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Attracting Funding for the Nigerian Health Sector:
Outlining the Opportunities, Financing Options and Challenges

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Introduction

This paper aims to provide readers with an idea of the sheer scale of the opportunities in Africa across the healthcare value chain, and the target audience includes promoters, policymakers, and investors.

The paper will begin by setting the context with data, highlighting the current state of healthcare in Africa, with particular interest in Nigeria. This will be subsequently followed by discussions on the focus of the paper, which is financing.

The second section of the paper will focus on information for promoters and founders, highlighting the major business opportunities in Africa and the Nigerian healthcare sector, the size of the Nigerian consumer market, the types of financing available, common fundraising challenges, and how to mitigate them.

Setting the context

Health is increasingly recognised as a critical component of human and economic development in Africa, and countries are increasing their investment in actions and reforms to improve health outcomes and accelerate progress.

All nations share the obligation to establish reliable health financing systems. Even the most developed countries are finding it more and more challenging to keep up with the rising healthcare costs, and the present economic slump is placing even more pressure on health spending.

According to the World Health Organization (WHO), While Africa's share of the global disease burden is estimated at 25 percent, its share of global health expenditures is less than 1 percent. Worse still, it manufactures only a fraction—less than 2 percent—of the medicines consumed on the continent. A publication by the United Nations in 2020 showed that African countries spend between $8 to $129 per capita on health (Olalera & Gatome-Munyua, 2020) compared to high-income countries that spend up to $12,000 per capita. (McGough et al., 2023).

Considering that the continent carries most of the world's morbidity and mortality burden for maternal and infant mortality as well as HIV/AIDS, inadequate investment in the health sector or in initiatives to address the environmental and social determinants of health is a significant barrier to improving health outcomes in Africa. A double burden of disease has also increased in many nations due to the rise in noncommunicable diseases and injuries. One of the problems is the rapid urbanisation and population increase that has occurred throughout Africa. Since 1990, the population has grown by 2.4 percent to 2.6 percent per year; by 2050, this is expected to increase to 2.9 percent.

With this background established, the first section of this paper explores the healthcare opportunity in Africa, highlighting examples of global success in each sub-sector.

The Opportunities

In General

The global healthcare sector has historically been attractive to investors because, regardless of geography, it is generally deemed to be counter-cyclical, defensive, and inflation resistant, as explained below:

i. **Counter-Cyclical Nature:** Healthcare is considered counter-cyclical because people tend to prioritise healthcare spending even during economic downturns. Illnesses and health conditions do not necessarily decrease during recessions, and the demand for healthcare services remains relatively stable. As a result, healthcare companies and investments in the sector may experience more consistent revenue streams than other industries.

ii. **Defensive:** The healthcare sector is considered defensive due to its ability to withstand economic shocks. The demand for healthcare services is less discretionary and more essential, making it less susceptible to consumer spending cuts during economic downturns. This defensive quality can provide investors with a level of stability and protection in their investment portfolio.

iii. **Inflation-Resistant:** Healthcare expenditures tend to be less impacted by inflationary pressures than other sectors. Healthcare costs, including medical services and pharmaceuticals, have historically shown resilience against inflation. This is partially due to the essential nature of healthcare services and the ability of healthcare providers and companies to adjust pricing structures to adapt to changing economic conditions.

These characteristics make the healthcare sector attractive to investors seeking stability, long-term growth, and protection against economic downturns.

In Africa

Investing in healthcare in Africa presents significant opportunities due to the continent's growing population, increasing middle class, and rising demand for quality healthcare services. This opportunity is bolstered by increased internet access and mobile phone ownership. The International Telecommunication Union (ITU) reported that internet penetration in Africa increased from 27 percent in 2021 to 40 percent in 2022, and mobile phone ownership stood at 61 percent of the population in 2022 (ITU, 2021, 2022).

Africa has been experiencing rapid growth in internet access and mobile penetration, and in many cases, it is considered one of the fastest-growing regions in the world in terms of these indicators. While there are challenges, such as inadequate infrastructure and limited access to healthcare in some regions, these gaps also create potential for attractive returns on investment.

Here is an overview of major sub-sectors within healthcare and some key numbers highlighting the opportunities:

i. Hospitals and Healthcare Facilities

With regards to the secondary objective of guaranteeing a sufficient availability of beds, we estimate that if a universal objective of 2 hospital beds per 1,000 population is imposed, 2.5 million new hospital beds are required (with a compound annual growth rate (CAGR) of 11.2 percent from 2020 to 2030). Investment in building and upgrading hospitals, clinics, and specialised healthcare facilities can yield returns through increased patient volumes and service provision.

An example of revenues/profits that can accrue from hospitals and healthcare facilities is the HCA group in America. HCA Healthcare, one of the largest for-profit healthcare systems globally, operates numerous hospitals and outpatient centres in the United States and beyond. In their financial reports, they have disclosed revenue and profit figures for their organisation.

