THE INVESTMENT MOBILIZATION PLATFORM – A NEW APPROACH TO MOBILIZING FINANCE FOR DEVELOPMENT

PRESENTATION TRANSCRIPT

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Presenters

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Lawrence Camp: Okay. Sorry, but we are back. So again, my name is Lawrence Camp. I want to thank everybody for participating in this webinar. As I started to say, Santiago and I are really pumped up and excited about the ability to address this topic with you. We are agreed that we want to keep this presentation short and to the point so that we will have a lot of time for questions and discussion.

I just want to note for those of you who are not that knowledgeable about Marketlinks, the main things it offers, including the series of webinars, of which this is one, it's a terrific platform funded by USAID for development practitioners interested in markets and in the role of markets and development and hope that you will become a frequent visitor to this community.

With that, let me introduce the presenters. I am Lawrence Camp with USAID and the Office of Private Capital Microenterprise. My focus -- my area of focus is finance and development. I have about 25 years of experience in development within USAID, Millennium Challenge Corporation, and as an implementing partner running a financial sector government project in West Bank in Gaza. Prior to that, I was in the financial services industry in commercial banking and structured finance as Vice President of Security Pacific Merchant Bank in New York.

And with me is my co-presenter, Santiago Sedaca from Palladium.

Santiago Sedaca: Thank you, Lawrence. Thank you, all. I am a bit of an accidental executive. I work at Palladium, and I manage our Economic Growth and Governance practice, as well as our New York-based Commercial Innovation team, where we work with donors and governments and corporations worldwide in ways in which we can achieve what we call positive impact around the world.

For the donor audience, I have been working on private-sector development for about 25 years and have been lately spending a lot of time working on blended finance and pay-for-results solutions.

Lawrence Camp: So how did the concept that drives the Investment Mobilization Platform arise? It actually comes out of structured finance, which is a subset of finance dealing with leverage and risk, with its intent to provide debt financing for riskier transactions at the lowest possible cost, usually through some sort of credit enhancement, like a guaranty or a first loss or layering in equity or subordinated debt or, in this case, blended finance. So DCA is actually a form of structured finance. In short, it's the art of arranging financing for risky transactions at the lowest possible cost of capital.

This can get a little complicated, and for those of you within USAID who are interested, you may want to take our Mobilizing Finance for Development course, or for others, might want to download the Comprehensive Introduction to Mobilizing Finance for Development, which can be found on the Office of Private Capital site on the USAID website, or we have it below, I believe, in the links site in this webinar.

So, from a development perspective, the challenge we are facing is how do you get financial transactions completed which have strong economic and social benefits but may be slightly low in terms of the required financial return and which otherwise would not happen. And the answer is you make these transactions more attractive by lowering transaction costs and/or increasing the return to those providing the finance.

So just to step back a bit, why does finance matter? Simple answer: Accomplishing our development objectives within health, agriculture, WASH, or economic growth broadly requires productivity improvement and modernization. Which, in turn, requires investment or capital expenditure. Investments in things such as plants, plants and equipment, technology, education, and human capital development. And this requires financing, since those investments usually take several years to pay for their cost.

Santiago Sedaca: So, mobilizing investment at scale is kind of the Holy Grail for development practitioners, and I think we are speaking to an audience, judging from the participants, that understands the importance of investment. Whether from a macro or microeconomic perspective, we know that there is no development without investment. Now, we believe that there's no lack of capital sloshing around the world. The challenge, as Lawrence was alluding to, is to incentivize capital to address the development opportunities that mitigate the development challenges we are all working on. One of the classic cases is agriculture. Lawrence mentioned a few others. But in agriculture, the investment cap, just in Sub-Saharan Africa, is in the tens of billions of dollars, both for operating and capital expenditures. Now, this platform approach takes this challenge head on. It takes a comprehensive and focused look at how to facilitate capital going into specific development opportunities using a variety of demand side and supply side tools that we are going to talk about that address an immediate need.

Now, we also hope to leave behind a system, after our program ends, that better connects financial institutions with capital users, BDS providers, and other stakeholders, who can then all work together on a commercial basis.

Lawrence Camp: So, what is the Investment Mobilization Platform? Essentially, it is a single hub or point which engages across the entire transaction ecosystem to identify, structure, and close transactions, with the ability to use the secret sauce of blended finance when needed. What is blended finance? Very simply, using lower-cost public funds to encourage the higher-cost private funds for transactions which have development importance.

The elements in there that are important to think about in the Investment Mobilization Platform, it's market driven; seeks to nudge the market along by bringing the suppliers of financing together with those seeking financing in a way that reduces the friction, or in economic and finance terms, reduces the transaction costs. It engages local actors as business adviser services or transaction advisors to identify and tee up potential transactions. And harnesses pay-for-results, with service providers paid primarily on a success fee basis and banks and other finance providers paid only when financing is disbursed. It uses blended capital to increase the yield on transaction or reduce risk premiums or offset risk premiums. For transactions which have strong economic returns and important to USAID but may be slightly short in terms of their financial returns. It maximizes leverage. We are targeting, for every $1 of our public funds, at least 20, 30, or 40 times more in private funds. And sustainability. Hopefully, as Santiago said, we are changing the ecosystem, and certainly in Ghana, we are successful in building up a cadre of local BAS providers that are now operating independently, and even without incentives, banks are continuing to win.

