FINANCE VIGNETTE HANDBOOK

A Financing Growth Training

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VIGNETTES BY FOCUS

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Supporting Growing SMEs

Facilitating Finance Providers

Financial Infrastructure/Intermediation Systems

Enabling Conditions

DCA-Guaranteed Armenia Bond Fund for MSME Finance

Focus	Facilitating Finance Providers
Intervention	Partial Guarantees, Technical Assistance, Financial Sector Infrastructure
Location	Armenia
Implementor	Cardno

Challenge

Armenian SMEs lack access to finance. Some of the reasons include: (i) difficulty of the key nonbank providers of rural and MSME finance, Universal Credit Organizations (UCOs), in funding themselves, and (ii) an absence of business finance supplied through the Armenian capital market.

Solution

The overall purpose of the USAID Armenia Finance for Economic Development (FED) project (www.armeniafed.com) (2013-2015) was to improve the functioning of Armenia's financial sector and its role in economic growth and poverty alleviation. It focused both on development of financial sector infrastructure and on encouraging financial intermediation. The project, working with a local financial advisory firm, developed the concept of a capital markets-based fund that would securitize a portfolio of UCO loans to rural, agricultural, and MSME enterprises.

Mobilizing Private Capital

With an initial bond issue of $2 million on the Armenian securities market, the fund established a previously nonexistent channel for financial investment – especially pension funds from Armenia's new Pillar II system – in a diversified portfolio of MSME loans. To further reduce risk and attract private capital, the project facilitated the placement of a 50% DCA principal guarantee on the fund's securities. The initiative received DCA's "Deal of the Year" award for 2015.

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American Bank of Kosovo

Focus	Facilitating Finance Providers
Intervention	Blended Capital, Technical Assistance
Location	Kosovo
Implementor	Cardno

Challenge

At the end of the Kosovo conflict in 2000, there were no licensed banks in Kosovo, and economic recovery and much needed jobs depended on availability of credit to businesses. Kosovo needed a business bank.

Solution

USAID created a bank using grant funds to provide the initial capitalization. Efforts to attract an international bank into Kosovo were unsuccessful as the market was seen as too risky and unattractive. So USAID used its resources to capitalize and stand up a quick disbursing SME lending facility. Once functioning, the facility qualified for a banking license and became the American Bank of Kosovo (ABK). Supported by technical assistance provided through Deloitte Touche Tohmatsu Emerging Markets Ltd (now Cardno), within one year of obtaining its charter, the bank had a $40 million portfolio of SME loans and was the largest bank in Kosovo. Having met its objectives and in order to ensure sustainability, USAID negotiated the sale of ABK to the German-based Raiffeisen Bank for a purchase price equivalent to amount of capitalization originally contributed. Raiffeisen Bank – Kosovo is now the largest bank in Kosovo with assets of just under $1 billion.

Mobilizing Private Capital

Given the urgency of ensuring that credit was available to cash-starved Kosovar businesses, USAID used its resources to provide the seed capital for ABK (thereby allowing it as a bank to attract deposits and other funds for lending) and the technical assistance needed to build the capacity of the bank to operate successfully. Total cost to USAID was approximately $3 million, and since its sale to Raiffeisen, the bank has subsequently extended billions of dollars in financing – a key driver in the growth of the Kosovo economy. Beyond using a recoverable grant approach, ABK was innovative in that it used a pay-for-performance approach – both with regard to the implementer (Emerging Markets Group – now Cardo) as well as to ABK staff (over 50% of compensation was performance based).

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“Seed-Funding” to Stimulate Senior Credit

Focus	Supporting Growing SMEs
Intervention	Partial Grants, Blended Capital
Location	Kosovo
Implementor	Cardno

Challenge

Job creation is a key objective of the USAID Kosovo Mission, but many Kosovo–based businesses lacked the ability to obtain the financing needed to grow and create new jobs.

Solution

The Kosovo EMPOWER Private Sector Project (2014-2019) addressed the job creation challenge by forming a “Strategic Activities Fund” to invest in interventions that would stimulate new employment. EMPOWER’s grant funds function as a kind of “free equity,” providing the capital often needed at the bottom of a substantially larger financing package to “buy down” risk for senior lenders.

Mobilizing Private Capital

A typical case is a mid-sized furniture producer in Ferizaj, Kosovo, which has concluded a long-term contract with a German importer for children’s beds that will add over $1 million per year to its export sales, and create 40 new jobs. The total cost of the expansion, mostly for production equipment, is about $400,000. A local bank has committed to provide a long-term loan of $325,000, conditioned on the company providing the additional amount in paid-in capital. EMPOWER will provide $75,000 in the form of a grant, making this financing package feasible. The project team anticipates that the $2 million fund will help leverage at least an additional $20 million in private capital financing.

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Promoting Access to Finance through Financial Consulting Assistance

Focus	Supporting Growing SMEs
Intervention	Project Prep, Business Support Services
Location	Bosnia & Herzegovina
Implementor	Cardno

Challenge

One of the key obstacles in access to finance for SMEs is their difficulty in approaching financial sources and applying for investment or credit. Most are not able to prepare the sophisticated business plans and financial projections that lenders and investors need, because they are not financial professionals – they are entrepreneurs.

Solution

The Sarajevo Mission initiated a "Qualified Business Financial Consultant" (QBFC) program through the Fostering Interventions for Rapid Market Advancement (FIRMA) Project (2009-2015). FIRMA recruited a group of 30 local professionals, all with experience in business consulting, and "qualified" them in a week-long training focused on business plan preparation and financial projection.

Subsequently, when the project identified a beneficiary in its light manufacturing sector that needed growth finance, it assigned one of these "QBFCs" to assist it in developing a fully competent application for credit, identifying a suitable source of finance, and accompanying the firm to the lender or investor to advocate for the financing.

Mobilizing Private Capital

These QBFCs were paid a fixed amount by the project on a purely success fee basis, when loan funds were actually transferred into the beneficiary's account. The project organized periodic networking events between bank loan officers and QBFCs, so that they would come to know and trust each other. At a cost of no more than

$150,000 ($70,000 to oversee the program and $80,000 paid to QBFIs), this initiative succeeded in stimulating $25 million in bank credit to over 50 Bosnian SMEs.

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Serbia Equipment Financing Facility

Focus	Facilitating Finance Providers
Intervention	Partial Grants, Advocacy
Location	Serbia
Implementor	Cardno

Challenge

Serbian SMEs lacked assess to the financing they needed for purchase of new equipment – limiting their ability to grow and increase competitiveness.

Solution

The USAID Business Enabling Project (BEP) (2011-2017) works to improve the ease of doing business in Serbia. One of its key components is improving the financial sector policy, legal, and regulatory infrastructure. The project designed and proposed a facility to the Serbia Ministry of Economy to use dedicated ministry grant funds to buy down the risk to banks in making equipment loans to SMEs. The main feature of the grant, other than risk-sharing, was the condition of not using real estate as collateral – in other words, to use only the purchased equipment as loan security.