As of the company's 2022 annual report, HCA Healthcare reported total revenue of approximately $60.2 billion. The net income, which represents the profit after deducting expenses, was reported to be approximately $5.6 billion (HCA Healthcare, 2023).

ii. Pharmaceuticals and Medical Supplies

Africa's pharmaceutical market is projected to reach $70 billion by 2030 (Goldstein Research, 2022). Importation currently accounts for over 70 percent of pharmaceuticals consumed in Africa, indicating a need for local production and supply chain development. In Nigeria, pharmaceutical sales are forecast to increase to N3.26 trillion ($4.24 billion) by 2025, implying a compounded annual growth rate of 11.5 percent (Fitch Solutions, 2021). Therefore, investing in local manufacturing, distribution, and supply of pharmaceuticals and medical supplies can provide opportunities for growth and profit.

A great example of how manufacturing companies can build scale through manufacturing generic medicines for export is the Israeli company Teva. Despite its small domestic market, Teva is known as one of the largest generic drug manufacturers globally. In 2022, Teva reported total revenue of approximately $14.9 billion and a gross profit of around $7 billion. Teva has a significant presence in the global pharmaceutical market and exports its products to numerous countries, including the United States, Europe, Canada, and many others. The company has a wide range of generic pharmaceutical products that are distributed internationally, contributing to its global market share.

iii. Telemedicine and Digital Health

Africa's telemedicine market is projected to reach a market volume of $10.42 billion by 2027, according to Statista (2023a). Access to healthcare is limited in remote areas, making telemedicine and digital health solutions a promising sector. Investments in telehealth platforms, mobile health applications, and digital health infrastructure can enhance access to healthcare services, especially in underserved regions.

A great example of telemedicine/digital health at scale is Practo, based in India. Practo is a leading digital healthcare platform that provides telemedicine services, online doctor consultations, appointment scheduling, and medical record management.

Practo was founded in 2008 and has grown to become one of the largest telemedicine platforms in India and other countries. Practo achieved a valuation exceeding $1 billion, earning it a "unicorn" status in 2015. The company offers a range of services, including teleconsultations with doctors across various specialities, access to healthcare providers and diagnostic centres, and an integrated health record system. Practo operates both a web-based platform and a mobile app, enabling users to conveniently access healthcare services remotely.

Practo's success can be attributed to the increasing adoption of telemedicine services in India and other emerging markets, where access to healthcare facilities and specialists may be limited in certain areas. The platform has expanded its services to multiple countries, including India, Singapore, Indonesia, the Philippines, and others.

iv. Medical Equipment and Devices

According to Statista (2023b), Africa's medical device market is expected to show an annual growth rate (CAGR 2023-2028) of 6.77 percent, resulting in a market volume of $13.24 billion by 2028. There is a need for affordable, high-quality medical equipment and devices across the continent. Investments in the manufacturing, distribution, and maintenance of medical devices can address the demand-supply gap and provide attractive returns.

One example of a large medical device company in a developing market is Mindray Medical International Limited, based in China. Mindray is a leading global medical technology company that specialises in the development, manufacturing, and marketing of medical devices and solutions. In 2021, Mindray reported total revenue of approximately CNY 25.27 billion (approximately $3.51 billion) (Mindray, 2021).

v. Health Insurance

Currently, most payments for healthcare are made out of pocket. Less than 10 percent of Africa's population has health insurance coverage. With a growing middle class and increased awareness of the importance of health insurance, the sector presents an opportunity for investment. Investments in insurance companies, health maintenance organisations (HMOs), and innovative insurance models can yield long-term returns. The UnitedHealth Group presents a good case study for the sheer scale of the opportunity healthcare insurance presents. UnitedHealth is a diversified healthcare company based in the United States and is one of the largest health insurance providers globally. In 2022, the UnitedHealth Group reported total revenue of approximately $324.16 billion and a net income of approximately $20.12 billion (UnitedHealth, 2023).

In Nigeria, the percentage of the population covered by health insurance may vary depending on different sources and data. However, it is worth noting that health insurance coverage in Nigeria has historically been relatively low. According to data from the National Health Insurance Scheme (NHIS) in Nigeria, as of 2020, it was estimated that less than 5 percent of the population had access to formal health insurance coverage. This figure indicates a significant gap in healthcare coverage for most Nigerians.

The Nigerian government has been taking steps to improve health insurance coverage and expand access to healthcare services. Efforts like the National Health Insurance Act and various healthcare reforms have been implemented to increase enrolment in health insurance programs and improve access to affordable healthcare.