What's the problem the platform is solving, and how does it do it? As Santiago noted, the developing world is actually awash in capital. Emerging markets are expected to surge from about 40 trillion in 2010 to 111 trillion in 2020, meaning that most of our presence countries, there is abundant capital. There is abundant capital, and that is abundant domestic capital as well, which has preferences in terms of avoiding any potential exchange risk. So the capital is available in our presence countries for their own development to be funded. If, again, that capital can be intermediated. And the problem is that not enough of those funds are going to finance investments in the areas that are important to us -- health, agriculture, et cetera. We won't go into that in this webinar in any detail as to why that's the case, but the general problem is, of course, that the financial systems are less developed, and the risks, both perceived and actual, are higher. The net effect, this raises the cost of capital for finance providers and sometimes to a level which is higher than the investment can sustain.

In our Mobilizing Capital for Investment course, we use the example of Kayo's trackers in Ghana as compared to Mary's trackers in Iowa. Both of them with projected revenues and cash flows exactly the same, both seeking to expand their tracker servicing, which will have enormous improvements, but the bottom line is Mary in Iowa gets financing while Kayo in Ghana does not, simply because of the higher cost of capital which prevails in Ghana. So how does the Investment Mobilization Platform solve this problem? First it crowds in potential transactions. It produces a pipeline of potential financing opportunities, which lowers the cost for finance providers. In banking a major cost factor is simply the cost of identifying originating new loans and new borrowers. Second, it crowds in finance providers with the promise of a steady pipeline of deals. The platform attracts finance providers -- banks, investors, and others -- creating competition for transaction. And third, if and as needed, the ability to draw upon a blended finance facility to provide de-risking and/or to sweeten yields, to bump the yield that the finance provider is going to get.

So, let us turn to our old friend, the country of Prosperia, that we are all familiar with, a country, which in many respects, is similar to the countries that USAID works in. The Prosperia mission is focused on improving agriculture and is trying to modernize the agriculture, WASH, and power supply chains, which is going to require significant investment, far beyond what the government of Prosperia and USAID and other donors can provide. So, they absolutely need to access this private capital, this capital that is seeking commercial returns.

Good news. There's a lot of money available out there, so liquidity or the amount of capital present in Prosperia is not a problem. The bad news, there are simply not enough actionable deals, loan requests or financial requests, with information needed to make a finding. And in general, the financing requests that are presented are simply not that attractive to the finance providers. Again, the problem is the high transaction costs and the risks associated with these transactions. For those of you in USAID missions, this probably sounds familiar.

So I want to turn to a pretty complex diagram here, and I want to just leave it up there for a little while and let you kind of work through it and get kind of a glimpse of what it's trying to do here. The intended result in Prosperia with this Investment Mobilization Platform is to catalyze $225 million in capital expenditures in areas critical to accomplishing mission priorities.

Okay. How is this going to happen? First of all, the first step is to identify what investments are important to catalyze, and when we use the term "investment," I want to note that we are talking about a capital expenditure, so when a farmer uses a loan to buy irrigation pipe, he or she is making a capital expenditure or an investment. And we want to be very intentional about the investments that we are trying to catalyze. The mission is not interested, for example, in catalyzing financing for fast food franchises. That's not one of its development objectives. No, it wanted farmers to be able to make investment in irrigation pipe and trackers. It wanted clean water treatment sites and last-mile water pipes, and wanted clean energy, mini grids, and household solar systems. Those of you who know Prosperia know that there's no problem in getting power in the central cities, but out in the remote eastern part of the country, there is no power connection. The mission wanted to make sure that those mini grids and household systems were available. So, it created a shopping list of things that it needed.

Second, with this in hand, the next step is to build a financial function to build up. The function will engage in network of business advisors and service providers or transaction advisors to identify financing needs and sort development of actual financing proposals.

So, the transaction advisors, the mission was more than happy to have as many transaction advisors as needed because simply it was going to pay for those transaction advisors on completed transactions, not best effort, so the mission is happy to engage as many qualified BAS providers as possible.

Next, with that in hand, the platform built out a finance provider network to engage a broad array of finance providers to include domestic/foreign banks, diaspora, other investors, investment funds, and nonbanking finance institutions. The intent is to build a deep and broad spectrum of finance providers which is capable of covering the whole spectrum of financing needs. So, the ability to offer a pipeline of transactions is attractive to these finance investors and helps attract their interest in becoming part of the network.

The next step, step four, is the secret sauce, the catalytic facility. The catalytic facility is used to pay success fees to BAS providers, business adviser providers, on completed transactions as well as to provide incentive payments or blended capital, if you will, to finance providers if and as needed to mitigate the higher-risk premiums which prevails in transactions. So again, this is intended use for transactions that are really important to the mission for development purposes, have very strong economic returns, but because of the higher cost of capital requirements in Prosperia, may not get the financing without a little bit of a nudge in terms of the yield or the rate that they are offering to the finance providers.

So, the facility's intended use, again, is a form of blended capital, but use sparingly, if not less than a 30:1 match. For every $3 of public funds, the mission expects to catalyze $30 of private funds.

