# Innovative financing mechanisms for South East Asia

# POLICY BRIEF 7: IMPACT INVESTMENT FUNDS

## Description

Impact investment funds capitalise on private sector investors who are looking for a positive social impact as well as a financial gain. Typically these funds invest in sectors/businesses that can generate some profit (even if minimal) while providing health or social gain. The investors providing the capital might be 'high net worth individuals', corporations or institutional investors (foundations, funds).

Because there is no direct source of profit from immunisation (except with a user-pays system), in this case the return on investment would have to come from government funds. This could be based on a simple debt-financing model (i.e. the government borrows from the impact investment fund and repays a fixed rate of return); or on the 'social impact bond' model, where the government pays a return based on results achieved, and the risk to the fund is partly underwritten by a philanthropic donor.

In either case, the model would provide funds upfront for vaccine purchase and rollout. This approach only offers a benefit to the government if the cost of paying a small profit to the fund investors is less than the cost-savings generated by immunisation (compared to existing treatment and prevention budgets, and to the costs of delayed immunisation due to budgetary constraints). An IFFIm-type approach is an alternative; however this requires a regional approach while impact investing can be done by any country.

## Status

Impact investment funds are already widely established, although not in health services or immunisation. One model being used to finance R&D of vaccines for neglected diseases is the Global Health Investment Fund (GHIF), under which potential profits will come from neglected disease vaccine sales (if the R&D succeeds) while potential losses are partially guaranteed by a philanthropic donor (the Bill and Melinda Gates Foundation).

The 'social impact bond' model is more applicable. In one recent example, Goldman Sachs investment bank provided funds to New York City to pay for a programme to prevent prisoners from re-offending after their release. The investment bank's return is based on the programme's results (savings to NYC from lower crime and re-imprisonment rates), with their losses partially covered by a philanthropic donor (Bloomberg Foundation).

## Volume of potential revenue

The size of a typical impact investment fund ranges from US$10m to US$500m. The GHIF is estimated to raise US$100m in its first round (has raised US$50m to date). If successful, it can be scaled up, but its attractiveness to investors is reduced by the relatively low returns on offer in the neglected disease field.

The size of each impact investing deal is considerably smaller though (e.g. US$1m to US$10m). The New York/Goldman Sachs 'social impact bond' was US$10m, with the entire amount coming from one investor.

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## Pros & Cons

| Pros | Cons |
|---|---|
| • Potentially large revenue base (impact investing currently has momentum)<br>• New funding (previously untapped source) | • Difficulty in convincing OECD private investors (early reports of GHIF support this)<br>• The investor base for impact investment is fragmented, and only a few investment funds or vehicles have been able to achieve scale |
| • One of the few mechanisms to use private sector capital<br>• Can be implemented at a national level | • Results-based payment models may require more accurate disease surveillance data than currently exists<br>• Monetary incentives could risk distorting health priorities, programmes or evaluations |

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