CASE STUDY

MEDICAL CREDIT FUND (MCF)

MARCH 2019

EXECUTIVE SUMMARY

The Medical Credit Fund (MCF) is the first and only debt fund dedicated to financing small- and medium-sized enterprises in the health sector ("health SMEs") in Africa. MCF has an innovative 'layered capital' structure, blending catalytic first-loss capital, technical assistance grants, and debt financing. MCF provides loans and technical assistance to health SMEs to increase access to better healthcare services for low-income patients. For the loan program, MCF works with local financial partners (e.g., local banks) to distribute loans, which are either jointly funded or facilitated through a guarantee program. All loans facilitated by Medical Credit Fund are linked to a technical assistance program.

MCF is steadily growing its fund size and loan portfolio, maintaining its focus on development impact while refining the financing model to achieve financial sustainability. To date, MCF has achieved impressive development results at the patient, company, and market levels and looks to raise additional impact-oriented capital in the future. The design and implementation of MCF presents useful insights for others considering blended finance approaches for the health sector:

- Development impact can come first in blended finance solutions;
- Technical assistance bolsters both financial returns and development impact;
- Local partners allow for both operational and financial leverage, but should be done responsibly; and
- The pathway to financial sustainability can be demanding for impact-first vehicles.

SYNOPSIS

Deal sponsor	The PharmAccess Group
Fund vintage	2009
Mandate	To build the private healthcare value chain in Sub-Saharan Africa, enabling healthcare companies to increase and improve their quality, scale, and efficiency and serve a wider range of patients better
Target borrowers	Small- and medium-sized health providers; diagnostic centers and specialized clinics; secondary hospitals; networks of clinics and primary health facilities; supporting services to the health sector
Priority countries	*Current*: Ghana, Kenya, Nigeria, Uganda and Tanzania *Future:* Zambia, Cote d'Ivoire, and Senegal
Size	$50 million
Capital structure	First-loss capital: $7.75 million Debt capital: $41.5 million TA funds: ~$12 million
Technical assistance	All loans are linked to technical assistance (TA) to improve the quality of care (leveraging the SafeCare initiative), strengthen business sustainability, and reduce MCF's portfolio risk.
Investment model	*Bank Program*: Loans up to $200,000, provided through Financial Partners *Tailored Program*: Loans up to $2.5 million, provided by MCF or through Financial Partners
Investment sizes	Minimum of $1,000 to a maximum of $2.5 million (or local currency equivalent)
Impact-to-date	18 local Financial Partners, 2,400 staff trained; 1,760 SMEs financed, 79% improved quality of care; 58% of patients are low-income.

INTRODUCTION

Approximately half of all healthcare services in Africa are delivered via the private sector. While governments have an important role to play in the healthcare sector, the capacity of governments to finance, regulate, and enforce health policies and services is limited in many countries across Sub-Saharan Africa. As a consequence, large parts of the population turn to the private sector – and have to pay out of pocket due to lack of adequate health insurance. Moreover, the private healthcare sector, especially small and medium-sized enterprises (SMEs), faces many challenges in effectively complementing the public health system across Africa. For example, health SMEs often lack access to the financing required to purchase modern equipment or pay for basic repairs – for reasons that affect many SMEs (e.g., a lack of credit history, limited financial performance records) as well as reasons particular to the sector (e.g., heightened aversion to foreclosure on a health facility and the inability for health equipment to serve as collateral).

Against this backdrop, the PharmAccess Group (PharmAccess) is taking a systemic approach to increasing access to healthcare in Sub-Saharan Africa. PharmAccess is a group of non-profit foundations dedicated to improving access to quality healthcare across Africa. PharmAccess established the Medical Credit Fund (MCF), leveraging catalytic philanthropic capital, to mobilize additional funding from private and public sources to improve access to financing for health SMEs. Specifically, MCF provides local currency loans, in partnership with financial intermediaries and directly, alongside technical assistance grants, to ensure that the financing improves the quantity and quality of healthcare services across Africa.

DESIGN AND FUNDRAISING

The original foundation, PharmAccess International, was initially founded in 2001 to bring antiretroviral therapy for HIV/AIDS treatment to Africa, partnering with private sector companies to distribute life-saving medicines. Since then, PharmAccess has expanded its mandate to strengthening entire health systems, recognizing the need for greater access to quality healthcare services beyond HIV/AIDS prevention and treatments. From the onset, PharmAccess has focused on strengthening the private health sector – contrary to the more traditional approach of supporting the public sector – because the public sector was not providing effective healthcare for all in many developing countries. Moreover, PharmAccess is a pioneering organization that seeks to find innovative, yet practical solutions to drive systemic change in the healthcare sector. In 2006, PharmAccess established a public-private partnership called the Health Insurance Fund, which spurred the introduction of the first public-private health insurance schemes for the informal sector in Africa.