Pulling this altogether, Prosperia has built a machine. The intent is to generate at least $225 million of capital investment in targeted sectors, an investment which would otherwise not occur, using the $7.5 million worth of blended capital from the catalytic fund, again, to generate a leverage of about 30:1. I want to quickly note the two boxes on the top left side, two elements that we would like Prosperia to include in its thinking is the ability for other funds. Once we've built this machine, this machine is capable of taking other funds from other donors, philanthropic organizations because we have essentially a one-stop shop that can fill other requirements, other development requirements, say in education or other areas.

Second, the advisory council, some sort of an advisory system that provides a feedback loop to policymakers so that they can understand from the market actors what is constraining these transactions from happening without an additional level of support.

Santiago Sedaca: Thank you, Lawrence. I guess my charge is to talk about some specific place where is we have been implementing these concepts, and I guess the core question, if I were listening, that I would have is does this approach work? And I think that a good, clear example is recently concluded financing in agriculture program, a program that sought facility financing into maize, so I, and rice in northern Ghana.

When the program was first designed in 2011-2012, no one was really investing in northern Ghana, but we know that without financing, as we were saying earlier, there's not going to be any improvement in production or livelihood, which is the goal of Feed the Future programs at large and what the country was so desperately needing at the time, and still does to a great degree. It was a time at which interest rates were at 24% per year, so no banks were interested in financing relatively risky ag projects when they could just buy government bonds instead and make money that way. However, taking both the demand side and supply side approach, we were able to incentivize BDS to identify good agriculture projects and make them bankable, incentivize financial institutions to make loans or make equity investments, used other risk mitigation tools to help place capital. We helped financial institutions develop specific lending products to reach specific target populations. We served as an ongoing convener of all system stakeholders, facilitating their work together. And we left behind a network of actors that now work together on a commercial basis. A classic case of a success case was what happened with Barclays Bank, which went from having a portfolio in agriculture of about $400,000 when we started and really not expressing a lot of interest in getting involved in the program to having a $50 million portfolio in agriculture, and now that the Ghanaian office serving as a bit of an adviser to other country offices around Sub-Saharan Africa.

So, let's drill down on the results achieved. Well, we worked on a number of things, but primarily worked with 50 financial institutions and 22 business advisory service providers, and I want to make a comment here. I use the terms "BAS" and "BES," business advisory service providers and business development service providers, or sometimes consulting firms interchangeably, so please excuse that. But I think that that that's important to bear in mind. We are talking about consulting firms.

So, working through these organizations, the program helped facilitate $168 million in financing. We more than doubled the project objectives, which seemed rather high when we were starting out in the beginning. We have impact studies in how many and in which ways people were affected by the programs, including women, loan traders, a number of other specific target groups. In terms of dollars, much of the financing went into middle value chain actors, such as agricultural processors and logistics providers, which was the primary target group for the program. But a lot of resources also were mobilized to finance input dealers and small and larger traders, as you can see.

Now, we are embarking in a new adventure in Kenya, where the system is more sophisticated, but where significant financing still needs to happen. And we think that is an approach that is going to bear good fruit in Kenya. The Kenya Investment Mechanism is a five-year program funded by USAID, part of its suite of Feed the Future activities. It's focusing on the clean energy, horticulture, livestock, and dairy value chains, and it's designed to unlock financing for the other Feed the Future programs in Kenya. The objective is obviously to unlock $400 million in financing, but ultimately, we want to build a market system that mobilizes this capital for Kenya over the long-term and leave a commercial sound system after the life of the program.

I am going to skip this slide and move over to the next one. Before we get into talking about this seemingly complicated slide, I want to talk a little bit about what it takes to put together a good investment platform. And essentially, I am talking about a number of assessments that we conduct before we design what needs to happen, understand what we have to work with, and figure out the sort of incentive structures that we want to put in place.

First of all, we conduct demand assessments. We talk to investors and ask them what sorts of projects are in their pipelines, how much funding do they need, why are they being funded or why are they not being funded, and what are the principle challenges in obtaining financing? We talk to financing institutions, FIs, and here we will talk to banks, we'll talk to equity funds, any kind of equity fund from very hard-core equity funds to impact funds and everything in between. We'll talk to microfinancing institutions. And the questions that we'll ask them are who are they financing? What are the financing (?) that they see? Are they working with consulting firms? Are there policy constraints that they are dealing with? In Kenya, for instance, right now there is an interest rate cap which is creating some difficulties in financing projects. Are there tools, like DCA or other tools, to help mitigate risk and risk perception? And of course, we will also do assessments of the BAS market or the consulting market. We'll ask how many consulting firms exist? Who are they targeting as customers? How much are they charging? So, based on our sense of the quality of the ecosystem that exists in country, then we design a program and a team according to what we find.