The opportunity for healthcare microinsurance in Nigeria is significant due to several factors:

i. Large uninsured population: Nigeria has a population of over 200 million people, and a significant portion of the population lacks access to formal health insurance coverage. This presents a substantial market opportunity for healthcare microinsurance providers to bridge the gap and provide affordable and accessible coverage to underserved individuals and families.

ii. Low-income and informal sector workers: Many Nigerians work in the informal sector, which often lacks formal employment benefits, including health insurance. Microinsurance can cater to this segment by offering affordable and flexible coverage options that meet the specific needs and income levels of low-income individuals and families.

iii. Rising healthcare costs: Healthcare expenses in Nigeria are increasing, making it challenging for individuals to afford necessary medical services. Microinsurance can help mitigate this financial burden by providing coverage for a wide range of healthcare services, including outpatient care, hospitalisation, medications, and preventive measures.

iv. Mobile and digital penetration: Nigeria has experienced significant growth in mobile phone penetration and digital technologies. Leveraging mobile platforms and digital solutions, microinsurance providers can offer convenient enrolment, premium payment, and claims processes, making it easier for individuals to access and utilise their insurance benefits.

v. Government support and regulatory framework: The Nigerian government has recognised the importance of expanding healthcare coverage and has implemented policies and regulatory frameworks to promote microinsurance and improve access to affordable healthcare services. Initiatives such as the National Health Insurance Scheme (NHIS) and the Microinsurance Policy have been established to support the growth of microinsurance in Nigeria.

vi. Collaborations and partnerships: Microinsurance providers in Nigeria can collaborate with healthcare facilities, pharmacies, and other healthcare stakeholders to create networks and partnerships that offer discounted services to insured individuals. This collaboration can enhance the value proposition of microinsurance, attract more customers, and provide a broader range of healthcare services.

The Potential Impact of the African Continental Free Trade Agreement

The African Continental Free Trade Agreement (AfCFTA) was brokered by the African Union and signed by 44 of its member states in 2018, and officially commenced in 2021. The purpose of the treaty is to eliminate tariffs on intra-Africa trade, to promote trade among African businesses and benefit from the growing African market.

The AfCFTA could have implications for Africa's healthcare in various forms. One way is facilitating the movement of medicines and medical supplies across African countries, reducing trade barriers, and enhancing healthcare delivery (African Union, 2019). Additionally, the agreement's provisions on trade in services, including healthcare services, can create opportunities for healthcare providers to expand their services across borders, improving access to specialised care and promoting collaboration (African Union, 2019).

Furthermore, the AfCFTA's provisions on intellectual property rights and investment can attract investments in pharmaceutical manufacturing and research and development, leading to local production of essential medicines and enhancing pharmaceutical supply chains (African Union, 2020). Additionally, harmonised standards can contribute to the interoperability of healthcare systems and the sharing of best practices. This can enhance the efficiency and quality of healthcare services, which in turn can attract investment from private healthcare providers looking to tap into a more integrated and standardised market (African Union, n.d.).

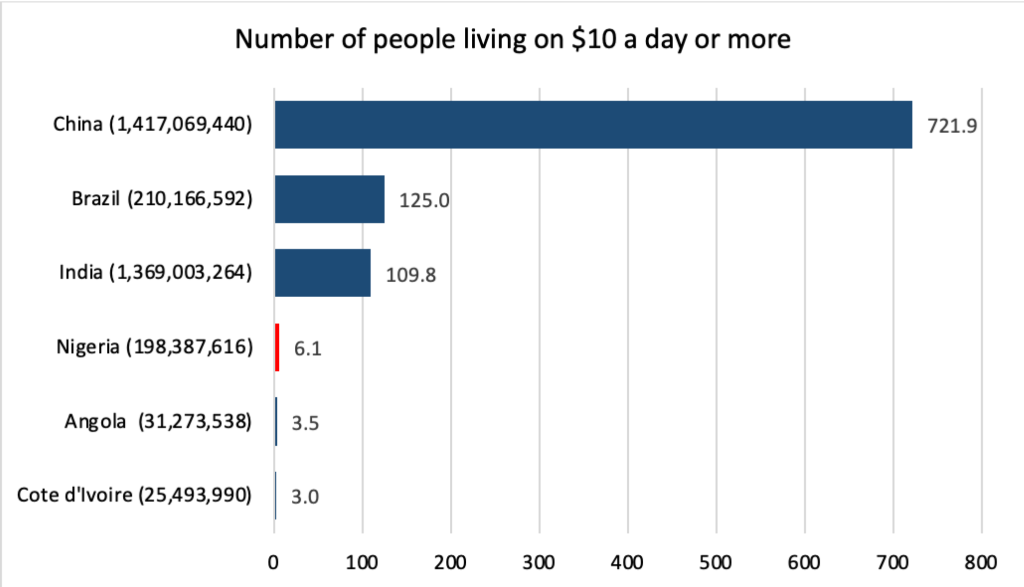
Finally, the AfCFTA's provisions on the movement of natural persons can have implications for the mobility of healthcare professionals within Africa. Facilitating the movement of skilled healthcare workers across borders can address gaps in healthcare workforce distribution and improve access to healthcare services in underserved areas. (African Union, n.d.).

It is important to note that the AfCFTA is primarily a trade agreement aimed at promoting economic integration, and its impact on the healthcare sector may be indirect. The specific implementation and outcomes concerning healthcare will largely depend on how individual countries align their national policies, regulations, and investments to leverage the opportunities presented by the AfCFTA in the healthcare domain.

