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INNOVATION MARKETPLACE

Financing Instruments for Innovators to Scale Health Innovations in Low- and Middle-Income Countries

A WHITE PAPER

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The *Every Woman Every Child* (EWEC) Innovation Marketplace is a strategic alliance of development organizations including Grand Challenges Canada, the Norwegian Agency for Development, the U.S. Agency for Development and the Bill & Melinda Gates Foundation. The EWEC Innovation Marketplace selects and supports the scaling of promising innovations that address high mortality and morbidity health conditions for women, children and adolescents in low- and middle-income countries.

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Financing Instruments for Innovators to Scale Health Innovations in Low- and Middle-Income Countries

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INTRODUCTION

Health innovations addressing the development agenda in low- and middle-income countries (LMICs) are financed by both public and private funders and investors. The role of each source of funding in the implementation of innovation has not been comprehensively explored. More often, the emphasis in most prior research has been on the role of the public sector in scaling innovations through governmental adoption. Various development initiatives have underscored the potential and the need to mobilize private sector investment to accelerate the pathways to meeting the Sustainable Development Goals (SDGs)[1, 2], particularly for the goals related to health (SDG3) and gender equality (SDG5) in resource-limited settings. Lack of financing is often one of the biggest barriers to the scaling of proven solutions.

This white paper presents a guide for innovators seeking funding from both public and private sources to scale innovations in health, as well as for funders that can map their financial offering onto such frameworks to seek complementary funding for their portfolio. Within these broad categories, providers of funding are themselves varied, with governments, donors, universities, multilaterals, foundations, individuals, corporations and angel investors broadly representing the spectrum of public and private investment sources. This paper will discuss the types of financing available from these sources – mainly classified as grant, debt and equity – and their individual characteristics, along with various market insights.

The ideas expressed in this white paper evolved from expertise developed while studying scaling and in working with funders and innovators through the *Every Woman Every Child* (EWEC) Innovation Marketplace, a strategic alliance of development organizations consisting of Grand Challenges Canada, the Norwegian Agency for Development, the U.S. Agency for Development and the Bill & Melinda Gates Foundation - an initiative housed at Grand Challenges Canada. The points made should be interpreted as scholarly observations, rather than as an agenda endorsed by the EWEC Innovation Marketplace partners.

1. GRANTS

As the most traditional form of development aid, grants dominate the landscape of financing for health innovations that are targeted at low-resource settings. Grant capital can take many forms, depending on the receiving entity, the stage of scaling and the use of funds. Entities behind innovations include non-profits, academia, social enterprises and for-profit companies. Grants are typically the sole source of funding for non-profit organizations and academic innovators, while still being accessible by others. In the context of scaling, grant funding can be catalytic in helping a social enterprise or product innovation achieve early testing and validation results before the innovation is sufficiently de-risked for different and larger types of financing.

Grants, provided by public funders and governments, necessitate a high degree of accountability and can therefore be restrictive in the types of activities they are allowed to fund, requiring highly detailed budgets and, in some cases, the financial agreements can be quite complex and may require a legal review prior to signing. Grants may also include rights to access the intellectual property (sometimes called global access rights) under specified circumstances in specific LMICs, which may or may not be negotiable for the recipient's unique circumstances. While designed to enable the access for public good, these rights are often permanently tied to the intellectual property, which can affect the commercial viability of the venture. Grants provided by private foundations or corporate social responsibility (CSR) groups of large corporations may be similar to those provided by the public sector and governments or they may be more flexible, depending on the funder's philosophy and approach to grant-making. Some private funders are able to allow for more built-in flexibility on the use of funds.

While most grants are not repayable, a recent evolution of this financial instrument is the Repayable Grant, which is technically a loan. These grants are, as the name suggests, repayable to the funder based on agreed-upon milestones, market conditions, and/or growth and impact achievements. Repayable grants are often offered in lieu of debt/loans and offer more flexible terms to the recipient, including no-interest payments on the loan. In some cases, the repayment feature acts as a punitive deterrent in the event the impact strategy funded by the grant-maker is no longer pursued by the recipient in the future.

