

# MARKETLINKS



## The Investment Mobilization Platform

Speakers: Santiago Sedaca (Palladium); Lawrence Camp (USAID)

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## Santiago Sedaca

Santiago Sedaca is a Managing Partner at Palladium, where he has worked since 2015. At Palladium, Santiago leads the Economic Growth and Governance Practice, as well as NY-based Commercial Innovation team, implementing projects worldwide in the areas of business strategy, value chain upgrading, agricultural development, financial inclusion, trade and investment promotion, workforce development, and policy reform.



## 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?

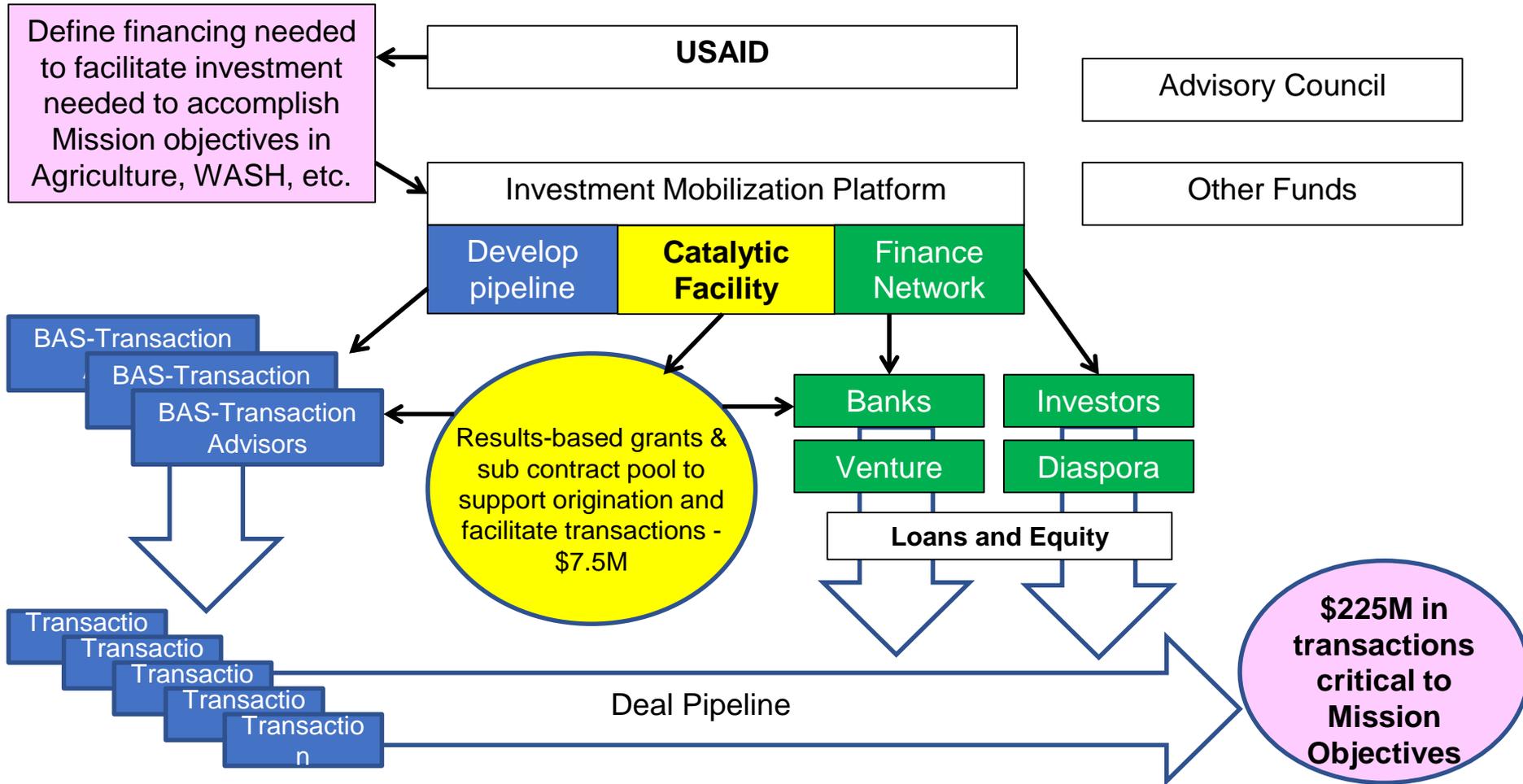
- Not enough financing for important transactions
- Higher transaction costs and risks
- Crowds in potential transactions
- Crowds in finance providers
- If and as needed, injection of blended finance

