

Building Bridges between Impact Investing and Reproductive Health:

Deliverable #3: Feedback on Vetted Investment Criteria

AGREEMENT NO. NOD.1841-823544-GRT

Submitted to the Reproductive Health Supplies Coalition (RHSC)

September 18, 2015

FINANCING FOR DEVELOPMENT (F4D) | 1001 G STREET NW, SUITE 800, WASHINGTON DC 20001

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Executive Summary

The objective of this report, funded by a Reproductive Health Supplies Coalition (RHSC) Innovation Fund grant, is **to use a market-based approach to determine, on a preliminary basis, if there is interest in and appetite for impact investment in generic emerging markets contraceptives manufacturers.** (We define investment as returnable capital rather than grants). It focuses specifically on contraceptives manufacturers within the broader reproductive health commodities sector as its proof of concept approach that could be expanded to other reproductive health products and services.

The purpose of this third project deliverable is to collect and analyze feedback from investors, manufacturers, and other reproductive health sector stakeholders regarding potential investment criteria for use in facilitating emerging market contraceptive manufacturing investments. The vetting process included a survey, telephone interviews, and research on investment and social impact criteria.

There were three key findings resulting from the vetting process. The first confirms that, while there is no single set of investment criteria used by all investors, there are types of investment criteria that they utilize that are not used by manufacturers in their own measurement and evaluation criteria. This includes, but is not limited to, criteria such as a strong management team and sound competitive positioning. Many of the investment criteria used by investors and manufacturers align well with RHSC's pillars, particularly availability and quality, and to some extent equity.

Secondly, the study found that social impact metrics vary greatly by investor, in whether and how they track them, and in what types of metrics are used. The main distinction is whether investors use the Impact Reporting and Investment Standards (IRIS) industry standards and/or proprietary metrics.

A third finding is confirmation that investors, manufacturers, and other reproductive health stakeholders share a common belief in the importance of quality certifications for reproductive health supplies. Interestingly, manufacturers value it the most, followed by investors, while other reproductive health stakeholder respondents assigned it a high, albeit slightly lower importance.

All of the variations in criteria used, including differing perceptions of the same criteria, underscore the deliverable's summary conclusion. Because there is no single set of impact investing investment criteria, the most important takeaway message for reproductive health supply manufacturers is to singularly understand the criteria of a specific potential investor. Those criteria will vary by investor and by transaction. By utilizing the criteria identified here, as well as those in the first and second deliverables as a menu from which to start a discussion regarding potential investment, manufacturers and investors can use a common language through which to evaluate their investment fit, and identify the best metrics to assure mutual value.

Review of Purpose

The purpose of this RHSC Innovation Fund grant is **to use a market-based approach to determine, on a preliminary basis, if there is interest in and appetite for impact investment in generic emerging markets contraceptives manufacturers.** (Investment is defined here as returnable capital rather than grants). It focuses specifically on contraceptives manufacturers within the broader

reproductive health commodities sector as its proof of concept approach that could be expanded to other reproductive health products and services. Through fostering such investments, RHSC can increase achievement of its four strategic pillars of availability, quality, equity, and choice, while at the same time contributing to impact investors' social and financial return objectives.

This project has three specific goals:

- 1) To assist RHSC to better convey to its members how impact investors consider, evaluate, and select potential impact investments. This will help to enable RHSC members to “speak the investor’s language” regarding potential investments in emerging markets generic contraceptives’ manufacturers.
- 2) To enable RHSC to make a compelling case to investors how and why manufacturing that is aligned with its four pillars is an additional way in which to demonstrate financial sustainability and social impact.
- 3) To better understand how to identify a best fit match between an impact investor and a generic contraceptives manufacturer. This fit will vary for every transaction.