Companies apply to a participating bank for financing. If approved, the bank forwards its approval to the ministry and requests that it approve a grant to the company of 25% of the cost of equipment. If the grant is approved, the company provides at least 5% in co-finance, and the bank provides the remaining 70% of the cost through its loan. Grant amounts are up to about $25,000, so the total finance for an individual transaction is up to $100,000. The project is assisting the ministry in administering the facility.

Mobilizing Private Capital

Since its establishment in 2015, the facility has been renewed twice and has generated more than $10 million in equipment finance to about 700 Serbian SMEs, of which $7 million came from private banks. Serbia BEP is implemented by Cardno, Ltd.

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CrossBoundary Energy Investment Structure

Focus	Facilitating Finance Providers
Intervention	First Loss, Funds and Facilities
Location	Africa
Implementor	USAID and CrossBoundary Energy

Challenge

African businesses typically cannot rely on national power grids, and instead generate their own power using diesel fuel. Although diesel is an expensive and polluting option, most small businesses cannot finance the conversion to renewable energy.

Solution

USAID and CrossBoundary Energy are working together to provide businesses with a new model for energy services. The solution finances solar installations that serve enterprises in sub-Saharan Africa, increasing access to electricity and driving adoption of renewable energy technology – primary goals under the U.S. presidential initiative, Power Africa. For the first time, African businesses have access to an “energy as a service” model, whereby they can pay a monthly tariff for their power and avoid the large upfront capital costs of clean energy installations. In this way, CrossBoundary enables enterprises to afford clean and reliable solar energy systems and to save their investment dollars for new business lines and development of their employee base. On the investor side, the fund aggregates medium scale clean energy assets for the first time into a new asset class that can be invested in at scale.

Mobilizing Private Capital

To support the CrossBoundary model, USAID’s Office of Private Capital and Microenterprise (PCM), with support from Power Africa, created an investment structure whereby $1.3 million in grant funding was contributed to the CrossBoundary Energy fund as subordinated capital. Power Africa's funding was used to attract $7.5 million in private sector equity as well as up to $10 million in debt. Once fund investors are paid back their principal investment in the fund, the United States government will receive the entire amount of the grant back plus a capped return.2 The CrossBoundary project catalyzed investment from six U.S.-based investors who had not previously worked with USAID. The project has already produced results. For example, CrossBoundary Energy recently completed the largest solar "energy as a service" installation in Sub-Saharan Africa, powering a mixed commercial and residential development in Nairobi. This demonstration fund is expected to complete 20-25 installations for a total of 15MW of clean power over its lifetime and lead to larger investment vehicles in the future to support clean energy adoption.

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Growth Readiness Program for Jordanian SMEs

Focus	Supporting Growing SMEs
Intervention	Mobilization, Project Prep and Business Support Services, Matchmaking
Location	Jordan
Implementor	DIA

Challenge

Enterprises require capital to grow, increase sales, create employment, and access new markets. However, small and medium business leaders often lack the time, expertise and networks required to prepare adequately and approach investors to secure needed financing. Qualified assistance to help businesses identify and define their financing needs and options, prepare and reach out to investors is often unavailable or out of the reach of SMEs in developing economies. Investment facilitation advisory services can help fill the gap between investment ready SMEs and investors.

Solution

USAID, through implementation partner DAI, selected 15 companies from the USAID Jordan Competitiveness Program's three target sectors—ICT, clean technology, and healthcare—to participate in its Growth Readiness Program. Key criteria were executives'/owners' commitment to growth and outside investment and a potentially viable business. In collaboration with its two local partners, the American University of Beirut (AUB) and Inventis Consulting Group, the program designed and implemented a three-month education and coaching program involving individual company needs and capacity assessment; six training modules designed to address the findings of the assessment; and individual coaching after training was completed. A key design factor was that the "homework" completed became the company's strategic plan and business plan.

Mobilizing Private Capital

Following completion of the program, the management consultants facilitated visits with investors and financial institutions and accompanied SMEs to pitch their business plans and explain their financing needs. As a result of the program, six of the firms had raised a total of $17.6 million in debt and equity ($1.9 and $15.7 million, respectively).

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New Jordanian Angel Investor Group

Focus	Financial Infrastructure/Intermediation Systems
Intervention	Fund and Facilities, Matchmaking
Location	Jordan
Implementor	DAI

Challenge

Jordanian start-ups lacking access to a reliable pool of patient, early-stage capital that is different from traditional VC. This "pre-VC" layer of investment capital is essential to the development of a robust entrepreneurship ecosystem, as well as for the growth of Jordan's VC industry.

Solution

USAID JCP is supporting the launch and build-out of a new Jordanian angel investment group, initially comprised of 5-10 successful and like-minded Jordanian business people. Initial support includes network structuring, arranging transaction services, deal origination and stakeholder engagement. Prospective investors should have an interest to help start-ups grow by virtue of their investment and mentorship, and to help develop Jordan's small business ecosystem. This new group is expected formalize in late 2015. USAID JCP hopes that a successful new angel group for Jordan will create positive "demonstration effect" to stimulate more early-stage investment capital for this ecosystem.

Mobilizing Private Capital

By formally engaging more, new angel investors from Jordan's private sector and diaspora, via a capital commitment to the newly-formed angel group. In the future, USAID JCP may support the launch of new, separate angel groups to capture additional investment.

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Credit Factory: Using Technology to Deliver Financing

Focus	Financial Infrastructure/Intermediation Systems
Intervention	Payment Systems (Digital Finance), Fintech
Location	Kenya
Implementor	DAI

Challenge

80% of Kenya's 45 million people are smallholder farmers and the vast majority of those individuals are excluded from agriculture finance because loans are too costly (APRs above 50%) and not structured for crop cycles. A solution was needed to bring down the transaction costs of lending to them. Also, although mobile technologies and other innovations has greatly benefited financial institutions by greatly lowering their cost structures, the smallholder farmer was not benefiting from these technological innovations and it was not improving their ability to access finance.

Solution

USAID, through its implementing partner DAI, formed the "Credit Factory" to provide financing to smallholders. A $100,000 grant to the Credit Factory supported a pilot of 1,500 agriculture loans to smallholder farmers in three Feed-the-Future regions in Kenya. Loans were disbursed and collected using mobile phone and the finance was priced at the lowest market rate offered in the country with loans customized for specific crop cycles. DAI utilized developing digital technology to provide a lending platform, and went beyond that to form the Credit Factory to lend to smallholders.

Mobilizing Private Capital

Almost 1,500 smallholder farmers in the pilot received their first-ever loan (average loan size of just over $300,000). Everyone fully serviced their loan and most farmers received additional finance to improve their farms and increase production.

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Turn-around & Privatization of State-owned Khan Bank

Focus	Facilitating Finance Providers
Intervention	Technical Assistance
Location	Mongolia
Implementor	DAI

Challenge

The challenge of the project was to keep a failing state-owned agricultural development bank in business so that it could continue to serve the rural population of Mongolia.