# Mobilizing Investment in Prosperia

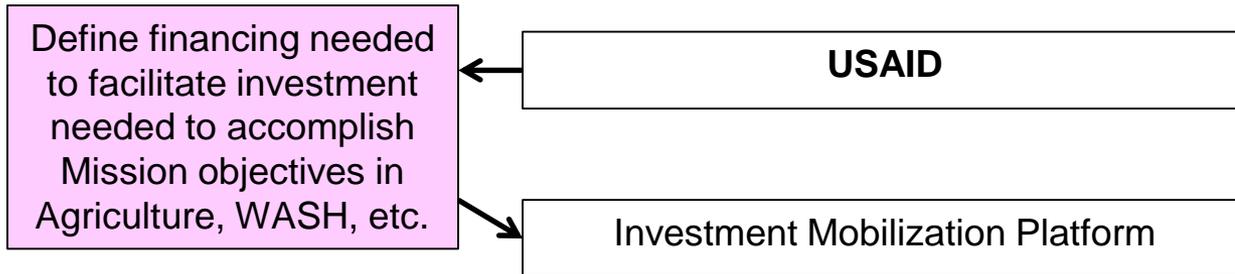
## Context:

- 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

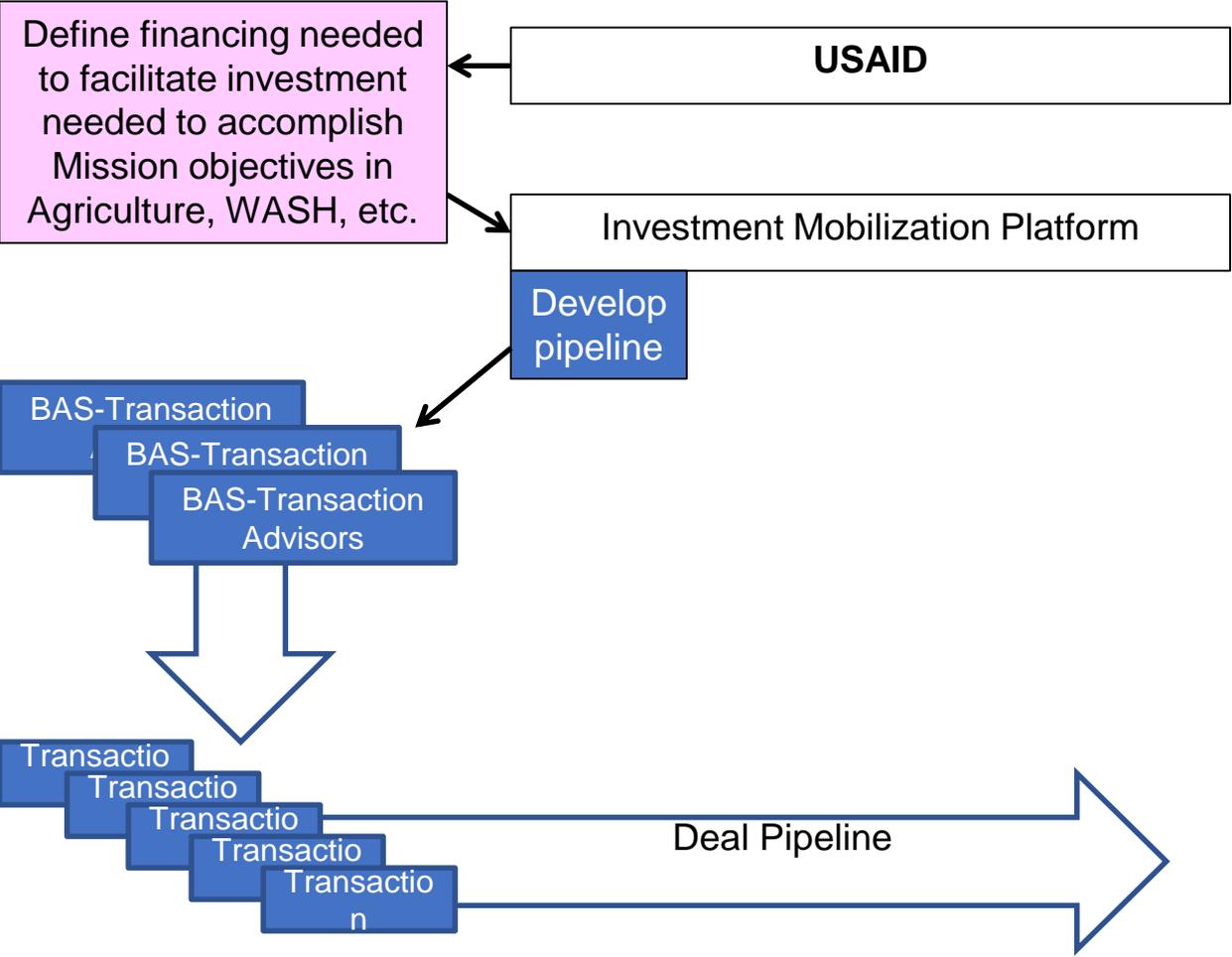
# Intended Results - \$225M in DO DEALS



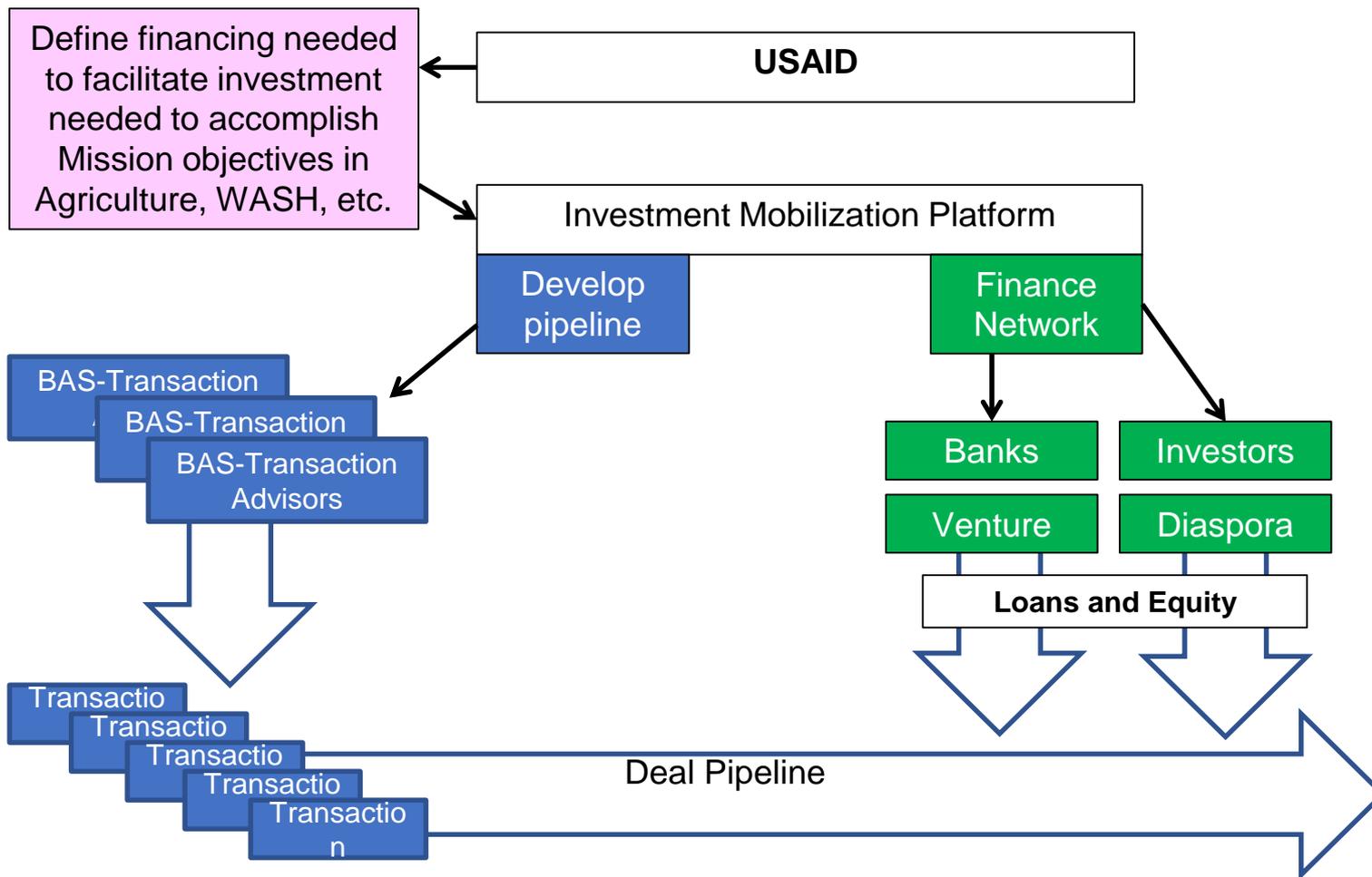