Methodology

The project methodology included:

- Desk review of relevant literature and available data in impact investing, reproductive health, and manufacturing sectors
- Interviews with impact investors, generic contraceptives manufacturers, and reproductive health sector stakeholders
- Online surveys: three separate surveys for impact investors, manufacturers, and stakeholders.
- Synthesis and analysis of all of the above information
- Draft results vetted by sector experts and F4D

Respondent-Provided Investment Criteria

Rather than asking survey respondents to comment on the investment criteria identified from the first two project deliverables, the vetting method asked each of the respondents in an open-ended question format what criteria they felt were important for generic emerging manufacturers. Their answers were then combined with others in their cohort (investors, manufacturers, and reproductive health stakeholders) between cohorts, and mapped to the RHSC pillars as shown in Table 1.

Table 1: F4D Survey: Respondent-Provided Criteria by Stakeholder Mapped to RHSC Pillars

RHSC Pillar	Investors Investment Criteria	Manufacturers Criteria	Reproductive Health Stakeholder Criteria
Availability	<ul style="list-style-type: none"> Affordability of the product to the end user/ Affordability/Price appropriateness (3) Delivery channel/Distribution channels/Presence of distribution networks (3) Number of products distributed 	<ul style="list-style-type: none"> Number of women served (Total number of devices sold) Supply statistics Presence in number of countries Number of countries where product is registered 	<ul style="list-style-type: none"> Reduction in unmet need
Quality	<ul style="list-style-type: none"> Safety and quality/Quality of product (4) Strength of brand 	<ul style="list-style-type: none"> Certifications and audits completed Quality complaints 	<ul style="list-style-type: none"> Quality of product volume
Equity	<ul style="list-style-type: none"> Perceived benefits to women and community members/ Increased consumer access to products Population Income Level 		<ul style="list-style-type: none"> Improved women's health Longer-term demographic dividend
Choice			
Not related to RH Pillars	<ul style="list-style-type: none"> Management experience in manufacturing/Execution capability of management team (2) Competitive positioning/ Selling proposition (2) Partnerships with trustee parties who act as brand ambassadors/distributors Value chain 	<ul style="list-style-type: none"> EBITDA Return on Capital Employed (ROCE) Revenues and Growth Year on Year Political developments in target countries Data relating to competitors & also to possible manufacturing partners Reliable forecasts data Work of RHSC & FP2020 & their working groups 	<ul style="list-style-type: none"> Opportunities in the workplace for women

As can be seen in Table 1, investors value availability and affordability, as well as quality of products. Manufacturers do as well, but they tend to frame the metrics differently. Investors prioritized a strong management team with experience in manufacturing, as well as competitive intelligence; one manufacturer noted the latter. There is a range of criteria among and between each cohort. Gleaning a good understanding of how the investor perceives investment criteria will be important for manufacturers seeking investment. A Global Impact Investing Network (GIIN) representative noted that “investment

criteria is very much investor driven.”¹ Conversely, manufacturers will presumably have far more expertise and knowledge about their manufacturing processes and quality mechanisms than will a prospective investor. Mutual understanding of the requirements of an investor and the expertise of a manufacturer is part of the building bridges’ concept, with the objective of increasing investment and contributing to RHSC’s four pillars.

Box 1 provides an indicative example of the investment criteria of an impact investor that primarily makes equity investments focused on African health.

Box 1: Investment Fund for Health in Africa (IFHA) Investment Criteria²

In identifying investment propositions, IFHA looks for the following characteristics of company, management and market:

- The size of investee companies in terms of annual turnover should lie between EUR 1 to EUR 20 million, although investments in larger companies may also be considered.
- Minimum investment size not smaller than EUR 500,000 in a single investment. The normal investment size ranges from EUR 0.5 to EUR 7.5 million
- IFHA will focus on equity participations with protections through board seats and provisions, although it has the ability to invest in other instruments.
- Favourable assessment of management capacities
- Solid historical performance
- High growth rates in the domestic markets and sufficient current market size

Respondent-Provided Social Impact Criteria

In addition to financial and business investment criteria, impact investors use social impact investment criteria for two purposes. First, they are used as a filter prior to investment to ensure selection of an investment that will generate social impact. Second, social impact metrics are used to measure and track impact performance over the course of an impact investment. These metrics vary by investor.