So, looking at this slide, we are overlaying essentially the activities with our partners and how we construct our team with how the program works. On the left-hand column up top, we start with a team that works on the demand side, led by our DCOP in this case. When you look further down, we talk about the investment team. That is the team that works on the supply side. In this case, it is led by the COP. And we do a variety of things within the team, obviously, but principally, if you look at the bottom of the slide, the first step is to identify investments and strategic partnerships. The second step is to provide transaction assistance. The third step is to put together the incentive schemes for financial institutions to invest. The fourth step is to layer on risk mitigation tools that might exist. Step five is to remove barriers to investment. As Lawrence was alluding to earlier, when we have this type of a presence in a country, we have a lot of convening power. We have a lot of ability to talk to policymakers and say hey, this is what's causing certain frictions in the financial markets, and these are some ways in which you might be able to address them. And finally, step six is to close investments.

So, let me go through the core of what we do more closely. On the demand side, we identify BAS that could package projects and incentivize them to work with companies that need the financing. The way in which we principally do this is by providing them an incentive, in most cases of a few thousand dollars for every loan or equity investment that they help facilitate. Currently we have about 50 consulting firms or BAS providers. Most of the consulting fees are paid, of course, by the beneficiary firms receiving the consulting services. Over the life of the program, these project incentives get reduced. Our role as KIM is to make sure that there are enough BAS providers that can produce enough pipeline of projects and that they develop ongoing relationships with financial institutions, both banks and equity partners, as well as MFIs and other financial institutions that may be in the country.

So, moving over to the supply side, we put out a competitive RFP where we invite banks and other financial institutions to participate in the program. We give them a parameter for what sorts of incentives we might be willing to provide, generally in the order of a hundred basis points or so. These organizations compete to get them into -- or we make them compete to get them into the program. So, it helps us determine what good incentives might be. We don't want to over incentivize financial institutions to participate. We pay the financial institutions when they disburse the loans or equity. Of course, financial institutions are investing from their own resources, not from USAID or other donor resources. As appropriate, we might help FIs identify risk mitigation tools, such as DCA. In Kenya, for instance, there's a large portfolio of DCA guaranties that we are helping financial institutions learn how to use a little bit better. And we provide training on an as-needed basis. The typical thing for any of these programs to do is if a bank is trying to develop a new product or to enter into a market or we are interested in them entering.

So essentially, this is how these programs work in two pretty significant countries in the USAID family of programs. Now, you may be wondering, can this work in my country? Well, the reality is that this approach grew organically out of a number of projects that we implemented, oftentimes with USAID over the years. In each case -- and here I am referring to Colombia, Macedonia, Ecuador, and West Africa experiences -- we hired local consultants to incentivize pipeline development, loan application preparation, and closure. Colombia was the first place where we understood the need to work on application preparation and deal closure to help companies that we were already helping through other technical assistance. In Macedonia a few years later, it was the first place where we experimented with incentivizing consultants. In Ecuador and Nicaragua, we put a little more science around these schemes. We formalized what sorts of ratios we were looking for, we formalized training to BAS, and so on. And a few years later, in the West Africa Trade Hub experience, we showed that these schemes could work in Africa.

It wasn't until FNGA came that we started working on the supply side incentives, as we've been discussing over the last few minutes. One of our colleagues at Palladium wrote a nice paper comparing the Macedonia, Ecuador, and West Africa Trade Hub experiences, and we will make that available over email or some sort of link after this presentation.

So, this is a little bit about our experiences. Over to you, Lawrence.

Lawrence Camp: Okay. So again, you have seen this chart in a similar form before. We don't need to go through it. I'd say what Santiago said, much of this has been done before in other ways and forms. I think what's different about this approach is that it does really combine -- A, it combines all of the elements in one single shop, hub, based on the supply and demand side of financing, and it incorporates blended capital.

So, with that, top takeaways. So, if those listening have not had a ton of concerns and questions about this, we have probably done something wrong here because there are a lot of challenges with this approach. It's not simple. If you want a simpler approach, this is not it, but we think it has, again, huge potential for impact.

Some of the things one needs to think about: assuring additionality, and additionality, of course, means that only transactions that would otherwise get done are not going to get done. For example, in Haiti, where there are agriculture investment requirements, there's no point in us supporting transactions which are going to get done through the market. So, I'd say that we don't want the AAA transactions, nor do we want the really bad transactions. What we are after are kind of the transactions that are close but not quite at a point at which the market will clear through the market without some support.

Maximizing leverage or conversely minimizing subsidy. Again, Prosperia, the mission has a limited amount of money. That money needs to go as far as it can. From a taxpayer perspective, these are public funds, taxpayer funds. We are obligated to make sure we are getting as much leverage as possible.

Minimizing distortion. Prosperia has a strong and vibrant financial sector. The last thing we want to do with the platform is to go in and undercut the financial services industry in Ghana, which is why we will work with any and all comers, again, working only on transactions that are otherwise not going to clear through the market.

One of the challenges inherent in this and really challenging is setting and pricing incentives. And I will say in the Kenya, the KIM project, pay for results have been embedded throughout the project. Not only in terms of getting transactions, and closing transactions, but also with the implementer. They have received results minimum award fee based on their performance. I can tell you, set and pricing mechanisms are very complicated. We just completed a concept note with a firm called Firm Capital on a pricing set of metrics that we would be happy to share with you if interested.