MCF was conceived by PharmAccess to address an important challenge unmasked by the Health Insurance Fund: patients need to trust in the quality of health facilities to prepay for health insurance, but health facilities – many of which are small, private providers – did not have sufficient access to financing to invest in quality improvement. The initial objective of MCF was to put more credit into the health sector that local commercial banks would not offer. Access to capital, combined with technical assistance, was intended to empower healthcare facilities to grow their business and improve the quality of healthcare services for their patients.

MCF was established in 2009 with $2.5 million (€2.8 million) from donor organizations, primarily PharmAccess (through its funders), to begin operations. MCF was the first, and remains the only, debt fund dedicated to financing health SMEs in Africa. The Fund was designed with three defining features. First, MCF deployed a blended finance structure to make it financially viable while maintaining focus on the Fund's intended target beneficiaries (i.e., health SMEs). Second, technical assistance – and a lot of it – would be needed to ensure the feasibility of the financing as well as the improvement in quality desired (i.e., facilitating the purchase of new equipment would not alone translate to better quality of care). Finally, MCF would partner with local banks ("Financial Partners") to make the best use of their existing footprints and their legal and regulatory status, and to support local currency lending.

The true catalyst for MCF was in 2010, when the Fund was selected as one of three people's choice winners at the G20 SME Finance Challenge. The G20 launched the Challenge in an effort to identify the best models for catalyzing finance for SMEs. Through the G20 Challenge, the United States Agency for International Development (USAID) provided an additional $1 million in grant funding to MCF, which was deployed for first-loss, and the Overseas Private Investment Corporation (OPIC) was selected to champion the first round of debt financing for MCF. In 2012, MCF closed on $10.6 million in debt financing from OPIC, Calvert Impact Capital (formerly Calvert Foundation), the Bill and Melinda Gates Foundation ("Gates Foundation"), the Soros Economic Development Fund, the Deutsche Bank Americas Foundation, and Dutch private investors. These primarily impact-oriented funders were keen to support the health sector in Africa.

Although it was initially difficult to identify Financial Partners and develop a viable pipeline through technical assistance activities, MCF was achieving a consistently high repayment rate and palpable change in the market by 2014 as well as attracting a lot more interest from commercial capital providers. In 2015, MCF began preparing to expand its capital base to $35.5 million, which would allow it to leverage established infrastructure and partnerships to expand its activities and serve a wider range of health companies and countries. MCF first expanded its first-loss capital tranche, with contributions from the Pfizer Foundation and the Dutch Good Growth Fund's Seed Capital & Business Development (SCBD) program. MCF then received follow-on investments from OPIC and Calvert Impact Capital, as well as financing from a Dutch private family office, for a total of $17.4 million.

To further grow its operations and work towards financial sustainability (by reducing costs), MCF focused on developing and testing digital financing solutions. MCF launched the Cash Advance product in Kenya in 2016, a short-term loan product for healthcare providers that used digital patient revenues as a means of security. This innovation allowed for MCF to deploy a very low-cost and low-risk financing solution and to achieve its ultimate goal of benefiting smaller healthcare facilities that have the most difficulty accessing capital. In 2017, MCF completed its third round of financing, with investments from the CDC Group ($10 million long-term loan), the International Finance Corporation (IFC, $4.5 million), Agence Française de Développement (AFD), and three private impact investors. Most recently, the European Investment Bank (EIB) committed $5 million in debt financing to MCF. MCF currently stands at $50 million in total capitalization.

STRUCTURE AND GOVERNANCE

CAPITAL STRUCTURE

MCF is a two-tier fund that leverages first-loss capital to mobilize greater debt financing for the health sector in Africa. The first-loss grants were initially provided by MCF's founding members (e.g., PharmAccess and Aidsfonds) as operating capital. The first-loss tranche was formally established through the G20 Challenge and then increased marginally ahead of the refinancing and capital expansion in 2015. The first-loss tranche has declined over time from approximately 35% in 2012, to approximately 15% today, of the total capitalization of the Fund, approximately covering the total credit exposure on the underlying loans. Debt capital is provided on individually negotiated terms between the lender and MCF, though most lenders are pari passu in terms of seniority, disbursements, and exposure. While MCF attracted primarily impact-first funders, the later fundraising rounds have attracted more impact-oriented commercial funders. Still, most of the debt funding for MCF is provided on terms that are generous relative to market, including lower than typical return expectations or generous grace periods.

