HANSHEP Health Enterprise Fund:
Supporting Pro-Poor Health Innovations in the Private Sector

PROFILE

Summary: From 2013 to 2015, the Strengthening Health Outcomes through the Private Sector (SHOPS) project implemented the HANSHEP Health Enterprise Fund in Ethiopia, Kenya, and Nigeria. The fund was designed to identify innovative and replicable private sector solutions that address critical health priorities of the poor in sub-Saharan Africa. Through timely investment and targeted technical assistance, the fund supported 16 small businesses to establish proof of concept or to scale their models sufficiently to generate revenue. This profile describes the selection and implementation processes of the fund and highlights several of the grantees' business models. It also includes the results achieved by the fund and lessons learned to inform future challenge funds.

Keywords: Africa, AIDS, child health, commercialization, communicable diseases, community mobilization, Ethiopia, family planning, financial sustainability, financial mechanisms, health financing, health products, HIV, Kenya, market-based approaches, market-based solutions, maternal health, Nigeria, public-private partnerships, reproductive health, sub-Saharan Africa

Recommended Citation: SHOPS Project. 2015. *HANSHEP Health Enterprise Fund: Supporting Pro-Poor Health Innovations in the Private Sector*. Bethesda, Maryland: Strengthening Health Outcomes through the Private Sector Project, Abt Associates.

Cover photo: Afri-Can Trust

Project Description: The Strengthening Health Outcomes through the Private Sector (SHOPS) project is USAID's flagship initiative in private sector health. SHOPS focuses on increasing availability, improving quality, and expanding coverage of essential health products and services in family planning and reproductive health, maternal and child health, HIV and AIDS, and other health areas through the private sector. Abt Associates leads the SHOPS team, which includes five partners: Banyan Global, Jhpiego, Marie Stopes International, Monitor Group, and O'Hanlon Health Consulting.

Cooperative Agreement: GPO-A-00-09-00007-00

Download: To download a copy of this publication, go to the resource center at www.shopsproject.org.

Abt Associates Inc. • www.abtassociates.com

May 2015

ACKNOWLEDGMENTS

The SHOPS project is grateful for the support of the United Kingdom's Department for International Development, as well as the support of the United States Agency for International Development (USAID)'s Office of Population and USAID missions in Ethiopia, Kenya, and Nigeria. SHOPS is especially grateful to Marguerite Farrell and Jasmine Baleva at USAID for their tireless efforts in getting the HANSHEP Health Enterprise Fund launched. Michael Kubzansky, previously with the Monitor Group, helped develop the design of the fund. Patricia Griffin of Abt Associates provided technical support to grantees in Ethiopia and Kenya. Matthew Griffith of Banyan Global managed technical assistance in Nigeria. Saskia Kloezeman of North South Consulting mentored grantees in Ethiopia. Finally, SHOPS recognizes Caroline Quijada of Abt Associates for her instrumental role in the implementation and management of the program. Sarah Dominis and April Warren of Abt Associates prepared this profile.

HANSHEP Health Enterprise Fund: Supporting Pro-Poor Health Innovations in the Private Sector

Afri-Can Trust

CONTEXT

Sub-Saharan Africa accounts for 11 percent of the world's population, and yet it bears 24 percent of the global disease burden and commands less than 1 percent of global health expenditure. According to the landmark *The Business of Health in Africa* report by the Health in Africa Initiative, governments in the region have established health systems to provide care throughout their countries, and much of the domestic health expenditures and international aid are focused on the public health sector (World Bank, 2008). However, there is growing recognition that the private sector plays a critical role in meeting the health needs of individuals, including the poor. In 2009, the Taskforce for Innovative International Financing for Health Systems found that "improving the health of the world's poor will often involve managing, harnessing, mobilizing and raising the performance of the non-state sector" (World Bank, 2009). This supports findings in the above-mentioned "The Business of Health in Africa" report that 60 percent of the $16.7 billion spent on health in Africa in 2005 was financed by private sources (World Bank, 2008). Fifty percent of those expenditures were captured by private providers.

In 2011, the World Bank noted that 52 percent of those in the bottom income quintile receive their care from the private sector, including both urban and rural populations (World Bank, 2011). Increasingly donors, investors, and governments are recognizing the role and potential of the private sector in providing health care to the poor. Harnessing Non-State Actors for Better Health for the Poor (HANSHEP), a group of donors and countries seeking to improve the performance of the private sector in delivering better health care to the poor, notes that its members are "interested in private health delivery channels not for their own sake, but because they believe they can, under certain circumstances, be the most appropriate channels for maximizing goals of coverage and equity" (HANSHEP, 2015).[1]

A portion of the health providers in the private sector are market-driven enterprises that leverage technology and innovative strategies to create solutions to provide health services and products to the poor in a sustainable manner. These providers have the potential to make real contributions to improving health outcomes in Africa, and ultimately may prove to be significant commercial opportunities for investment. However, most of these enterprises are still early-stage, and have difficulty attracting capital.

[1] "HANSHEP is a group of development agencies and countries, established by its members in 2010, seeking to improve the performance of the non-state sector in delivering better health care to the poor by working together, learning from each other, and sharing this learning with others" (HANSHEP, 2015).

While there are donor-funded mechanisms providing grants and support to NGOs addressing health in Africa and sources of private capital available for established businesses, there are few financing opportunities for small, commercial health enterprises. Some banks will lend to small and medium enterprises, but the requirements for collateral, high price of capital, or lack of business experience often deters promising enterprises from accessing the funding they need. With their rudimentary operational systems and short performance records, early-stage enterprises typically do not meet private investors' due diligence requirements. Without capital, many promising enterprises are unable to achieve scale and realize their potential for impact on the poor's health outcomes.

The HANSHEP Health Enterprise Fund

A SHOPS assessment of existing investment vehicles in sub-Saharan Africa for supporting commercial enterprises interested in delivering health products and services to the poor revealed that, while other sectors such as agriculture and technology had promising results supporting enterprises through challenge fund competitions, very few health challenge funds existed in the region. Challenge funds can be an effective means of identifying and providing early funding for innovative ideas in development, particularly for nongovernmental organizations and small or medium-sized private sector players (Pompa, 2013; Koh et al., 2014).

With support from the United States Agency for International Development (USAID), the U.K. Department for International Development (DFID), and the Rockefeller Foundation, SHOPS designed and launched the HANSHEP Health Enterprise Fund (HHEF) to address this gap. [2] Kenya and Ethiopia were selected for the initial implementation of the fund, which began in January 2013. The fund expanded to Nigeria in 2014.

HHEF was designed to identify innovative and replicable solutions that address critical health priorities in sub-Saharan Africa: high rates of maternal and child mortality, unmet need for modern family planning methods, and lack of access to HIV and AIDS testing, care, and treatment services. The fund aimed to fill the gap in health venture financing faced by early-stage health businesses, and provide targeted technical assistance intended to support the businesses to establish proof of concept, or scale sufficiently to generate revenue and attract mainstream investment or credit opportunities.

ZanaAfrica

Kenyan schoolgirls read comic inserts from ZanaAfrica packages.

[2] Funding from DFID was channeled through the HANSHEP secretariat.

GOALS

The goals of the fund were to:

- Improve health outcomes for the poor in Africa, particularly among women and girls.
- Seed promising and innovative approaches for low-cost delivery of health services to the poor.
- Bring promising health models to scale.
- Network investable health opportunities with investors.

COMPONENTS

Identifying Innovations

HHEF cast a wide net to attract innovations in Ethiopia, Kenya, and Nigeria. The fund advertised the competition, and USAID mission contacts and other private health sector colleagues shared the opportunity with their networks. The fund also met with organizations that could identify potential applicants, and with businesses interested in applying.

The competition had four eligibility criteria. All applicants were required to:

- Have a sustainable, revenue-generating business model.
- Address critical health issues in the areas of family planning, reproductive health, maternal and child health, or HIV and AIDS, or address a critical underlying health system issue.
- Be based in Ethiopia, Kenya, or Nigeria, or be intending to expand operations to these countries.
- Provide goods or services that result in improved health outcomes among the poor.

Timeline

2012: Conduct fund design research

January 2013: Launch HHEF

January–March 2013: Accept expressions of interest

March 2013: Shortlist EOIs for RFA invitations

April 2013: Hold RFA business plan workshops

June 2013: Hold Health Enterprise Fund Expo and pitch competition

July–August 2013: Selection panel deliberation and due diligence

September 2013: Notify grantees of award and grant disbursement

November 2013: Assess technical assistance needs

December 2013: Begin technical assistance

March 2014: Notify first Nigeria grantee of award and grant disbursement

July 2014: Release RFA for second round of funding

September 2014: Notify second Nigeria grantee of award and grant disbursement

December 2014: Disburse second round of grants

In Ethiopia and Kenya, the fund received almost 150 applications which described the enterprises and their plans for grant funding. The Nigeria fund received an additional 26 applications (Table 1). The applicants were asked to respond to a formal request for applications (RFA), which required a long proposal structured as a business plan, along with detailed financials. To ensure consistency in applications and clarity in the applicant's interpretation of the RFA, SHOPS contracted consultants in Ethiopia, Kenya, and Nigeria to run workshops open to all shortlisted applicants. Participants found these workshops useful in guiding their application processes and in networking with one another.