# Step One – Map Financing Need



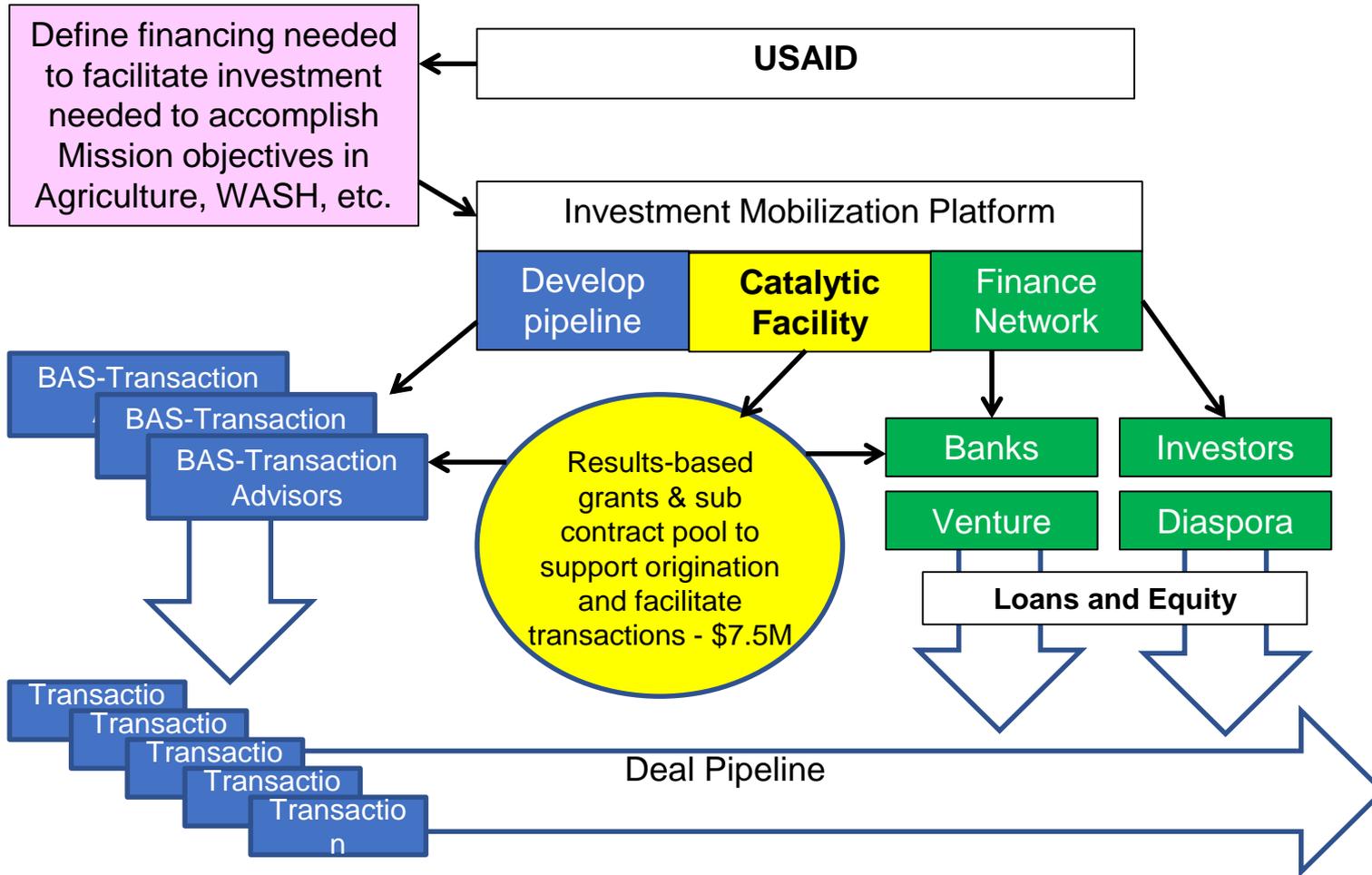
# Step Two – Build Deal Pipeline



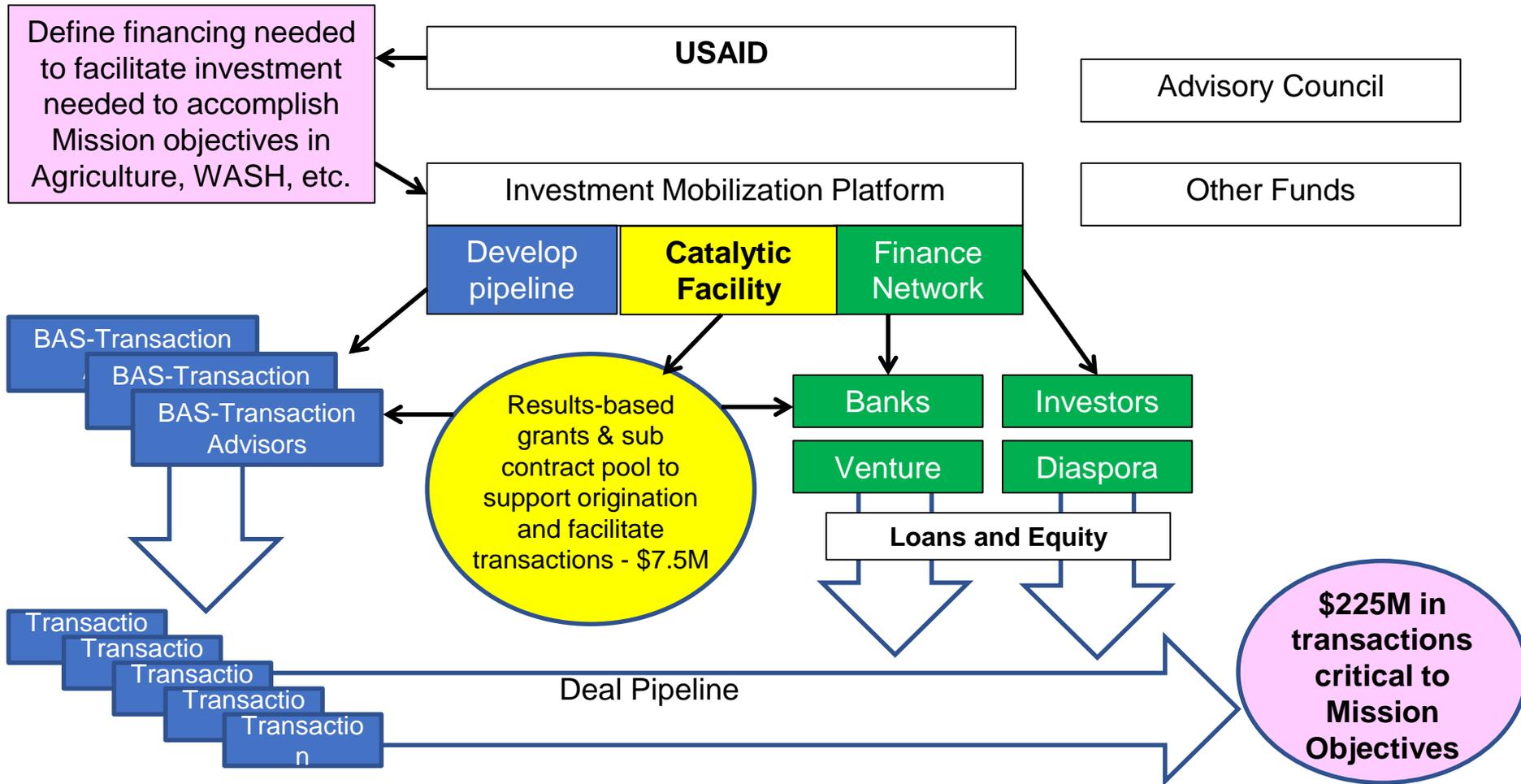
# Step Three – Finance Network



# Step Four – Catalytic Facility



# Intended Results - \$225M in DO Deals



# 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

**40 Strategic Partnerships**  
60% above LOP