Finally, adaptive management. Certainly, we knew in Ghana that whatever the situation was, or we thought the situation was on day one, it certainly turned out differently than we had assumed. And once we had figured out what that situation was six months hence, things were going to change. So, it's necessary to be able to be flexible in terms of the award and the design of the project, which is challenging, particularly when you are using pay for results.

Santiago?

Santiago Sedaca: So how do we deal with all these challenges? I think there are some success factors to think about now that we have done it a few years. The first one is you really need to have a good sense of the local context. The local context helps the structure and the pricing of the system. The more sophisticated a context, the more impact you might be able to have in terms of leverage. And here there's a little bit of art and there's a little bit of science.

Second, it is necessary to do this in a mission where you can have a little bit of a leeway as an implementing partner to make decisions. There're a bazillion decisions that get made in terms of incentives, how to structure them, who you work with, and you need to have a good level of trust between the mission, the implementing partner, or the team in general.

Third, on M&E, we build the M&E into the subcontracts or subgrants that we issue with FIs and consulting firms. So, we know well how well we are doing in achieving our targets.

In terms of CLA, by definition, the program requires continuous tinkering and tweaks. There's always initially alluding to there are rounds of RFPs that we put out, and each year these RFPs get tweaked on just to be able to lower the amount of incentives that we put into the market.

Number five, you want to have sufficient budget. Ideally you have enough money so you can get the synergies of working with both the supply and the demand side. But of course, you can use elements of these programs into some of your private-sector development programs or other programs that you are managing and overlay them. Right now, that's what we are doing in El Salvador and Guatemala, where we didn't start out with an investment platform, but we are using a number of these elements in achieving some of the results that we are wanting to achieve there.

A couple more. Purposeful structuring of PfR incentives. What do I mean by that? Essentially, we need to understand something about the area that you are targeting for investment facilitation. And finally, it goes without saying that the role of the implementing partner is to make sure that services are of high quality, provide additionality, and generally we are working with people that we want to be associated with.

Those are my top success factors. There's a lot more that we can discuss. And I am looking forward to our time for questions and hopefully some answers on our part.

Lawrence Camp: Right. So, questions. So, we have a number of questions, and we are really looking forward to other questions. We really like harder questions, like why are you giving away free money, and you know, what's the sustainability of this, because we try to think through all of these issues but certainly want to hear the challenging questions that you have.

So, let's just go through what we have. We have, let's see, first question from Indra: What percent of the program parts participants obtain insurance? To what degree has this lowered the cost of financing?

I guess the answer I would say in that is certainly if you are going to get insurance, that's a form, if you will, of risk mitigation, of structured finance. I would say that's an interesting question, and I'd say for the BAS providers, however they feel they can most effectively bring this transaction to close is up to them. Again, someone needs to pay for insurance. The metric that we are primarily looking at is what is the fewest number of dollars that we need to get the transaction across the finish line.

Santiago?

Santiago Sedaca: Yeah, it varies. So, in Ghana, in Kenya, the insurance markets are different. By and large, insurance is one of the products that might get paid for, mostly in the commercial loan side, of course. I would say that the preponderance of transactions that we initiate do not have insurance as part of their scheme.

Lawrence Camp: Okay. We got a question or comment from Dick Tinsley, appreciate the tractor example, one problem is the same tractor in Ghana is only one-fourth as efficient in Iowa. Agree with that. This is an illustrative example, of course. I think the point that we were simply making -- and it does point to the point that Ghana is less efficient with a two-hectare farm versus a thousand-acre farm in Iowa. But nonetheless, really, the revenues are the same. The operating projections are the same. The cash flows are expected to be exactly the same. The point is that simply because the higher cost of capital in Ghana, the tractors are not going to get financing.

So, from Adam, what level of formality is recommended in building out the finance network? Are there statements of interest or other forms of official declarations?

Just one thing, then I'll turn it over to Santiago. I think our view is, again, we want as many finance providers who want to come to the table. They only have kind of one metric: Have you disbursed the financing or not? So that's basically the bottom line. I think they want some sort of a surety that they do disburse the financing for targeted transactions so they can get paid. But I would say make it as easy and simple as possible.

Santiago Sedaca: Yeah, well, that's the principle. The reality is if they are going to receive USAID funding, they need to go through a bit of a vetting process. So, when we put out RFPs, financial institutions essentially are telling us what they are going to do with this money and how much incentive do they need and how much money they think they are going to disburse. Through that process -- we try to make it as simple as possible because these are not your typical USAID grantees or contractors, but they give us a fair amount of paperwork. We try to have it streamlined as much as possible. As Lawrence says, we don't want to put too much of a cap on how many financial institutions we are going to be working with. And one of the fun things about these programs is you never know which are the financial institutions that are going to take off. In Ghana, I did -- I was part of the assessment of figuring out which FIs we were going to work with in the beginning, and the ones that ended up working out the best and getting most involved were different. Barclays Bank wanted nothing to do with agriculture financing when we first started, and the fact that we put this shiny object in front of them, which frankly, from a bank like Barclays, you know, a hundred basis points to be able to conduct a transaction, that's not a lot of money. But it kind of captured their attention, saying wow, there's something here. Maybe we should take a look at it. And they were a great partner for our program.