A. TYPICAL CHARACTERISTICS - GRANTS

BEST USED FOR	• Testing and validating proposed high-risk ideas • Demonstration studies and market-building activities • Non-profitable impactful activities, such as product refinements to better serve LMIC segments
VARIATIONS	• One-off, tranched, multi-year, repayable, forgivable
MAIN FUNDERS	• Governments, multilateral agencies, foundations, universities, research institutes or private corporations (often through their CSR arms or Corporate Foundations)
EXPECTATIONS	• Detailed budget • Intellectual property (IP) rights, often called global access rights (for some granting organizations) • Periodic reporting of milestone progress • Ability to measure and translate impact of the innovation
ADVANTAGES	• Non-dilutive • Limited or no impact on cash flows • Incentivizes impact • Limited consequences to project failure • High risk tolerance • Achieve faster growth • Patient capital
CHALLENGES	• Grant reporting may not be proportional to the size of the grant or organization • IP rights can limit ability to attract other forms of capital • Narrow scope (specific project or activities) with little flexibility and often excluding overhead costs needed to build strong organizations • Grant funding cycles may not align with the timetable for project implementation or business needs • Projects that rely on grant funding for long periods can set a growth course and organizational structure that may not be attractive to other forms of capital • Compelling robust impact evidence and expertise in grant writing needed to procure grants in perpetuity

B. INSIGHTS - GRANTS

Innovator Insights

Innovators often find the grant application process tedious and difficult to navigate, especially in understanding selection criteria, effects of intellectually property rights clauses, flexibility and reporting requirements. This is especially true for non-academic teams and/or local Innovators who regularly struggle with the format, impact/scientific jargon, expectations and presentation norms. Innovators frequently underestimate the time and bandwidth associated with the application process, negotiations and reporting.

Funder Insights

Funders expect a detailed, thorough and well-presented plan at the application stage itself, including the ability to generate detailed performance reports and itemized budgets prior to the start of the project. Many funders have various external, internal and programmatic limitations on flexibility. That being said, funders, including public funders and governments, increasingly recognize the benefits of flexibility in fueling innovation and creativity; the few funders that do have flexibility on grant terms often pass these on to innovators.

2. DEBT

Debt financing (also called “borrowing”) occurs when lenders provide capital to finance a company, the borrower. Loans are usually justified by the borrower’s ability to repay the loan in the future. Loans are repayable at a specified interest rate either at regular intervals during the term of the loan – the borrowing period – or at its end. A borrower’s ability to service a loan is judged based on evidence of current or future expected stable cash flows, which are often uncertain for early-stage organizations. The interest rate charged by the lender to a borrower is greater when the lender’s level of confidence that the borrower will have stable future cash flows is lower.

There are different types of debt products available in the market from banks and alternative lending companies. Examples discussed here include senior debt, mezzanine debt, revenue-based lending, asset-backed lending and convertible debt. There are numerous variations in the interest rates, payment schedules and other features, so long as the borrower and lender agree to the terms and such terms are legally permissible in the relevant geography.

While impact investors – in the sense defined by the Global Impact Investment Network – seek market rates of return and tend to offer products inline with commercial markets for high-impact organizations, mission-driven investors (such as foundations and government-related entities, with mandates to be catalytic) offer a plethora of potential loan structures, with modifications designed to incentivized impact. When these are offered at or below market terms for high-impact ventures, the loans are called ‘concessionary debt’.

The following types of debt instruments are described herein:

i. **Senior Debt**

ii. **Mezzanine Debt**

iii. **Revenue-Based Financing**

iv. **Asset-Backed Lending**

v. **Convertible Note**

vi. **Concessionary Debt**

i. Senior Debt

Senior debt or conventional debt is typically secured by all of the assets of a company, and offered to organizations that are more mature and meet stringent financial requirements, such as having stable and growing revenues, margins, cash flows and profits. Borrowers often need to make specific commitments to a payment schedule and to financial covenants, which are commitments to maintaining specific metrics of financial performance above specified levels. In the event of a failure to pay back the debt or meet the financial covenants, the borrower may be forced to repay the loan on short notice by (i) refinancing under more strident terms with a new lender, (ii) forced liquidation of assets, or (iii) undergoing a bankruptcy process.