The following section presents an assessment of the Nigerian Consumer Market. 'Evaluating Nigeria's consumer market provides the avenue to assess the opportunity in healthcare by comparing the earning power of the Nigerian population with that of consumers in other countries such as India. It will also help emphasize the need for robust coverage by a mix of government subsidies and health insurance.

The Nigerian Consumer Market

As one of the largest economies in Africa, the consumer market in Nigeria holds immense potential due to its population size and evolving economic landscape. This section aims to provide an overview of the consumer market in Nigeria, focusing on income levels and a comparison with India, another emerging market. Specifically, we will examine estimated figures for the number of people earning below $3000 per year, between $3000 and $9000, and above $9000, shedding light on the income distribution and its implications for consumer behaviour.



Source: World Bank Poverty and Inequality Platform (2022)[1]

Size of Consumer Market in Nigeria

Nigeria boasts a population of over 200 million people, making it the most populous country in Africa. However, when considering income levels, it is essential to note that Nigeria still faces income inequality, and a significant portion of the population earns below certain thresholds.

- **People Earning Below $3000 per Year:**
  Estimates suggest that a substantial portion of Nigerians, around 70 to 80 million individuals (approximately 40 percent of the population), fall within the income bracket of earning below $3000 per year. This group represents a sizable segmentof the population with limited purchasing power and a greater need for affordable goods and services.

- **People Earning Between $3000 and $9000 per Year:**
  The middle-income segment in Nigeria, earning between $3000 and $9000 per year, is estimated to comprise around 30 to 40 million individuals

[1] The graph shows data for 2018, as the most recent data for Nigeria is for this year.

(approximately 20 percent of the population). This growing consumer base possesses relatively higher purchasing power than the lower-income brackets, enabling them to afford a broader range of goods and services. As Nigeria's economy continues to develop and diversify, this segment is expected to expand, contributing to increased consumer spending and market growth.

- **People Earning Above $9000 per Year:**
  The higher-income segment in Nigeria, earning above $9000 per year, represents a smaller proportion of the population, estimated to be around 5 to 10 million individuals (approximately 5 percent of the population). However, this group holds significant purchasing power and can engage in luxury consumption, invest in real estate, and access premium goods and services. Despite its smaller size, this segment contributes substantially to the overall consumer market in terms of spending and influences trends in upscale industries.

Comparison with India

With its vast population and growing economy, India offers an interesting comparison to Nigeria's consumer market.

- **Below $3000 per Year:**
  Both Nigeria and India have a significant number of individuals earning below $3000 per year. In India, this segment is estimated to be around 300 to 400 million individuals (approximately 29 percent of the population). Income distribution, regional variations, and economic disparities within each country further shape the composition of this segment.

- **Between $3000 and $9000 per Year:**
  India's middle-income segment, earning between $3000 and $9000 per year, is estimated to be around 150 to 200 million individuals. While this consumer group is larger compared to Nigeria due to India's larger population size, it represents approximately 14 percent of the population. Nigeria's middle-income segment, estimated at 30 to 40 million individuals, is growing and presents opportunities for increased consumer spending.

- **Above $9000 per Year:**
  The higher-income segment in India, earning above $9000 per year, is estimated to be around 40 to 50 million individuals (approximately 4 percent of the population). Nigeria's higher-income segment, estimated at 5 to 10 million individuals (approximately 5 percent of the population), demonstrates significant purchasing power and influences upscale markets.

The consumer market in Nigeria, driven by its population size and evolving economy, presents significant opportunities for businesses and investors. However, analysis of the consumer market provides investors, promoters, and policymakers with information that will inform the most suitable business models for healthcare at scale in Nigeria.

This second section focuses on the types of funding available for promoters, details on the fundraising process, and fundraising/business model challenges.

Types of Funding for healthcare and the challenges

Broadly speaking, two types of funding are available to founders and promoters: debt and equity. However, grant funding is an option that is also worth exploring, bearing in mind that most companies use a mix of these at different times to some extent. All of these alternatives are described below:

Debt Financing and Equity Financing

Debt funding is the process by which a business raises funds by offering investors debt instruments like bonds, bills, or notes. Meanwhile, the practice of obtaining funds through the sale of shares is known as equity financing. This includes the sale of common stock and other equity or quasi-equity instruments such as preferred stock, convertible preferred stock, and equity units consisting of common shares and warrants.

According to the Global Impact Investment Network (GIIN), most impact investors prefer debt financing because it is less risky, needs less active management, and gives a clearer exit path. Expected returns (for all impact investment sectors) in West Africa are between market and slightly below market (between 13-17 percent). In Africa, where impact investing is a relatively young field (three-quarters of African impact funds were formed after 2000), with healthcare notably only making up a small portion of the pie, there are fewer examples of successful portfolio exits, which constitute a significant challenge to raising equity financing, especially in an economic slowdown.