Some impact funds were very good partners. Some microfinancing institutions were very good partners for our programs. There's a question later on about being able to work with people in different points in the value chain. And microfinance institutions who capitalize, they help finance tractors and some smaller mechanization, as well as trading. So essentially, we want to keep it open, but there is a process that they need to go through.

Lawrence Camp: We have from Mark: How were the outcomes/milestones structured through the catalytic facility? How was this agreed upon and how does this approach allow for adaptability/flexibility so capital in priority development sectors is catalyzed?

That's a very good question. I'd say on the -- for finance providers, the metric is pretty simple. Was there a commitment of funds would be one metric one could pay upon, but even more importantly, was there a disbursement of funds? So that is pretty cut-and-dried.

In terms of finance providers, it's really not in the ability of most -- sorry, the BAS providers. In terms of the BAS providers, not all of them are willing or capable of being able to take on all the risk of hoping that they will work on transactions which may or may not conclude. So I think the general best practice is to arrange some sort of a payment structure based upon milestones in terms of transaction, but certainly with the bulk, the majority of the payment to them, be made on a success fee basis once the transaction is done.

And I know that one of the observations here is that no, this is never going to happen. These BAS providers are not going to operate on that. Well, I think Santiago can talk about that may have been the first reaction from them because, frankly, they were in a pretty advantageous position where they were paid a lot just for best efforts going out and trying and saying gee, we tried hard but didn't get it done, but once you change the games of the rule, you got more BAS providers, and they were willing to respond.

Santiago Sedaca: Absolutely. So, the West Africa Trade Hub experience early on was very interesting. We figured out that, essentially, we were overpaying for business advisory services just to provide a business plan or SMEs and other corporates, and we weren't paying enough on actual acceptance of on application and actual disbursement. We started working into disbursement side of things, and things changed. Interestingly enough, the BAS providers that we ended up working with also changed. And so we got less of the subsidy seekers and much more of those people who were really seeing in this an opportunity to develop a business for the long-term.

Lawrence Camp: So, another one from Indra: Can you provide data on the ratio of financing provided to female versus male applicants? Santiago, I think you have a measure of this.

Santiago Sedaca: Yeah, I have a good case study from FinGAP, and my email is somewhere in there, and I'd love to -- if you shoot me an email, I would love to send that to you. It wasn't one of the things that we were tasked to do, but we were interested in doing an assessment of that as the program was coming along.

One of the neatest experiences I had was going into a market in northern Ghana and talking to a female trader who used to get loans from a local microfinance institution at 75% APR, and once these microfinance institutions started working with our program and started getting better capitalized, the loans that these female traders were getting came down to the 35%, 38% range. You might think that's still very expensive, but that is life changing for a small woman trader in a market in northern Ghana. So, we certainly have good stories to tell there and systemic impact that we can talk about.

Lawrence Camp: So, Indra, would you elaborate on who the players are in the finance arena? Any input from IfC, and if so, how this helps leverage costs for applicants?

Well, the players -- the goal here, the premise is that there are, in our presence, countries, vibrant financial services, banks and others, who are capability of intermediating financing. If they are not doing that to the sectors we'd like, it's not because they don't know how to, or they are not there. It's because they have made a choice that the transaction costs and risks make it not attractive for them. So, I think our assumption is we want to work with the market actors themselves. We understand that because it is more challenging in Ghana than in Iowa to extend this financing, we want to help the market along by nudging it, A, by increasing the loan transactions available and doing all of that preparatory work so we reduce the transaction costs, and B, if it is needed, being able to sweeten the yield or the return for finance providers.

Santiago?

Santiago Sedaca: I see a question here from Peter Boon, which essentially is asking us to summarize the differences between catalyzing equity capital versus debt capital, and which form of capital tends to bring more or better results? There's a long dissertation on equity versus debt, but I am going to summarize by saying that it depends. Coming back to my theme that the system and business environment that you are in is probably going to help develop the program that you are going to have. So, in Kenya, to be very specific, there are over a hundred equity funds, and we hope to work with them in helping place some of the capital that currently, frankly, they are not placing. They are placing about .6 deals per year each fund. We think that this program can work with them. Does it take more time to work on the equity side versus on the debt side? Yeah, it generally does. And that is where you -- some of the art comes into play, along with the science of market clearing. Essentially what we try to do is let -- as we are receiving applications from equity players, we are asking them what they would do with the incentives. And by and large, we try not to pick specific type of winner. We let the market kind of bear itself out.

Lawrence Camp: Okay. I would say also in presence countries, debt is by far the largest player. Debt is, you know, 98% of the finance ecosystem, and equity is only 2%. So, I think really it makes sense. Most people seeking finance want debt because basically the cost is cheaper and there are less controls in there. So, I -- certainly equity is harder to catalyze, no question, but debt can basically provide the financing for investment I'd say much more efficiently in our presence countries.

Santiago Sedaca: I think Lawrence is a former banker. That's why he is giving you that answer.

Lawrence Camp: Yes, that is my preference.

From Dick Tinsley, how much of financing was individual smaller farmers versus producers? I know that information is in what you provided. Certainly they did a fair amount of backward financing through providers' organizations. Santiago, anything to add?