Table 1. HHEF applications

Applications received	Kenya	Ethiopia	Nigeria	Total
EOIs received	121	28	26	175
Ineligible at EOI stage	76	15	17	108
Full proposals received	45	13	9	67
Number of awardees	**7**	**7**	**2**	**16**

SHOPS invited candidates from Kenya and Ethiopia who submitted a full proposal to pitch their business ideas to investors, donors, and other stakeholders at the June 2013 Health Enterprise Fund Expo in Nairobi. Prior to the event, SHOPS held practice sessions to provide feedback on applicants' pitches and marketing materials. At the event, enterprises were showcased in a walk-through exhibition where investors could interact with individual entrepreneurs at their display booths. The event also featured a panel in which investors discussed what they look for in investees. Over 100 people attended, and attendees were excited by the diversity of private sector health enterprise represented at the event. The smaller Nigeria HHEF program did not include an expo.

Final selection decisions were made by committees of representatives from SHOPS, USAID, and the local business and health sectors. Applications were scored based on a rubric that weighed the financial viability of the idea with its potential impact on health outcomes for the poor. After due diligence checks were completed, grants were awarded to 14 enterprises in Ethiopia and Kenya in September 2013. In Nigeria, two advertisement and selection processes were required, as the majority of initial applicants did not pass due diligence checks. As a result, grants were awarded to two enterprises in April and September 2014.

Selected Innovations

The 16 enterprises selected were diverse, with innovations ranging from new health products to low-cost service delivery models. Table 2 shows the range of innovations implemented by grantees.

Table 2. Grantee innovations

Grantee	HHEF-supported innovations
Access Afya	Access Afya is creating a network of community care points that offer basic health care services in low-income Kenyan neighborhoods. The fund supported bringing affordable outpatient services to Kenya's slum residents by replicating its mini-clinic model to create a chain of mini-clinics.
Afri-Can Trust	Afri-Can Trust, a nonprofit organization, provides services to marginalized youth and women by creating economic opportunities in less-developed areas. One of the opportunities is the manufacturing of reusable cloth sanitary pads. The fund supported improvement of the "I-Care Pads" and their distribution through schools in order to promote reproductive health and reduce school absenteeism among low-income girls in Kenya.
Afya Research Africa	Afya Research Africa, a nonprofit organization, fosters research in human health and promotes best practices in the provision of health care. HHEF supported the creation of a network of health kiosks across Kenya that maintain low prices for essential health services through complementary revenue streams.
Deji Clinic	Deji Clinic, a private health clinic, aims to improve health outcomes, particularly in maternal and child health, and family planning. HHEF supported building a network of clinics in Nigeria that aims to expand access to essential health services for low-income populations through community-based health insurance.
Echelon	Echelon is the first medical device manufacturing company in Ethiopia. The fund supported it in establishing local capacity to manufacture neonatal bag valve masks in Ethiopia to expand access to life-saving technology for infants.
GE Ethiopia	GE Ethiopia is General Electric International's Ethiopia branch. HHEF supported its testing of a package of newborn health technologies designed for low-resource facilities.
Hecahn Health Services	Hecahn Health Services is a health care solution provider that aims to transform Nigeria's health sector using private initiatives and intersectoral approaches. The fund supported the expansion of its school-based primary health care program to low-income students in Nigeria.
Innopia	Innopia designs and manufactures innovative products for the health sector. HHEF supported its design and production of mobile clinic vehicles with solar power to extend health services to remote villages in Ethiopia.
Jacaranda Health	Jacaranda Health is building a chain of private maternity clinics providing patient-centered care that combines quality and affordability. The fund supported the integration of low-cost emergency obstetric care services into its maternity offerings to expand access to high quality emergency care in Kenya.
Kadisco General Hospital	Kadisco General Hospital provides high quality, comprehensive care in Addis Ababa. The fund supported the hospital's establishment of Ethiopia's second pathology laboratory, the first to provide telepathology services.

Grantee	HHEF-supported innovations
Medical Biotech Laboratories	Medical Biotech Laboratories provides accessible, affordable, and quality laboratory services to all Ethiopians, including training in laboratory sciences and operations research. The fund supported the development of a mobile medical waste management service to provide safe disposal of hazardous clinical waste.
Penda Health and **MicroEnsure**	Penda Health is a for-profit social enterprise that is building a chain of outpatient medical centers that offer the highest-quality outpatient care for Kenyan families at low prices. MicroEnsure is a global social enterprise that serves more than 12 million customers through a range of microinsurance products and services in the health and agriculture sectors. HHEF supported Penda and MicroEnsure in forming a partnership to develop and test financing models to provide health care to patients with variable cash flows in Kenya.
Ruaraka Uhai Neema Hospital	This nonprofit hospital aims to ensure quality, affordable, and accessible health care services for less privileged members of society. The fund supported its creation of a referral network of maternity clinics in a Kenyan informal settlement to increase access to complex maternal and child health care for the poor.
Tebita Ambulance	Tebita Ambulance is the first private ambulance and emergency services company in Ethiopia. HHEF supported its expansion and improvement of its ambulance fleet, and the creation of an educational video to promote first aid awareness.
Telemed Medical Services	Telemed Medical Services is Ethiopia's first telemedicine provider. The fund supported Telemed's expansion of Hello Doctor, a telemedicine platform that offers phone-based medical consultations, and its creation of a tracking system to strengthen care for HIV and tuberculosis (TB) patients in Ethiopia.
ZanaAfrica	ZanaAfrica is a Kenyan social enterprise that has developed affordable sanitary pad products made from local resources. HHEF supported its development and testing of health comic inserts that seek to change health behaviors of women and girls who buy its sanitary pads in Kenya.

Financing

The goals of HHEF heavily influenced the fund's design, including the type and amount of funding, and the decision to offer a second round of funding to select initial grantees. HHEF's objective was to identify promising innovations for improving health services for the poor that were not yet proven, and to support the innovators to reduce risk and improve viability. The fund selected grants as its financing mechanism, given that the enterprises it would support were considered high risk for financial returns. Grants have been found to be more appropriate for encouraging experimentation and for very high risk or potential high social return investments, as debt is difficult to service for early-stage enterprises and the transaction costs for issuing small amounts of equity are high. In addition, nascent enterprises struggle to attract private equity financing due to short performance histories and under-developed business systems. Grants are also less expensive, less time-intensive, and require less expertise to administer than other forms of capital.

The fund disbursed $3.04 million in grant funding to support the 16 selected grantees. Initial grant awards ranged from approximately $70,000 to $210,000, with an average grant size of $160,000. In a 2008 report, the Health in Africa Initiative found that institutions providing capital to small and medium-sized enterprises typically provide support under $100,000, while major private equity companies typical provide capital at levels above $500,000, leaving a gap for enterprises that require funding within the mid-range (World Bank, 2008). Prior to receiving HHEF funding, grantees fell into this financing gap, with many using founders' capital to start their enterprises. Combined with required matching funding, HHEF financing provided sufficient capital for enterprises to test or grow their businesses.

Second-Round Funding

One year after the initial funding cycle, SHOPS invited grantees in Ethiopia and Kenya to apply for a second round of funding. Six grantees were selected to receive additional financing of approximately $65,000—$90,000 (average size: $82,000). Selected grantees demonstrated how additional funding would enable them to build on their first round activities, bring their innovation to scale, or add an additional feature which would increase their value proposition for customers. First and second rounds of funding were run simultaneously between November 2014 and June 2015.

Ruaraka Uhai Neema Hospital

Maria Anyango with her twins at the Newborn Unit of Ruaraka Uhai Neema Hospital in Kenya.