ii. Mezzanine Debt

Mezzanine debt is similar to senior debt but the rights of the lender are subordinated to the rights of one or more senior lenders, meaning that in the event of a bankruptcy or liquidation process, the mezzanine lender is repaid after senior lenders receive their capital and interest. For this reason, mezzanine loans have higher interest rates compared to senior debt. Compared to senior lenders, mezzanine lenders have a greater appetite for risk, fewer financial metric targets, and/or weaker or fewer financial covenants.

iii. Revenue-Based Financing

This type of debt instrument is repaid as a percentage of monthly, quarterly or annual revenues until the total accumulates to a contractually predetermined amount, which may be either capped or unlimited. Compared to senior and mezzanine debt, this type of financing has the advantage of aligning interests of the lender and company by allowing the borrower to pay more when organizational revenue is higher and less when revenue is lower. The approach is effective as long as the borrower's cash flows are aligned with revenues. Problems arise if the borrower's customers pay for products and services a long time after the borrower books the associated sales revenue, as is often required by standard accounting practices. Lenders in this space are often interested in the potential for higher returns if the company outperforms expectations.

iv. Asset-Backed Lending

Another related but important category of debt is asset-backed lending. Asset-backed loans are tied to a valuable piece of property or equipment that the lender can take from the borrower if the loan is not paid on schedule. There are a wide variety of assets that can be used by borrowers as collateral, including intellectual property, invoices, receivables, fixed assets, buildings, production equipment and inventory. The key differentiation between these loans and senior debt is that they tie to just one asset, as opposed to the entire asset base of the company. These loans vary greatly with regard to terms, interest rates and appropriateness of use.

v. Convertible Note

A convertible note or loan is a debt instrument that combines elements of both conventional debt and equity. This type of debt converts into equity in the company after a period of time, after certain milestones are achieved and/or at the discretion of the lender. This type of arrangement may be attractive for higher-growth companies requiring significant amounts of growth capital to achieve future milestones. The downside for the borrower is that the interest payments on the debt continue if milestones are not achieved and/or if the lender does not convert its position into equity. This can result in either greater outlay of capital to pay off the debt (if it is paid off) or greater dilution of ownership (if the debt is converted). On conversion to equity, these loans also dilute the ownership position of the borrower and result in some loss of company control, as this is expected by equity investors of a company. (See equity section, below.)

Convertible debt is typically used by investors who see the potential of a venture to produce high returns, but are not prepared initially to invest in equity because of uncertainty related to the potential growth and/or valuation of the business. Through convertible notes, investors avoid the complicated negotiations of setting a share price for an early stage company, but ensure they get a 'piece of the action' if all goes well[3].

vi. Concessionary Debt

Concessionary loans are often provided in lieu of a grant to early-stage, for-profit social enterprises and companies. These types of loans are typically offered by mission-driven investors (such as foundations and development arms of governments) to provide catalytic financing, with the main or only goal being impact and development. They can be structured like any other form of loan mentioned above, although asset-based structures are less common. Their common feature is that the terms of the loan include some type of concession, such as below-market interest rates, relaxed financial covenants, relaxed milestones, impact-based milestones, longer-term and/or impact-based interest rate reductions. Additionally, should the borrower not succeed or experience unpredictable circumstances, some concessionary lenders may renegotiate the terms of the loan and/or forgive the loan to support the continued impact and sustainability of the entity. Mission-investors using the convertible note structure may also be open to renegotiating the conversion rates or converting early in downside scenarios where companies are unable to pay back the debt, both to ensure they do not end up owning too much of the entity and to see impact continue.

