The Investment Mobilization Platform

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Santiago Sedaca

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Lawrence Camp

Lawrence Camp is a Senior Adviser with USAID, primarily focused on innovative strategies for mobilizing private financing for development objectives. He has long experience in commercial banking and structured finance as Vice President and Group Head, and subsequently as Chief of Party of USAID projects. He is a graduate of Princeton University and the American Graduate School for International Management.
Mobilizing Investment at Scale
The holy grail for Development Practitioners

The Finance Challenge
• Modernizing key sectors for development (e.g. agriculture, health, WASH, clean energy) requires capital investment.

• Capital is available but not being intermediated at sufficient levels due to demand and supply-side challenges, including high transaction costs and risk-premiums that deter investment.

• Demand for agricultural financing in African countries estimated at $32-$40 billion, of which only $7 billion is currently met.

An Alternative Approach
Tackling this challenge requires a systemic intervention that acknowledges deterrents to financing, realigns incentives of market actors, and generates new value for all system actors to create sustainable change.
What is an investment mobilization platform?

A one-stop shop for facilitating financing for capital investment - engages across the finance ecosystem identify and close transactions.

- Market driven approach
- Engages local actors
- Harnesses Pay-for-Results
- Judicious use of blended capital
- Maximize leverage
- Builds sustainable capacity
What problem is it solving and how does it do it?

- Not enough financing for important transactions
- Higher transaction costs and risks
- Crowds in potential transactions
- Crowds in finance providers
- If and as needed, injection of blended finance
Mobilizing Investment in Prosperia

Context:

● Mission seeking private (commercial) financing for investments in agriculture, WASH and power supply chains
● Banks well-capitalized and potential domestic and diaspora interest in investment
● Insufficient volume of ‘actionable’ transactions
● High transaction costs and risk premiums are constraining financing for targeted investments
Intended Results - $225M in DO DEALS

Define financing needed to facilitate investment needed to accomplish Mission objectives in Agriculture, WASH, etc.

USAID

Investment Mobilization Platform

Develop pipeline

Catalytic Facility

Finance Network

BAS-Transaction Advisors

Results-based grants & sub contract pool to support origination and facilitate transactions - $7.5M

BAS-Transaction

BAS-Transaction

BAS-Transaction

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Deal Pipeline

$225M in transactions critical to Mission Objectives

Advisory Council

Other Funds

Investors

Diaspora

Venture

Loans and Equity

Banks
Step One – Map Financing Need

Define financing needed to facilitate investment needed to accomplish Mission objectives in Agriculture, WASH, etc.

USAID

Investment Mobilization Platform
Step Two – Build Deal Pipeline

- Define financing needed to facilitate investment needed to accomplish Mission objectives in Agriculture, WASH, etc.

USAID

Investment Mobilization Platform

Develop pipeline

BAS-Transaction Advisors

Deal Pipeline
Step Three – Finance Network

Define financing needed to facilitate investment needed to accomplish Mission objectives in Agriculture, WASH, etc.

USAID

Investment Mobilization Platform

Develop pipeline

Finance Network

Banks

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Loans and Equity

Deal Pipeline
Step Four – Catalytic Facility

Define financing needed to facilitate investment needed to accomplish Mission objectives in Agriculture, WASH, etc.

Investment Mobilization Platform

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- Catalytic Facility
- Finance Network

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Success Implementing Investment Mobilization Platforms: USAID FINGAP

Platform for mobilizing staple food VC investment:

- 5 Year (2013 – 2018) Feed the Future Program ($22M)
- Mechanism $5M grant fund used for PfR Incentives to BASPs to stimulate financing/investment applications and to FIs to make loans to farmers and SMEs faster
- Risk mitigation through DCA, Ghana Agricultural Insurance and EximGuaranty Ghana
- Demand-driven training/TA to FIs in VC finance and product development
- Strategic Partnerships (e.g. John Deere)

Results: $168M in financing/investment to 2,995 firms. Additional $91.1M facilitated via capital markets. Market system shift towards financing agriculture.
USAID FINGAP Results Obtained

Support to FIs
- Capacity building
- Pay for Performance Grants
- Risk mitigation tools
- Strengthening alternative sources of finance

Support to BAS Providers
- Capacity building
- Pay for Performance fees
- Step-by-Step mentorship
- Connections to alternative sources of finance

Value Created: Participating FIs increased agriculture portfolios from 6% to 27%; agriculture portfolio revenue by 300%
BASP increased agriculture clients by 800%, revenue from agriculture business doubled.
**Kenya Investment Mechanism**

**Project Overview**

KIM’s Goal: $400M in finance and investment for target sectors

- 5 year Program (2018 - 2023)
- US $23.7 million (FTF $)
- Sector Focus: Clean energy, horticulture, livestock, and dairy value chains
- Designed to unlock financing for USAID’s FtF portfolio of projects
- Objective: Build a market system that mobilizes significant capital for Kenya’s agriculture and clean energy sectors
- Reduce policy barriers to agriculture and clean energy investment
Kenya Investment Mechanism
Theories Being Tested

- Two market failures limit scale of investment in Kenya’s agriculture and clean energy sectors: i) lack of quality consulting services to identify and facilitate transactions, and ii) limited scalability of financial products tailored to agriculture and clean energy.

- Finance providers will be willing to expand agriculture and clean energy investment so long as they earn an attractive return.

- KIM can provide this return by: i) lowering transaction costs associated with originating and underwriting transactions; ii) buying down the risk premium through PfR incentives; iii) addressing systemic constraints to access finance.

