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PRODUCED IN COLLABORATION WITH IPIHD

Fundraising for Global Health Social Enterprises: Lessons from the Field

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USAID FROM THE AMERICAN PEOPLE

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CASE i3: The CASE Initiative on Impact Investing

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About USAID: This report is distributed in collaboration with the Higher Education Solutions Network, a USAID initiative that harnesses the ingenuity and passion of university students, researchers and faculty to incubate, catalyze and scale new science and tech-based solutions to the world's most challenging development problems.

About CASE i3: The CASE i3 Initiative on Impact Investing is part of CASE (Center for the Advancement of Social Entrepreneurship), the award-winning research and education center based at Duke University's Fuqua School of Business. CASE i3's mission is to establish a rich set of resources and activities for MBA students, entrepreneurs, investors, funders, academics, and policymakers to explore and support the field of Impact Investing over its critical period of development over the next 10 years.

About SEAD: The Social Entrepreneurship Accelerator at Duke (SEAD) is a USAID Development Lab for Scaling Innovations in Global Health and a member of the USAID Higher Education Solutions Network. SEAD's mission is to foster collaboration to create an ecosystem-focused accelerator for supporting and scaling global health social enterprises. SEAD is a joint initiative between CASE at Duke's Fuqua School of Business, IPIHD at the School of Medicine, and the Duke Global Health Institute, in collaboration with the Developing World Healthcare Technology Lab at Pratt School of Engineering and Durham-based Investors' Circle, the world's largest and most successful early-stage impact investing network.

About IPIHD: IPIHD is a nonprofit organization launched by the World Economic Forum and hosted at Duke University. IPIHD was founded to support the growth of healthcare innovation through scaling and replicating successful delivery solutions around the world that improve access to quality care at affordable costs. Working directly with innovators as well as supporters from industry, academia, foundations, and governments, IPIHD also drives the exchange of information between innovators, other health practitioners, health system leaders, and policy makers.

Introduction

Recent evolution in the global health field is changing the funding landscape and increasing the complexity of the fundraising process for nonprofit and for-profit global health social enterprises (GHSEs). GHSEs continue to cite access to financing as a primary barrier to growth, in spite of both increasing government interest in innovations that can drive health outcomes and reported increases in capital available from a variety of sources seeking financial return as well as social impact. The challenge is not just one of securing the right amount of funding (which can address short-term needs) but also of securing a funder or investor that can be a strong long-term partner. This is important because funders and investors are one of the GHSE's key stakeholders, and can become valuable strategic partners or a source of tension, depending on how well their priorities align with those of the GHSEs.

This report identifies common challenges and emerging best practices for fundraising in the global health field, drawing on interviews with investors and GHSEs. The mistakes and recommendations identified here are derived principally from the authors' work with investors and innovators affiliated with the International Partnership for Innovative Healthcare Delivery (IPIHD) and the Social Enterprise Accelerator at Duke (SEAD). This is not an exhaustive guide, but endeavors to help GHSEs avoid common mistakes and be more strategic in fundraising efforts by helping them address **three fundamental questions** before they pitch to a potential funder or investor:

1. **What are you pitching?**

   How to perform a critical review to make sure the business model (and plan) is ready and to determine the appropriate kind of capital.

2. **To whom are you pitching?**

   How to screen potential funders or investors to ensure a good fit as a long-term strategic partner.

3. **How will you pitch?**

   How to craft your message to attract and engage the right funders or investors.

This document is written for all GHSEs seeking funding to grow their enterprises, including for-profit, nonprofit, and legal hybrid organizations. It specifically focuses on enterprises past the early pilot stage, looking to refine and expand their business model to achieve impact at scale. (See the "Prepare" and "Scale" stages in Figure 1 below.) The recommendations for addressing each question are relevant for GHSEs seeking all types of funding (grants, debt, and equity), with an emphasis on understanding what is needed by investors who seek a financial return.

Trends to Watch

Before turning attention to the three fundamental questions that we describe in this paper, it is important for GHSEs to understand six key trends that are shaping the current funding landscape. Awareness of these trends can help GHSEs be smarter in selecting funding partners.

1. **Increased attention to segmenting base-of-the-pyramid customers:** Over the past decade, business models serving the base of the economic pyramid (BOP) have attracted increasing attention for their potential to achieve both financial and social returns.[1] However, recent research highlights the need for better segmentation of healthcare customers within the BOP and suggests that GHSEs serving urban populations are more likely to be commercially viable, given higher income and lower service costs, while GHSEs serving rural populations require more philanthropic subsidy.[2] In "Coordinating Impact Capital," Santa Clara University's Center for Science, Technology and Society reports that although most investors surveyed did not express a preference for urban or rural segments, those that did express a focus on urban markets also cited higher financial return expectations.[3] As investors develop a greater understanding of BOP business dynamics, GHSEs will need to recognize and better articulate their target segment in order to identify investors aligned with their mission.