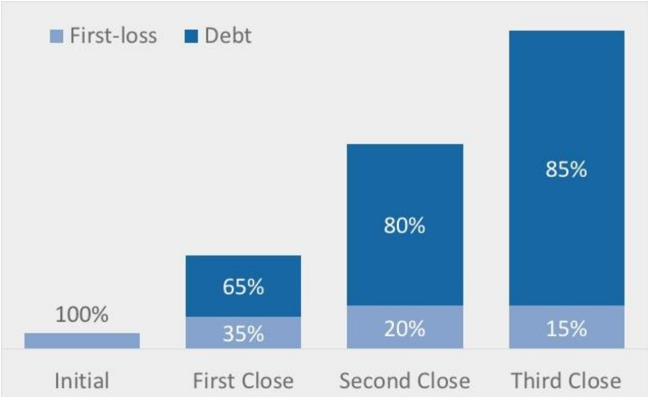

Figure 1: Capital structure

In addition to the fund's capital structure, MCF also benefits from grant-funded technical assistance funds and subsidized management fees. A dedicated MCF technical assistance fund is financed through grants from the lenders and other donors, including CDC and IFC, and currently stands at $6.8 million. The MCF technical assistance fund is distinct from PharmAccess's technical assistance program (i.e., SafeCare), which is funded by PharmAccess's donors. This technical assistance is used to support program costs (e.g., developing partner banks, establishing new products or programming). To date, the management costs have been primarily covered by grant funding and are currently subsidized by the Dutch Ministry of Foreign Affairs (approximately $6.5 million) on a declining basis. The long-term objective is for MCF to finance management costs through returns on its portfolio, but financial support is required in the medium-term.

LEGAL STRUCTURE & GOVERNANCE

MCF was established as a Dutch not-for-profit foundation (*stichting*) and initially operated as an arm of PharmAccess. For PharmAccess, individual legal entities (i.e., Health Insurance Fund, MCF) allow for specialization around various activities, while centralized supervision (i.e., overlapping board positions) ensures alignment and coordination of its programming. For MCF, this structure provides access to a wide range of international and local partners, knowledge and understanding of the private and public healthcare sector in Africa, and local offices and back office support functions. MCF has also benefited from PharmAccess' institutional infrastructure (e.g., human resources, communications). Moreover, PharmAccess has an internal division that is responsible for the implementation of MCF's TA activities.

In January 2017, PharmAccess Group (and its entities) implemented a revised governance model. As PharmAccess's operations expanded across instruments and countries, the inter-relationships and coherence among its multiple entities and offices was not always clear. PharmAccess hired a consulting firm to advise on a clearer and more effective governance structure moving forward. A new foundation, PharmAccess Group Foundation (PGF), was established with oversight of all PharmAccess group entities (i.e., PharmAccess International, Health Insurance Fund, MCF, and SafeCare) under a single supervisory board, the PGF Supervisory Board. For MCF, the existing supervisory board and the audit committee were dissolved. The roles and responsibilities of the previous audit committee were assumed by the newly instituted supervisory board of PGF and its committees, through supervision of PGF's executive board.

MCF is currently governed by the following bodies:

- PharmAccess Supervisory Board: The Supervisory Board supervises the policies, processes, governance structure, management, and the general affairs of the PharmAccess foundations.
- MCF Statutory Board: The Statutory Board (i.e., PharmAccess, represented by the Executive Board) is responsible for decisions outside the scope of the MCF Management Board.
- MCF Management Board: The Management Board (two non-statutory members) is responsible for day-to-day business with delegated authority on loans up to $100,000 (MCF credit exposure).
- Credit Committee: The MCF Credit Committee can approve loans up to $1.25 million (MCF credit exposure) and is made up of no less than three voting members, consisting of members of the Management Board (MCF), the Supervisory Board (PharmAccess), and external experts.

OPERATIONS

Partnerships are an essential component of MCF's strategy. Beyond partnerships with its funders and supporters, MCF provides both loans and technical assistance through local intermediaries. On the loan program side, Financial Partners are leveraged in order to source, co-finance, and manage the loans, but also for risk mitigation and to achieve its goal to attract private capital to the sector. MCF generally enters into two standard types of agreements with Financial Partners:

- Fund Management Agreement (FMA): MCF provides funding to the Financial Partner for on-lending to health SMEs. Both the interest income and loan losses are shared pari passu between MCF and the Financial Partner. While an FMA aligns incentives and risk-sharing, it does increase MCF's exposure to certain risks, including currency mismatches (i.e., foreign exchange denominated funds vs. local currency lending) and counterparty risks.
- Guarantee Support Agreement (GSA): MCF provides a partial guarantee (typically 25-75%) to the Financial Partner for risk-sharing on an underlying portfolio to health SMEs. Guarantees do not provide first-loss coverage and, according to the contract, MCF typically receives a guarantee fee. While a GSA (i) sidesteps FX risk related to currency mismatches and (ii) optimizes capital resources, MCF may face greater counterparty risk (e.g., skewed incentives for managing non-performing loans) and returns may vary.