Table 3. Second-round grants

Grantee	HHEF-supported innovations
Afri-Can Trust	Build on existing school-based distribution model to pilot "savings clubs" and establish regional hubs for sanitary pad stocking and sales.
Afya Research Africa	Establish three additional health kiosks and upgrade existing kiosks. By installing solar power and employing more clinical officers, Afya Research Africa is expanding service offerings to include vaccines, insertion of long-term contraception methods, circumcision, and HIV and TB monitoring and treatment.
Jacaranda Health	Develop a quality improvement toolkit for maternity care and pilot it in three government facilities.
Medical Biotech Laboratories	Add capacity to manufacture safe medical waste disposal bags, boxes, and sharps containers, thereby providing an integrated solution for medical waste management.
Penda and MicroEnsure	Scale the roll-out of successful cashless health care models, such as Penda Postpaid, by focusing on building new partnerships with employers and intensifying marketing and outreach activities.
Ruaraka Uhai Neema Hospital	Strengthen the Mother and Child Referral Network through enhanced communications and shared services, and develop a tiered payment model to make ambulance services sustainable.

Technical Assistance

HHEF built upon the lessons learned from previous challenge funds by designing a significant capacity-building technical assistance element for each grantee, in addition to providing seed capital. Previous challenge funds and other equity investors reported that the effectiveness of the seed capital was superseded by the need for capacity building (Barbary et al., 2011). Therefore, the fund incorporated technical assistance throughout the life of the grant.

SHOPS conducted a needs assessment with each grantee to determine capacity gaps and technical assistance priorities. The needs assessment showed that the technical assistance needs of the health enterprises were as diverse as the enterprises themselves. While start-ups needed help with establishing basic health and business processes, more established companies desired assistance in obtaining internationally recognized certifications. However, some common themes emerged across the majority of grantees. To meet diverse needs in a timely manner, SHOPS provided technical assistance to grantees both individually and in groups.

SHOPS worked with a variety of organizations and consultants to provide relevant technical assistance, including local, regional, and international companies and consultants. SHOPS also employed an advisor in each country, who provided quality assurance for contracted technical assistance, and ongoing advisory and networking support to grantees. Technical assistance providers used traditional and innovative means for capacity building, including webinars, one-on-one coaching, classroom instruction, on-site workshops, and collaborative boot camps.

Group technical assistance

HHEF identified areas of need for all or many grantees: business management, marketing strategy, clinical service quality, and legal support. The fund contracted local or regional companies to deliver technical assistance on these topics in group formats. Business management technical assistance was provided by a local organization in each country, and included topics such as human resources management, finance, and operations.

Grantees also participated in workshops on human-centered marketing, as well as clinical quality trainings and knowledge exchanges. Finally, HHEF put a local legal firm on retainer in each country to help grantees navigate labor contracts, evaluate investment deals, and support other issues that arose.

SHOPS found that working in groups was particularly effective in enabling grantees to learn from each other through stories and discussions. Through group interactions, the grantees identified mutually beneficial partnerships.

Sarah Dominis

Staff take basic health information and share details about Deji Clinic's "Xcellent Health" insurance product during a community outreach event in Nigeria

Individualized technical assistance

Needs of grantees varied from optimizing manufacturing processes to developing telemedicine clinical protocol. HHEF provided individualized technical assistance, mentorship, and coaching. Customized support ranged from relatively low-touch interventions, such as introducing grantees to strategic partners and providing reference materials, to intensive one-on-one support.

Examples of technical assistance provided:

- HHEF identified that Afri-Can Trust's sanitary pad assembly lines suffered from low productivity. In response, SHOPS's regional business advisor, a certified Lean Six Sigma practitioner, provided hands-on training, which resulted in the sanitary pad assembly line increasing production capacity from 600 pads per month to 3,700 per month, without adding more human resources.
- Access Afya requested technical assistance for its pricing strategy. In response, HHEF contracted a health care financing consultant to work with Access Afya to develop, price, and pilot a product bundle for clients' maternal health needs.
- Echelon identified a need for certification to increase consumer confidence in its products. The fund supported Echelon through the World Medical Device Organization's certification process. Echelon is now the first and only certified medical device manufacturer in Ethiopia.
- One of Kadisco Hospital's top priorities is providing standard-setting high quality health services. HHEF connected Kadisco with the Step-Wise Lab Quality Certification program, enabling them to pursue ISO-certification of their pathology laboratory. Once the laboratory is certified, Kadisco plans to do the same for the entire hospital.
- A variety of grantees requested assistance with the technology required to execute their missions. HHEF provided individualized support for the grantees on anything from identifying the optimum customer relationship management system to researching digital pen technologies for digitizing hospital records.

ZanaAfrica

Grantee Partnership
Afya Research Africa owns 12 health kiosks in rural areas of Kenya. Through HHEF technical assistance, Afya Research identified an opportunity to collaborate with sanitary pad manufacturer ZanaAfrica. ZanaAfrica and Afya Research have established a partnership in which Afya Research's kiosks serve as regional wholesalers for ZanaAfrica's products, an arrangement that provides an additional revenue stream for the kiosks and link sanitary pad product marketing with health promotion efforts beyond menstrual hygiene.

Engaging Investors

An important objective of the fund was to increase grantee readiness for future financing, particularly private equity and debt investment. As such, HHEF intentionally built in a number of opportunities for grantees to meet impact investors throughout the life of the project. Prior to engaging with the fund, most grantees were investor naïve. For some of the grantees, the fund's application process got their business models on paper for the first time. The expo also gave enterprises the opportunity to hear from investors on what they were looking for in potential investees, and to gain a more comprehensive understanding of the market.

Kibret Abebe Tuffa, founder of Tebita Ambulance, met an Acumen representative during the expo, and asked why Ethiopian entrepreneurs were not eligible for the Acumen East Africa Fellows program. Following this exchange, Acumen added Ethiopia to the eligible countries for the program. Tuffa applied and became the first Ethiopian fellow to be accepted.

"It hadn't occurred to me until the HHEF Expo that I could pitch my case to an investor."

– Dr. Yohans Wodaje, General Manager, Telemed

Throughout the project, HHEF introduced grantees to impact investors and encouraged them to apply for incubator programs and collaborative networks. With an introduction from the fund, Afya Research Africa and ZanaAfrica were successfully accepted into the Duke University Social Enterprise Accelerator program. Other introductions included the African Medicines Investment Facility, Spring Accelerator, UNICEF, the World Bank, the Gates Foundation, and the Global Innovation Fund.

In addition to networking events, the fund provided investment-oriented technical assistance and training to the grantees. Grantees participated in an "Investment 101" session, and received additional training and coaching on business pitch development, types of investments and deal structures, business strategy, and business ownership structures. In its final months, HHEF provided select grantees with individualized support and actionable recommendations to improve their investor readiness.

Results

April Warren

RESULTS

HHEF required grantees to regularly report their results, a requirement which made many of them change the way they collected, tracked, and thought about their enterprise's data. One grantee said that the nudge provided by the fund's reporting requirements led them to develop a very sophisticated electronic medical record system, which can eventually be used by other organizations. The enterprises' capacity to collect and present social and financial performance data increased greatly over the course of the fund, and the grantees now have high quality data to attract investors.

> "[HHEF was] massively helpful... There are a lot of people in my network that wouldn't write a check yet...so the fact that you guys would come in early and actually allow us to do things like invest in management capacity instead of just clinic costs...I feel like that first budget was able to really reflect what we needed to start spending money on."
>
> *– Melissa Menke, Co-founder and CEO, Access Afya*

A Catalyst for Innovative Enterprises

The majority of grantees stated that the innovations that HHEF supported either would not have been implemented at all or would not have occurred for a number of years without its support. Echelon's founder said, "To be honest I never would have been able to do this if it wasn't for the grant…this door would never have opened; Echelon would have never been formed." Most grantees said that the fund accelerated the pace with which they could translate their idea into a reality.

HHEF's willingness to invest in high-risk, early-stage enterprises filled a real gap. An important attribute of the fund's financing was its flexibility. Grantees felt that the grant was unique in allowing them to invest in growing core aspects of their businesses that other funders would not support. For example, Access Afya was able to invest in management capacity and Penda Health was able to take a risk in testing new payment models. Other grantees felt that the fund allowed them to push forward more socially driven components of their work, such as ZanaAfrica's health education comics or Telemed's HIV and TB tracking system.

New Private Sector Products and Services

Through HHEF financing and technical support, six new products and nine new services addressing health challenges of the poor in sub-Saharan Africa were launched. The products and services grantees developed address financial, geographic, and social barriers to health care access. By making health care more affordable, eight grantees are addressing financial barriers, while eight are addressing geographic barriers through new technologies, like telemedicine, and context-specific service solutions, such as mini-clinics designed for informal settlements. Four grantees are tackling social barriers, such as taboos surrounding menstruation, with some grantees addressing multiple social barriers through their innovations. Financial and technical support provided by the fund also resulted in the start of three new companies: Echelon was established after the founder learned she was awarded HHEF funding, Medical Biotech Laboratories started DaZeB Medical Waste Management due to regulatory issues with a laboratory managing medical waste, and Afya Research Africa started a for-profit social enterprise for its kiosks called Ubuntu Healthcare, with technical assistance from the fund.