Solution

USAID contracted DAI through a $2 million award to assume management of Khan Bank and prepare it for sale. DAI brought in a professional team and totally transformed the bank, including new policies and procedures, development and retraining of staff, rebranding and marketing, new product development, and inculcation of new values and behavior. Since 2003, the now private Khan Bank has become one of the two largest banks in the country, with the highest profitability and return on assets. It has evolved into a full service universal bank with total assets of $2.7 billion and a branch network of 536 branches with over 5000 employees.

Mobilizing Private Capital

The $2 million USAID investment to transform Khan Bank has had spectacular impact in mobilizing private capital. Equity has increased from $6.5 million to $333 million today, and loans outstanding (effectively private capital mobilized and put to work in the form of credit) rose from $67 million in 2004 to $1.6 billion today.

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Virtual City Tanzania

Focus	Financial Infrastructure/Intermediation Systems
Intervention	Fintech, Digital Financial Services
Location	Tanzania
Implementor	DAI

Challenge

Smallholder farmers account for 75% of agricultural production in East Africa. However, these farmers focus predominantly on producing food for consumption and limited trade. Although these farmers can benefit financially from trading their surplus, they are often hindered by their inability to access finance, meet grades and standards, use quality seeds/ inputs, access extension or post- harvest services including storage which could enable them to store when prices are low and trade when prices are high. Similarly, regional markets need to capture the production of smallholder farmers to grow and meet growing staple food demand.

Solution

With support from DFID, DAI managed FoodTrade ESA Project, Virtual City, a private mobile solutions provider, is developing an agro voucher receipt system to help grain market buyers and sellers in Kenya and Rwanda – including farmers, collection centers, agro dealers, input suppliers and processers – use stored value to buy and sell staple food commodities. The receipting system brings numerous benefits to market actors, linking them using a mobile phone, SMS driven platform which further enables the automating of buying processes, reduces potential transaction fraud, and enables farmers to use the receipts as collateral to obtain financing in lieu of selling their crop at farm gate prices. The agro voucher also integrates into existing platforms such as M-Pesa for mobile payments and M-Shwari for mobile deposits.

Mobilizing Private Capital

The agro voucher is created by a warehouse when farmers deliver their produce. The voucher can be used to make payments for good and services either immediately or on credit. Aggregators and service providers can accept it, hold it, convert it to collateral or distribute it as an alternative to cash at any point in time. Vouchers can be aggregated and also be used by the farmer as collateral with a partner bank.

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Growing Inclusive Finance through Innovative Leasing Structures

Focus	Facilitating Finance Providers
Intervention	Technical Assistance, Blended Capital
Location	Romania
Implementor	Enclude

Challenge

Rural clients in Romania had difficulty obtaining long-term equipment financing through the local banking sector.

Solution

Enclude worked with the European Bank for Reconstruction and Development (EBRD) and the European Union to assist Impuls Leasing Romania (ILR), a privately owned leasing company operating regionally, in strengthening its ability to offer a unique equipment leasing product to rural small businesses and farmers. ILR used a "50/50" rural leasing product, which allowed lessors to pay an initial 50% down payment with the remaining 50% payment due after their second harvest or production cycle. Further, a vendor incentive plan that awarded "gift coupons" to motivate ILR's equipment vendors was devised to increase their marketing efforts amongst rural business owners. As a result, ILR grew from Romania's seventh largest leasing company to its second largest.

Mobilizing Private Capital

EBRD provided ILR with a EUR 7 million credit line combined with a technical assistance component led by Enclude to support this equipment leasing initiative. This support leveraged ILR's own capital, with which ILR was able to provide lease financing totaling EUR 18 million in two years to more than 3,000 SMEs and rural business owners in Romania.

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Building Loan Guarantee Entity to Spur SME Lending

Focus	Financial Infrastructure/Intermediation Systems and Facilitating Finance Providers
Intervention	Partial Guarantees, Blended Capital
Location	Kosovo
Implementor	FMI

Challenge

To build a credit guarantee system that successfully encourages Kosovar banks to mobilize their excessive liquidity and start lending to MSMEs that would otherwise not be bankable.

Solution

Working with implementing partner FMI, USAID created an Independent Public Agency model (IPE), whereby the IPE will mobilize private sector capital to MSMEs through the provision of partial credit guarantees issued by a newly created, sustainable, non-banking financial institution, the Kosovo Credit Guarantee Fund (KCGF). By structuring the KCGF as an IPE, FMI is prioritizing long-term growth and sustainability in Kosovo.

Mobilizing Private Capital

ECS anticipates a total of $15 million in capital to back the guarantees, including $6.5 million from USAID, and additional contributions from other donors. In its first six years of operations, KCGF is projected to support over 4,150 new private bank loans to MSMEs with a cumulative value of over

$400 million, thereby creating over 20,000 new jobs in the private sector.

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Investing in a Mobile Health Platform – GiftedMom

Focus	Supporting Growing SMEs
Intervention	Business Support, Partial Grants
Location	Africa
Implementor	GiftedMom

Challenge

African health systems are plagued by poor infrastructure, a shortage of skilled professionals and geographic and socio-economic inequalities. Healthcare provision in Africa is also challenged by the geographic dispersion of the population, and the breadth of services required to care for a rapidly growing population.

Solution

As the first mobile health platform in Central Africa, empowering rural women with the information and support to improve maternal and child health, GiftedMom has trained and engaged over 200 medical students and community workers, and will reach 500 by the end of 2015, with the ultimate goal of training 30,000 students and health workers in the next two years. GiftedMom's revenue stream is through the sale of its automated SMS scheduling platform, as well as provision of data collection services and analysis solutions to NGOs working in maternal and infant health. Women register for GiftedMom services by texting a code or a health question, which triggers sign-up and a reply from a doctor. GiftedMom charges a once-off fee of US$1 per user, which covers the costs of the short code number.

Mobilizing Private Capital

ALN Ventures selected GiftedMom as one of 8 ventures out of 275 applications from 30 African countries and the diaspora. The program takes a 5% equity stake in its portfolio companies in exchange for a 9-month incubation program that includes a 2-week intensive business building workshop, a US$20,000 cash injection and a showcase at the annual African Leadership Network conference. The aim is to provide portfolio companies with the financing, skills, mentorship, network, exposure and support services necessary to grow their businesses and receive larger scale financing. According to founder, Alain Nteff, the ALN relationship has been instrumental in helping him to build a formal board of directors who ensure good governance, develop a sound business model and pitch decks, as well as obtain legal assistance and early stage financing.

For more information contact:
GiftedMom (www.giftedmom.org/)

Providing Low & Moderate Income Individuals Access to Affordable Title Housing

Focus	Financial Infrastructure/Intermediation Systems

Intervention	Fund and Facilities
Location	Africa
Implementor	International Housing Solutions

Challenge

African countries are currently experiencing a demand for affordable housing that far outstrips supply. The housing crisis is a result of several demographic shifts creating a deficit in the housing sector, which is expected to worsen in coming years. This rapid urbanization, in conjunction with inadequate urban government policies, socio-economic inequalities, and low urban institutional capacities, has caused a proliferation of urban slums.