MCF primarily partners with local commercial banks (all but one of the current portfolio of Financial Partners), but can also partner with wholesalers/distributors and non-bank financial institution, including microfinance institutions (MFIs), insurance companies, mobile money companies, and private equity funds. Approximately 95% of loans disbursed through the MCF programme are through its Financial Partners, rather than direct financing. MCF reviews partnerships quarterly, to ensure sufficient pipeline / active loan applications and portfolio performance.

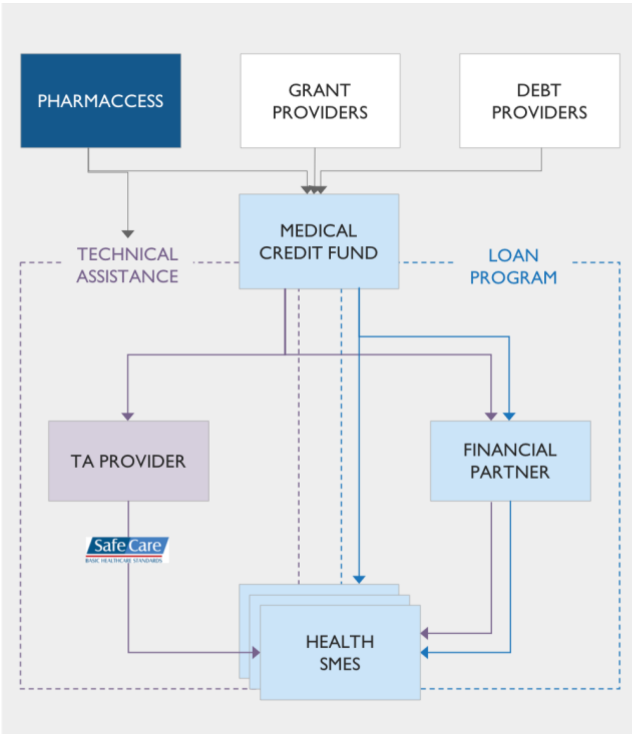

Figure 2: Partnership model

INVESTMENT CRITERIA

MCF funds may be used to finance health SMEs domiciled in Sub-Saharan Africa, including (i) healthcare providers (e.g., physician offices, pharmacies, hospitals); (ii) diagnostic centers and specialized clinics; (iii) secondary hospitals; (iv) networks of clinics / health facilities; (v) supporting services to the health sector. The primary focus is on healthcare providers with robust and growing revenues and positive cash flow. All health SMEs are evaluated using the Investment Selection Matrix, which includes financial, developmental, and social criteria. At a minimum, prospective health SMEs must demonstrate: (i) a basic patient safety policy; (ii) plans to scale operations; (iii) an ability to support a debt financing; and (iv) a willingness to participate in a TA program.

OBJECTIVE	CRITERIA
Financial	Risk
	Return
	Impact on portfolio risk
Developmental	Impact on value chain / context
	Leverage created
	Impact on quality of service delivered
	Impact on scale / efficiency
Social	Population reached
	Improving access
	Access for low-income groups

Table 1: Investment selection criteria

MCF provides funding in the form of secured debt, typically in local currencies through Financial Partners, but also in US dollars as needed. MCF hedges all local currency exposures that exceed $1.25 million (local currency equivalent) and currency exposures are managed at a portfolio level (not at a single loan level). Initially, loan sizes ranged from $1,000-100,000, and were extended first to a maximum of $350,000 and now to a maximum of $2.5 million, which allows for partnerships with non-bank financial institutions and opens up financing for supporting services (e.g., pharmaceutical companies, equipment suppliers). MCF provides loans through two programs: (i) the 'Bank Program' whereby loans are provided through Financial Partners, with loan sizes ranging from $1,000-200,000, and (ii) the 'Tailored Program' whereby loans are provided through Financial Partners or direct from MCF, with loan sizes ranging from $200,000-2.5 million.