HHEF Grantees Reach Thousands

Over the first 12 months of the program, over 76,000 people received priority health services and products from grantees, representing a more than 90 percent increase over the previous year (Figure 1). Of these services and products, nearly 24,000 were directly supported by HHEF (Figure 2). In addition, a larger portion of the low-income population benefited from the improvements the enterprises made as a result of the fund, particularly due to its broad focus on improving business models and operations, growing enterprises' management capacity, and the breadth of the technical assistance provided.

Figure 1. People receiving priority health services and products from grantees before and after HHEF grants

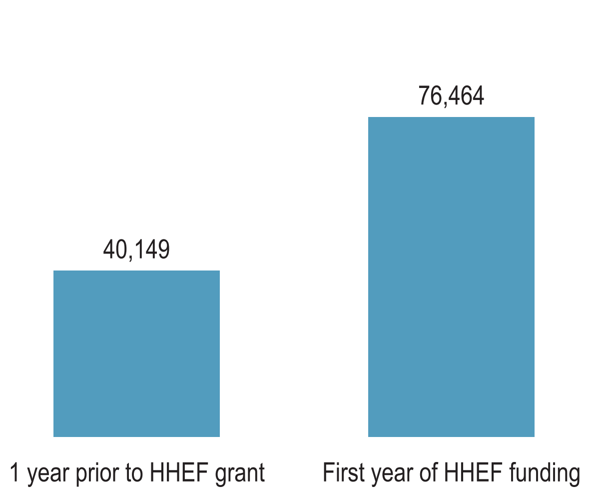
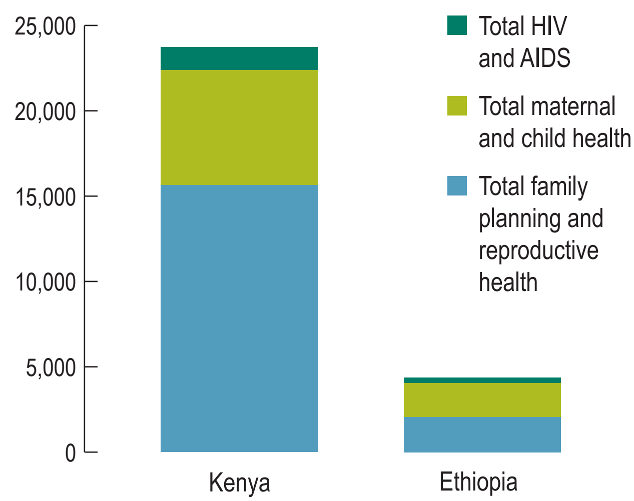


Figure 2. Mix of priority health services and products provided by grantees



Note: The two Nigerian grantees are excluded, due to a different and shorter operating timeline than the Ethiopian and Kenyan grantees.

HHEF Grantees Reach the Poor

Through their innovative solutions, all grantees aimed to expand access to quality health care for the poor. Some grantees targeted the poor from the onset, often placing their own financial sustainability as a secondary priority. Others discovered relatively quickly that serving those with very low incomes would not be viable in the short term, and decided to broaden their customer base by moving slightly up market, while still serving low- and lower-middle-income clients. However, serving the poor and disadvantaged is at the core of grantees' businesses and long-term strategies. For example, Innopia's mobile clinics can be used for a variety of health services from immunization campaigns to eye care clinics, but the founders describe that they will only feel that they have been truly successful when the vehicles are being used to reach low-income rural and pastoralist communities, preferably for maternal and child health services. The strategies grantees have taken are described in Table 4.

> "Underserved populations that are considered nonprofitable can actually be profitable if you consider how to provide service to them."
>
> *– Dr. Sam Gwer, Co-founder, Afya Research Africa*

Table 4. Target end users and business strategies

Grantee	Target end users	Primary strategies to reach them
Access Afya	Low-income dwellers of Nairobi's informal settlements.	Locate mini-clinics in urban informal settlements; price services very low (approximately $1.00 for an adult consultation or malaria test).
Afri-Can Trust	Low-income women and girls of reproductive age in rural Kenya. Currently works in Nyanza province, in districts where most of the girls come from families that earn less than $1.00 per day and many girls eat only 1 meal per day.	School-based distribution model throughout poor, rural areas; competitive price at approximately $3.25 for a 1-year pack (45 percent cheaper than the least-expensive disposable pads available on the market).
Afya Research Africa	Underserved, low-income communities in hard-to-reach areas that lack access to quality health care services.	Locate clinics in low-income communities that are often far from any other public or private health facility; set lower prices for health care services (e.g., approximately $0.55 for an antenatal visit) by cross-subsidizing through complementary, stable, revenue-generating activities.
Deji Clinic	Patients that desire good quality health care but that have trouble affording other health insurance or out-of-pocket payments. Most are informally employed as artisans, laborers, and market sellers.	Provide low-cost health insurance products and advertise through trade groups, employers, and community outreach events featuring free health services.
Echelon	Mothers and neonates who face financial or geographic barriers to access, and are restricted to seeking care at low-resource facilities or through health extension workers without reliable supplies of life-saving devices.	Locally manufacture life-saving equipment thereby lowering price point by over 30 percent and making it more affordable for the government and other health providers to provide access to these devices for the poor.
GE Ethiopia	Mothers with complicated pregnancies and their newborns who do not have access to life-saving, high technology equipment in resource-poor hospitals.	Design package of equipment for harsh conditions common in rural facilities, and partner with the Ethiopian government to train and equip low-resource public hospitals.
Hecahn Health Services	Low- and lower-middle-income school-aged children.	Provide health services through schools at a relatively low, fixed rate per term.
Innopia	Low-income communities, especially mothers and children, in rural and remote areas with little or no access to health care.	Design and build mobile health clinics for rural conditions and sell to government and NGOs so providers can bring services directly to rural and pastoralist populations.
Jacaranda Health	Low-income mothers residing in Nairobi's northern informal settlements that often deprioritize their own needs when making financial decisions for their families.	Locate clinics near low-income communities and lower prices through Lean Six Sigma cost-reduction techniques; encourage savings for deliveries via mobile money and accept payment via Kenya's National Health Insurance Fund.

Grantee	Target end users	Primary strategies to reach them
Kadisco General Hospital	Patients across Ethiopia without access to the two pathologists currently practicing in the country due to geographic or financial barriers or congestion in the laboratory, including HIV and AIDS patients who require pathology to diagnose co-infections.	Serve as a reference lab for rural and hard-to-reach facilities, so patients don't have to travel or wait long periods to have their samples analyzed. Provide timely diagnoses at low costs through telepathology, rather than physically transporting slides for review.
Medical Biotech Laboratories	Public and private health facilities throughout Ethiopia that generate medical waste and do not have the resources to invest in their own safe incinerators.	Provide a mobile medical waste management service that allows health care providers to outsource waste management, thereby reducing costs and allowing them to devote more resources to patient care.
Penda and **MicroEnsure**	Low- and middle-income women and their families. Women with no insurance who cannot afford to go to other private sector hospitals. Most women work as informal street vendors or factory workers and earn minimum wage.	Create new payment models tailored to improve target population's access to care; locate medical centers in cheapest sites outside of slums; and conduct community and workplace outreach events that provide free health information and diagnostic services.
Ruaraka Uhai Neema Hospital	Low-income mothers and children residing in Nairobi's northern informal settlements that require complex care.	Create a referral network with partner clinics located in the slums, and cross-subsidize services for referred patients through revenue from higher-income patients.
Tebita Ambulance	Any Ethiopian requiring emergency medical service.	Cross-subsidize service to patients with limited or no ability to pay through revenue from contracts with multinational firms that require premium service.
Telemed Medical Services	Ethiopians facing geographic, financial, or social barriers to accessing the health care and information they need.	Offer discreet, timely, and accurate consultations via phone, possibly eliminating the need for a more expensive hospital visit; services are currently offered at a low per minute cost, and Telemed plans to further reduce prices as volumes increase and through sponsorship and voucher programs.
ZanaAfrica	Low-income adolescent school girls and women of reproductive age who range from low-wage earners in informal settlements and remote areas to middle-class women in urban areas.	Provide free and subsidized *Nia* pads to low-income girls through school sponsorship model in partnership with NGOs; sell *Safi* pads in retail outlets, small kiosks, toilet dispensaries, and through a network of informal sales agents.

Afya Research Africa: Reaching underserved populations with affordable reproductive health options

Patricia Griffin

In Kenya, more than 50 percent of women deliver their babies at home without skilled birth attendants, and have limited access to baby wellness support systems, contraception, and other reproductive health services (KNBS 2010). As a result, Kenya's maternal and child mortality rates remain high. Afya Research Africa was founded to make primary and reproductive health care easily available to people living in remote areas of the country. With HHEF support, Afya Research established 12 health care kiosks to serve these populations.