Impact investor interviews and surveys conducted through this project conclude that many investors use the IRIS metrics³ in combination with their own proprietary social impact performance measures for the selection of investments and tracking of impact performance.

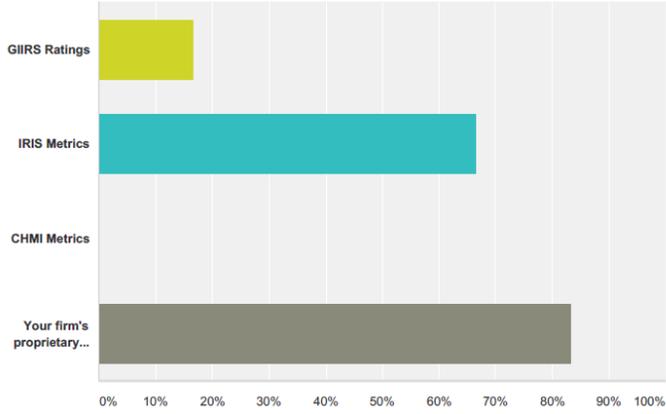
As seen in Chart 1, four of five respondents that use IRIS also use their own firm’s proprietary metrics.

¹ Interview with Giselle Leung and Allison Spector, GIIN, September 2015.

² <http://www.ifhafund.com/index.php?page=investment-philosophy>

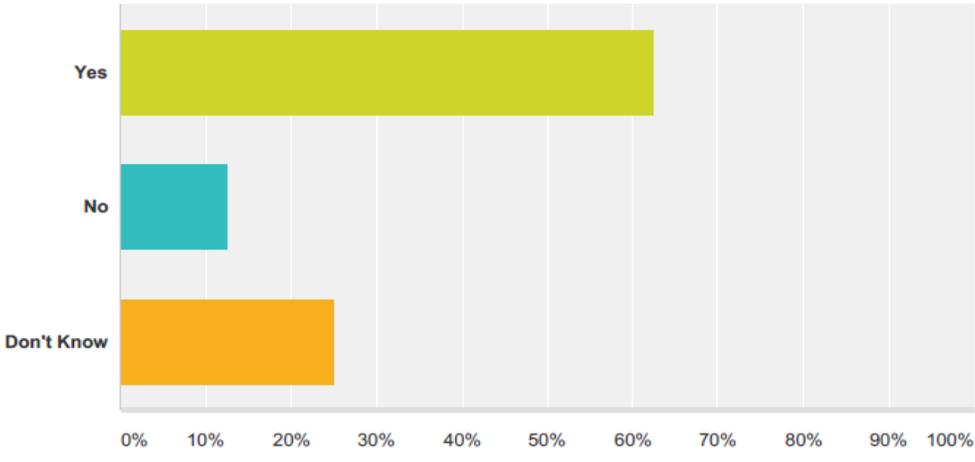
³ <https://iris.thegiin.org/metrics>

Chart 1: F4D Survey: Which of the following do you use for social impact measurement?
(Respondents could check all that applied)



The survey also asked investors to ask if they believed investments made in generic emerging markets contraceptives manufacturers would create social impact. Nearly two thirds answered “Yes” as seen in Chart 2.

Chart 2: F4D Survey: Do you think investing in generic emerging markets contraceptives manufacturers would create social impact?



The survey further asked manufacturers and reproductive health stakeholders what social impact manufacturers generate. Stakeholders noted that manufacturing provides social impact in the form of major benefits in women’s health; products for those who need them/reductions in unmet need; jobs; and women’s opportunities in the workplace. Box 2 summarizes manufacturers’ self-perception of their social impact.