Santiago Sedaca: Yeah, by and large, we are working with MFIs and banks and equity funds. They are not -- so the people that we deal with are aggregators, financial aggregators. We did find that on many cases, particularly MFIs in northern Ghana, they were providing loans to small producers, and so I talked about the number of small producers who were impacted in the FinGAP program, which is, I believe, 170,000 or so.

Lawrence Camp: So, let's see. Getting a lot of questions here. Information, I know, from Brian, was there information from the Macedonia experience which would be very helpful. Reach out to the contacts, reach out to Santiago.

Santiago Sedaca: Macedonia, very interestingly, it was an experience that the E & E Bureau really liked. We actually had the Macedonia team go and visit missions in Kosovo, in Bosnia, in Georgia, programs, all of which were implemented by other implementing partners, took elements of our pay-for-performance system and included it into their own programs. I believe we have -- I think -- I don't want to promise -- that we have some case studies on that specific to Macedonia. You will also have information on that one report that I was telling you comparing the Macedonia experience to a couple other countries.

Lawrence Camp: So, from Andrew: What role can or should host country governments play in these platforms?

Always happy to have host governments observing and hopefully learning lessons that they can apply to policies, but this is really within the market actors themselves.

Santiago Sedaca: One of the things that happened in Ghana is people got really excited about what was going on, and the government helped cohost what we called an investment forum that happened annually, which is, I believe -- I might be corrected by my colleagues in the Ghana mission -- but I believe it's still going on. And this was a very powerful tool that convened the users of capital -- meaning SMEs and larger enterprises -- financial institutions, consulting firms, and anyone and everybody that had anything to do with the financial system and agriculture. And that helped generate a lot of interest and generated a lot of these relationships that are now still in play on a commercial basis after the program has concluded.

Lawrence Camp: We got a question from Adam, USAID, talking about The World Bank spring meetings and the comments about engaging untapped capital held by institutional investors. Yeah, absolutely, capital is capital. Institutional investors need to put that capital in investments. Of course, institutional investors, such as pension funds, insurance companies, are limited in terms of the -- basically the quality of the investments that they make or the loans that they make. But absolutely, we definitely -- those are huge pools of capital, and to the extent possible, yes, definitely want to tap into that. And the Kenya mission is very aware of that and working that challenge.

Santiago Sedaca: Yeah, already in Kenya Investment Mechanism Program, we are trying to figure out what sort of policy or regulatory constraints exist, but that is one of the mission interests. How can we utilize pension capital to be placed into productive sectors?

Lawrence Camp: For Ashley, this looks like an interesting systems-based approach. Yes, it's intended to be. What is the role of the platform after the investment is made?

Our hope is that in places such as Haiti that there will be some sort of a -- could be potentially some sort of a legacy entity. Certainly this will be building the skills of the finance transaction advisors who build more complex transactions, so we are building the capacity within the financial services industry, and as Ghana has demonstrated, they have strongly built capacity of the transaction advisors, BAS providers to go out there and do this of themselves, to originate transactions themselves.

Santiago?

Santiago Sedaca: You know, there a number of ways in which sustainability happens. So in Ecuador very interestingly, one of the consulting firms that we engaged actually became acquired by one of the financial institutions to become one of its own SME departments. This is the major bank in Ecuador. They like so much what these set of consultants were doing, so that is a way in which the work that we are doing has stayed.

In Ghana, to answer your very specific question about the network remaining, what's happened in Ghana is that the BDS, the consulting firms, have found that talking to each other and inviting the SMEs and inviting the financial institutions to speak with them in an ongoing basis is so important to them that they developed their network, and they've maintained this network where a lot of this information exchange is taking place.

So the next one from Brian: Is there a problem with collusion -- that's a good question -- between the consulting firms and FIs? If consulting firms are incentivized for successful transactions, I would worry about collusion with some local bank officials to make bad loans and then split the incentive.

Good question, and I can answer that very directly. So that's our role. Part of the role of the implementing partner is to make sure that none of that funny stuff happens. But also, the structure of the program makes it difficult. At the end of the day, these banks are using their own capital. We are only giving them a bit of an incentive for fee. Where the collusion could take place -- and we also are taking steps or take steps for it not to happen -- is whether an SME might give the job of putting together a business plan to their cousin or to their nephew or to a friend and have them collect a fee. And that is where the due diligence that we do early on comes into play. That is where we only work with those who have actually applied formally, and we actually do a formal assessment of whether this is a good consulting firm that we want to be involved with. So that really cuts down on any of that, and that has not been one of the issues that we've dealt with in the way in which we have operationalized these programs.

I want to make a further comment on this. This type of an approach could be subject to these types of problems, but this is actually one area where the USAID rules on who you subcontract and who you provide grants to really helps mitigate some of those issues, and that is where our grants manuals, our subcontracting manuals really come in handy, and we keep a good eye on that.

Lawrence Camp: I would say keep in mind we are using incentives here. Anytime, basically, you are using incentives, people are going to try to get those incentives. I would say that we've tried to minimize the incentives, so we are not concerned that 100, 200, 300 basis points is enough of a difference to really shape a financial institution's decision and make a bad loan. That's not going to happen.

Santiago Sedaca: We have done studies, and actually, loans that have been part of our programs have had better performance rates than other loans in the general financial system.