Debt financing contributes to the debt portion of a company's capital structure. It can boost a company's performance and growth. However, there is an optimal amount of debt portion in the capital structure. It is prudent to obtain and use less than the optimal amount to reduce future threats like bankruptcy risk. One of the important features of debt is that it involves the promise to repay the principal at a future date and periodic interest payments to be carried out in a predefined manner and timeframe. It also discloses that the interest payment is attributed to the cost of debt. Usually, debt instruments tend not to default, and in liquidation, the payment to the creditors or instrument holders is prioritised.

Some advantages of Debt financing are that no ownership is diluted, the creditor has no influence over the debtor's company decisions, and it is often less expensive and easier to obtain than other funding sources, such as equity finance. The disadvantage is that increased reliance on this type of finance may affect the ideal capital structure, it usually requires collateral, and it has the potential to increase a company's debt ratio and debt-equity ratio, making it unfavourable to investors and inconsistent or non-existent financial inflows may result in debt repayment default.

Types of equity finance for healthcare

Equity finance refers to the method of raising capital for a healthcare organisation or project by selling shares of ownership to investors in exchange for funds. There are several types of equity finance options available in the healthcare sector. Here are some common ones:

- **Private Equity:** Private equity firms invest in healthcare companies or projects by purchasing shares or ownership stakes. They typically provide capital for expansion, acquisitions, or restructuring of healthcare businesses. Private equity investments are often made in established healthcare companies with a track record of revenue and profit generation.

- **Venture Capital:** Venture capital firms specialise in investing in early-stage or startup healthcare companies with high growth potential. They provide funding to support research and development, product commercialisation, market expansion, and other strategic initiatives. Venture capital investments in healthcare often target innovative technologies, pharmaceuticals, medical devices, or healthcare services.

- **Initial Public Offering (IPO):** An IPO is a process by which a healthcare company offers its shares to the public for the first time on a stock exchange. It allows the company to raise significant capital by selling ownership stakes to individual and institutional investors. IPOs are typically pursued by well-established healthcare companies that meet regulatory requirements and have a strong financial position.

- **Angel Investors:** Angel investors are individuals who provide early-stage funding to healthcare startups in exchange for equity ownership. They often invest their personal funds and provide mentorship or industry expertise to healthcare entrepreneurs. Angel investors play a crucial role in supporting the initial growth and development of healthcare ventures.

- **Crowdfunding:** Crowdfunding platforms enable healthcare organisations or individuals to raise capital from a large number of individual investors or donors. These platforms allow people to contribute small amounts of money towards a healthcare project or cause in exchange for rewards, equity, or simply as a donation. Crowdfunding is particularly useful for grassroots healthcare initiatives, medical research, or community-driven healthcare projects.

- **Strategic Partnerships:** In some cases, healthcare organisations may seek equity finance through strategic partnerships with larger healthcare companies or institutions. This can involve an investment in the form of equity ownership, joint ventures, or collaborations that bring together complementary expertise and resources. Strategic partnerships can provide financial support and open doors to new market opportunities.

Types of debt finance for healthcare

Healthcare companies in Nigeria have access to various types of debt financing options to fund their operations, expansion, or other financial needs. Here are some common types of debt financing available for healthcare companies in Nigeria:

- Bank Loans: Traditional bank loans are a common form of debt financing for healthcare companies. Banks offer loans with agreed-upon terms, interest rates, and repayment schedules. These loans may be secured by collateral, such as assets owned by the healthcare company, or unsecured based on the borrower's creditworthiness and financial stability.

- Development Finance Institutions (DFIs): DFIs, such as the Bank of Industry (BOI) and the Development Bank of Nigeria (DBN), provide long-term financing options to healthcare companies. DFIs focus on supporting sectors that drive economic growth, including healthcare. They offer tailored financing solutions with flexible terms and favourable interest rates to promote the development of the healthcare industry.

- Asset-Based Lending: Healthcare companies with valuable assets, such as medical equipment or real estate, can utilise asset-based lending. In this type of financing, the lender provides a loan based on the value of the company's assets. If the borrower defaults, the lender can seize and sell the assets to recover the loan amount.

- Trade Credit: Healthcare companies often rely on trade credit from suppliers or vendors. Trade credit allows the healthcare company to obtain goods or services on credit and defer payment for an agreed-upon period. This form of financing helps manage cash flow and provides short-term working capital.

- Bonds: Larger healthcare companies or government-backed healthcare projects may issue bonds to raise debt capital. Bonds are fixed-income securities that are traded in the capital market. Investors purchase bonds, providing the healthcare company with the funds needed. The issuer pays periodic interest to bondholders and returns the principal amount upon maturity.

- Microfinance Institutions (MFIs): MFIs provide small-scale financing to micro and small healthcare enterprises. They offer loans tailored to the needs of smaller businesses, with simplified application processes and requirements. MFIs focus on promoting financial inclusion and supporting the growth of grassroots healthcare initiatives.