2. **Expansion of early-stage support for social entrepreneurs:** Another trend is the expansion of initiatives that are providing support to early-stage social entrepreneurs (SEs); some are focused broadly on development, others solely on global health. Recent research highlights the unique global challenges that early-stage SEs face, including Acumen and Monitor's "From Blueprint to Scale" report documenting the "pioneer gap."[4] The report calls for additional catalytic and philanthropic support for SEs as they adapt and validate business models during an extended early-stage, before rapid growth and scaling. Increased early-stage funding has not yet been documented, but a growing number of accelerators and incubators are emerging to provide early-stage support, and an increasing number of organizations offer investment advisory services. These organizations offer valuable mentoring, business development support, and investor introductions. (See lists of incubators and accelerators from ANDE[5] and Toniic[6].)

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1. B. Jenkins and E. Ishikawa, "Scaling Up Inclusive Business: Advancing the knowledge and action Agenda," International Finance Corporation and the CSR Initiative at the Harvard Kennedy School, 2012, www.ifc.org/wps/wcm/connect/as_ext_content/what+we+do/inclusive+business/publications/pub_004_scaling+up+inclusive+business+advancing+the+knowledge+and+action+agenda.

2. A. Thornton, "Where is the BOP Health Care Fortune?" Stanford Social Innovation Review Blog, May 23, 2013, www.ssireview.org/blog/entry/where_is_the_bop_health_care_fortune.

3. J. Kohler, T. Kreiner and J. Sawhney, "Coordinating Impact Capital: A New Approach to Investing in Small and Growing Businesses," Santa Clara University, 2011, www.scu.edu/socialbenefit/resources/upload/Coordinating-Impact-Capital.pdf.

4. H. Koh, A. Karamchandani, and R. Katz, "From Blueprint to Scale: The Case for Philanthropy in Impact Investing," Monitor Group, 2012, www.mim.monitor.com/blueprinttoscale.html.

5. R. Baird, L. Bowles and S. Lall, "Bridging the 'Pioneer Gap': The Role of Accelerators in Launching High-Impact Enterprises," Aspen Network of Development Entrepreneurs and Village Capital, 2013, www.aspeninstitute.org/publications/bridging-pioneer-gap-role-accelerators-launching-high-impact-enterprises.

6. C. Clark and L. Kleissner, "Toniic E-Guide to Early-Stage Global Impact Investing," CASE i3 and Toniic, 2013, http://www.toniic.com/toniic-institute/early-stage-e-guide/.

3. **Growth in number of GHSEs competing for funding:** The number of GHSEs is also growing, spurred in large part by increasing private healthcare expenditures. In emerging markets, increasing wealth is directed to private healthcare as an alternative or substitute for inadequate or under-funded public services.[7,8] The Center for Health Market Innovations (CHMI) provides information on more than 1,200 programs identified through their local partners, but this number represents only a fraction of GHSEs. CHMI identified eighty new programs that launched in 2011-2012 alone, and cites clear innovation clusters in India and Kenya.[9] The growing number of GHSEs leads to increased competition for funding, reinforcing the importance of differentiating and effectively communicating a strong value proposition to potential funders or investors.

4. **Government and foundation grant-making heavily focused on Millennium Development Goals (MDG):** The Institute for Health Metrics and Evaluation (IHME) annual report on development assistance for health provides insight into trends in grant-making for health, including government aid and US-based foundations. IHME reports that health funding continues to grow slowly, and that slow growth is projected to continue. Development assistance for health continues to be heavily focused on the MDG priorities, particularly HIV/AIDS (30.5%) and maternal, neonatal and child health (MCH) (23.3%). The largest recent increases in spending were for tuberculosis and MCH, while spending on malaria, non-communicable disease and health sector support declined.[10] According to the May 2013 high-level panel report, the health priorities in the post-2015 development agenda will not substantially change.[11] This trend suggests the continued relevance of highlighting how health impact contributes to the MDGs in fundraising efforts with donors.[12]

5. **Growth and diversification of impact investing:** The impact investing field is evolving rapidly and is characterized by increasing numbers of impact investors, significant growth in capital commitments,

7. International Finance Corporation, "Guide for Investors in Private Health Care in Emerging Markets" www.wbginvestmentclimate.org/advisory-services/health/guide-for-investors-in-private-health-care-markets.cfm.

8. Open Capital Advisors, "The Next 33 Million: How the private sector is reforming Kenya's health system," June 21, 2013, www.opencapitaladvisors.com/news/.

9. Center for Health Market Innovations, "Highlights: 2012," Results for Development Institute, August 12, 2013, http://healthmarketinnovations.org/document/chmi-highlights-2012.