The loan products offered through MCF to health SMEs that meet the selection criteria are as follows:

- Entry Loans: Loans up to $6,000 (local currency equivalent), with a maximum maturity of 6 months, offered to first-time borrowers before larger loans will be negotiated and approved. MCF assumes full (100%) repayment risk of the loan.
- Cash Advance Loans: Short-tenor working capital loans of up to $50,000 provided through a mobile platform (e.g., CarePay), which lends against a borrowing capacity determined by monthly volume of mobile payments. Repayments are automatically deducted from future revenues running across the platform, and MCF typically assumes full (100%) repayment risk.
- Small Loans: Loans up to $25,000 (local currency equivalent), with a maximum maturity of 3 years. Compared to Entry Loans, the Financial Partner participates in the repayment risk (typically 25%).
- Medium Loans: Loans between $25,000-$50,000 (local currency equivalent), with a maximum maturity of 5 years (although typically 2-3 years). Financial Partners assume 25%-50% of the repayment risk.
- Large Loans: Loans between $50,000-$200,000 (local currency equivalent), with a minimum maturity of 6 months and maximum of 10 years (typically 3-5 years). In full partnership with a Financial Partner (50%-50%) or in the form of direct lending.
- Extra Large Loans: Loans between $200,000-$2.5 million (local currency equivalent), with a minimum tenor of 6 months and maximum of 10 years (typically 3-5 years). In full partnership with a Financial Partner (50%-50%) or in the form of direct lending (up to $1.25 million).

MCF initially focused its activities in Ghana, Kenya, and Tanzania where it had an existing network. MCF is currently focused on its Priority 1 countries (Ghana, Kenya, Nigeria, Uganda, and Tanzania) and Priority 2 countries (Cameroon, Cote d'Ivoire, Senegal, and Zambia). MCF has organized scoping missions to Zambia, Senegal, Cameroon, and Cote d'Ivoire in 2018. MCF will only expand to new countries after having established a relationship with a Financial Partner. MCF considers investments in non-priority countries in Sub-Saharan Africa on a case-by-case basis. MCF cannot invest more than half of its deployed capital in a single country.

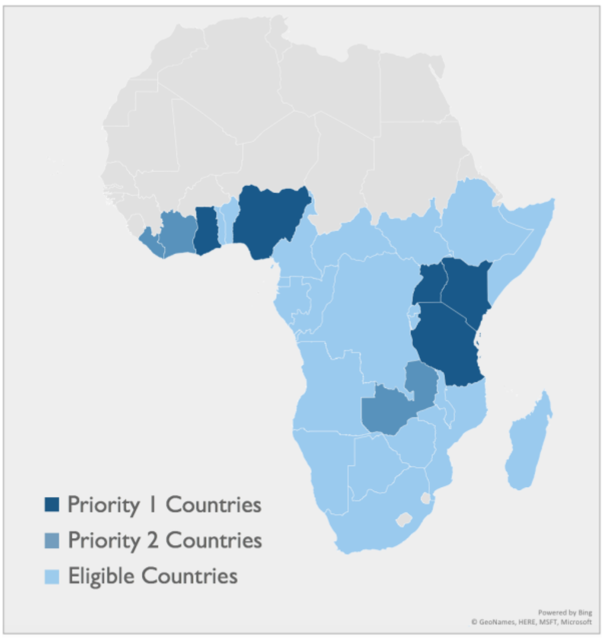

Figure 3: Geographical remit

INVESTMENT PROCESS

MCF deploys a multipronged deal sourcing strategy, combining bottom-up and top-down approaches. Initially, MCF relied heavily on PharmAccess' existing partner network as well as the network of MCF's funders. Increasingly, MCF's own partner network is a major source of pipeline, including its Financial Partners and also its TA providers. MCF provides sales and credit training to the employees of its Financial Partners, and also supports with marketing events and materials for both Financial Partners and TA providers.

MCF has refined its credit review process over time to become increasingly efficient. Initially, MCF often had to bring the deals along with very extensive business plans to the desk of the Financial Partner. As Financial Partners have gained experience and comfort with the health sector, they are able to take on a larger role in the appraisal process. In 2015, MCF introduced the 'Bank-in-the-Lead' model, whereby the initial screening and appraisal is done by the banks. Meanwhile, MCF focuses its efforts on analyzing and addressing the healthcare business's specific risks and impact assessment. Under MCF, a quality assessment and quality improvement plan are an integral part of the credit review process (see Technical Assistance for more detail).

The credit review and approval processes vary according to the financing program and loan size. For example, the Bank-in-the-Lead process is only applicable for regular MCF loans in the Bank Program (i.e., up to $200,000). While all loans, regardless of size, require approval from MCF, MCF is increasingly delegating more authority to the local management teams for the small and medium-sized loans (MCF has four local offices in Kenya, Tanzania, Nigeria, and Ghana). All loans in the Tailored or Direct Lending Program (and/or exceeding $200,000) must be approved by MCF's Credit Committee. After the initial appraisal, the MCF team prepares a Credit Committee Proposal, based on a thorough analysis of the business case and the expected impact of the investment.