Kiosks are simple structures, operated primarily by a trained community health worker or a nurse, that offer a variety of basic primary care services including family planning, antenatal services, and links to transport services to the nearest heath facility once women are in labor or if pregnancy complications present. With a second round of HHEF funding, Afya Research installed solar panels for reliable access to electricity, which will allow the kiosks to provide vaccination services that require a cold chain and to more reliably track patients through an electronic health management information system.

Afya Research's model has three unique features that have helped kiosks thrive in areas previously considered too difficult or not profitable to reach with health services:

Community buy-in: Afya Research's model recognizes the critical role the community plays in ensuring the success of the kiosks. In selecting kiosk locations, Afya Research works with community groups to determine which communities have sufficient interest in partnering to deliver accessible health services. Partner communities contribute to the establishment of the kiosks—building the structure, donating furniture, and assisting with marketing.

Co-ownership: To strengthen ties to the community, kiosks are co-owned by attending health workers and community groups. Many of the groups are savings partnerships which help the individual members manage large out-of-pocket expenditures through carefully managed shared savings. Groups typically attract a cross-section of the community's most actively involved, respected, and responsive members. Afya Research gives the groups up to a 49 percent stake in the kiosk in exchange for resources contributed to set-up, managing, marketing, and otherwise ensuring the success of the kiosk. This relationship ensures the kiosk has a core group of users, and once the kiosk is profitable, supplements the groups' pooled savings funds, which are sometimes invested back into the kiosks to expand service offerings.

Alternative income generators: Afya Research serves extremely low-income communities, and therefore charges very low fees for health services. As an additional income generator, each kiosk offers at least one additional service to the community. Service offerings are chosen by group members, and include safe water sales, motorbike taxi services, and mobile money services. Income from these enterprises is used to subsidize the cost of clinical services and to supplement each group's community insurance fund. With the support of these entrepreneurial activities, the kiosks are successfully generating a positive cash flow.

In the first nine months of kiosk operations, Afya Research provided services to over 8,000 clients. Of those clients, over 1,300 received reproductive health services, over 1,400 women and children received maternal and child health care services, and over 400 clients received HIV counseling and testing. Afya Research's model of diversifying income generation through community-chosen enterprise has proven to be essential to maintaining low-cost health services, with most kiosks nearing financial sustainability.

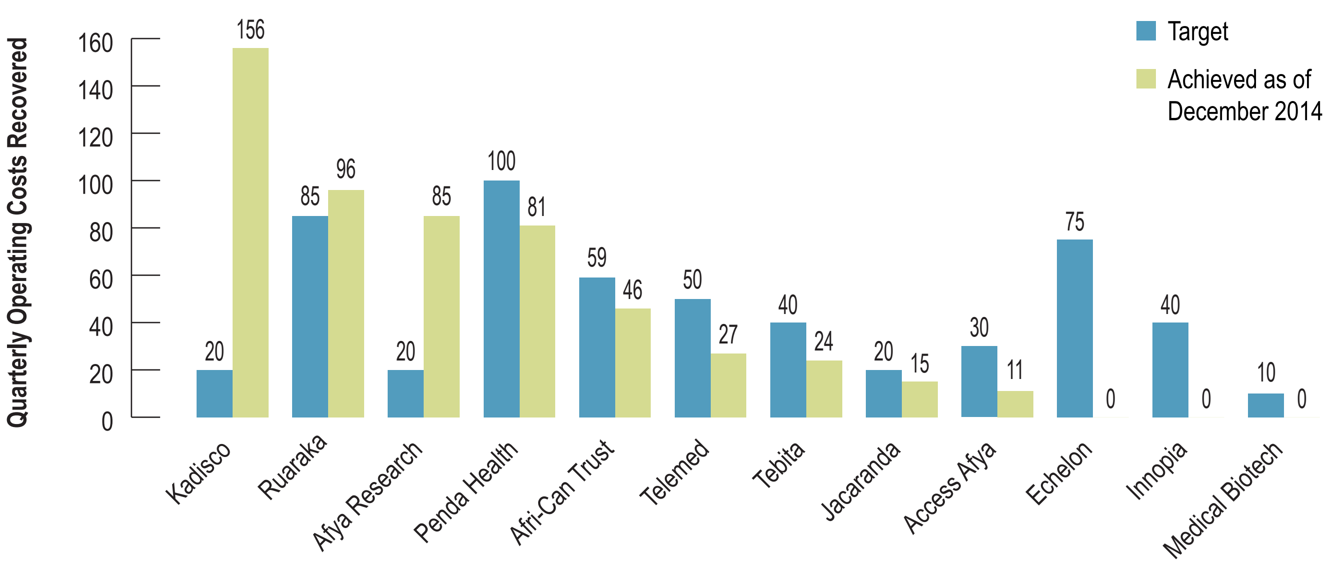
Cost Recovery

Within the niche financing stage HHEF targeted, the enterprises were still somewhat diverse in their stage of development. While some grantees had been generating revenue for years, others had not yet begun implementation. While 10 grantees started with a cost-recovery rate of 0, Ruaraka Uhai Neema Hospital was already recovering 85 percent of its costs at the onset of the program (Figure 3). After one year of HHEF funding, only three grantees had achieved their cost-recovery targets.[1] The high number of grantees that failed to meet their cost-recovery targets can be partially explained by the very ambitious and somewhat unrealistic targets that most set. Similar programs have found that innovative businesses serving the base of the pyramid are often overly optimistic in setting targets and projecting future progress. A report from the Business Innovation Facility pilot explains, "Actual numbers reached tend to be significantly lower than initial estimates…This is partly due to natural optimism – even in successful businesses, things take longer than hoped" (Ashley et al., 2014). Many grantees faced administrative challenges in obtaining licenses and importing equipment, delaying sales, and thus revenue, until the end of the HHEF program. In spite of missed targets, most grantees' cost-recovery ratios increased over the course of the program.

> "Getting the model is the hardest part. Once you get the model you have to learn how to replicate. Once you've learned to replicate a good model, I think the demand is huge, every time you scale you get more economies of scale... I think there's capacity to do dozens, dozens, and dozens."
>
> *– Nicholas Sowden, Co-founder, Penda Health*

[1] Nigeria grantees are not included in these figures as they had less than one year of performance as of December 2014.

Figure 3. Grantee cost recovery targets and actuals (%)



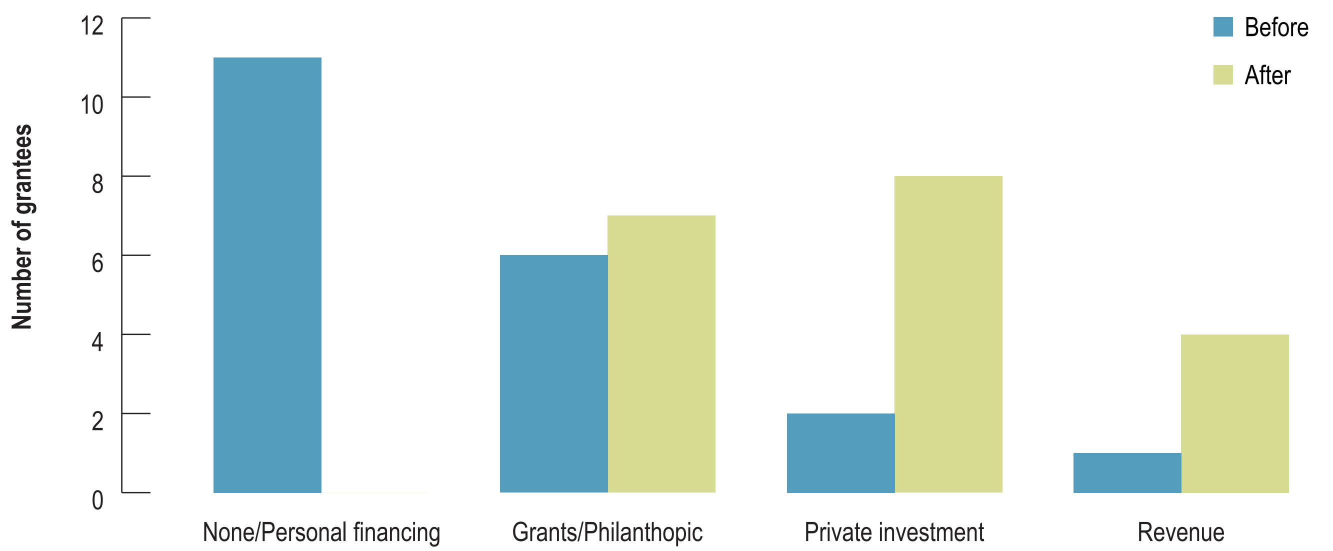
Note: Data for GE Ethiopia, ZanaAfrica, Hecahn, and Deji Clinic were excluded—GE Ethiopia and ZanaAfrica because their HHEF-supported activities were not expected to contribute to cost recovery during the grant period; Hecahn and Deji Clinic because their grants started later, and thus, comparable data were not available.