**\$168M Agriculture Finance**  
123% above LOP

**2,995 Firms Financed**  
3228% above LOP

**169,000+ Smallholder Farmers Linked to SMEs**  
41% above LOP

## Support to FIs

- Capacity building
- Pay for Performance Grants
- Risk mitigation tools
- Strengthening alternative

**50**  
Disbursing Sources

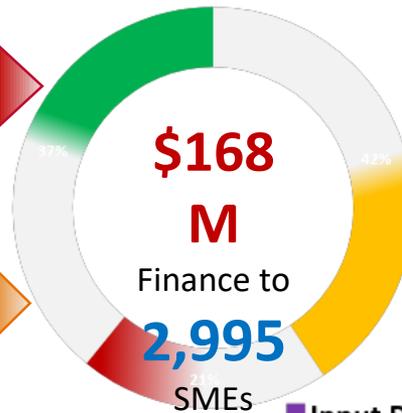
## Support to BAS Providers

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

**22** BAS  
Facilitating Providers

Pay for Performance Incentives leveraged at

**33:1**



*Proportion of Finance to SMiLEs by Category*

- Input Dealers - 47%
- Output Processors - 21%
- Agricultural Producers - 20%
- Traders - 10%
- Others - 2%



**Value Created:** Participating FIs increased agriculture portfolios from 6% to 27%; agriculture portfolio revenue by 300%  
BASPs 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