After approval by MCF (and the financial partner if applicable), the legal due diligence and deal structuring is done. Under the Bank Program, the Financial Partner decides on loan approvals as per its own policies and procedures but can make use of the input and analysis already done by the TA Partner and/or MCF. Financial Partners are responsible for measuring performance of credit recipients based on international quality standards. MCF plays a central role in monitoring and evaluating all outstanding loans, with a stronger emphasis on measuring impact and coordinating technical assistance for loans under the Bank Program (i.e., while the Financial Partner takes on the financial monitoring).

TECHNICAL ASSISTANCE

PharmAccess launched the SafeCare initiative in 2011, in partnership with the Council for Health Services Accreditation of South Africa (COHSASA) and the Joint Commission International (JCI). SafeCare is a quality framework aimed at establishing universal standards of service delivery in healthcare. SafeCare has become an internationally-accredited framework, even adopted as the national standard by several African governments. SafeCare is uniquely focused on healthcare facilities in resource restricted settings, with an emphasis on a step-wise approach that rewards marginal improvement – instead of the pass-or-fail approach often enforced by regulators. PharmAccess is the implementing organization of SafeCare, and leverages the toolkit across its programming (including MCF and the Health Insurance Fund).

All loans made via MCF are linked to pre- and post-investment technical assistance (TA) to improve the quality of the healthcare services, strengthen business sustainability, and reduce MCF's portfolio risk. TA is delivered by MCF/PharmAccess, in partnership with local partners. Before loan approval, the PharmAccess team conducts a baseline SafeCare assessment (measured on a scale of 1-5) and identifies priority areas for improvement and investment (i.e., a Quality Improvement Plan (QIP)). Following the loan approval, TA funds are used to help the facility improve its clinical quality (i.e. implement the QIP). MCF also provides TA for the development of medium- and long-term strategy, preparation of business plans and financial projections, market assessments to identify growth opportunities, and planning the expansion or renovation of clinics to support successful loan repayment.

INVESTMENT ACTIVITY TO-DATE

As of Q4 2018, MCF has 18 partnerships with local Financial Partners across six countries (Ghana, Kenya, Liberia, Nigeria, Tanzania, and Uganda). This includes six new Financial Partners established in 2017 and two partnerships closed in 2018. From these institutions, MCF has trained nearly 2,400 Financial Partner employees on financing the health sector as well as on the MCF program and loan products. Five Financial Partners (~25%) have launched specific health financing products as a result of MCF. For example, Fidelity Bank's 'MediLoan' provides financing to healthcare providers in Ghana for the purposes of renovating their facility or purchasing medical equipment. The risk portion of Financial Partners (as a proportion of total financing provided under MCF's loan program) is at 46% of the outstanding capital in Q3 2018, which is up considerably from 18% in 2012 (42% in 2015).

Since inception, MCF has disbursed ~3,000 loans, through Financial Partners and directly, to 1,760 health SMEs across Sub-Saharan Africa, with a total volume of over $ 50 million in financing. In 2018, MCF disbursed >1,150 loans with a value of $16.7 million, a marked scale-up compared to the 730 loans disbursed in 2017 and 268 loans disbursed in 2016. Approximately half of the loans disbursed to date have been repeat loans, with the highest percentage of repeat loans in the Cash Advance product portfolio (94% of clients have taken 2+ loans). Entry- and Small loans are most commonly invested in working capital, renovations, or minor medical equipment (e.g., microscopes, autoclaves). Medium- and Large loans are most commonly used for major medical equipment or renovations/ infrastructure expansion.

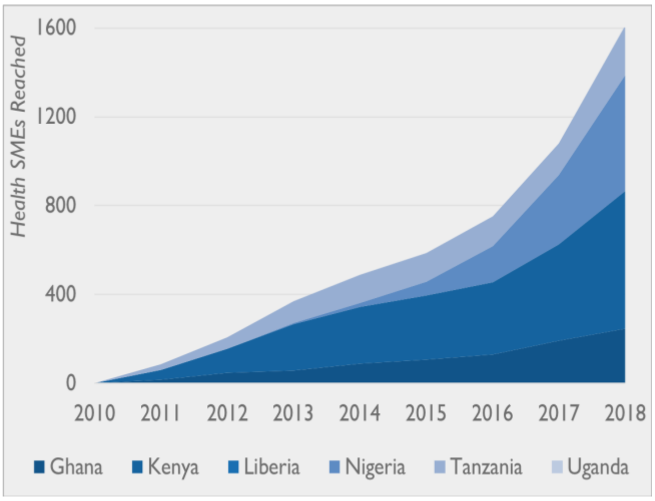

Figure 4: Health SMEs reached through MCF's loan program

The repayment rate for MCF loans, across the portfolio to date, stands at 97.2%. The Financial Partners have indicated that the MCF loans are among the best performing in their SME portfolios and have demonstrated a growing appetite for this portfolio, including taking a more active role in origination through the bank-in-the-lead model and increasing their risk participation in the underlying loan portfolios. Portfolio quality remains strong with portfolio at risk (PAR)-90 days of less than 3%, driven by close loan monitoring by local teams and Financial Partners. MCF's lenders have received timely payments of interest since their first disbursement in December 2012. Return on total assets has ranged between 4% and 5%, before financing and management costs which are subsidized by grant funders, including the Dutch government. The first-loss tranche remains intact, with losses of $1.0 million recorded to date.