10. Institute for Health Metrics and Evaluation, "Financing Global Health 2012: The End of the Golden Age?" 2012, IHME, http://www.healthmetricsandevaluation.org/publications/policy-report/financing-global-health-2012-end-golden-age.

11. High Level Panel on the Post 2015 Development Agenda, "A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development," May 2012, www.post2015hlp.org/the-report/.

12. Recent reports from the Kaiser Family Foundation provide additional insight into the donor landscape. Available at: http://kff.org/global-health-policy/report/mapping-the-donor-landscape-in-global-health-series/.

and diversification of investment vehicles.[13,14] This broad trend is also evident within the global health sector. The Aspen Network of Development Entrepreneurs' 2012 impact report cites growth in both the number and size of impact investing funds targeting small and growing businesses in emerging markets; nearly a quarter (23%) of these invest in the health sector.[15] Impact investors' experimentation with investment vehicles includes hybrid instruments such as convertible debt and forgivable loans, as they begin to recognize the unique needs of social entrepreneurs (SEs). Foundations are also experimenting; facilitated by recent policy clarification, US-based foundations are expanding beyond grant-making through program- and mission-related investments.[17] This trend of growth and diversification will likely continue to increase the amount of funding available from sophisticated investors seeking both financial returns and health impact.

Impact investing is the act of investing money with the deliberate intention of achieving both financial value (return on capital) and social value (positive impact on social and environmental problems). Read more from CASE i3 and JP Morgan.[16]

6. **Corporate interest in new business models and market access initiatives:** Healthcare industry business models have been under pressure for more than a decade. McKinsey & Co., Ernst and Young, and others identify the need for radical approaches to reinvent business models.[18,19] For example, Ernst and Young describes the pharmaceutical industry's evolution from the blockbuster drug model (Pharma 1.0) to a diversified product model (Pharma 2.0) seeking to boost revenues by addressing unmet needs, to the emergence of outcomes-based models (Pharma 3.0). While continuing to address unmet needs, Ernst and Young contends that pharmaceutical companies need to seek new, collaborative partnerships and systematically invest in business model innovation. These patterns are consistent across other industry sectors, particularly medical device. As a result, many healthcare companies are interested in partnerships with GHSEs that can help them explore new technologies, markets, or business models.

Increased attention to GHSEs and shifting funding priorities in global health result in a rapidly changing landscape. GHSEs who understand these changes will be better equipped to identify and attract strong funding and investment partners.

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13. Y. Saltuk, A. Bouri and G. Leung, "Insight into the Impact Investment Market." J.P. Morgan and the Global Impact Investing Network, 2011, www.jpmorganchase.com/corporate/socialfinance/document/Insight_into_the_Impact_Investment_Market.pdf.

14. Harji and Jackson, "Accelerating Impact: achievements, challenges and what's next in building the impact investing industry," The Rockefeller Foundation, 2012, www.rockefellerfoundation.org/blog/accelerating-impact-achievements.

15. Aspen Network of Development Entrepreneurs, "Engines of Prosperity: 2012 Impact Report" The Aspen Institute, 2012, www.aspeninstitute.org/publications/ande-2012-impact-report.

16. Read more from CASE i3 (blogs.fuqua.duke.edu/casenotes/2013/01/08/what-is-impact-investing-and-how-does-it-work/) and JP Morgan (www.rockefellerfoundation.org/blog/impact-investments-emerging-asset).

17. Indiana University Lilly Family School of Philanthropy, "Leveraging the Power of Foundations: An Analysis of Program-Related Investing" Indiana University, May 2013, www.missionthrottle.com/wp-content/uploads/2013/05/PRI-Report-Final-51713.pdf.

18. V. Hunt, N. Manson and P. Morgan, "A wake-up call for Big Pharma" McKinsey, December 2011, www.mckinsey.com/insights/health_systems_and_services/a_wake-up_call_for_big_pharma.

19. C. Luce and G. Jaggi, "Progressions: The third place: health care everywhere" Ernst and Young. 2012, www.ey.com/GL/en/Industries/Life-Sciences/Progressions-2012---Health-care-everywhere---Overview.

Three Key Fundraising Questions for GHSEs and How to Address Them

This section presents practical guidance to help GHSEs address the three fundamental questions of what to pitch, to whom to pitch, and how to pitch. Each section begins with common pitfalls, followed by recommendations and additional resources to help GHSEs avoid them. Finally, each section includes an example from the field to highlight how GHSEs are applying best practices.

Question 1: What are you pitching?

Perform a critical review of the business model and business plan

In order to determine what to pitch, GHSEs should perform a critical review of the business model and business plan to determine the appropriate type of capital. This crucial step is often skipped in the rush to secure funds, but is the key to identifying and attracting the right funders or investors.