Onward financing and connections for growth

An important objective of the fund was to connect grantees with investors and prepare them for future financing. During implementation, grantees entered 39 negotiations for financing with impact-investing companies, traditional venture capitalists, and individual investors. From these negotiations, five grantees fully secured capital investments. [2] By April 2015, two grantees had progressed through advanced negotiations with capital amounts and agreed to deal structures: Tebita Ambulance and its investor, Renew Strategies, await approval from the Ethiopian Investment Authority; and Medical Biotech Laboratories awaits hard capital from an individual investor. While six grantees have or look likely to secure private investment in the near term, a number of others have secured grant financing that is helping them test new ideas and expand their offerings.

The grantees' sources of financing have also shifted since the start of the fund (Figure 4). As noted previously, some of the grantees had never considered pursuing private investment before participating in the fund. The majority of grantees financed their enterprises through personal funds, including loans from friends and family, or did not have any financing. Of the two grantees that had private investment prior to involvment with HHEF, one had an angel investor and the other had commercial capital. After participating in the fund, eight grantees are pursuing private capital to further expand their enterprises. More than half are pursuing a combination of grant and equity or debt financing.

Figure 4. Types of financing pursued by grantees before and after HHEF participation



[2] Access Afya, Jacaranda Health, Penda Health, Telemed, and ZanaAfrica.

Medical Biotech Laboratories: Ethiopia's first environmentally friendly medical waste disposal

Jessica Scranton

Prior to HHEF, Dr. Dawit Wolday ran Medical Biotech Laboratories in Addis Ababa, and disposed of his laboratory's medical waste as most health facilities and laboratories in Ethiopia do—burning it in a low-tech incinerator in the yard of the laboratory, which was located in a residential area. One day, neighbors lodged a complaint with the city about the smells emitted by the burning waste, and Wolday was ordered to find an alternative method of disposal that would not endanger the community. Research showed there was no alternative available in Ethiopia—all medical waste was incinerated in the same polluting way, or was illegally dumped in the general municipality garbage.

Medical waste can cause pollution and disease if it is not handled properly. Infectious waste, especially sharps, poses a risk of infectious disease to anyone who comes in contact with it, including hepatitis and HIV. Recognizing an opportunity in his laboratory's crisis, Wolday founded Ethiopia's first medical waste management service.

With HHEF funding and his own collateral, Wolday established a sister company, DaZeB Medical Waste Management Services, and secured bank financing to purchase a plot of land in an industrial area of Addis Ababa to build a facility and purchase three incinerators from the United Kingdom. Together the incinerators have the capacity to burn hundreds of cubic feet of medical waste daily, and their special smokeless design means no pollution will be released back into the atmosphere. In addition to burning the waste, DaZeB will provide daily mobile collection services to ensure safe transport of the waste to the facility.

Demand for DaZeB's services has been high, with public and private health facilities, laboratories, and pharmacies as customers. In speaking with potential customers, however, Wolday identified another risk in the waste management cycle—health facilities were packing their sharps and other medical waste in plastic grocery bags. These bags are not manufactured for such use and frequently break. To address this gap, Wolday successfully applied for a second round of HHEF funding to manufacture medical-grade waste bags, boxes, and sharps containers. The materials will be manufactured in Ethiopia, making them affordable to local facilities. Once the incineration and manufacturing facilities are complete, Medical Biotech Laboratories and DaZeB will make medical waste disposal safer and more environmentally friendly.

Echelon: Improving neonatal health outcomes through locally manufactured, low-cost devices

April Warren

A recent study in Ethiopia on quality of care for prevention and management of common maternal and newborn complications reported that 47 percent of observed complications were due to neonatal asphyxia. Basic resuscitation performed by a health provider can prevent 20–30 percent of intrapartum neonatal deaths and can possibly save 5–10 percent of preterm babies. For the 85 percent of Ethiopians living in rural areas, however, resuscitation devices at under-resourced health facilities are in short supply (Getachew et al. 2011).

The simplest form of resuscitation equipment is a bag valve mask. When Echelon was founded, Ethiopia imported 100 percent of its bag valve masks. These masks are purchased in a $100 three-pack, which contains one neonate, one child, and one adult mask. Ethiopia's rural clinics have little use for the child and adult masks and often throw them away; in addition, having to buy the three-packs was prohibitively expensive, resulting in widespread shortages of the neonate masks. Seeing the market need, Echelon was established to locally manufacture neonatal bag valve masks at an affordable price.

With support from HHEF, Echelon established the first medical device manufacturing facility in Ethiopia with certification from the Food, Medicine and Healthcare Administration and Control Authority of Ethiopia, and the first facility in Ethiopia to be accredited by the World Medical Device Organization. Strong standard operating procedures and training enable Echelon to hire unskilled workers from the community as assembly-line staff. Echelon worked closely with Ethiopian health care providers to develop and pilot test prototype neonatal bag valve masks, and with their feedback, the company was able to develop a product that can be easily disassembled, cleaned, and reused up to 20 times, rather than disposed of after one use. Through using local labor and sourcing materials from within Ethiopia, Echelon is now able to offer each reusable neonatal bag valve mask for the low cost of only $10, drastically increasing the ability of the country to distribute the masks to rural health facilities and others providing emergency neonatal health care.

Echelon recently received its first order from a government hospital for 500 devices, and is beginning to ramp up operations in anticipation of a large government tender. In the future, Echelon plans to expand production to additional medical devices to ensure that health workers have access to affordable tools for service delivery in rural areas.

Plans for Scale

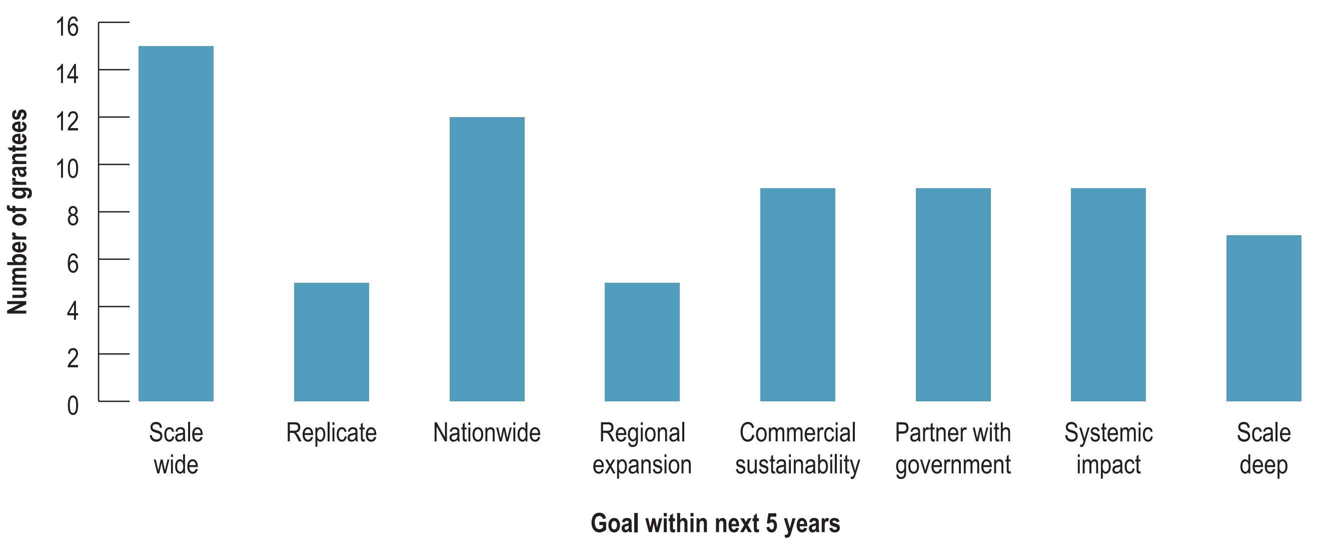
Grantees have ambitious plans for scaling over the next five years. All grantees are at a stage where scaling wide (serving more people) is a priority, with the majority of grantees aspiring to take their services and products nationwide within five years. Regional expansion to at least one neighboring country is a stated goal for five grantees.