IMPACT METRICS

MCF, with support from PharmAccess, is responsible for impact measurement, which is collected primarily through local staff and MCF's network of TA providers. MCF is able to leverage the SafeCare framework to measure improvements in quality and patient outcomes. MCF seeks to achieve impact at multiple levels: (i) access to healthcare services for low-income patients; (ii) improved quality of healthcare services; (iii) increased ability of local financial institutions to lend to health SMEs; and (iv) standardize the quality of healthcare services across populations in Africa.

First and foremost, MCF seeks to improve access to quality healthcare services for underserved groups, especially lower income groups. The estimated total number of patient visits per month for active MCF clinics (>260 clinics) is 360,000 and 1.7 million patient visits per month for active MCF pharmacies (~300 pharmacies). Currently, 58% of patients are estimated to be from very low-income and low-income groups (against a target of 50%). Overall, 86% of health SMEs financed through MCF are located in an urban area and only 14% in a rural area. A large proportion, 47%, of the patients seen in the healthcare facilities are women.

Second, MCF has helped health SMEs achieve greater access to local currency financing as well as better quality of care for its patients. MCF has a particular focus on financing small-sized health facilities and currently 97.5% of the loans disbursed have been smaller than $100,000 (against a target of 60%). To date, 18% of the MCF loans are to SMEs owned by female entrepreneurs. This is a bit distorted by the low percentage in Nigeria, where many loans are made to pharmacies. On average, beneficiary health SMEs have increased their revenues by 16% and their total number of employees by 16%. Collectively, the portfolio health SMEs employ 5,000 healthcare professionals. Moreover, over 5,000 health professionals have been trained (clinical and business), with discrete Healthcare Management Programs established in Kenya and Nigeria. 79% of the healthcare providers have showed improvement in quality scores (against a target of 70%). Follow-up SafeCare assessments saw quality scores improve from an average of 48% at baseline to 54% during the second reassessment and 63% in the third reassessment.

Third, MCF aims to be a catalyst for access to finance for health SMEs across Sub-Saharan Africa. Through risk sharing, local financial markets start financing the private health sector—approximately 25% of MCF's partnerships have resulted in a specific health financing product to date (other Financial Partners use existing small business products for health sector lending). In addition to risk sharing, MCF trains the staff of Financial Partners on investing in the health sector and works closely with these institutes during due diligence and thereafter. MCF has implemented a new series of workshops for experts involved in hospital design and construction in East Africa. The underlying goal is for health SMEs to access financing outside of MCF's programme in the long-term.

Finally, SafeCare has established itself as the standard for quality assessment, improvement, training & monitoring. SafeCare has been adopted and institutionalized in Kenya (NHIF), Nigeria, and Tanzania (MOH&SW). By the end of 2017, there were 1,867 clinics in the SafeCare program (including MCF investees), 466 clinics were digitally connected, 92% of the healthcare facilities improved their SafeCare score, and 17 partner organizations were licensed to use SafeCare. The quality assessments and certifications bolster the attractiveness of health facilities to both investors and patients.

FOLLOW-ON STRUCTURE

Looking ahead, MCF will continue to focus on impact (i.e., improving access to quality healthcare services) while becoming less reliant on donor funding over the coming years and, ideally, reaching financial sustainability in 2021. To achieve this, MCF is looking to a multi-prong approach to grow its income from loans while keeping portfolio quality high and without significantly increasing its expenses. MCF is looking to increase its volume of larger loan proposals executed directly, and has submitted an increasing number of large loan proposals to its Credit Committee over the last several years.

Even more notably, MCF is doubling down on a digital strategy. MCF is looking to leverage mobile money solutions to help develop the scale required to commercialize, while maintaining a strong focus on small-sized health SMEs. For example, MCF launched Cash Advance, a short-term loan facility that uses the digital revenues of health SMEs to secure and repay loans. Following on the success of Cash Advance, MCF launched Mobile Asset Financing, which is based on the same features and technology and can be used for medical equipment assets such as ultrasounds and lab equipment.