Common Mistakes

Many of the most common fundraising mistakes result from GHSEs neglecting to critically review their business model and plan before approaching potential funders or investors.

- Promoting a value proprosition without a clear focus: The most common pitfall is approaching funders or investors without a targeted value proposition. One sign of this is having a long list of potential customers and benefits. While there might be multiple potential benefits from the product or service, GHSEs need to identify a clear target market by naming the primary beneficiary and problem solved.

- Unstructured testing of the business model: Another frequent pitfall is to test services, customer segments, or unit economics in an unstructured manner, which leaves uncertainty about what is working and what is not working for the business model. Pilots should have a clear learning objective, approach, and evaluation mechanism that aims to test a limited number of variables at once, so that the resulting data provide clear direction on how to adapt the business plan. If structured appropriately, iteration and pilot initiatives are a crucial part of a GHSE's evolution toward a successful business model ready to be scaled.

- Lack of clarity around financials and unit economics: Even with a clear vision and plan, GHSEs may give insufficient attention to unit costs and margins. Analysis of unit costs will reveal the potential for long-term profitability, or make clear the level of subsidy needed. Even if the enterprise as a whole is not yet covering costs, not having a clear picture of the potential profitability, or subsidy needed, often leads to chasing the wrong kind of capital. Being able to present a clear financial picture also helps to build confidence with funders and investors.

Recommendations

Conduct a critical review of the business model and business plan. This recommendation is easy to gloss over, because the business plan reflects the thoughts of the GHSE's leaders. GHSE leaders should take a step back, engage help from outsiders, and be critical. Begin with the overall strategy, then review the financial details. Here are a few questions to guide the review:

> **Tip: What kind of business plan?** For this step, you need your executive summary and financial projections. The projections tell the business plan story in numbers, reflecting your key market insights and decisions. You will need other materials later in the process (see Question 3).

- Concisely articulate a strategic vision for the organization.
  - Who is the GHSE serving and how is the added value of the product or service defined and measured?
  - What health impact will the GHSE achieve and how is it measured?
  - What level of revenue or profitability will the GHSE achieve? At what pace of growth?
- Identify the GHSE's current stage and the next steps for achieving its vision.
  - In what stage is the GHSE? (See Figure 1 to help benchmark activities.)
  - What progress is needed to undertake the next step?
  - How will this investment be used? To what extent will it be used to test a new product/price/market?

Figure 1: Stages of social enterprise development

Stage	Blueprint: Developing the blueprint	Validate: Testing and refining business model	Prepare: Enhancing conditions needed for scale	Scale: Rolling out the model
Key Activities	• Understand customer needs • Develop initial customer proposition • Develop business plan • Develop core technology/product prototypes	• Conduct market trials • Test business model assumptions • Refine business model, technologies and products as needed	• Stimulate demand • Develop supply chains • Build organizational capacity to scale	• Move into new geographies or segments; exploit scale efficiencies • Invest in assets and talent; enhance systems and processes • Respond to competitors

Source: Adapted from Acumen and Monitor's "From Blueprint to Scale."[20]

20. H. Koh, A. Karamchandani, and R. Katz, "From Blueprint to Scale: the case for philanthropy in impact investing" Monitor Group, 2012, www.mim.monitor.com/blueprinttoscale.html.

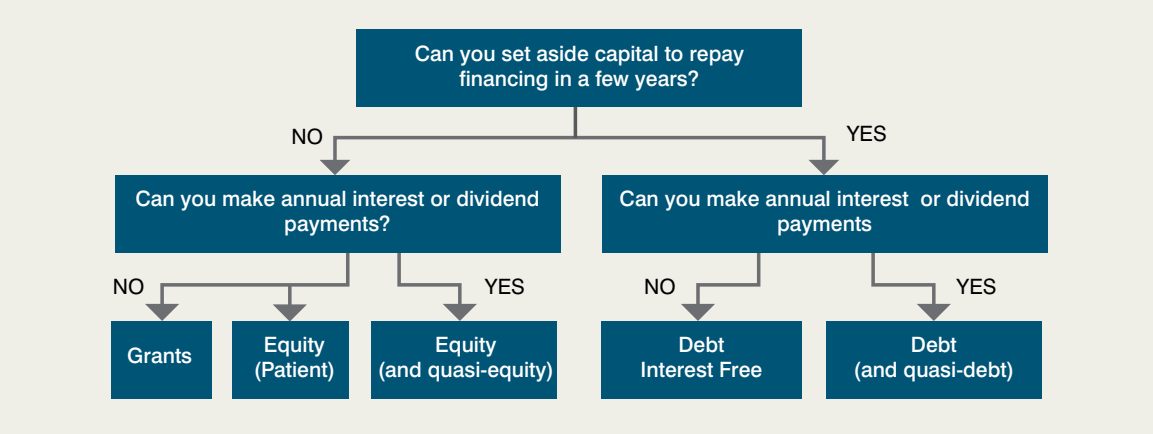
- Perform a basic financial analysis.
  - How big is the market?
  - What is the evidence of customer demand?
  - What are the key assumptions underlying revenue projections?
  - What are the unit costs and margins?
  - How close is the GHSE to revenue targets? To breaking even at a unit level? What is the trend in revenues and/or profit margins?
- Identify the key risks facing the GHSE.
  - What are the key risks and what can be done to mitigate these risks?
  - How will these risks evolve as the GHSE grows?