Grant Financing for Healthcare companies

Grant financing can provide significant benefits to healthcare companies, particularly those engaged in research, development, or public health initiatives. However, there are also certain disadvantages that should be considered. Here are some advantages and disadvantages of grant financing for healthcare companies:

Advantages of Grant Financing

- Non-Repayable Capital: Grants are typically non-repayable funds provided to support specific projects or activities. Healthcare companies that secure grants do not have to worry about repaying the funds, which can alleviate the financial burden and improve cash flow.

- Financial Support for Research and Development: Grants can be a valuable source of funding for healthcare companies engaged in research and development (R&D) efforts. R&D projects often require significant resources, and grants can provide the necessary financial support to advance scientific discoveries, develop new treatments or technologies, and improve healthcare outcomes.

- Enhanced Credibility: Securing grants from reputable funding organisations or government agencies can enhance a healthcare company's credibility and reputation. It signifies recognition and validation of the company's potential and the value of its projects or initiatives, which can attract further investment, partnerships, and collaboration opportunities.

- Access to Specialised Expertise and Resources: Many grant programs offer additional support beyond financial assistance. They may provide access to specialised expertise, research facilities, networking opportunities, or mentorship programs. Such resources can contribute to the company's growth, knowledge, and capacity-building.

Disadvantages of Grant Financing

- **Highly Competitive:** Grant funding is often highly competitive, with a limited number of grants available compared to the number of applicants. The application and selection process can be rigorous and time-consuming, requiring significant effort and resources to prepare compelling proposals. The intense competition makes it challenging for every healthcare company to secure grant funding.

- **Restrictive Use of Funds:** Grant funds are typically earmarked for specific purposes or projects outlined in the grant agreement. The funds may come with specific terms, conditions, and reporting requirements. This restricts the flexibility of how the funds can be utilised and may limit the company's ability to allocate resources according to its immediate priorities.

- **Uncertainty and Dependence on Grant Cycles:** Grant funding is subject to the availability of funds and specific grant cycles. Healthcare companies relying solely on grant financing may face uncertainty regarding the timing and availability of future grants. This can create challenges in long-term planning and financial stability.

- **Accountability and Reporting Obligations:** Grant recipients are generally required to comply with stringent reporting and accountability obligations. This includes periodic progress reports, financial audits, and compliance with specific project milestones. The administrative burden of meeting these requirements can be time-consuming and divert resources away from core operations.

Before moving to the final section on the challenges facing investors and promoters, this section will conclude with some information on impact investing and how it is changing the investment landscape in Africa.

Impact investing and its role in helping healthcare companies in Nigeria scale

Impact investing is a growing approach to investment that aims to generate positive social and environmental impacts alongside financial returns. It is changing the general investment landscape by shifting the focus from purely financial gains to investments that create measurable social and environmental benefits. Impact investing plays a significant role in helping healthcare companies in Nigeria scale by providing them with the necessary capital and support to expand their operations and make a meaningful impact on the healthcare sector. Here is how impact investing is influencing the investment landscape and supporting healthcare companies in Nigeria:

- **Alignment of Financial and Social Objectives:** Impact investing seeks to align financial goals with social and environmental objectives. Investors are increasingly recognising the potential of healthcare companies to address pressing healthcare challenges in Nigeria, such as improving access to quality healthcare, reducing healthcare inequalities, and addressing specific health issues. By investing in healthcare companies, impact investors not only seek financial returns but also aim to contribute to positive health outcomes and societal well-being.

- **Increased Capital Availability:** Impact investing has brought additional capital into the healthcare sector, providing healthcare companies in Nigeria with access to funding that goes beyond traditional financing sources. Impact investors, including impact-focused funds, development finance institutions, and philanthropic organisations, are willing to invest in healthcare ventures that have a clear social impact thesis and potential for scalability. This increased capital availability supports healthcare companies in expanding their operations, enhancing infrastructure, and delivering better healthcare services to underserved populations.

- **Long-Term Patient Capital:** Impact investors are often willing to provide patient capital, which refers to longer investment horizons and a higher tolerance for risk. This is particularly relevant in the healthcare sector, where scaling operations and achieving sustainable impact can take time. Patient capital allows healthcare companies to focus on long-term growth, invest in capacity building, develop innovative solutions, and navigate the challenges associated with scaling healthcare services in Nigeria.

- **Sector Expertise and Support:** Impact investors often bring sector-specific expertise and experience to the table. They understand the complexities of the healthcare industry and can provide valuable guidance and support to healthcare companies in Nigeria. This includes strategic advice, operational assistance, and access to networks, which can be crucial for scaling and expanding healthcare operations effectively.

- **Catalysing Partnerships and Collaborations:** Impact investors often facilitate collaborations and partnerships among healthcare companies, government entities, NGOs, and other stakeholders. These partnerships can enhance the scalability of healthcare solutions, leverage resources, and create synergies for greater impact. Impact investors may actively connect healthcare companies with relevant stakeholders and promote knowledge sharing to accelerate growth and drive positive change in the healthcare sector.