Solution

International Housing Solutions (IHS) facilitates the construction of affordable housing developments through the collaboration of financial institutions, real estate developers, private capital groups and local government authorities. The investment strategy of IHS consists of three options: equity investment in new construction of freestanding or sectional title alongside property developers with subsequent offering of the units for sale; property acquisition of turnkey or rental rehabilitation projects with units sold or rented out; or minority equity investment in operating companies along the housing value chain. Revenues raised through sales and rentals provide capital return and annuity income into the main fund through a special purpose vehicle (SPV) or trust account until the exit point, when funds are distributed to the investors.

Mobilizing Private Capital

IHS's South African Workforce Housing Fund (SAWHF) is a fully committed US$240 million fund that mobilized both private sector and development finance investment in the development of about 26,500 affordable housing units in South Africa. The largest of these investments, the Fleurhof Project, consisted of a US$10 million private equity investment, yielding about 10,100 units. The SAWHF will close in 2018 and has, to date, realized a very healthy return of 23.3% (weighted average internal rate of return of for all exited deals based on amount of equity invested). A second fund of US$ 300-400 million is currently being raised. This fund will cover not only South Africa (about 85%) but other Sub-Saharan countries (about 15%) such as Ghana, Zambia, Botswana, and Mauritius.

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M-Kopa Solar Commercial Grade Syndicated Debt Facility

Focus	Financial Infrastructure/Intermediation Systems
Intervention	Fintech, Digital Financial Services

Location	Africa
Implementor	M-KIPA Solar

Challenge

In many African countries outside of South Africa, rural households rely on kerosene for lighting. Solar systems are available which provide cheaper and cleaner power. But without the ability to purchase these systems over time, few households can muster the capital to purchase these systems up-front.

Solution

M-KOPA sells solar products to low-income households on a pay-per-use instalment plan. M-KOPA's proprietary platform, which requires no installation, combines GSM technology with a solar power kit to allow instalment and "pay-as-you-use" financing. The latest product design, the M-KOPA III, has an 8-watt solar panel, a battery, two LED lights with switches, a torch, a USB phone charger and a portable, solar-powered radio. Customers acquire solar systems for a small deposit (about US$35) and then purchase daily usage "credits" for US$0.45, or less than the price of traditional kerosene lighting. After one year of payments, customers own their solar systems outright and they can use the system for free or upgrade to more power. M-KOPA distributes its product through a network of 1,500 direct sales agents, supported by 85 customer service centers. Repayment rates are 95 percent, and a study in 2014 revealed that 97 percent of households using M-KOPA's solar system reported that they were saving money compared to the previous use of kerosene.

Mobilizing Private Capital

In 2014, Commercial Bank of Africa fronted a US$10 million commercial-grade syndicated debt facility as part of a US$20 million funding round. This investment marked the first time that a commercial loan was secured through mobile money provider M-PESA receivables and unique in that the loan book consisted of low-income borrowers, many without bank accounts. Lenders included the Bill and Melinda Gates Foundation, LGT Venture Philanthropy, Imprint Capital and the Netri Foundation. The funding was part of an expansion to reach one million homes by 2018. To date, M-KOPA has raised ~USD $45 million in total equity funding and debt financing.

Impact Investing in Frontier Markets (Infront)

Focus	Supporting Growing SMEs and Facilitating Finance Providers
Intervention	Business Support Services, First Loss, Funds and Facilities
Location	Global
Implementor	Mennonite Economic Development Associates

Challenge

Small and Medium Enterprises (SMEs) are generally recognized as key economic drivers in frontier and emerging economies. However, SMEs face significant constraints that need to be resolved if they are to more fully and progressively serve the needs of individuals and national economies. Three challenges in particular are: 1) SMEs have difficulty accessing investment capital for growth; 2) SMEs struggle to adopt and implement best business practices; and 3) Meaningful measurement of social impact is complex and difficult.

Solution

Targeting the investee funds and companies that Sarona, a private equity fund of funds, supports, INFRONT provides technical assistance to SMEs and funds through both a grant facility to provide economic incentives to SMEs that want to improve their social (e.g. gender equality, employee health and safety, poverty), environmental sustainability and governance policies and practices; and a mentorship program pairing experienced venture capital and private equity North American managers as mentors with less experienced managers in frontier and emerging markets.

Mobilizing Private Capital

INFRONT leveraged a first loss capital contribution by Global Affairs Canada (GAC), and, as of June 2016, mobilized at least six times more private capital and invested in 16 funds and 79 SMEs in frontier and emerging markets in Africa, Asia and Latin America. In addition, 30 SMEs received technical assistance grant funds on 1:2 matching basis contributing around $ 2 million to improve the sustainability of their operations with a specific focus on environmental, social and governance (ESG) policies and practices. The SME client base experienced a cumulative net increase of approximately 6.5 million clients since Sarona investment. These clients include SME's customers, employees and suppliers. INFRONT partner companies created a number of development outcomes such as reducing poverty by creating more jobs, contributing to local economy, fostering gender equality and promoting environmental sustainability. TA recipient companies alone (n=22) paid more than CAD $ 125 million to domestic suppliers to boost their national economies and strengthen the local supply chain.

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Bridging the Gap: Financing Economic Growth in Pastoral Areas

Focus	Facilitating Finance Providers
Intervention	Partial Grants, Blended Capital, Fund and Facilities
Location	Ethiopia
Implementor	Mercy Corps

Challenge

While Ethiopia has shown strong economic growth, the rural areas in which 80% of the population lives remains impoverished. The challenge was to facilitate financing for the businesses operating in the rural areas which would allow them to expand and modernize.

Solution

USAID's Pastoral Areas Resilience Improvement through Market Expansion (PRIME) project, implemented by Mercy Corps, includes a $6 million Innovation Investment Fund (IIF) that supports medium to large-scale enterprises operating within or directly benefitting pastoral areas in the Somali, Afar, and Oromia regional states. The IIF facilitates finance to growth-oriented businesses through matching grants/contracts, leveraging local capital for investments in a range of market development activities that improve market linkages, generate employment, and increase financial inclusion. Companies that received support include a slaughterhouse, a micro-finance institution and mobile service provider, a private equity firm, a poultry farm, and two milk processing facilities.

Mobilizing Private Capital

To date, the IIF has signed agreements with six companies for a total value of around $6 million USD, with private sector cost-share of $24.8 million USD, or 80 percent.

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Mobilizing Institutional Investment for African Infrastructure

Focus	Financial Infrastructure/Intermediation Systems and Facilitating Finance Providers
Intervention	Matchmaking, Technical Assistance and Capacity Building
Location	Africa
Implementor	NASP

Challenge

Access to energy, transport, water and sanitation, and telecommunications is essential to economic growth and poverty alleviation. Yet developing economies face an infrastructure gap that cannot be addressed with domestic resources and official development assistance alone. In Africa, for example, the spending required to address infrastructure needs is estimated at $93 billion annually. The good news is that capital does exist in global markets – institutional investors are estimated to hold $70 trillion in assets. However, it is difficult to match this supply with demand given differing investment mandates, risk tolerance, and regulatory restrictions of institutional investors. To effectively mobilize capital, infrastructure projects require appropriate financial and marketing expertise to reduce risks and expose investors to suitable opportunities.