Tip: Be critical! The measure of a good business plan is not getting the numbers right (you won't), but about understanding the market, making realistic assumptions, and recognizing how they affect your strategy. The key to a good review is to *start at the beginning, recognize the assumptions you have made, and question them.*

Determine the appropriate type of capital. Based on a sound financial analysis, assess what type of capital might be appropriate at this stage. Use the following questions to assess whether debt or equity is more appropriate. After making this determination, begin to explore the exact structure of the vehicle, including hybrids.

- Can the GHSE afford to set aside capital to return to an investor? Is there a likely exit event to generate returns?
- Can the GHSE make regular interest/dividend payments to an investor? (Also see below about the decision to take on debt capital.)

Figure 2: Determining the appropriate type of capital[21]



Source: adapted from Schwab Foundation's Social Investment Manual.[22]

21. Equity investments are not an option for nonprofit legal structures. Quasi-equity is a hybrid that has features of both debt and equity and can take various forms. (Read more from Social Finance.) Some investors call themselves patient capital, and are willing to forego financial returns for social impact. Patient equity has a longer time horizon, lower return expectations, and no voting rights. (Read more from Acumen.)

22. A. Achleitner, A. Heinecke, A. Noble, M. Schöning and W. Spiess-Knafl, "Social Investment Manual: An Introduction for Social Entrepreneurs," Schwab Foundation, 2011, http://schwabfound.weforum.org/content/social-investment-manual.

Assess whether to seek debt capital. Social entrepreneurs often struggle with the question of whether they are ready to seek debt funding from an impact investor and it merits additional discussion. In a recent HBR blogpost, Clark and Dees explore this question, and posit that one reason the answer is usually "not yet" is that social venture business models often evolve over a long time horizon before achieving income stability.[23] Another is the potential for misalignment with investors around economic and social objectives. They conclude that a critical question is whether the SE can afford to part with cash in order to repay investors. Does the GHSE have a stable business model with recurring revenues, predictable margins, and a clear path to profitability? What effect will the pressure to return capital to investors have on the mission or growth of the venture?

Be cautious when pursuing multiple types of capital concurrently. Pursuing multiple types of capital at the same time can have mixed results. Seeking grants may signal to other investors that an organization is not financially sustainable. Debt investors, in particular, give mixed responses about whether it's acceptable for GHSEs to seek loans and grants at the same time. Some investors express concern about the monitoring and evaluation burden that grants may require. However, some investors may see grant capital as complementary, if it helps to propel GHSEs to the next development stage. If you do pursue multiple types of capital, be prepared to explain your strategy and to articulate how it does not reflect a need for ongoing grant subsidy. Hybrid legal structures are a notable exception to this concern. It is becoming more common for GHSEs to create hybrid nonprofit/for-profit structures, separating activities with different social/financial return profiles in order to better manage the respective activities and to access both grants and impact capital.[24]

Additional Resources

Business planning tools: There are a variety of resources available to support entrepreneurs in business planning including Inc.com and Business Model Generation.

Types of funding vehicles: For additional discussion about types of funding (including hybrid vehicles), see The Schwab Foundation's Social Investment Manual.

23. C. Clark and J. G. Dees, "When you should seek capital" Harvard Business Review Blog, January 24, 2013, www.blogs.hbr.org/cs/2013/01/when_you_should_seek_capital_f.html.

24. For a discussion of a GHSE's decision to separate two lines of business, see the Healthpoint Services case study in Toniic E-Guide to Early Stage Global Impact Investing at http://www.toniic.com/toniic-institute/early-stage-e-guide/.

Stories from the Field

© Riders for Health

A case for debt? Riders for Health examines the numbers. Riders for Health, a UK-based nonprofit GHSE, expands access to health services through innovative responses to "last-mile" transportation challenges in Sub-Saharan Africa. In 2007, Riders was exploring the feasibility of a full-service leasing model called Transport Asset Management (TAM) in The Gambia, wherein Riders would not only provide fleet management services, but also own the fleet and lease vehicles to the government. This innovation offered significant potential for reducing costs, but required up-front financing to purchase the fleet. Riders initially struggled to secure a commercial loan, until the Skoll Foundation stepped in with a loan guarantee. Based on a compelling business model, Riders' strong track record, contract commitments from the Gambian Ministry of Health, and a loan guarantee from Skoll, Riders secured a $3.5 million loan from Africa-based Guaranty Trust (GT) Bank to finance the fleet.