- **Impact Measurement and Reporting:** Impact investors emphasise measuring and reporting the social and environmental outcomes of their investments. This focus on impact measurement encourages healthcare companies to track and evaluate their performance in delivering positive health outcomes and social benefits. It helps healthcare companies enhance their accountability, attract additional funding, and demonstrate their impact to other stakeholders.

Overall, impact investing is reshaping the investment landscape by integrating social and environmental considerations into investment decisions. In the context of healthcare companies in Nigeria, impact investing provides much-needed capital, expertise, and support to scale their operations, improve access to healthcare, and contribute to positive health outcomes for the Nigerian population.

Challenges faced by Founders/Promoters and Investors in Nigeria Healthcare Businesses and ways to mitigate them.

Challenges

1. **Healthcare is fragmented:** The private healthcare industry is highly fragmented, with several tiny operations. Fragmentation in governmental structures, financing, and outside engagement in health sector activities continues to challenge the efficiency and coherence of healthcare system operations and hinders long-term health sector strengthening.

2. **Limited Research and Development (R&D):** Building high-growth health tech start-ups in the pharmaceutical, therapeutics, and biotech sectors, where novel treatment approaches are created to treat uncommon or difficult conditions, requires significant R&D spending and experience. It takes a lot of expensive R&D work to introduce new treatments into a market that is highly competitive and regulated.

3. **Limited Expertise/Talent:** With health worker density among the lowest in the world, there are not enough health professionals to serve the African population. There are fewer than five qualified health workers (including nurses and community health workers) per 100,000 people in nineteen countries within the African region, compared to a global average of 53 (WHO, 2021). Health staff are in limited supply in rural and distant locations, with shortages twice as severe as in urban areas.

4. **Lack of medical manufacturing hubs/villages:** There is a lack of enabling environment for the manufacturing of medical consumables such as syringes, injection needles, centrifuges, reagents, gloves, and vaccines. The production of these materials is intertwined with research, development, and innovation, and there are raw materials (such as iron ore and rubber) within the country to promote the production of these materials.

5. **Demand side economics:** While most healthcare investments focus on infrastructural development for the supply of healthcare services, one of the key challenges in this market is that up to 90 percent or more of healthcare services are paid for out of pocket. The healthcare insurance penetration in the population is low, and where available, the insurance does not cover high-end services and expensive tests. The consequence on the demand side is the underutilisation of installed capacity in many of the private healthcare facilities in the country because patients are not always able to pay for services when the need arises. This situation leads to poor financial performance in the existing hospitals and healthcare businesses, which is not encouraging to attract new investments into the sector.

6. Poor governance structure in many healthcare businesses: Most often, in a bid to be conservative in managing operating expenses, healthcare business owners take on several responsibilities to themselves, thereby undermining corporate governance practices. Despite the good intentions of the business owners in these poor governance circumstances, their investment requests hardly pass basic due diligence tests because of all the flaws associated with cutting corners in their operations over long periods.

7. Investment climate challenges: Research has shown that uncertain, unstable, or weak policy environments exist in countries with poor health delivery systems, poor health governance, uncertain regulatory environments, weaker macroeconomic conditions, or higher geopolitical risk. Industry reports frequently mention risks related to policy environments as deterrents to private investment in global health. Nigeria is facing such significant insecure investment climates burdened with general societal insecurity, unstable foreign exchange regime, and poor support systems for businesses, which constitutes a high-risk investment climate. The long and short-term uncertainties that an environment such as this poses to investors compel them to look elsewhere in their investment choices. Presently in Africa, Ghana, and Rwanda are providing more stable economic climates to investors, hence, they are attracting significant direct foreign investments compared to Nigeria.

8. Low ROI in healthcare business: High operational cost to deliver healthcare services against the backdrop of equally high investments required for setup makes the Return on Investment (ROI) very marginal compared to other industries. As has been alluded to earlier in this paper, some healthcare investments also require long gestational periods commonly associated with loss-making positions in the initial few years. One would therefore expect high returns on investment when the business becomes profitable, but that is not usually the case. This common scenario in the healthcare business alongside a high bad debt ratio, especially in hospital operations, are not encouraging to many investment firms seeking quick returns with high yields on their investment.

9. Non-Implementation of Healthcare Investment Incentives - as contained in policy documents: Nigeria has various documents that speak to the availability of investment incentives in the nation, but sadly many of the provisions in the policy documents do not translate to actual benefits and safety nets that businesses can harness. The multilateral nature of the implementation agencies poses significant bottlenecks in accessing the provisions of investment incentive policies. It is now common knowledge, for instance, that almost two decades since the Nigeria Export Processing Free Zone was set up in Cross River State, most of the key incentives provided for in the policy document are yet to come into effect, and the entire objective of making the investment into infrastructural development in the area is almost a complete waste. Such is the experience in other areas of industry, including healthcare, where policy pronouncements do not immediately transcend into actual benefits geared towards encouraging investment into various economic sectors of the nation.

