardized (UN SDG, IRIS+ rating, etc.)
- The SDGs seem to be broadly accepted and easy to apply across a broad spectrum of investors which is why we align Open LMIS' activities with these goals

		SDG	Indicator examples
Primary Impact		GOAL 3: Good Health and Well-being	<ul style="list-style-type: none"> <li>• # of health ministries</li> <li>• Volume of products</li> <li>• Reduced stockouts (esp of life-saving commodity)</li> </ul>
Secondary Impact		GOAL 1: No Poverty	<ul style="list-style-type: none"> <li>• # of low income households accessing healthcare products</li> <li>• % of service delivery points (and community level, where applicable) in a country that offers clients access to life-saving commodities and related healthcare services</li> </ul>
Secondary Impact		GOAL 5: Gender Equality	<ul style="list-style-type: none"> <li>• # of women accessing healthcare products</li> </ul>
Secondary Impact		GOAL 8: Decent Work and Economic Growth	<ul style="list-style-type: none"> <li>• # of jobs created /workforce development (workers trained)</li> <li>• # of jobs retained (due to being healthy)</li> </ul>





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# Financing Workstream Next Steps

- Continue to test financial model assumptions
- Shortlist potential funders and investors based on investment and geographic focus, asset class, stage of investment, minimum investment size and financial return requirements
- Continue investor outreach for early feedback
- Develop framework and recommendations for pitching OpenLMIS
- Incorporate blended finance options and examples in the handover plan

# Thank You!

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# Appendix



# Key Takeaways from Initial Interviews

## Capria Ventures

*Capria Ventures is a financial services innovator, managing Unitus Seed Fund, India's most active impact seed fund, as well as Capria, advancing the next generation of impact fund managers in emerging markets.*

- It is critical to look at the total addressable market and really understand what the revenue potential is
- What are the product offerings and how does it need to change?
- Channel partners are a good approach – think about “Gold” partner status and what that might look like
- Market is super fragmented and sales cycles and teams are tricky – understand the sales value chain

## Open Capital Advisors

*Open Capital Advisors is a management consulting and financial advisory firm that drives growth, enables investment, and builds markets across Africa.*

- Seeing huge trend toward outsourcing of supply chain and inventory management:
  - Chains of health kiosks and those operating in slums struggle with capability around healthcare management, so being able to outsource supply chain and working capital for inventory is important.
- Most early stage investments are funded by angel investors and foundations
- Late stage investors look for:
  - Clear path to sustainability
  - Clear path to exit
  - Scalability has to be credible
  - Management team capabilities are important for investors evaluating equity investments