Box 2: F4D Survey: Manufacturer-Reported Measures of RH Supplier Social Impact

- Improvement in reaching products in FP2020 impact countries and increasing Contraceptive Prevalence Rate (CPR)
- Couple-Years Protection (CYPs)
- Number of women served
- Countries and areas of presence including under-developed and developing countries.
- Make more alternative sources and more (generic!) methods available globally to increase choice
- Reduce stockouts and hence unwanted pregnancies.

As noted above, some impact investors choose to develop their own criteria to fit more closely with the firm’s operating procedures and objectives. The Abraaj Global Health Fund, for example, has developed its own proprietary impact metrics.

BlackRock, the world’s largest asset manager and a commercial investment firm, announced in 2015 its intent to actively engage in impact investing. It, too, is developing its own proprietary impact criteria. In addition, BlackRock is currently in the process of identifying and measuring the impact of its own existing portfolio to “tag” what it currently holds in investments that may already be generating some social and/or environmental beneficial impact, but were not previously measured using an impact lens.

Anecdotally, newer entrants to impact investing that started as solely commercially-oriented firms tend to prefer to develop their own social impact metrics, while longer-term impact investing sector institutions are more likely to use IRIS, at least in part, for social impact measurement.

The Overseas Private Investment Corporation (OPIC), the United States government’s development finance institution, last year also went through a retrospective process of “tagging” its entire portfolio for impact *post facto* to identify which projects qualified as impact investments based on a 3-pronged definition and criteria that it established for itself, as shown in Box 3.

Box 3: OPIC’s Definition of Impact Investment via Intent⁴

1. Does the project aim to have a positive developmental impact?
2. Is the investment in a high impact sector?
3. Was the investment made with impact intent? – **only this criterion qualifies as an OPIC impact investment**

OPIC considers its definition to be more stringent than those used by some other organizations, and thus harder for it to achieve. In 2014, of OPIC’s US\$ 3B portfolio, commitments with an impact intent constituted 8% of the portfolio, comprised of 16 transactions totaling US\$ 230M.

⁴ Interview with Joan Larrea, OPIC, September 2015; Littlefield, Elizabeth. *To Measure Impact Investment, You First Need to Define Them*. Institutional Investor (2014, July 1); <http://www.institutionalinvestor.com/blogarticle/3357188/blog/to-measure-impact-investments-you-first-need-to-define-them.html#.VfncdtJViko> OPIC website, <https://www.opic.gov/press-releases/2014/opic-committed-27-billion-high-impact-sectors-2013>.

In contrast, IFHA utilizes “development objectives” that focus on social impact. It is worth noting that some of IFHA’s development objectives align well with three of RHSC’s pillars, in particular its availability, equity, and quality pillars, as shown in Table 2.

Table 2: IFHA Development Objectives Mapped to RHSC Pillars⁵

IFHA Development Objective	RHSC Pillar
Increase availability of products and services	Availability
Ensure equitable access to products and services	Equity
Increase affordability of products and services	Availability and Equity
Ensure quality of products and services	Quality
Stimulate (local) economy and equitable access to	N/A
Stimulate decent work	N/A
Reduce environment impact	N/A
Apply good governance and transparency	N/A

A second indicative example of specific but proprietary impact criteria is that used by the Abraaj Global Health Fund, a \$US 1B fund that recently closed (meaning it has raised its funds and now will place them). It includes impact as a core part of its fund and also uses a 3-pillar impact approach. Its three pillars are quality, access, and affordability. As with IFHA’s development objectives, the Abraaj fund’s impact pillars are well aligned with three of RHSC’s four pillars as can be seen in Table 3. The fund’s geographic investment criteria will focus solely on select Southeast Asian and African cities including three cities in India, and one each in Bangladesh (Dhaka), Ethiopia (Addis Ababa), Ghana (Accra), Kenya (Nairobi), Nigeria (Lagos), Pakistan (Peshawar), South Africa (Durban), and Zambia (Lusaka), with the objective to have a transformative health impact on these targeted cities. Before being considered for investment approval by the fund’s internal regional and global investment committees, any investment must first be approved by an internal impact committee, which has its own charter and uses its own impact metrics. The impact committee is chaired by Sir David Nicholson, former head of the British National Health Service, and includes high-level appointees from the Bill & Melinda Gates Foundation and others. A further aspect of the investment criteria are that the basis upon which fund managers earn compensation (called the “carry”) is not solely based on financial performance, but also on achieving social impact targets.