A. TYPICAL CHARACTERISTICS - DEBT

BEST USED FOR	• Growth and expansion financing by organizations that have current or expected predictable cash flows tied to these activities • Working capital (usually to fund short-term cash imbalances created by delayed payments or inventory)
VARIATIONS	• Senior, mezzanine, asset-backed, convertible, revenue-based, concessionary
MAIN FUNDERS	• Foundations, Development Finance Institutions (DFIs), private debt funds and banks, equity investors (convertible notes)
EXPECTATIONS	• Ability to service debt via positive cash flows and profits, conversion to equity during a future equity round (convertible notes)
ADVANTAGES	• Non-dilutive (except convertible notes) • Tax-efficient • Typically no loss of control via active positions on boards (though observer positions can be requested; except for convertible notes) • Can increase value for existing equity investors
CHALLENGES	• Often inaccessible or inappropriate for pre-revenue or early stages under commercial terms • Can stunt the venture when diverting cash flows away from growth • Available interest rates can be prohibitive • Bankruptcy risk • Refinance risk (risk of re-financing with a new loan or other form of capital, such as equity, under less favorable terms)

B. INSIGHTS - DEBT

Innovator Insights

The lending market is difficult to navigate for most innovators, regardless of background. However, non-profits and academics particularly lack the skills or expertise to fully understand lending products available in their market. As a result, favourable options (such as flexible concessionary notes, project financing or the arrangement of micro loans for customers) are often overlooked as an alternative to grant financing. On the other hand, social enterprises often borrow excessively because they are viewed as too profitable for grants but not at the profit level or potential to issue equity. Even when debt is used appropriately, innovators may struggle to negotiate terms that reflect the unique context of their businesses. They also may fail to renegotiate terms early enough with lenders when circumstances or priorities change. In many instances, innovators underestimate the cost of convertible debt (given its unique characteristic to become equity combined with the specialty features of such agreements) or ignore the opportunity that convertible debt may offer when used appropriately. Borrowers frequently choose too much repayable debt, which may stunt their growth by limiting the availability of cash to finance growth. Early stage companies may also be composed of teams that are lacking in financial management expertise and systems to forecast, analyze and articulate needs and ability to pay back debt effectively.

Lender Insights

Many lenders active in global health are able to offer flexible terms and have the ability to renegotiate terms to the benefit of the continued operation of the business, especially when the impact mandate of the borrower is strong. However, lenders do expect portfolio companies to lead the effort by bringing informed proposals, including detailed cash flow projections, to the table. The space benefits from significant activity from new entrants with fintech offerings, new non-bank lenders and micro lenders, as well as impact-motivated investors and guarantee facilities that enable local lenders to take on more credit risk. As part of the mission in achieving gender equality, there is also a nascent trend to provide debt capital to female entrepreneurs that female founders should tap into when raising capital.

3. EQUITY

In equity financing, the investor provides the company with funds in exchange for a share of ownership in the organization. This arrangement provides equity investors with a claim on the venture's upside value creation. "Because the potential for a large return exists, the equity investor is typically willing to invest in riskier ventures – those developing breakthrough products, working with emerging technologies, or operating with unproven but potentially transformative business models"[3]. Technology-based start-ups that typically lack early revenue, cash flows or profits, but hold the promise of significant future growth and value creation are characteristically financed by equity. For these organizations, venture capital (VC) is the predominant source of capital in the early stages.

VC funding for health and impact is available at the angel, seed, Series A and Series B stages and beyond, depending on the revenue growth, milestones and/or regulatory stage of the company[4]. Typically, the entrepreneur seeks investors to fill each round based on the company's valuation and financing needs. Equity investors participate in these rounds based on their risk/reward preferences (often dictated by their agreements with their own investors in their funds) and receive a percentage ownership in the company in exchange for their capital. They realize their returns during an "exit," which is a contractually specified event in which the company is sold to or merged with larger industry players or when shares are offered to the public through an initial public offering (IPO), typically on regulated public stock exchanges. Before the exit, investors actively participate and support the company's growth to increase its value. They exercise varying levels of control on the business, depending on the investor group and negotiated terms of the investment. While angel investors typically invest their own capital, it is important that innovators recognize that most VC funds have fiduciary responsibility to their own investors for the capital they invest and that the terms they can offer relate to the terms they negotiated with their own investors. VC funds also have time limits on their funds, which may drive their decisions.

Other key players that invest in private companies are strategic investors such as VC groups that operate from within a larger corporation in the same industry as the innovator. These groups often operate similarly to VC funds, although they may also often request terms specifically related to the strategic nature of the relationship with an investee company. These terms can both help and hurt the company's path toward generating returns for other investors. Another mechanism that can be used to raise capital is crowdfunding, which is a form of financing where companies can raise equity capital or sell their products directly to the public via specialized online platforms.

