How the Dutch Good Growth Fund is improving access to finance for African private health sector

DGGF's seed capital has accelerated the development of innovative financing products and proven catalytic in attracting follow-on investors, ultimately increasing access to better care

For a healthcare system to be accessible and qualitatively sound, an effective government is required. In sub-Saharan Africa, however, many countries lack a functioning public sector. As a result, the private sector plays an often crucial role in healthcare. The Dutch Good Growth Fund has therefore supported PharmAccess in piloting the Africa Health Infrastructure Fund (AHIF), aimed at stimulating innovation in financing health SMEs when effective government structures are lacking.

Meeting a growing demand

The Africa Health Infrastructure Fund (AHIF) is a launch facility that evolved from the Medical Credit Fund (MCF). MCF, established in 2009 by PharmAccess in close collaboration with the Dutch Ministry of Foreign Affairs, is the first and only dedicated fund facilitating loans for health SMEs in Africa. These SMEs are often unable to secure formal bank loans. MCF works with African banks in order to bridge this gap. So far, more than 1000 loans (amounting to over $22 million) have been disbursed, with a 97% average repayment performance. As a result, banks have started to see the business case of investing in the private health sector. Many are now developing loan products of their own.

At the same time, it became clear that there is a substantial group of enterprises – besides the smaller clinics – that requires larger ($350,000 and above) and more flexible loans, which MCF could not cater for. The Dutch Good Growth Fund's (DGGF) Seed Capital & Business Development programme, a revolving impact fund of the Dutch Ministry of Foreign Affairs, supported AHIF to meet these financing needs.

"Over the years, we observed a growing demand for larger and more flexible loans – a need we couldn't meet under MCF's mandate at the time."

Monique Dolfing - Vogelenzang
Director Operations PharmAccess Group

DGGF as leverage for funding

DGGF invested €800,000 in the AHIF launch facility, of which a total of €500,000 was seed capital and €300,000 was intended for business development and technical assistance. This support has strengthened the investment pipeline and helped build up a dedicated team. DGGF's Seed Capital, more importantly, has proven catalytic in attracting early-stage sponsors like the Pfizer Foundation ($1 million) and Calvert Foundation ($3.5 million). Furthermore, through co-financing with local financial institutions AHIF's investments were practically doubled, to $10 million in total.

"€500,000 in seed capital from DGGF has resulted in a total of $5 million in seed capital for AHIF, and $10 million for the local healthcare sector."

Dorien Mulder
Investment Manager Medical Credit Fund

Support to grow and innovate

Through the AHIF launch facility, DGGF enabled MCF to grow and innovate:

- From an average loan size to local SMEs of $15,000 to a maximum loan size of $2.5 million.
- From supporting health SMEs to supporting all enterprises in the healthcare sector.
- From cooperation with only local banks to cooperation with non-bank financial institutions that can offer more flexible terms.
- From Ghana, Kenya, Nigeria and Tanzania to the fragile state of Liberia.
- From awarding traditional loans to providing flexible and innovative financing products.

Innovative financing products

The African private healthcare sector faces many challenges. DGGF's support through AHIF has provided MCF with important extra legroom to develop and test several innovative financing products.

One of those products is the use of Invoice Financing in the Kenyan healthcare sector. Suppliers of healthcare products, e.g. medicines, provide much of the working capital to the health sector. AHIF has enabled the development of a product that finances these suppliers based on their portfolio of invoices. As a result, suppliers can expand their credit to healthcare providers, which in turn benefit from the additional working capital. Invoice Financing thus uses suppliers as a pawn to finance healthcare providers.

Another example is a new Receivable Financing product in Ghana. Receivable Financing makes it possible for healthcare providers to use outstanding claims with the national health insurance agency as collateral. This collateral enables these enterprises to bridge the period they have to wait for the insurance pay-out, which in Ghana can take up to nine months.

An example of Receivable Financing in practice is New Crystal Health Services in Ghana. The network of seven clinics serves 25,000 low and middle income patients per month who are covered under the national health insurance scheme. The growth of the company and delay in payments had created a shortage of working capital. With the support of AHIF, New Crystal Health Services obtained a Receivable Financing loan allowing further expansion and investment in the facility.

"Banks in Ghana shy away from the health sector or award them loans at cut throat interest rates. The Receivable Finance loan enabled me to procure badly needed supplies."

Wisdom Amegbletor
Chief Executive of New Crystal Health Services

Good news

The AHIF launch facility has proven to follow-on investors that MCF's approach – and, in broader terms, the healthcare sector in Africa – can produce positive social and financial returns. DGGF's support reduced the investment risk for follow-on investors and helped catalyze impact investments. MCF is currently closing a second financing round with some of the most reputable development institutions to reach a total size of $45 million.