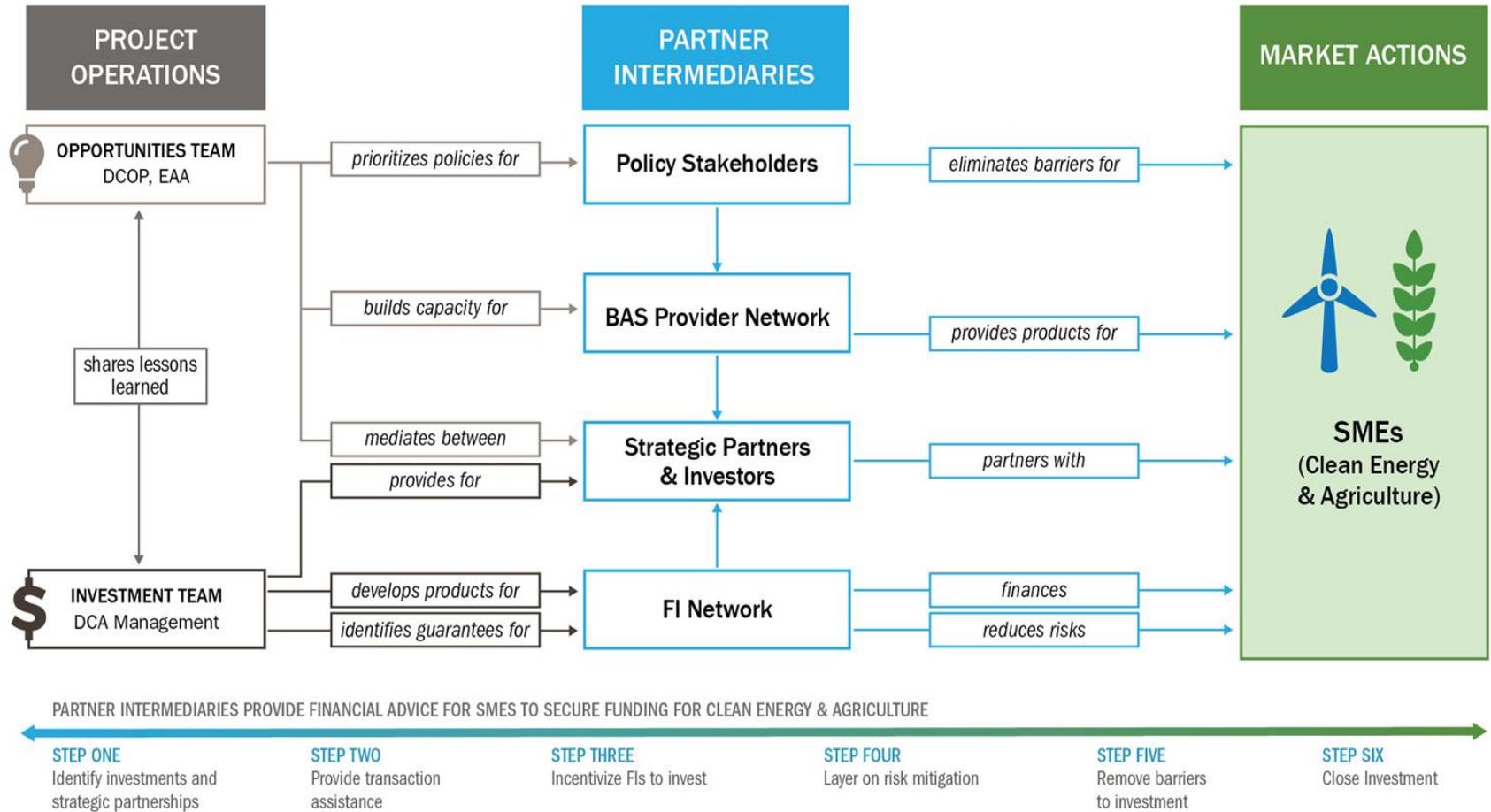


# Kenya Investment Mechanism

## 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



# KIM Platform Components

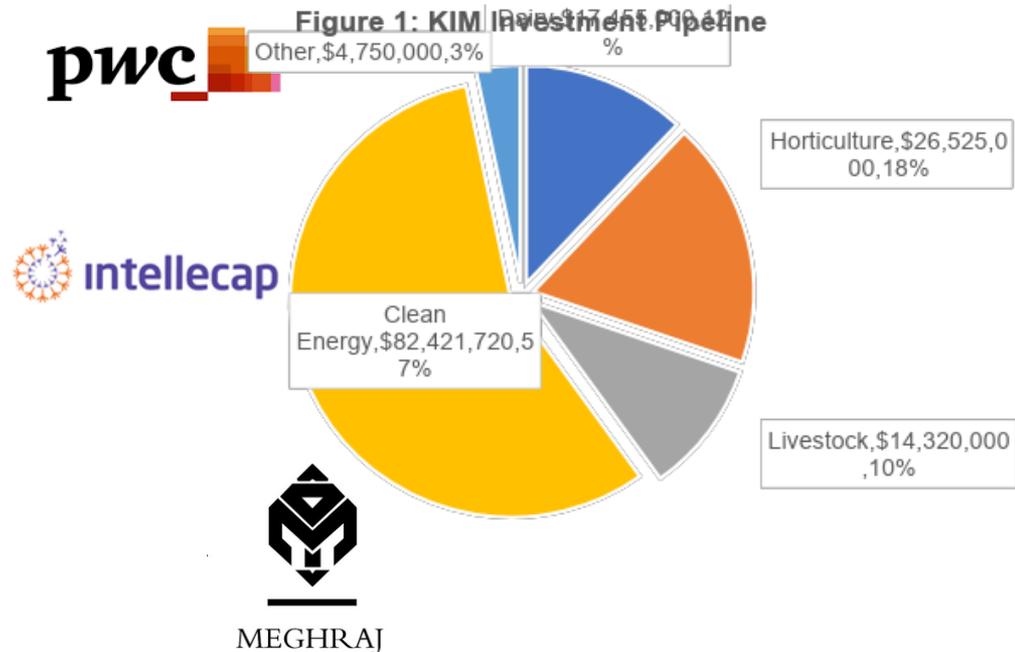
## Cultivating Financing Demand

### 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”



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# 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