A. TYPICAL CHARACTERISTICS - EQUITY

BEST USED FOR	• Growth and expansion financing by companies that expect high future growth, with varying degrees of uncertainty based on stage of financing
VARIATIONS	• Venture capital, private equity, quasi equity (such as convertible debt)
MAIN FUNDERS	• VC funds, private equity (PE) funds, angel investors, public (publically traded or crowd-funded), larger companies (strategic investors), DFIs, certain banks
EXPECTATIONS	• Dedication to growing financial value of the company • Percentage of ownership • Control of the company's decisions, typically via board positions and shareholder rights documented in the shareholder agreement
ADVANTAGES	• No repayment obligation • Large amount of capital to facilitate accelerated growth plans and value creation • Access to expertise of the investor group and their networks • Flexible capital approved based on high-level plans for the use of funds
CHALLENGES	• Dilutes ownership • Commercial value creation is a higher priority than impact, even when investors are impact investors • Exit pressures and timing • Loss of control

B. INSIGHTS - EQUITY

Innovator Insights

In the health and impact sectors, most innovators require much longer to close each round of financing (typically 18-24 months) than companies outside these sectors (typically 6-9 months). First-time CEOs often struggle with pitching to investors and understanding the process. They often underestimate the time required and begin fundraising later than optimal, which can lead to short runways and poor negotiating positions. Another potential issue is that innovators in global health who access grants as early-stage financing to achieve proof-of-concept often contractually agree to make their products/services available for the public good (sometimes referred to as "global access"). These clauses can negatively impact their valuation or their ability to raise equity to scale their innovation, if not drafted with sufficient flexibility to enable the crowding in of more commercial investors in the future. Many funders recognize this and will craft reasonable terms at the outset of a grant or negotiate after the grant is in effect to support companies in their subsequent growth by creating win-win scenarios between investors and beneficiaries. This can often be achieved by simple mechanisms (such as the segmentation of rights for different jurisdictions or populations) to ensure the needs of each party are met. Another approach is to enter into distribution and/or pricing commitments (with enforceable consequences if not met), leaving the intellectual property unencumbered. A degree of customization is typically required to ensure the objectives of current and future stakeholders are aligned.

Many equity investors do insist that prior debt either be extended or converted before making their investment. Those companies that carry outstanding debt when equity is raised must confront a concern by prospective investors that lenders will not cooperate with the issuance of equity. Cooperation typically requires lenders to extend the payment timeline or convert alongside new investors.

Investor Insights

Investors that value impact also expect competitive returns, as they must fulfill their fiduciary duty to generate returns on behalf of their own investors. Other forms of capital such as grants and debt are therefore often essential tools as companies and equity investors seek to create a total capital structure that yields returns for each stakeholder, including the underserved populations that are the focus of impact. Notably, while impact investing has gained increasing traction in the last few years, the sectors that are most often represented are agriculture, livelihoods and energy. Fewer equity investors in health are available, especially when the targeted populations are in lower-income countries. Within this sub-sector, fewer still are the investors interested in pre-revenue or early-revenue stages of health technologies and devices. Those that do invest appear to either be small (thus limiting their financing to initial stages) or very large (thus participating only in the financing of companies that are already scaling). A wide missing middle cohort of investors has left the health sector under-financed. We note that a number of new efforts are underway to address this problem, but that they face significant hurdles in raising the necessary capital to launch due to the emerging nature of the sector. There are also new technical assistance facilities being raised to support the efforts of these future funds, combining clinical and health expertise, regulatory and IP knowledge, market and local knowledge and local talent (See our white paper on the barriers to scaling addressable by Technical Assistance.)