In 2013, Riders engaged a student consulting team from CASE i3 at Duke's Fuqua School of Business to explore financing strategies for the infrastructure needed to expand programs in Kenya to a national scale. The students built a financial model based on current Kenya operations, which were characterized by small, local contracts. In spite of Riders' strong track record, there was no historical trend to substantiate attracting sufficient, stable contract revenues to repay loans in Kenya. The exercise revealed that without large-scale contract commitments, revenue projections were too uncertain at present to make debt financing viable. Riders decided to focus on grant funding in Kenya until the landscape of contract commitments changes.

This example highlights how a business model review shaped the fundraising process, revealing that this was not a case for debt, which requires stable cash flows. Investors highlight the following criteria for assessing whether cash flows are sufficient for a loan:

- strong, consistent management track record;
- strong financial model with clear articulation of revenue drivers;
- evidence of stable market demand; and
- positive revenue and margin trends.

Source: interviews with Riders management team; Riders Gambia case study[25]

25. S. Ramohan, "Fueling Growth," Stanford Social Innovation Review, Summer 2010, www.ssireview.org/articles/entry/fueling_growth.

Question 2: To whom are you pitching?

Screen potential funders and investors

With a clear business model and business plan, GHSEs are ready to screen potential funders or investors. Effective screening means recognizing whether there is good potential "fit," or alignment between the funders' or investors' criteria and the social enterprise.

Common Mistakes

At this stage, many entrepreneurs waste significant amounts of time and energy pursuing investors that are not a good fit and therefore are not likely to invest.

- *The scattershot approach:* One strategy is to send requests for grants/investments as widely as possible. This approach can be appealing based on the belief that the more applications the GHSE sends out, the more positive responses the GHSE is likely to receive. However, by necessity this approach involves sending out more generic appeals, which will rarely capture the attention of funders or investors.

- *Ignoring stated criteria:* Another common mistake is to ignore non-negotiable investment criteria. When a GHSE identifies a funder or investor whose criteria align with the organization on several points, it can be tempting to ignore criteria that do not align. While some criteria are negotiable, others, such as funding amount, stage, health area, and geography often are not.

Recommendations

Be picky and screen for alignment. GHSEs should be picky about who they talk to, and screen them well before investing additional time and energy. There are several "knock-out" investment criteria that are often non-negotiable for funders and investors: stage, sector (focal health area/ business model), and geography (see figure 3). Funding amount is also an important screening criterion. If a funder's or investor's minimum investment is too high, it is generally a knock-out factor. However, it may be worth approaching a funder or investor whose maximum investment seems small if there is additional strategic benefit from a partnership.

Figure 3: Three key criteria for screening potential funders or investors

Growth Stage	Focal Health Area/ Business Model	Geography
• Funds typically target an organizational stage (e.g. start up, growth) • Foundations often have criteria about scale of operations, and a budget threshold for grantees	• Many foundations explicitly target specific disease areas • Some investors focus on different business model or technological innovations	• Funders and investors typically focus on operations in specific countries • Some investors have a requirement for headquarters location

Source: adapted from Schwab Social Investment Manual

Leverage relationship-based data. Websites are an important initial source of information for screening funders and investors, but most fund and foundation websites have limited information. Use conferences, awards, and accelerator programs to develop personal relationships and use your network to gain additional insight into strategic objectives and investment criteria.

Understand return expectations. Return expectations vary widely across funders and investors. GHSEs need to investigate a funder's or investor's financial return expectations and to recognize the implications for their cash flow and strategy. Ask other SEs they have invested in what really drives the funder or investor. This is equally relevant for social returns; what are the expectations, what will it cost to achieve them, and how will this commitment affect future activities?

Don't forget your own criteria. During the screening stage, don't overlook your own criteria. Investors will often be part of your team for the long term. From both a strategic and an interpersonal perspective, consider what kind of partner a funder or investor will be. What is their style and reputation? What kinds of connections can they bring you? Who else is in their portfolio and what can they tell you about the funder's or investor's strengths and weaknesses?

Additional Resources

Lists of funders and investors: In the expanding landscape of impact investors, there are a variety of types of funders and investors. Figure 4 presents an overview of key funder and investor types that support GHSEs. Sources of additional information about funders and investors that focus on global health include the Foundation Center's Directory (US-based funders) and the Center for Health Market Innovations.