While a number of grantees have concrete plans to increase the number of service outlets or sites, many have decided that a pure replication approach will not be the best way to expand their business. This is in part due to challenges grantees have faced replicating through “brick-and-mortar” approaches as part of their HHEF grants. Some grantees have found that securing and launching new sites was both more time-consuming and more costly than they anticipated. Grantees plan to expand their presence through a combination of their own outlets and partnerships with both public and private sector actors. For example, Access Afya is considering “co-locating” with microfinance intuitions and employers of informal settlement residents.

Many grantees plan to partner with the public health sector, through capacity building and referral relationships, as well as by filling gaps in public sector infrastructure more directly with their own models. Through the public sector quality initiative it started with its second-round HHEF grant, Jacaranda is exploring the possibility of managing and staffing a currently unused government operating theater with its own experts. For many grantees, the desire for public-private partnership is rooted in their aspiration to have a transformative impact on health systems and outcomes in their countries. Grantees expressed a desire to improve health outcomes at the national level, “change the status quo,” and strengthen full spectrums of care. In order to do so, some grantees will expand their own service offerings or range of products; 7 of 16 grantees plan to “scale deep,” or increase the types of services and products they offer, in the next five years. The co-founder of Echelon, Tiffini Diage, stated that, “Within five years [Echelon] could easily be supplying no less than seven different medical devices to Ethiopia.”

> “I see success not as making money at the end of the day…I will define success when all the medical facilities in Ethiopia handle medical waste with care.”
>
> *– Dr. Dawit Wolday, CEO, Medical Biotech Laboratories*

Figure 5. Grantees goals for next five years and plans for scale



Penda Health: Using patient-centered care and a new payment mode

April Warren

In Kenya, many low- and middle-income people are unable to afford high quality health care, and preventive care-seeking is rare. When faced with an illness, they must choose between accessing low-quality care, or in some cases going without care altogether. Penda Health was established to provide this population with a high quality, low-cost health care alternative in the Nairobi area.

To serve the working poor, Penda has set up two large medical centers in industrial suburbs of Nairobi and one smaller clinic on the grounds of a university. The larger facilities provide a broad range of services, including preventive care, antenatal care and well-baby clinics, primary health care, periodic specialist clinics, and dental services. Facilities are backed with a comprehensive laboratory and dispensary. Penda Health's business model hinges on its ability to provide high quality services at a lower cost than its competitors. As a small private sector provider, Penda leverages its staffing model, using well-trained nurses and clinical officers to provide the majority of services. Clinics share medical officers, and specialists are brought in periodically. Penda has also put strong supply chain systems in place to negotiate fair prices and carefully monitor supplies to avoid expiration or stockouts.

To ensure quality, Penda selects employees who are wholly committed to the company's purpose, intensively trains them to meet the company's quality standards, and carefully cultivates employee satisfaction.

Friendly, patient-centered care is at the core of Penda's value proposition. Patient feedback is integrated into Penda's organizational identity, with all staff from the sanitation officer to the director encouraging patients to share feedback through cards, follow-up calls, and community discussions. Staff meet weekly to review feedback they've received, and are empowered to rapidly test new ideas. When Penda realized that clinic attendance regularly declined after the first week of each month, it turned to its customers for an explanation. Patients explained that they were out of money by midway through the month, and could not afford health care until they were paid on the last day of the month. As a result, patients delayed seeking care, often exacerbating their illness.

To address this challenge, Penda partnered with MicroEnsure to explore how large employers could help solve the problem of inconsistent cash flows. With MicroEnsure's expertise in market research and microinsurance, Penda and MicroEnsure designed and tested new, cashless payment models. The most successful of these has been Penda Postpaid, in which Penda partners with companies that employ large numbers of uninsured, minimum-wage laborers. Penda Postpaid allows employees to pay nothing at the time of accessing services, and their employer deducts the fees directly from their next paychecks. Less than a year after launching Postpaid, four employers and two schools have signed on, covering more than 2,600 employees and students. More than 400 patients per month access care using Postpaid, and Penda Health has seen steady increases in the number of clients it sees in the later weeks of each month.

Lessons Learned

Jessica Scranton

LESSONS LEARNED

After more than 15 months working with a diverse group of health enterprises, the Health Enterprise Fund has gained a unique perspective on the challenges that private, early-stage health enterprises face and how organizations that wish to promote their growth and development can best support them. As the first challenge fund working with health enterprises in sub-Saharan Africa, HHEF has also learned important lessons on the role and administration of challenge funds that seek to promote innovation in the region's private health sector.

Challenges for Private, Early-Stage Health Enterprises

Understanding the customer in low-income markets is just as critical to success as it is in higher-income markets.

Prior to receiving technical assistance for human-centered design and marketing strategy, most grantees did not demonstrate a sophisticated understanding of their target customers. Grantees often felt that their prices were competitive and that the value proposition of their product or service was clear, but still struggled to make this case to consumers with limited incomes. Those offering high quality services and emphasizing patient experience were sometimes assumed to be too expensive by the poor. Some grantees tried bundling products or selling variations of insurance schemes that required their consumers to pay for multiple goods or services up front. However, experience has shown that often the poor are used to and prefer "pay-as-you-go" models that let them buy only what they perceive they need (SIDA, 2013). Across products and services, many grantees did not recognize the importance of building trust in low-income markets. This lack of customer understanding often resulted in slow customer acquisition, and subsequently, led to problems in achieving sufficient volumes to recover operating costs.

Working with government is an integral part of providing low-cost health care at scale, but making fruitful public sector connections is difficult.

Grantees are interested in working closely with the public sector. In Ethiopia, most grantees' business plans rely on this interaction, including engaging public sector actors as buyers of their products or services. Partnering with the government in Ethiopia has been challenging, often due to the delay or disconnect between stated interest in grantees' products, and the conversion of that interest into sales. In Kenya, many grantees seek to deepen their relationship with government in order to expand their impact. For example, Jacaranda Health recently secured National Health Insurance Fund accreditation for its first maternity hospital, which will increase the number of women it can serve. However, Jacaranda had to follow up persistently for more than a year before it received the accreditation, and it will have to repeat this process for its new Kahawa West facility. In spite of such challenges, grantees in both countries feel that it is through partnerships with the public sector that they will be able to improve health systems and have a meaningful scale of impact on health outcomes.

The regulatory environments in Ethiopia and Kenya create barriers for private sector entry.

In both countries, regulations and the accompanying bureaucratic processes caused significant delays for many of the grantees' activities. Kenyan grantees were more likely to be held back by slow licensing and accreditation processes. In Ethiopia, grantees cited government regulations as their primary barriers to success. Regulations around foreign exchange, general trade, importation, and foreign investment hindered grantees' ability to start up their innovations, sell their products, or accept foreign investment. The Ethiopian Investment Commission denies foreign investors the opportunity to invest in the health sector, and makes it very difficult for investors to ensure they can take money out of Ethiopia once invested. Telemed was able to secure investment as an information and communications technology company. However, health is largely seen as a public sector concern, with widespread negative misperceptions about the aggressive profit-seeking motivation of any private sector actor.

Being first has its challenges
Nearly all of the HHEF grantees in Ethiopia are "firsts" in their country: Telemed is the first telemedicine provider, Medical Biotech Laboratories is offering the first medical waste management service, and Echelon is the first medical device manufacturer in Ethiopia. A major challenge for these grantees and the regulators responsible for them has been the lack of precedent. When Echelon applied for approval to begin manufacturing medical devices in Ethiopia, it learned that the Food, Medicine, and Health Care Administration and Control Authority of Ethiopia did not have standards for medical device manufacturing. Echelon then worked with the Authority to develop the country's first standards.

Supporting Early-Stage Enterprises

Early, flexible financing remains a common challenge for health enterprises.
Most grantees said that finding early financing was a key challenge, and that other sources of grant financing in this space are not flexible enough to meet the needs of their enterprise. Some grantees had no other sources of financing before HHEF, and they said that without the fund, putting their idea into action would have come much later—or they would have given up on it. Others financed their enterprise through personal funds and loans, including using their personal residences as collateral.

Those with more traditional grants described that, while it helped them develop some programs, it did not give them room to build business systems and capacity, and sometimes led their work away from organizational priorities. While restricted or programmatic grant financing remains important for implementing or expanding specific initiatives, health enterprises need access to more flexible financing in order to build their businesses sustainably.

Identifying and retaining top talent is a major challenge for early-stage health enterprises.
When grantee leadership was asked about the greatest challenge they've faced in building their enterprises, the most common response was human resources. Specifically, finding and keeping the right people for the strategic roles they need to fill is very difficult. Multiple grantees had trouble finding suitable candidates for management positions with marketing and clinical expertise. Gaps in human resources also created challenges for the delivery of technical assistance. With the top leadership overburdened and vacancies in key middle-management roles, enterprises sometimes lacked capacity to absorb the technical assistance available to them. Future initiatives supporting early-stage enterprises could fill an important gap in small and growing organizations by offering access to recruitment services as part of their technical assistance packages.