4. NEW MECHANISMS

A. OUTCOMES-BASED FINANCING

Outcomes-based financing approaches are also increasingly being tested in the development sector. Simply put, the mechanism is structured to involve an outcomes-based funder that agrees to pay an innovator to implement a project if pre-defined outcomes are achieved, based on independent, third party verification. The investors who initially finance the project receive a pre-agreed return, in addition to the capital invested, if the project is successful in achieving the defined outcomes. The investor therefore takes on the risk that the project will fail - a risk that an outcomes funder, typically a government, is not willing to bear, thereby aligning impact goals and risk/reward appetites. The model is gaining popularity, as it aligns impact goals, financial goals and risk tolerance. Examples include social success notes, conditional cash transfers, advance market commitments, guarantees and social/development impact bonds. An example is the Kangaroo Mother Care Development Impact Bond (DIB) in Cameroon, which is structured between:

i. **Outcomes Funder** – Ministry of Public Health of Cameroon (through the Global Financing Facility) and Nutrition International
ii. **Third-Party Verification** – Institute for Research and Behavioural Studies (IRESCO)
iii. **Innovator/Service Provider** – Fondation Kangorou Cameroon
iv. **Investor** – Grand Challenges Canada

The complex structuring required for its success was facilitated by Social Finance UK and the MaRS Centre for Impact Investing.

The key drawbacks of this financing mechanism are its complexity, high transaction costs related to legal, financial and technical services for customization, time requirements and the need for multiple parties from different sectors to agree to common terms. More data is needed to build structures that are replicable and/or restricting these instruments to certain focus areas or minimum funding sizes to achieve better cost efficiency[5].

B. BLENDED FINANCE

In recent years, blended finance has become the ‘North Star’ in the fields of global health and, more generally, other impact sectors. Blended financing refers to the coordinated structuring process to align risk/reward characteristics of an investment opportunity (including financial and impact characteristics) with risk/reward preferences of various investor types, to include various sources and categories of financial instruments, including a concessionary layer. This is common for larger investment vehicles of ~$20 million or more and has the potential to significantly grow the sector.

At the EWEC Innovation Marketplace, the hands-on support provided to innovators has allowed companies to secure blended finance at the company level for $1-$5 million dollars in total capital raised. Because their growth plans encompass both impact and return, the companies supported are able to secure financing from investors and funders with varying risk/return appetites. This includes grants, unique loan structures, equity investment and, in some cases, guarantees and outcomes-based funding. In ideal scenarios, participants in the blended finance structure coordinate transparently to select the risk/reward structure that most closely matches their actual requirements and collaborate to reduce the reporting burden on the innovator. This type of process tends to work better when an advisor (formal or informal) is available to nudge collaboration among investors. More commonly, each investor comes into the structure around the same time with their own structure in an un-coordinated manner and agrees to the hierarchy of lender priority through inter-creditor agreements.

Innovators should be aware that blended financing requires thought, advice and planning to accomplish optimally, including an understanding of future financings required to achieve scale. Three key skillsets innovators should equip themselves with for such a journey include:

i. Ability to measure and report on impact and outcomes
ii. Ability to forecast, strategize and manage financials effectively
iii. Ability to identify and negotiate the financial instruments for the growth strategy of an entity

In addition, innovators should seek out formal or informal advisors with a high degree of knowledge and expertise in all potential financing instruments, to assist their journey for the long-term.