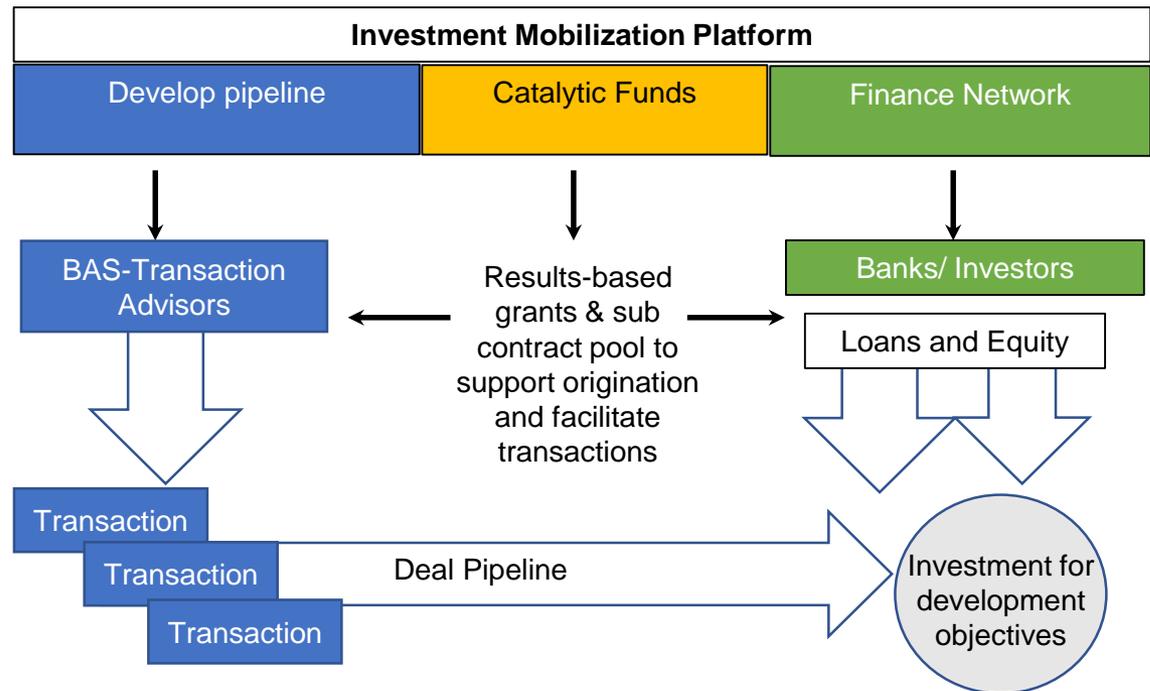
# Investment Platforms Mobilizing Capital for Exports and Job Growth

- **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.



# 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?



# MARKET-BASED SOLUTIONS FOR DEVELOPMENT

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