"With health care in Kenya, it requires a decent amount of innovation, it's not a cookbook recipe kind of stuff [*sic*], because all of us are moving into new segments that are not well served and are trying to improve quality in ways that there isn't a really good way of doing it already there…So it's not like you just hire an existing crop of nurses that know how to do it. You actually need really skilled people who can take what's there already and build systems and processes or mentor an existing team of nurses and grow them to take you to a new level."

– Nick Pearson,
CEO, Jacaranda Health

Helping small enterprises build networks for growth and sustainability provides high value for money.
HHEF played an important role in connecting grantees with potential business partners, peers, regulators, and potential clients. In some cases, the fund directly connected grantees with funders and incubator programs; in other cases, grantees felt that HHEF strengthened their reputations and credibility with other funders. Making introductions for the grantees was a relatively easy way for the fund to provide significant value to grantees. At the same time, through these connections, HHEF has increased grantees' chances for future growth and sustainability.

Longer, individualized technical assistance engagements are valuable to early-stage enterprises.
Many grantees stated that they most appreciated the technical assistance that was customized to their business and provided over a longer period of time. Longer-term engagements allow technical resources to get to know the enterprise, team, and challenges they face in a way that enables them to provide more meaningful recommendations and get multiple iterations of feedback. For example, HHEF contracted a finance consultant to help Afya Research develop an ownership model that would allow both community ownership and private investment in its kiosks. Another example is the lean manufacturing technical assistance that the SHOPS regional business advisor provided to Afri-Can Trust's sanitary pad manufacturing unit. She was able to work with the manufacturing unit for three two-day periods over multiple months, allowing for implementation and incremental improvement by Afri-Can Trust.

Role of Challenge Funds and Innovation

Challenge funds can encourage investors to look at additional enterprises.
Investors are already well-equipped to identify enterprises to invest in and to work with them directly to structure investment deals. Challenge funds can instead provide an initial screen through a rigorous competition and selection process, including sound due diligence and the involvement of content expertise. This lowers investors' costs for identifying investees. Challenge funds that also include capacity-building opportunities, such as those provided through HHEF's selection process and technical assistance, can help create a larger pool of potential investees. In addition to preparing more enterprises to deliver strong business plans and pitches, the fund also encouraged the idea of external investment to some enterprises that were not previously exploring this opportunity. Perhaps most importantly, challenge funds can draw attention to underdeveloped markets by uncovering innovative ideas in areas that investors frequently do not consider. In Ethiopia, the fund directly introduced investors to enterprises, which led to the creation of new companies that seek private investment.

It is difficult for donor-supported challenge funds to seed truly innovative enterprises.
While the enterprises that applied to HHEF brought new approaches, all of the solutions had precedents in other sectors or countries. The due diligence requirements, grant agreement structures, and reporting expectations of large international donors do not encourage applicants to take risks that might result in new solutions. To encourage innovation in implementation, the fund structured more flexible grants with deliverables tied to reporting, rather than the achievement of specific activity milestones. This enabled some grantees to deviate from their proposed activities as they learned from implementation, and to innovate in response. However, most grantees felt pressured to complete activities as proposed within the grant period, regardless of changing priorities and lessons learned along the way. Grantees also expressed that they felt that low service or sales numbers would be perceived negatively, which discouraged them from trying new things. Despite this limitation, the fund's grantees were innovative in their application of more proven international solutions to health challenges in their countries, and the effort required to adapt solutions to local contexts should not be underestimated.

CONCLUSION

Through the fund, SHOPS helped fill an important gap in financing early-stage, private health enterprises in Ethiopia, Kenya, and Nigeria. Many of the grantees said that without HHEF, their innovations in health care delivery and technologies might not have been introduced or expanded in the near term. Challenge funds can play an important role in uncovering innovative enterprises with promising solutions to achieve global health priorities. HHEF grantees provided new life-saving technologies, rolled out new care delivery models, and provided priority health services to tens of thousands of low-income people.

There is still a need for system-level change in the private health sectors in which these enterprises work. HHEF played markedly different roles in Kenya and Ethiopia due to the countries' vastly different private health sectors. Kenyan grantees benefited from a significantly less burdensome regulatory environment, but faced considerably more competition from like-minded private health enterprises—grantees had to prove their comparative advantage over existing players, which they often tried to do through quality and convenience. While in Kenya, HHEF's role was to uncover existing enterprises, in Ethiopia the fund was able to incentivize the development of new ideas that might have remained untried. A number of Ethiopian grantees have benefited or expect to benefit from first-mover advantage, and despite the underdeveloped investment environment in Ethiopia, investors are taking notice. As the HHEF experience showed, governments, funders, and implementing organizations must work together to create more enabling environments for private health enterprises to achieve impact at scale.

In the near future, the reach of the awarded enterprises will likely remain small, but supporting small, innovative enterprises like the HHEF grantees is intended to introduce catalytic change in the long term. With HHEF support, the grantees have established new precedents, sparked new dialogue, and are paving the way for others to join in having a significant collective impact on the health of the poor.

Access Afya

A woman visits an Access Afya clinic in Kenya.

REFERENCES

Ashley, C. et al. 2014. *Adding value to innovation? Lessons on donor support to inclusive business from the Business Innovation Facility pilot*. Business Innovation Facility. bit.ly/BIFfindings

Barbary, V. et al. 2011. *Promise and Progress: Market-Based Solutions to Poverty in Africa*. Monitor Group.

Getachew, A. et al. 2011. *Quality of Care for Prevention and Management of Common Maternal and Newborn Complications: A Study of Ethiopia's Hospitals*. Baltimore, MD: Jhpiego.

HANSHEP. 2015. "About Us." Accessed February 27, 2015. Available at: http://www.hanshep.org/about-us/about-us

Heinrich, M. 2014. *Demonstrating Additionality in Private Sector Development Initiatives*. The Donor Committee for Enterprise Development.

Kennedy, R. and J. Novogratz. 2013. "Innovation for the BoP: The Patient Capital Perspective." In *Next Generation Business Strategies for the Base of the Pyramid*. Acumen. 45-76. http://acumen.org/content/uploads/2013/03/Innovations-for-the-BoP.pdf

Kenya National Bureau of Statistics (KNBS) and ICF Macro. 2010. *Kenya Demographic and Health Survey 2008-09*. Calverton, Maryland: KNBS and ICF Macro.

Koh, H. et al. 2014. *Beyond the Pioneer*. Deloitte Touche Tohmatsu India Private Limited, Monitor Deloitte.

Mazucato, M. 2015. "The Innovative State." *Foreign Affairs*. Accessed February 27, 2015. http://www.foreignaffairs.com/articles/142496/mariana-mazzucato/the-innovative-state

Pompa, C. 2013. *Understanding Challenge Funds*. London: Overseas Development Institute.

SHOPS. 2014. Meeting Demand for Modern Contraception: Role of the private sector. http://www.shopsproject.org/sites/default/files/resources/Meeting%20Demand%20for%20Modern%20Contraception.pdf

Swedish International Development Cooperation Agency (SIDA). 2013. *From Paper to Practice: Learning from the Journeys of Inclusive Business Start-ups*. Stockholm: SIDA.

World Bank. 2008. *The business of health in Africa: Partnering with the private sector to improve people's lives*. Washington, DC: International Finance Corporation, World Bank.

World Bank. 2009. *More money for health and more health for the money*. Taskforce on Innovative International Financing for Health Systems, World Bank.

World Bank. 2011. *Health Partnerships: How Governments Can Engage the Private Sector to Improve Health in Africa*. Washington, DC: International Finance Corporation, World Bank.

The Strengthening Health Outcomes through the Private Sector (SHOPS) project is a five-year cooperative agreement (No. GPO-A-00-09-00007-00) funded by the U.S. Agency for International Development (USAID). The project focuses on increasing availability, improving quality, and expanding coverage of essential health products and services in family planning and reproductive health, maternal and child health, HIV and AIDS, and other health areas through the private sector. SHOPS is led by Abt Associates Inc., in collaboration with Banyan Global, Jhpiego, Marie Stopes International, Monitor Group, and O'Hanlon Health Consulting. The views expressed in this material do not necessarily reflect the views of USAID or the United States government.

For more information about the SHOPS project, visit: www.shopsproject.org

Abt Associates Inc.
4550 Montgomery Avenue, Suite 800 North
Bethesda, MD 20814 USA
Telephone: 301.347.5000 • Fax: 301.913.6019
www.abtassociates.com