Table 3: Abraaj Global Health Fund Impact Pillars Mapped to RHSC Pillars⁶

Abraaj Global Health Fund Impact Pillar	RHSC Pillar
Quality	Quality
Access	Availability and Equity
Affordability	Equity and Availability

⁵ <http://www.ifhafund.com/index.php?page=investment-philosophy>

⁶ Interview with Jordan Filko, The Abraaj Group, September 2015.

Focus on Quality-Centered Criteria

The greatest consensus found in the criteria vetting process relates to views held by investors, manufacturers, and stakeholders regarding the importance of quality certification.

Among the manufacturers who replied to the survey, all have more than five products that are nationally certified both in their home country and in other markets. Only one noted that there are markets that it would like to enter, but that quality standards certification has been a limiting factor, noting specifically USFDA approval, long-term clinical trials needed for regulatory approvals entailing high costs, and high registration fees as specific barriers. Chart 3 shows that manufacturer respondents are unanimous in agreeing that “investing in higher quality assurance standards and certifications for your products or facilities would increase your company’s sales.” As can be seen in Chart 4 below, most of the quality certifications are considered of high importance to manufacturers, with weighted average ratings between 8.3 - 9.7 on a 1 - 10 scale (with 10 being of utmost importance). The horizontal green line denotes investors' views of how important it is for generic manufacturers to invest in quality for their product’s competitiveness. It received a 9 out of 10 rating on a weighted average basis among all responding investors. Other reproductive health sector stakeholders place a high importance of manufacturers getting quality certification for their product as well, ranging from 7 - 8.5 on a 10-point scale. The reason for this slightly lower rating vis-à-vis manufacturers and investors was not immediately apparent.

Chart 3: F4D Survey: Importance of Quality Certifications to Generic Manufacturers

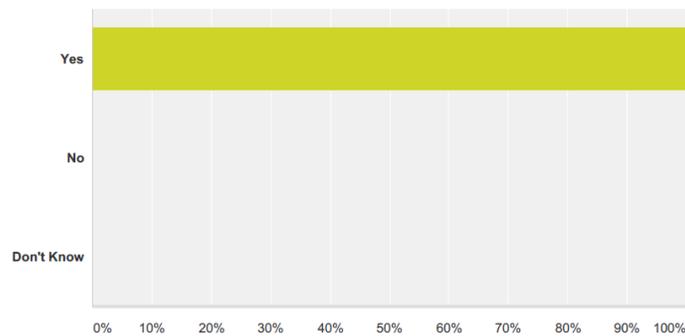
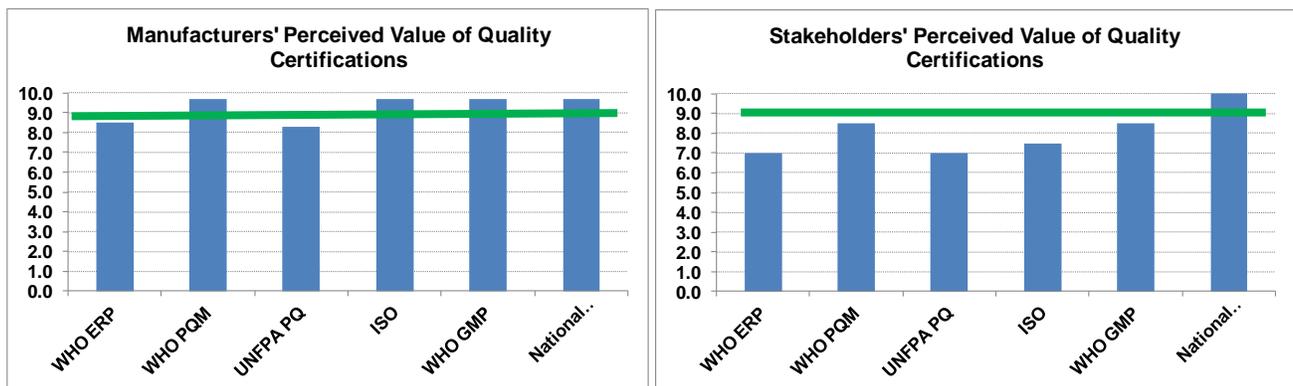