Figure 4: Key types of funders and investors

	Grants	Equity	Debt	Comments
Incubators & accelerators	X	X		Increasing in number, they offer broad early-stage support. Often focused on innovative business models.
Angel investors		X	X	Play a growing role in early-stage impact investing; often offer a range of investment vehicles. Impact-focused networks such as Investors' Circle and Toniic growing in membership.
Small & medium family foundations	X		X	Generally focused on grantmaking, given limited resources to experiment with other types of support.
Large foundations	X	X	X	A significant source of grant funding; increasingly experiment with debt, equity, and guarantees.
Corporate foundations	X			Opportunities for marketing and community reinvestment often drive relationships.
Venture philanthropy	X		X	Usually provide significant technical assistance and a range of investment instruments.
Nonprofit funds	X	X	X	Higher risk tolerance compared to for-profit funds; more experimentation with hybrid vehicles
For-profit funds		X	X	Financial return expectations drive investment decisions, ranging from below-market to market rate returns
Aid & development finance institutions (DFIs)	X	X	X	Aid agencies provide significant grant funding, but often focused on very specific outcomes. DFIs generally focus on large debt and equity investments.

Stories from the Field

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Choose your audience, and make the pitch fit. Alden Zecha, CFO and Strategist for Sproxil, Inc., shared the importance of not only screening, but also understanding the motivations and information needs of different investors. Sproxil is a for-profit, venture-backed, social enterprise that provides brand protection services in emerging markets. The company's Mobile Product Authentication™ MPA™ solution helps ensure purchased goods, including pharmaceuticals, are not stolen or counterfeit by allowing consumers to verify product genuineness through a text message. Headquartered in Cambridge, Massachusetts, Sproxil currently operates in Ghana, Kenya, Nigeria and India. Sproxil received an equity investment of $1.79 million from the Acumen Fund in 2011.

"Pre-qualifying investors will save you a lot of time and energy," commented Mr. Zecha. Sproxil initially screens potential investors based on four key criteria.

1. Have they invested in your headquarters country? (Do they understand the financial statement standards and regulations?)
2. Have they invested in the operating country? (Do they understand the risks related to the operating environment?)
3. What amount of money have they invested? (Is there a fit?)
4. Have they invested in the industry/sector? (Do they understand the healthcare or technology industry?)

Sproxil uses publicly available information for this initial screening, even if they were introduced to the investor by an intermediary.

Mr. Zecha also highlights that investing is not a purely logical and objective process, and that it's important to understand the motivations of potential investors. "For example, a strategic investor may be more interested in the synergies that the venture will bring to their core business instead of just financial returns, and an angel investor might be more interested in visiting a location to see the social impact than on dividends." Knowing these motivations has enabled Sproxil to tailor the pitch and investment terms appropriately. Mr. Zecha also shared how his team manages different needs for information. "Very few investors today require a full, detailed business plan." Instead, Sproxil has developed a library of brief, targeted materials that address specific needs such as "our business model in detail, expansion plans, staff development, tax considerations, etc."

This advice from Sproxil highlights the value of understanding and screening potential investors and responding to their different interests and needs for information.

Question 3: How will you pitch?

Craft your message to attract and engage the right funders or investors

Effective communication is the final step in cultivating potential funders or investors. It's critically important for GHSEs to refine and practice the sales pitch, leveraging connections and using available information about the audience.

Common Mistakes

Many mistakes around pitching to potential funders or investors are related to being unprepared or failing to present the information in a way that captures their attention:

- **Wasting a first impression:** First impressions are crucial, especially given that funders and investors typically screen a large number of potential grants/investments. Don't miss an opportunity to capture a potential funder's or investor's interest with a clear, brief "elevator pitch." Testing this pitch with a family member is a great way to see whether you can quickly and clearly communicate your basic concept.

- **Speaking a different language:** Another common mistake is emphasizing something that is not a priority for a potential funder or investor. This can happen if the GHSE always gives the same pitch, without pausing to recognize the background and expertise of the funder or investor and without tailoring the pitch to address the investors' focus areas.

- **Not leveraging third-party validation:** It can be easy to begin taking your successes for granted, and to not recognize their weight as validation in the eyes of prospective funders or investors. It's a mistake to not list current investors, major customers, and partners or to include their quotes or recommendations in materials presented to prospective funders or investors.

Recommendations

Know your audience. Before approaching funders or investors, GHSEs may need to conduct additional research in order to develop a tailored sales pitch.

- Strategy: Learn about other strategic objectives relevant to their investment approach. What does this investor believe are key market opportunities, drivers of success, or levers for health system change? Start with the website and any case studies written, but use relationships whenever possible to gain additional insight.
- Benchmarks: Explore where the funder or investor sits on a spectrum from impact-focused to finance-focused. "Impact First" funders or investors are focused on the health impact that their investment can achieve, and may use benchmarks for impact such as the cost per disability-adjusted life year (DALY). "Finance First" investors are focused on a financial return, and will likely use benchmarks such as the internal rate of return (IRR). Funders and investors may not use these terms to label themselves, but this spectrum can be helpful for understanding their priorities when researching investment criteria and history of grants or investments.