Solution

USAID partnered with the National Association of Securities Professionals (NASP), a U.S.- based membership organization supporting women and minorities working in the securities and investment industry. Most of its 500+ members manage large pension funds or advise institutional investors in the United States. USAID and NASP are sending a delegation of U.S. institutional investors to a first of its kind U.S. and Africa Institutional Investor conference in sub-Saharan Africa in 2017 to facilitate relationships that build the capacity of local investors and expose U.S. financiers to investment opportunities. The partnership will bring U.S. financial professionals to sub-Saharan Africa to help structure and advise on transactions and financial vehicles that support infrastructure development.

Mobilizing Private Capital

Current project support for the NASP-USAID Partnership of ~1.5mm USD could catalyze up to ~50 million USD of U.S. additional institutional investment into African infrastructure (e.g. through co-investment with local pension funds, funding IFC's MCPP program, private placement debt for hospitals in Kenya, etc.) in end of FY2017, in order to partly make up the USD $396 million funding gap in Kenya needed to achieve SDG 6.

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New Tools & Expanded Services for Rural MSMEs

Focus	Facilitating Finance Providers and Financial Infrastructure/Intermediation Systems
Intervention	Technical Assistance and Capacity Building, Fintech
Location	Nicaragua
Implementor	Palladium

Challenge

In Nicaragua, commercial banks saw rural agricultural loans as too small to generate revenue. Underserved clients in food-insecure regions of northern Nicaragua did not have access to credit products for small scale dairy production and coffee plantations. Meanwhile, the political “no pago” movement, which encouraged microfinance clients to default on loans in protest of high interest rates, left the microfinance industry on the brink of collapse.

Solution

To facilitate investment in rural, agricultural areas, the USAID/Nicaragua Enterprise and Employment (E&E) Program strengthened SME lending in banks and microfinance institutions, leveraged SME relationships with established anchor firms, and developed a credit-scoring tool to increase speed and reduce the cost of financial institutions in analyzing risk. SMEs that had previously sought loans above the MFI range and below the commercial bank range ($10-25K) now had access to several credit options - 6,761 MSMEs, including 3,850 rural microfinance clients, benefitted.

Mobilizing Private Capital

A total of 17 financial institutions adopted the credit scoring tool; commercial banks established new SME departments, MFIs increased loan size, and financial analysts were trained on rural value chains, leading to $38.8M in new lending.

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Mobilizing Financing for Agricultural Value Chains-FinGAP

Focus	Supporting Growing SMEs and Facilitating Finance Providers
Intervention	Technical Assistance, Business Support Services, Blended Capital
Location	Ghana
Implementor	Palladium

Challenge

As targeted crop production was expected to increase as a result of Ghana's Feed the Future initiatives, it was critical that the value chain be expanded and modernized to absorb the increased production. New investment was required for things such as input stores, grain warehouses, processing facilities and the like. However, Ghanaian capital providers (banks and investment funds) were reluctant to extend financing to the agricultural sector because of the perceived risks and high transaction costs. This was simply not a market opportunity which interested them.

Solution

USAID's Financing Ghanaian Agriculture Project (FinGAP) took a two pronged, pay-for-performance approach to mobilizing these investments. FinGAP (implemented by Palladium) assembled a group of Ghanaian business advisory services (BAS) providers to help identify investment opportunities and prospective investors, and to help them structure financing requests. This BAS network was paid primarily on a pay-for-performance basis as transaction received financing. It also implemented a parallel program to encourage financing for those investments by Ghanaian banks, MFIs, and investment funds through providing blended capital (but delivered through incentive grants on a pay-for-performance basis). It identified the types of investment transactions which were critical to expanding and up-grading the value chain, and then offered incentive grants to those capital providers. These incentives were paid based on evidence of loans or investments disbursed for targeted investments. An additional feature of the approach was a competition among capital providers intended to discover the least amount of blended capital incentive needed to obtain the financing for the targeted transaction – thus ensuring maximum leverage of project funds.

Mobilizing Private Capital

Sub-award Grant agreements were signed with BAS providers and participating capital providers in January 2015. Over $115M in new (and primarily additional) financing has been disbursed for investments in targeted value chains, against which USAID has released sub-award resource grants to BAS providers and capital providers of just over $3M. On the Supply Side, the BAS provider network was successful in identifying a larger pipeline of actionable investment opportunities and financing requests. On the Demand Side, the incentive grants made to banks and other finance providers (following disbursement of financing) helped to cover some of their costs of entering into agriculture related finance, while ensuring that they could earn an adequate return.

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Investing in Education by Providing Affordable Loans

Focus	Financial Infrastructure/Intermediation Systems
Intervention	Matchmaking, Funds and Facilities
Location	Africa
Implementor	Prodigy Finance

Challenge

Due to high birth-rates, Sub-Saharan Africa has exhibited the world's highest growth rate in the primary school-age population, with an increase from 110 million to 148 million between 2000 and 2012. Due to the size of this increase, the building of schools by government and aid organizations has been insufficient to meet the surge in demand. Also of concern is that the progress made in the number of children who attend school has not been equitable for the poorest of the poor and young girls. Beyond the access issues, challenges in the quality of education stem from large class sizes, limited access to educational resources and poor infrastructure. In most Sub Saharan African countries, there are more than 50 pupils per class for Grade 1, rising to between 80–100 pupils per class in many areas.

Solution

Prodigy Finance provides borderless postgraduate student loans to international students to attend a top school. The company has disbursed US$190 million in loans to over 5500 students from 115 countries. Investors include alumni, impact investors, and other entities that have a commitment to supporting students completing their postgraduate studies while still earning a financial return. A community of alumni, institutional investors and qualified private investors collectively fund these student loans. 75% of the students come from emerging markets and 82% don't have alternative sources of financing available. Prodigy provides loans to students on affordable terms, including moderate interest rates, no collateral, and a 1–2-year grace period. The student borrowers gain access to higher education that they might not otherwise have been able to finance, and the investing community earns a financial and social return through their investment in the education of future leaders.

Mobilizing Private Capital

In 2014, Prodigy Finance launched a US$25 million Education Note in partnership with the Credit Suisse (CS) Impact Investing and Microfinance team. The US $25 million Higher Education Note (HEN) affords exposure to a diversified portfolio of bonds, issued by Prodigy Finance and composed of high-quality loans to Masters Students. The HEN has a 12-year maturity, with quarterly repayments composed of interest and the amortizing principal. CS provides a secondary market (option to exit) and has set a 2% cumulative residual value as first-loss protection. Credit Suisse has developed the note, in partnership with Prodigy Finance and the Credit Suisse Foundation. CS is a global bank involved in impact investing since 2002, currently managing US$3 billion in assets across innovative financial vehicles and a variety of sectors, including microfinance, education, agriculture, and nature conservation.