- When a capable service “ecosystem” is in place, incentives can be reduced and/or eliminated and services will continue.
Kenya Investment Mechanism
Operating Model

PROJECT OPERATIONS

OPPORTUNITIES TEAM
DCOP, EAA

shares lessons learned

INVESTMENT TEAM
DCA Management

develops products for
identifies guarantees for

PARTNER INTERMEDIARIES

Policy Stakeholders
prioritizes policies for

BAS Provider Network
builds capacity for

mediates between

strategic partners & investors
provides for

FI Network

finances
reduces risks

PARTNER INTERMEDIARIES PROVIDE FINANCIAL ADVICE FOR SMES TO SECURE FUNDING FOR CLEAN ENERGY & AGRICULTURE

MARKET ACTIONS
SMEs
(Clean Energy & Agriculture)

STEP ONE
Identify investments and strategic partnerships

STEP TWO
Provide transaction assistance

STEP THREE
Incentivize FIs to invest

STEP FOUR
Layer on risk mitigation

STEP FIVE
Remove barriers to investment

STEP SIX
Close Investment

USAID FROM THE AMERICAN PEOPLE
MARKET LINKS
KIM Platform Components
Cultivating Financing Demand

Demand-Side Stimulus:

- Transaction origination and facilitation by Business Advisory Services Providers (BASPs)
- Mechanism: Performance-based subcontracts to BASPs (20 to date)
- Deliverables paid in form of “success fees” for pipeline identification, financial transaction closure
- Fees a % of loan size and capped
- Clients share in success fee payments (mandatory)
- Incentive fees reduced over time
- KIM supports pipeline identification, provides capacity building, and serves as “honest broker”
KIM Platform Components
Motivating FI Expansion

Supply-Side Stimulus:

• Creation of a competitive finance provider network to invest in target firms.

• Mechanism: Performance-based subcontracts to financial institutions (FIs)

• Deliverables paid when finance targets set by the FIs are met

• Subcontracts in rounds, seeking higher leverage from FIs each round

• FIs lend/invest with their own resources

• Layering of risk mitigation tools, including DCA

• KIM provides training and technical assistance to FIs to support expansion to new sectors
Investment Platforms Mobilizing Capital for Exports and Job Growth

- **Colombia** Enterprise Development Program (2003-2006). Leveraged $60M in commercial bank capital through financial consultants for SMEs. Created 14,126 jobs with $4.9M in incentives. For every $1 spent, we leveraged $12 from private sector. $292 spent/job.

- **Macedonia** Competitiveness Project (2007-2012). $118M in private investment mobilized for exporting SMEs through consultants. Each $1 leveraged $200-$450 in private capital.

- **Ecuador** Productive Network II Project, (2009-2013) - $38.2M in private capital for SMEs vs. $76K. Also mobilized $100M in new investment.

- **USAID West Africa** Trade Hub (2009-2013). $68.9M in financing mobilized for exporting SMEs with $637K. Also mobilized over $100M in new investment in SMEs.
How to set up an Investment Mobilization Platform

- **STEP 1**: Define financing needed to facilitate investment needed for development objectives.
- **STEP 2**: Build deal pipeline, assess markets for services (BAS, FIs) to identify partners and price incentives.
- **STEP 3**: Design, compete, and implement Pfr/ blended capital incentives with catalytic funds.
- **STEP 4**: Monitor and evaluate, refine, adjust.

![Diagram showing the Investment Mobilization Platform with steps and stakeholders involved.](https://via.placeholder.com/150)
TOP TAKE - AWAYS

Key challenges for implementing investment mobilization platforms

1. Ensuring Additionality
   Important to ensure that blended capital is used only to catalyze transactions which otherwise would not occur.

2. Maximizing Leverage/Minimize Subsidy
   Use of public funds to catalyze private funds requires that all efforts be taken to minimize subsidy – preferred mode is through auction.

3. Minimizing Distortion
   Important to ensure that distortion within the financial sector is minimized – encourage participation by all finance providers.

4. Setting and Pricing Incentives
   Because engaging with broad spectrum of transactions, challenge is to set and price incentives to maximize impact at lowest cost.

5. Adaptive Management
   Things change – all arrangements within the Platform must be structured to allow for adaption based on experience. Incentive arrangements should be regulatory reviewed and restructured.
TOP TAKE-AWAYS

Key success factors for implementing investment mobilization platforms

1. Consider Local Context
   It is necessary to adapt to the local context when pricing PfR incentives and allocating resources toward demand vs. supply side support.

2. Consensus & buy-in.
   Project team and donor must buy-in to the methodology, and “let go” of inclination to tightly control how PfR incentives are utilized.

3. Rigorous M&E
   Strong M&E systems are required to prove additionality and impact, and maximize results.

4. CLA Approach
   Constant CLA is needed to ensure implementers are not over-pricing incentives or subsidizing past the tipping point to close transactions.

5. Sufficient Budget
   Investment Mobilization Platforms can bring high leverage, but require sufficient funds to use as incentives and for operational systems. Implementers need budgets commensurate with the development objectives sought.

6. Purposeful structuring of PfR Incentives
   To channel investments toward specific development objectives (e.g. agriculture investment, jobs, exports) or populations, incentives must be designed and structured to meet these outcomes.

7. Quality Assurance
   Close monitoring of service provision is key. In high volume transaction programs, put in place “Know Your Customer” protocols and monitoring systems. If BASPs provide poor services, firms will not enter into business arrangements with them.
QUESTIONS?
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