Chart 4: F4D Survey: Comparison of Manufacturers’ and RH Stakeholders’ Perceptions of Importance of Quality Certifications



Conclusion

This deliverable confirms through a vetting process comprised of interviews and surveys across investors, manufacturers, and other reproductive health sector stakeholders that there is no single set of investment criteria used by all investors to determine whether or not to proceed with a proposed impact investment. Nor do investors, manufacturers, and other reproductive health sector stakeholders start with the same criteria. The vetting determined that there are types of investment criteria that manufacturers do not currently list amongst their investment criteria, such as a strong management team and sound competitive positioning. Importantly, many of the investment criteria that are used by both investors and manufacturers map well to some of RHSC's four pillars, particularly availability and quality, and to some extent equity.

The range of social impact measures and approaches varies greatly by investor both in whether they track it, and how they do so. Longer-term impact institutions more commonly use a combination of IRIS and proprietary metrics to measure social impact, while commercial firms new to impact investing seem to prefer to develop their own social impact metrics.

All of these variations in criteria, including differing perceptions of the same criteria, underscore an important conclusion. Because there is no single set of impact investing investment criteria, the key takeaway message for generic emerging markets contraceptives manufacturers and other reproductive health products providers is to singularly understand the criteria of the specific potential investor they are working with. As a representative of the Global Impact Investing Network (GIN) noted, "there are no shortcuts. A lot of upfront research and pounding the pavement."

Annex 1: Interviews Conducted

List of Interviewees

Organization	Name	Title
Manufacturers		
Famy Care Limited	Venkatesh Iyer	Director, Corporate Strategy
Pregna International Ltd.	Mukul Taparia	Vice President
Pregna International Ltd.	Avinash Kabra	CEO, Doctorstore Division
Investors		
The Abraaj Group	Jordan Filko	Associate
BlackRock	Saima Ahmed	Vice President
Calvert Foundation	Beth Bafford	Director, Investments
Emerging Markets Private Equity Association (EMPEA)	Robert van Zweiten	President and CEO
Global Impact Investing Network (GIIN)	Giselle Leung	Senior Management, Strategic Engagement
Global Impact Investing Network (GIIN)	Allison Spector	Manager, Investors' Council and Membership Programming
Overseas Private Investment Corporation (OPIC)	Joan Larrea	Managing Director
Total Impact Capital	John Simon	Founding Partner
Unitus Impact	Beau Seil	Managing Partner
Landscape Stakeholders		
Concept Foundation	Fabienne Bochaton	Program Officer, Access to Maternal Health
Concept Foundation	Lester Chinery	Director of Operations, Program Director to the QuRHM Program
Reproductive Health Supplies Coalition (RHSC)	Anita Deshpande	Senior Program Officer, Market Development
Reproductive Health Supplies Coalition (RHSC)	Milka Dinev	LAC Forum Regional Coordinator
University of Michigan	Prashant Yadav	Director of Healthcare, William Davidson Institute

* One interviewee is not listed as they specifically requested anonymity.

List of Survey Respondents

Name of Organization of Respondents
Aga Khan Development Network
The Abraaj Group
Connexus Corporation
Cordaid
Elevar Equity
Famy Care Limited
Fidelity Charitable
Helm Medical GmbH
Medical Credit Fund
Population Council
Pregna International Ltd.
Reproductive Health Supplies Coalition
Total Impact Capital
Triple Jump
Unitus Impact