For more information contact:
Prodigy Finance (https://prodigyfinance.com)

Piloting Foreign Currency Risk Mitigation Tool to Catalyze Investment

Focus	Financial Infrastructure/Intermediation Systems and Facilitating Finance Providers
Intervention	Fintech, Risk Mitigation
Location	Global
Implementor	Sarona Asset Management

Challenge

Investment Institutional investment (e.g. pension funds, insurance companies) represents an important source of patient capital for key development priorities, such as improved infrastructure. Yet, institutional investment is severely constrained by foreign currency risk – the possibility that an investment's value will decrease due to fluctuations in the local currency. Currency risk prevents billions of dollars of institutional investment from flowing to developing countries.

Solution

Through an investment partnership with Sarona Asset Management, USAID is working to develop and pilot a currency risk mitigation tool that can hedge or insure against currency fluctuations, thereby attracting more institutional investment to development priorities. The partnership will engage institutional investors to improve understanding of foreign exchange (FX) challenges in emerging markets. Sarona will leverage its industry affiliations and existing investor base to develop the tool and test it in a USAID country catalyze investment that supports development objectives. Sarona, a private equity firm that invests in frontier and emerging markets, has nearly $200 million in assets under management. Typically, currency hedging instruments use complicated "forward contracts" for a single investment that "lock-in" exchange rates for specified currencies at a future point in time. In emerging markets, these forward contracts are often prohibitively costly or administratively burdensome. The Sarona Investment Partnership seeks to work on a broader portfolio or fund-basis to circumvent just enough of the currency exposure to attract substantial institutional capital. Those funds, which cannot be risked in volatile local currencies, can be invested in priority development sectors.

Mobilizing Private Capital

Testing the designed mitigation mechanism successfully uncovers will potentially influence Sarona's ability to fund raise for and capitalize their new $150M Frontier Markets Fund which will result in job creation (of women in particular).

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Investment Partnership to De-risk Infrastructure Projects

Focus	Financial Infrastructure/Intermediation Systems and Facilitating Finance Providers
Intervention	Project Prep, Risk Mitigation, Blended Capital, Matchmaking
Location	Global
Implementor	USAID

Challenge

Investments in clean water, electricity, sanitation and sustainable transit systems can transform societies, but public and donor funds will never be enough to meet the financing demand for these projects. Each year, trillions of dollars are needed for investments in infrastructure around the world.

Solution

As a founding member of the Sustainable Development Investment Partnership (SDIP), USAID's Office of Private Capital and Microenterprise (PCM) is supporting a global effort to scale up sustainable infrastructure investments in developing economies. The Partnership combines risk mitigation, co-investment and technical assistance to enable specific projects to gain access to private capital. SDIP's goal is to mobilize $100 billion in private financing and investment by 2020 to help countries achieve the Sustainable Development Goals. It will support investments in water and sanitation systems, transportation, clean energy, agriculture, health, telecommunications and climate adaptation. At the heart of SDIP is the Project Review Group (PRG), which convenes regularly to review transactions that are in need of additional risk mitigation, technical assistance and/or financial structuring by SDIP partners in order to be considered "bankable" by banks and investors.

Mobilizing Private Capital

Over the past year, the PRG has reviewed over 30 projects across multiple regions and sectors totaling approximately $28 billion with a financing gap of about $3.5 billion. These transactions range from a wind farm in Indonesia, a solid waste facility in India to a rapid bus transit system in Jordan.

USAID is a member of the SDIP Secretariat and provides strategic advice on sourcing and financing transactions.

For more information contact:
PCM webpage (www.usaid.gov/pcm)

Bosnia Business Development Program

Focus	Supporting Growing SMEs, Facilitating Finance Providers, and Enabling Conditions
Intervention	Fund and Facilities, Business Support Services, Technical Assistance, Blended Capital, Bank Supervision
Location	Bosnia
Implementor	USAID

Challenge

At the end of the Balkan conflict in 1995, the Bosnian economy was flat on its back. Bosnia businesses had been destroyed during the conflict and unemployment and despair were rampant. A stimulus was urgently needed – but one which would catalyze investment in the productive sector and support Bosnian businesses to regain competitiveness.

Solution

Following the signing of the Dayton Accord in 1995, USAID launched the $278 million Bosnia Business Development Program (BDP) as the U.S. Government's flagship economic reconstruction and recovery program for Bosnia. The key element of this program was the Bosnia Reconstruction Finance Facility – a $200 million quick disbursing designed to provide credit through Bosnian banks to the productive sector, thereby jumpstarting the economy and creating jobs for the general population, including refugees and demobilized soldiers. BDP included three other well-funded technical assistance: (1) Enterprise Advisory Support assisting successful borrowers; (2) Commercial Bank Training to modernize Bosnian banks; and (3) Strengthening Bank Supervision to provide the incentives for market-based sound lending practices. Within two years, when the business environment improved. Given that the entire Bosnian banking sector was fragile, under-capitalized, illiquid and lacking credit skills, an On-Lending Management Unit (OMU), initially staffed by experienced US commercial bankers, made all loan decisions and took all the risks on non-payment. Licensed Bosnian commercial banks which met certain criteria qualified to become agent banks and receive fees for monitoring and collecting the loans. The BDP evolved over time, eventually providing credit lines to local banks once they had the financial strength and skills to undertake sound lending and at the end of the program, selling loan portfolios to these banks.

Mobilizing Private Capital

At the end of the Balkan Conflict, Bosnian banks were completely illiquid and, rooted in a socialist economy, had limited financial intermediation capacity. The BDP not only got the Bosnian economy moving again, but also developed the capacity of Bosnian banks (and well as bank supervisory systems) which built confidence in the banking system. Banks were gradually able to re-attract deposits and private financing through money markets. And now viable Bosnian businesses were able to attract bank financing and equity.

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RASDAQ Model Capital Markets Project

Focus	Enabling Environment and Financial Infrastructure/Intermediation Systems
Intervention	Regulation and Oversight, Trading Systems, Securities Markets Development
Location	Romania
Implementor	USAID

Challenge

In 1995, when Romania decided to implement a major mass privatization program, it needed a vibrant securities exchange in which shares of newly privatized enterprises received by citizens could be traded. Without price discovery and market discipline, the abuses associated with earlier privatization programs were likely to occur. The Bucharest Stock Exchange had recently reopened - but as a venerable blue-chip exchange, was not capable to listing the 5,000 plus companies to be privatized.

Solution

USAID agreed to take on this challenge, which required creating a completely new legal regulatory framework for capital markets and a set of new institutions (including a new Exchange). USAID built a privately owned and managed Romanian over-the-counter market (RASDAQ), as well as a share registry, depository, trading system, broker/dealer network and strengthened regulation. The system (closely modeled on the American NASDAQ exchange) was celebrated by the USAID Administrator in a ceremony at NASDAQ Headquarters in Washington in 1996. The mass privatization program was successful, with over 5,000 companies transferred to about 17 million shareholders. This immediately made the RASDAQ one of the largest exchanges in Europe and a flagship capital markets project where USAID had been able to quickly mobilize technical resources to both contribute to the success of a major privatization program and greatly jumpstart overall capital markets development in Romania.