- People: Consider not only the institution but also the individuals to whom you are talking. How well do they know this health area, or type of innovation? Who are their stakeholders and what makes them successful? Are they the final decision-makers? What do they need in order to recommend this investment?

Develop the right materials. Different funders and investors require different materials. GHSEs pursuing impact investors should develop a compelling one-page summary and a slide pitchdeck of no more than 20 slides (try for 10!). Some investors may request a complete business plan word document, but most will not have the time to read a long document. For GHSEs targeting grantmakers, a one-page summary is always useful, but funders often provide specific guidelines for their application process.

Deliver a strong pitch. A strong sales pitch will clearly articulate a unique value proposition in a way that is tailored to the investor's priorities. See resources below about the content of the pitch. While there are different opinions on what a great pitch should include, the following are three fundamental guidelines for delivering the content.

- Language matters: Be concise, be specific (use numbers), and incorporate language used by the investor in describing their investment strategy or criteria.
- Get feedback: Practice the pitch with people outside of the organization. Ask the practice audience for feedback about what wasn't clear and use this to refine the message.
- Be prepared for tough questions: Expect challenging questions about the business model, the strategy, the financials, and about why different decisions and plans have been made.

Additional Resources

The content of a strong sales pitch: Here are a few guidelines about what should be included and how to most effectively present the information:

- Summarize the problem and how the organization solves it.
- Briefly describe the product or service being provided.
- Clearly identify the target customers, and the buyer (if different from the customer).
- Describe the competitive landscape.
- Summarize the business model and how money will be made.
- Present projected health impact. (Tailor content to the investor's priorities: emphasize either social or financial returns.)
- Present the management team's strength and the organization's capacity to execute the plan. Mention any key advisors.
- Highlight successes to date, including existing customers and investors; do not assume that the audience knows the organization's strengths or achievements.
- Present the planned use of funding (and exit strategy, if this is impact capital). Be honest about what is still being tested. If funds will be used to pilot something, articulate what learning is expected.

Pitch material resources: There are many online resources for developing pitch decks and delivering presentations. seToolbelt (www.setoolbelt.org) is an open content resource hub for SEs, with various resources including an annotated pitch deck template. Although not SE-focused, MaRS (www.marsdd.com) offers various resources for entrepreneurs, including offers tips for the presentation and elements of a pitch deck.

Stories from the Field

© Vaatsalya

Tips for success with impact investors. Vaatsalya founder Dr. Ashwin Naik shares lessons learned from Vaatsalya's fundraising experience. Vaatsalya, a for-profit enterprise founded in 2004, delivers low cost healthcare to semi-urban and rural communities in India through a hospital network. After experimenting with multiple models in the first three hospitals, Vaatsalya is now focused on replicating the "hub" of its original hub and spoke approach – medium-sized hospitals offering primary and secondary care. After launching operations with seed funding from friends and family, Vaatsalya has now raised three funding rounds from impact investors, the last closing at $10 million in 2011.

Dr. Naik's first piece of advice is the importance of introductions. "Cold calling doesn't work," he reflects. Most Vaatsalya investors have been the result of introductions from someone he knows personally. Dr. Naik emphasizes that people he met in the most unexpected situations have provided valuable introductions. He recommends business plan competitions as a valuable way to make connections, learn about investors, and build your network.

Dr. Naik also shared his insights into crafting a sales pitch. Initially, he developed a pitch focused on 1) what we do, 2) why it's great and 3) why you should care. Following the recommendation of an advisor, Dr. Naik revised the pitch to focus on answering three questions more important to impact investors: 1) how big is the market? 2) what are you doing differently? and 3) how will it be sustainable or make money?

Vaatsalya's fundraising success begins with a strong business model and strong management team, but this advice highlights how Dr. Naik has effectively used his network to make connections and tailored his pitch to the impact investors that Vaatsalya is approaching, which balance social and financial returns.

Source: authors' discussions with Dr. Ashwin Naik.

Conclusion

Fundraising can be incredibly time consuming and often frustrating. As the global health funding and investment landscape continues to grow more sophisticated and complex, GHSEs will need to conduct better self-assessment and screening in order to identify investors aligned with their mission and returns. Additionally, the growing number of GHSEs will heighten competition for both donor and impact investment dollars, increasing the importance of not only strong value propositions, but also effective communication. Still, there is increased opportunity for GHSEs to find the capital they need and to build strong long-term partnerships for mutual success.

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