Lawrence Camp: Just a thought on that we do want to get the party started with incentives. No question. In Ghana, the banks were initially really enthusiastic about it because they had never seen this before. I think one can be generous in terms of incentives. I think the challenge is really how do you minimize, again, the incentive to the amount needed to get the transaction done so you are not overpaying. In Ghana, did a sort of quasi-auction process in which they went out to the institutions and said what would you need in terms of incentive payments to make these types of transactions and then developed the pool at the lower end. You can be fairly flexible in that, so the pool doesn't have to last, basically, the rate doesn't have to last for five years. It can be available for six months and the rate thereafter changes.

Fintech, from Indra again to what degree has fintech been included in the financing process?

Again, what we are trying to develop here is get the market actors to make this work. A smart BAS provider, absolutely, they are going to set up a fintech system and hopefully get in loads of transactions and hopefully make a lot of money. That would be terrific.

Santiago Sedaca: Yeah, we've had some visibility. In Ghana, essentially, the RFP process for the financial institutions where we were asking them what are you going to do with the incentives that you collect from our program, several of them were utilized to include fintech into their systems, and so that has been one of the things that we haven't necessarily targeted to do, but the market has asked for.

Lawrence Camp: Just got time for a couple more, one from the ISC program. What are the plans to create leave behind local entity or digital tools to ensure sustainability?

One of the things I am really hopeful about and one of the countries we are working in is that this provides a unique platform. Let's say for some national who is working, you know, in New York, an investment bank, to say you know, I am interested to come down to this country and setting up shop, and I think I can make some money doing it. And with that, basically, creating essentially some sort of a merchant bank or an entity. If nothing else, we will have created a platform which will attract new people, basically, a basis from which they can do their transaction structuring skills and hopefully turn it into a legacy operation.

Santiago Sedaca: We have a question from Benin about the microentrepreneur ecosystem. I think I answered it in explaining how we work with microfinance institutions and how they, themselves, then lend to microentrepreneurs.

Then we have a question -- and I am going to mention it because this is important. Someone interested in a pricing model developed for a specific institution, which I am not going to share because that is part of confidentiality that we need to have with some of these financial institutions as to what they are going to do with the resources. But what we do with this one particular institution is similar to what we are doing with other institutions, and USAID has access to all that information.

Lawrence Camp: Let's see. We have a last good question? In Kenya -- let's see, previous (?) have not worked because basically the concept of fund guaranties, they did not get the concept of fund guaranties. Partial guaranties can be a useful tool, absolutely. This takes a different approach and offers another element beyond financial guaranties which may be of interest. I think the question actually I would say is we know that incentives work. Right? So, what happens when the incentives end? Basically, does the program end? No. I would make the argument that when we are using blended capital or incentives, what we are really doing is allowing these institutions to explore the viability of this market segment. And to some extent, covering their cost of entry so they can use those incentives to either build their reserves, to build specialized lending desks in agriculture, for example, to buy trucks and vehicles that allow them to move out there. So certainly, as in DCA, some when the it DCA ends will say thanks, we are out of here. But most the idea is they say we tried it, we liked it, we learned how to do it, we found we can make money in it, and we are staying with it.

Santiago Sedaca: Couldn't have said it better. Thanks, Lawrence.

Lawrence Camp: What kinds of policy issues does did the mission face for government support or the platform? I don't know which mission you are referring to. In Ghana, the policy issue was way beyond what we could control as a program. They had a strong fiscal deficit which made for very high real interest rates. The government wasn't really going to address that because we were bringing that to their attention, but we were able, through this program and through the convening power that we had, for them to realize what the impact on the real economy these high interest rates were having.

In Kenya, we do hope to have a conversation or continue to have a conversation with the government about the suitability of having interest rate caps for various types of loans. In Ecuador, we certainly used it for that, and while we weren't able to get rid of interest rate caps, we were able to have them be lowered for certain types of loans and have them be a little bit more market or consistent with market principles. It wasn't a complete victory.

Lawrence Camp: So okay. What else? I think that's probably getting down to the end of the questions. I would say that again, we've put a lot of thought into this model. Still always kinks to be worked out in everything, but we think we have got the main elements worked out, and so far it's very promising. There're certainly different iterations, but happy to talk to USAID and others in this. You have our addresses, so please feel free to reach out to us.

I want to thank you again for your participation. Hope you found this interesting. Certainly appreciated the questions. I wanted to briefly let you know about the May Marketlinks seminar to be held May 14 from 9:00 to 10:30 Eastern Time entitled Growing Small and Medium Enterprises, What Works. Growing small and medium enterprises, SMEs, is an important goal for USAID and many donors, but evidence on what works is still emerging. Please join USAID's Office of Trade and Regulatory Reform as we launch the report. Views have changed high-growth SME development.

Natalie Shemwell will present the latest evidence in developing countries organized theories of change for business management, access to finance, business registration and taxes, market access and innovation. Ron Ashkin of IESC will also discuss USAID Vietnam's LinkSME activity designing theories of change around management, consulting, and market linkages and plans for adaptive management using these frameworks.

With that, thank you very much.

Santiago Sedaca: Thank you all for your participation. We love talking about this. Please reach out.

[End of Presentation]