KEY INSIGHTS

MCF presents several useful insights for others looking to create or invest in blended finance vehicles focused on the healthcare sector.

- Development impact can come first in blended finance solutions: The purpose of MCF is, first and foremost, to enable greater access to quality healthcare services across Africa. Building on the track record and sector expertise of PharmAccess, MCF was established to fill a key market gap: access to local currency financing for health SMEs, which are a critical part of the healthcare landscape. PharmAccess leveraged a blended finance model to scale these operations and catalytic first-loss capital was used to crowd in debt providers that would not otherwise lend to SMEs in this sector. Moreover, MCF launched its initial lending and technical assistance activities using grant capital and slowly built its operating model around demonstrating development impact to its initial sponsors (e.g., Calvert, OPIC). MCF continues to refine its model in order to achieve scale, while keeping the development mandate at the forefront.

- Technical assistance bolsters both financial returns and development impact: The use of technical assistance alongside commercial lending is not always included in the definition of blended finance; however, it can be deployed strategically to support social and financial outcomes. For MCF, the use of technical assistance funds to implement the SafeCare standards is a particularly unique and impactful example. SafeCare provides a tangible and step-wise framework that is explicitly fit-for-purpose, targeting healthcare facilities in resource-restricted settings. The use of technical assistance to implement SafeCare imparts multiple benefits to the market. First, the SafeCare framework can be used to identify a successful pathway towards both business growth (i.e., loan repayment) and quality of service delivery (i.e., improved patient health). In addition, SafeCare presents a credible framework against which financial institutions can evaluate healthcare facilities as potential borrowers and MCF's debt funders can assess the portfolio quality.

- Partnering with local financial partners allows for both operational and financial leverage, but must be done responsibly: MCF is uniquely aimed at fostering systems-level change and there are several signs that the financial sector is increasingly comfortable with investing in the healthcare sector. First, the success of the bank-in-the-lead model to date, whereby banks have demonstrated a greater capacity to recruit health SME for loans. Second, the increased risk participation of Financial Partners in the MCF loan portfolio, which shows an increased appetite of partner banks to take a greater stake in the game. No Financial Partners have sought to maintain a healthcare portfolio without MCF's support to date, indicating the ongoing value of MCF in providing both financial and technical support. Nonetheless, MCF is cautious about distorting the market (e.g., supporting subsidies that inhibit long-term sustainability), ensuring its Partners have a significant and growing exposure to the loans and setting the terms at a market rate (i.e., never imposing terms).

- The first commitment (early-stage funding) goes the furthest in a blended finance transaction: While early-stage catalytic capital takes on the greatest risk, it also holds the potential for great impact. In the case of MCF, the Ministry of Foreign Affairs of the Netherlands has been a critical seed supporter of the Fund at formation in 2009 and during the expansion phase beginning in 2015, and continues to be the primary funder of technical assistance through the SafeCare initiative. As a result, MCF has leveraged the Ministry's contribution many times over and delivered sustainable development impact. Further, the G20 Challenge and resulting funding from USAID and OPIC were crucial to the success of MCF. Concessional capital providers play a critical role in supporting blended finance vehicles for development impact. On the flip side, the experience and credibility of the deal sponsor, in this case PharmAccess, can be central to attracting that early financing.

- The pathway to financial sustainability can be demanding for impact-first vehicles: MCF demonstrates the time that may be required to (i) establish a track-record in a high-impact sector and (ii) fine-tune the investment model to attract more commercial capital. Moreover, there can appear to be a trade-off between expediting the journey towards financial sustainability and maintaining the original development mandate. For example, MCF was established with a particular focus on financing small-sized health facilities, which are not the most efficient or profitable segment to finance (hence the need for blended finance). Over time, MCF has expanded its investment mandate to lend larger ticket sizes to larger SMEs to meet additional needs, diversify its portfolio and, in particular, improve its margins. Nonetheless, MCF has maintained a central focus on its target constituency and looked to other solutions – such as the use of mobile money and technology-enabled solutions – to move towards financial sustainability.

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ABOUT CONVERGENCE

CONVERGENCE is the global network for blended finance. We generate blended finance data, intelligence, and deal flow to increase private sector investment in developing countries.

BLENDED FINANCE uses catalytic capital from public or philanthropic sources to scale up private sector investment in emerging markets to realize the SDGs.

Our GLOBAL MEMBERSHIP includes public, private, and philanthropic investors as well as sponsors of transactions and funds. We offer this community a curated, online platform to connect with each other on blended finance transactions in progress, as well as exclusive access to original market intelligence and knowledge products such as case studies, reports, trainings, and webinars. To accelerate advances in the field, Convergence also provides grants for the design of vehicles that could attract private capital to global development at scale.

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