Figure 1
Blended finance to unlock private sector capital

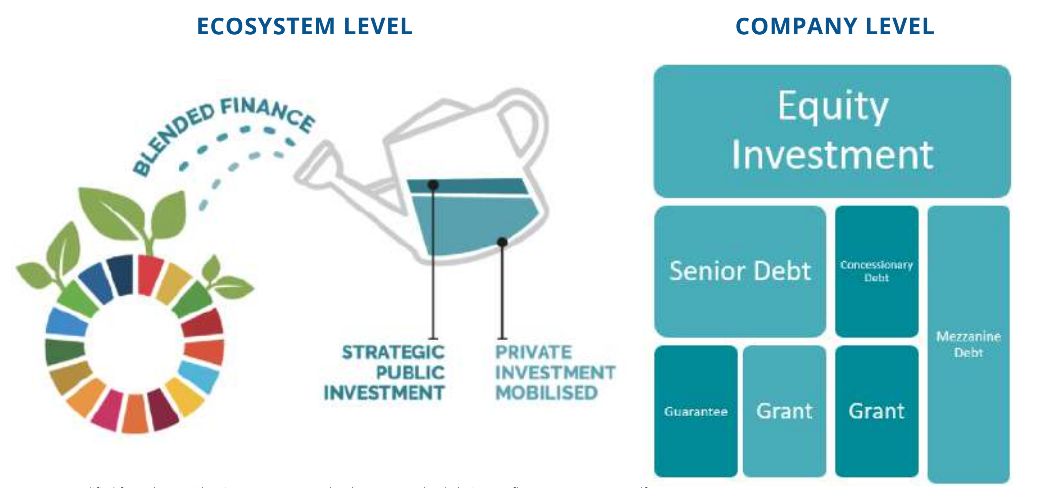

Image modified from: http://cidpnsi.ca/wp-content/uploads/2017/11/Blended-Finance-flyer-DAC-HLM-2017.pdf

5. LEVERAGING INSTRUMENTS TO SCALE

Hypothetical examples of potentially successful models are provided below.

a. Medical device or technology company

Initial prototyping and testing is conducted using grants from foundations and academia in combination with small angel investments. Clinical trial, regulatory and product development stages are funded through larger grants from foundations and seed stage investors. Early stage VC supports the pre-regulatory approval stage where manufacturing and distribution models are being developed. Global access agreements are developed or refined together with the innovator, grant providers and commercial investors. Funding from strategic investors enables the growth of new distribution channels and/or entry into new markets. Debt financing is leveraged to achieve further growth once the company reaches predictable revenues, with grants potentially available to bring solutions to last-mile or LMIC populations. Long-term agreements are struck between the company, local entrepreneurs/distributors and governments to embed a solution locally, ensuring the impact survives potential exits.

b. Operationally intensive service models

Such models include hospital chains, clinics and other primary care delivery mechanisms that access foundation grants and angel investments to pilot their model in communities, test market acceptability and pricing strategies, begin developing systems for financial management and monitoring & evaluation of impact. As is typical, the organization is revenue-positive earlier on and raises financing rounds composed of concessionary debt to fund working capital to deliver on government contracts and service expansion and raises equity to finance new facilities or new markets. Success usually attracts debt financing from later-stage lenders (such as DFIs and banks), as well as equity from late-stage private equity investors.

c. Programmatic service models

These are typically led by non-profit entities or partnerships with service providers. Grants serve as the main instrument for a large period of time, proving aspects of the model especially related to cost effectiveness, user adoption and impact. In the long term, public sector adoption may manifest as fee-for-service, cost-sharing or licensing-in. Debt in the form of working capital can reduce cash flow issues for the non-profit, created by delayed contract payments from large providers or governments. For large projects, outcomes-based financing may also be suitable in some cases in securing government or donor financing.

d. Product based companies

Examples include products focused on nutrition or menstrual health, and commodities that may grow through a combination of early grants followed by debt or equity investment based on their cash flows or equity-return potential. Intellectual property-rich companies are more likely to receive venture capital investment, while companies commercializing commodities are more likely to receive debt. Volume guarantees and advance market commitments may also be feasible for some promising products.

CONCLUSION

To conclude, innovators can benefit from weighing the costs and benefits of applying different models of financing to determine their best path to growth. The wide range of sources and types of capital described in this note are complex, and must be carefully considered to yield an approach that is suited to the unique capabilities and aims of innovators. The relationships between various types of financing tools are important to the long-term growth of organizations, but are infrequently considered or understood by novice investees or their investors or funders who often operate in silos and use different jargon and language to refer to shared aspects. Companies seeking to achieve social impact have unique access to blended finance that attracts both private and public capital, but require assistance to navigate these complex waters. Because the populations served by global health and social sector innovators are vulnerable, the consequences of organizational failure are significant. Investors and funders must understand and embrace the consequences of the terms that they impose through financial instruments and legal requirements for these populations as well as for the future financeability of the investee organization, as innovators cannot scale impact if they cannot raise growth capital. When each stakeholder ensures all aspects of the organization that are financed are well-supported throughout scaling, including impact, revenue, growth and financial return (when investor capital is needed), the approach can indeed be the elusive win-win the sector needs.

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