Solutions

1. Innovative business model: Before entering this new market, one must take overall investment strategy, institutional capabilities, and market considerations into account. Profitability, market penetration objectives, risk diversification, and corporate image are frequently included in the health market. In evaluating institutional capability, carefully consider its human resources, financial resources, and delivery methods. Institutional capabilities and strategy ought to be compatible in the healthcare industry.

2. Group practices and Healthcare networks: Adopting the strategy of group practices and healthcare network operations is likely to increase the potential for attracting investment into healthcare businesses. Innovative group practice models would help in ensuring good governance structures, lower overall operational costs, and provide opportunities for economies of scale in contract negotiations and supply chain management for the purchase of medical devices and consumables. Through cost-saving measures available to group practices and network operators, there is enhanced profitability and better financial returns to encourage new investments. Besides, certain key man risks that characterise solo-healthcare enterprises are significantly mitigated in well-structured group practices.

3. Policies that support and encourage public-private partnerships: Public-private partnerships (PPPs) are crucial for developing healthcare infrastructure in emerging markets. These partnerships bring together the resources and expertise of both the public and private sectors. By combining public funding with private investment, PPPs bridge the financial gap and provide access to much-needed capital for healthcare projects. The involvement of the private sector brings efficiency, innovation, and technological advancements to healthcare infrastructure development. It also facilitates knowledge transfer and capacity building, empowering the public sector with valuable skills and expertise. PPPs offer risk-sharing mechanisms and expedite project delivery, ensuring timely access to improved healthcare services. Moreover, these partnerships often involve long-term commitments to service provision, ensuring the sustainability and ongoing quality of healthcare facilities.

4. Advocating for more government spending: In Nigeria, public spending on health care amounts to less than 4 percent of GDP (Abubakar et al., 2022). This is significantly below the recommended 15 percent by the World Health Organisation.

5. Advocating for better health insurance: Better healthcare insurance coverage would make the Business-to-Commerce (B2C) model feasible on a large scale. Many European countries have allowed health insurance funds to finance public health services' preventive projects. This has enormous potential for combining well-planned health-promoting services with long-term funding. It also allows a variety of different sectors to participate in aligning their work toward common goals. Furthermore, the potential savings for insurance funds are a positive cycle that can lead to increased funding for preventative measures.

6. Advocating among investors to provide patient capital to healthcare: Other institutional investors and funds, such as pension funds, are yet another potential source of increased funding that has the potential to work across sectors and generate positive feedback by improving health and wellbeing, boosting return on investment, and increasing pensions for an active aging population. Healthtech investment is expected to remain strong in 2022. Venture capital investment in Africa is increasing at an exponential rate, and the global interest in healthcare from investors has increased since the Covid-19 pandemic.

7. Doctors exposed to financing and medical business: Doctors or other highly educated professionals who are well-known and respected members of their communities should own many healthcare businesses. Professional associations (such as a medical practitioner association or pharmaceutical society) can often provide a reference or background information on the prospective client. Many countries require clinicians to work in the public sector before entering private practice, giving them time to develop their clinical skills and make important community and sector connections.

8. An improvement in regulation: Enabling a stable regulatory framework in the healthcare sector provides investors with confidence and predictability, leading to increased investments in healthcare infrastructure and technology. It fosters innovation and long-term planning, allowing healthcare businesses to focus on improving the quality of care and patient outcomes. Patients benefit from enhanced safety standards, better access to high-quality services, and increased trust in the healthcare system.

Conclusion

The financing guide for health-promoting services is critical. It is essential for policymakers and health promotion planners to have access to the right know-how, competencies, and a profound understanding of the socioeconomic rationale to rapidly encourage investment in health-promoting services, innovative methods, and tools and seize new opportunities to make a quantum leap forward in providing better health and wellbeing for all within a sustainable framework.

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ABOUT THE HEALTH AS A BUSINESS THEMATIC GROUP

The Health as a Business Thematic Group is focused on proffering solutions to support private sector involvement in healthcare development in Nigeria. The group is focused on three main aspects:

• **Private Sector & Healthcare Development:** The Group critically examines how the private sector can help to catalyse the growth of healthcare in Nigeria.

• **Healthcare Advocacy:** The Group engages in advocacy to draw attention to critical healthcare development needs and has completed several white papers in line with this objective.

• **Strengthen PPP FOR Healthcare:** The Group looks at ways the private sector can effectively partner with public stakeholders to strengthen healthcare outcomes in Nigeria.

ABOUT THE HPC

The overarching mandate of the Health Policy Commission (HPC) is to serve as a platform for public-private dialogue to drive reforms that guarantee not only health for all but health by all in the Nigerian health system. This necessitates that resources for health are evenly distributed and that essential health care is accessible to everyone while acknowledging that the attainment of a well-developed and better health sector will involve a shared commitment between the government and its national and international partners. This mandate is subsumed under the goal of attaining Universal Health Coverage (UCH), which is one of the Sustainable Development Goals by the year 2030.

ABOUT THE NESG

The NESG is an independent, non-partisan, non-sectarian organisation, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought so as to explore, discover and support initiatives directed at improving NIgeria's economic policies, institutions, and management.

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