Mobilizing Private Capital

The privatization of enterprises which occurred following the collapse of the former Soviet Union entailed a massive transaction of capital from public to private hands. But without the ability to trade ownership interests in those enterprises, those shares are ‘dead capital’. Not only did the RASDAQ allow citizens to monetize their ownership interests, it also imposed market discipline up the enterprises listed on the exchange.

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Investing in Affordable Healthcare in Sub-Saharan Africa – Medical Credit Fund

Focus	Financial Infrastructure/Intermediation Systems
Intervention	Fund and Facilities, First Loss
Location	Africa
Implementor	USAID

Challenge

Because public resources are severely limited, the private sector plays a critical role in providing healthcare in sub-Saharan Africa. However, the private sector's potential is far from fully utilized. The public health sector is often overburdened and struggling to provide a satisfactory level of care due to limited public resources. The majority of the region's poor people, both urban and rural, rely on private healthcare and specifically small and medium-sized healthcare facilities (Health SMEs). These Health SMEs find it difficult to attract capital despite their substantial demand. Health SMEs are unable to meet banks' high collateral requirements and fees, and often lack the business skills and credit history to access bank capital.

Solution

In 2010, USAID partnered with the Medical Credit Fund (MCF) to support access to quality healthcare in SSA. MCF works with Health SMEs to strengthen their business management practices and improve the quality of their medical services, as well as with local financial institutions to increase Health SME's access to the financing required to ensure supplies are there when needed and to purchase life-saving equipment. As an extension of this partnership, USAID partnered with the Overseas Private Investment Corporation (OPIC) to package USAID grant funding with OPIC loans to crowd in "patient" capital by mitigating risks around foreign exchange and providing catalytic first-loss capital. USAID's $1 million grant helped draw in + $10 million in debt from private investors and $7 million in loans from OPIC.

Mobilizing Private Capital

So far, the program has assisted over 1,450 health clinics in Ghana, Kenya, Nigeria, and Tanzania. The MCF and African partner banks have disbursed $16m+ in loans to over 650 healthcare providers and trained more than 950 health SME staff members on business management skills and quality healthcare delivery. These Health SMEs serve an aggregate of over 640,000 patients a month, and have trained over 4,370 medical professionals. With this success, MCF plans to raise additional financing for expansion, and no longer requires grant support from USAID to do so. So far, MCF has raised over $17 million in additional financing enabling it to serve more SMEs across additional healthcare value chains (including pharmacies, laboratories, small hospitals, and networks) and expand from four to twelve countries.

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Angel Investor Networks: Investing & Mentoring SMEs

Focus	Supporting Growing SMEs and Financial Infrastructure/Intermediation Systems
Intervention	Business Support Services, Matchmaking
Location	Ethiopia
Implementor	RENEW

Challenge

Small and Medium Enterprises (SMEs) need investment to grow – from purchasing equipment, to hiring new staff, to investing in new technology. Yet, accessing capital can be challenging, particularly in developing countries where capital supply does not fit SME capital demand. Growing businesses quickly outgrow microfinance, and commercial banks frequently have stringent collateral requirements or unfavorable terms that stifle company growth.

Solution

Angel investors, by providing early-stage capital in the form of equity, enable firms to reinvest additional earnings into expanding their business. With higher risk and transaction costs present in developing countries, angels tend to be less active in these markets. To mitigate costs and risks, angel groups are evolving for developing countries. In addition to pooling capital from individual angels, thereby lowering transaction costs, angel groups provide on-the-ground support to decrease operational risks and navigate specific market complexities. In Ethiopia, USAID identified the RENEW Impact Angel Network as a model structure for developing markets. RENEW links its network of the 100+ U.S.-based Impact Angel Network investors to SMEs in need of financing, while its team on the ground builds the SME's capacity. To keep transaction costs down, RENEW does not charge its angel investors a management fee. It only makes money if and when its angels do. USAID provided a $200,000 grant to help establish RENEW's Ethiopia operations, provide the initial technical assistance to SMEs in USAID'S Feed the Future value chains to make them "investment ready," and provide guidance to the local government and banks.

Mobilizing Private Capital

By lowering initial startup costs in Ethiopia, USAID helped bring new investors into priority markets and sectors and helped RENEW achieve its own financial sustainability. Thus far, USAID and RENEW have leveraged almost $2M of equity investment, $10.5M in total financing, and an expected $30M of additional capital (e.g. through bank loans that would not have otherwise been issued). These angel investments have resulted in over 1,000 new jobs, generated millions in export revenue for the country, and strengthened professional expertise of key government officials—priming the pump for other investors. With an estimated $35 billion of angel investment funds available in USAID's target markets, the potential impact of supporting and growing angel networks is enormous.

For more information contact:
PCM webpage (www.usaid.gov/pcm)

Co-Creation of Value Chain Credit Mechanisms

Focus	Supporting Growing SMEs
Intervention	Business Support Services, Project Prep, Partial Grants
Location	Central America
Implementor	DAI

Challenge

Thousands of small holder agricultural producers in Central America lack access to export markets due to their inability to meet buyer quality and volume requirements. Producer associations required a mixed capital solution to invest in upgrading their processing and purchasing capacity to improve post-harvest handling, storage and commercialization.

Solution

As the value chain component lead on USAID's Regional Trade and Market Alliances (RTMA) Project in Central America, DAI created commercial alliances, employed strategies to strengthen products to meet demand, identified buyers in regional markets and helped design financial solutions for the multiple value chains. Under RTMA, mixed capital and technical assistance were used to support producer associations in El Salvador, Guatemala, Honduras, and Nicaragua to integrate new technologies in processing, packaging, labeling, and storing products, and compliance with the quality standards required by specific buyers. RTMA helped co-finance Guatemalan associations to install processing equipment to wash and dry locally harvested potatoes enabling producers to increase their income an estimated 25% over unwashed potatoes, allowing associations to process other farmers' potatoes on a fee-for-service basis. Producer associations are now exploring additional opportunities for value added processing, commercialization and market access initiatives. Once producer associations had advanced with their operational upgrade and market linkage plans, USAID organized a Financing Forum in El Salvador, Guatemala, Honduras, and Nicaragua through the RTMA project. As follow-up, the project facilitated FI visits to agribusinesses and technical assistance to help producer organizations prepare documentation for loan applications.

Mobilizing Private Capital

RTMA provided a method for borrowers and lenders to work together to identify financing needs, repayment, and risk management mechanisms. In the months immediately following the Financing Forum, $1.2 million in term loans and lines of credit was disbursed for eight associations from Banco Hipotecario, Banrural, Banco FICOHSA, Banpais and Root Capital to cover immediate working capital and investment needs. Over half of these were first time loans between borrowers and lenders. The value of these loans made during the first year was approximately equivalent to the equipment grants provided. It is anticipated that the value of the grants will be further leveraged with additional financing as conversations were underway between producer associations and financial institutions for additional investments.

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Private Pension Option in Kazakhstan

Focus	Enabling Conditions
Intervention	Legal Reform, Financial Markets Regulation
Location	Kazakhstan
Implementor	Pragma Corporation

Challenge

Following the collapse of the Soviet Union, Kazakhstan's pay-as-you-go pension system rapidly built up enormous structural imbalances, as the economy imploded. Building a modern, reliable three-pillar pension system of individual accumulation accounts was critical to ensure pensions for its workers. But it also proved extraordinarily important in providing a new and sizable pool of capital available for investment in Kazakhstan's growth, and to stimulate the robust capitalization and diversification of it's newly launched capital markets.

Solution

USAID was instrumental in drafting a new Pension Law passed in 1998, and in establishing a sound pension regulatory oversight framework and pension fund management system, which include individual accumulation accounts and the ability to invest those in either public or private funds. The government run plan was authorized to invest in securities issued by the government and international financial institution, as well as deposits in State banks. Private funds were authorized to invest as well in private bonds and Kazak equities (thereby making capital available for investment through the new securities exchange).

Mobilizing Private Capital

Introducing a private option into Kazakhstan's pension system not only ensured that pension savings would protected and not mechanically repurposed for other government expenditures, but it also allowed for the accumulation of private capital which could be invested in a broad range private entities and instruments. This contributed to economic growth, as well as a robust Kazakh securities market. It also stimulated the development of innovative corporate bond instruments, including a robust covered bond markets that helped jumpstart large scale mortgage financing in Kazakhstan. By 2016 there were over $16 billion invested in pension fund assets.

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Fiscal Reform in Kazakhstan

Focus	Enabling Conditions
Intervention	Fiscal and Policy Reform
Location	Kazakhstan
Implementor	Deloitte Consulting (Barents Group)

Challenge

After the collapse of the Soviet Union, Kazakhstan became an independent republic transitioning from a command to a market-based economy. However it was saddled with a Soviet era fiscal policy which deterred investment. The absence of such investment – particularly foreign investment which could help Kazakhstan unlock its rich oil and gas resources – was a strong impediment to badly needed economic growth.

Solution

Through its implementing partner Barents Group (now Deloitte Consulting) USAID supported Kazakhstan in becoming the first country of the Newly Independent States (NIS) in 1995 to adopt a comprehensive Tax Code. This new code served as a model for other NIS countries. One of its most important features provided a positive tax environment for foreign direct and more domestic investment without providing any special incentives. Kazakhstan also implemented a Treasury system that allowed the Ministry of Finance to consolidate, control and account for all government revenues and expenditures in a single account.

Mobilizing Private Capital

A fair and predictable tax regime is a necessary condition for foreign and domestic investment. If the rules of the game are not clear, investors will simply not invest. With a modern fiscal regime in place, Kazakhstan was successful in attracting foreign investment, boosting domestic investment, leading to solid and sustained growth (even reaching double digits) over the last 17 years.

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Kosovo Financial Stabilization

Focus	Enabling Conditions and Financial Infrastructure/Intermediation Systems
Intervention	Banking Regulation and Supervisions, Accounting Standards
Location	Kosovo
Implementor	Deloitte Consulting (Barents Group)

Challenge

At the outset of the NATO intervention in Kosovo in 1999, there was considerable financial instability in the economy. Following a short period of near hyper-inflation, public confidence in Kosovo's financial markets had eroded to such a degree that a variety of foreign currencies were being used to finance transactions, and the public had very little trust in banks and other financial institutions. For banks, this meant that traditional depositors adopted a ‘money under the mattress’ mentality, and liquidity decreased. There arose a need to establish an open and transparent regulatory and supervisory framework for the financial sector so that financial institutions could regain the confidence and trust of lenders, borrowers, depositors, and the public at large.

Solution

Through the USAID Kosovo Economic Development Initiative, a comprehensive bank supervision institutional development and training program was implemented. The program helped rationalize how financial institutions were licensed, how they were examined by regulators, how offsite financial analysis was conducted, how corrective actions were taken. The program also addressed international accounting standards, audit and internal controls, and liquidity and funds management. The program helped Kosovo to introduce modern financial sector management and to convince the public that these tools would be applied transparently.

Mobilizing Private Capital

Within two years, seven banking institutions (2 foreign banks and 5 local banks) were licensed, with more than 114 branches operating and regulated under the Central Bank of Kosovo. Of particular significance was the fact that deposits began to grow very rapidly, a major accomplishment given the fact that the entire banking system had to be overhauled, and public distrust of financial institutions remained a factor. Also of note is that with its new financial regulation tools, Kosovo was able to weather the world financial crisis of 2008 with only minor problems for the banking and broader financial sector.

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Financing and Franchising Clean Water in East Africa

Focus	Supporting Growing SMEs
Intervention	Partial Grants, Business Support Services
Location	East Africa
Implementor	Jibu

Challenge

Lack of access to clean water is a critical problem in the developing world—3.4 million people die each year from preventable water-borne illnesses. Yet half of all water projects in the developing world fail within two years, primarily because of a lack of local ownership and proper incentive. Jibu—a social enterprise operating in Uganda, Rwanda, and Kenya—wanted to find a way to deliver affordable water to underserved urban populations at scale by unleashing the latent economic potential of emerging market entrepreneurs. However, insufficient local investment resources make it difficult or impossible to grow their business. Jibu applied to USAID's Partnering to Accelerate Entrepreneurship (PACE) initiative for support.

Solution

Jibu's method uses a hyperlocal franchise model to provide ownership and support for its entrepreneur franchisees. By providing "business in a box" tools and systems, Jibu helps individuals own and operate their own businesses, while simultaneously creating a distribution network of entrepreneurs providing permanent access to affordable water across the developing world. USAID's funding provided the working capital Jibu needed to purchase the equipment for its franchise expansion. Jibu's entrepreneurs received this equipment, as well as tools, systems, training and consulting to ensure that they can capably run their own business. The entrepreneurs then repay Jibu as they generate revenue, which Jibu recycles into the next round of franchisees. By acting as both franchisor and bank, Jibu ensures that its franchisees receive both the financing and the support they need to grow.

Mobilizing Private Capital

With USAID's $1 million grant, Jibu has already raised nearly $2.2 million from private investors who would have otherwise considered Jibu too risky. The partnership not only tests the viability of a hyper-local franchise model to provide access to clean water, but offers a model that can potentially be replicated to offer scalable solutions to other basic services in the developing world. As of January 2017, Jibu has created 426 jobs through 38 franchises and over 100 micro-franchises. It has sold more than 20.7 million liters of water to 312,000 customers, more than half of whom had previously been drinking unsafe water.

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Building Disaster Resilience in the Financial Sector

Entry-Way	Facilitating Finance Providers
Intervention	Technical Assistance, Risk Mitigation
Location	Indonesia
Implementor	Mercy Corps

Challenge

Indonesia's 60,000 finance Institutions (FIs), including many microfinance institutions and rural banks, reach over 50 million MSMEs—97% of all enterprises and 30% of GDP growth. After a natural disaster, clients of finance institutions (FIs) need additional financing to rebuild their businesses and ensure their income is protected, but when these crucial financing lifelines themselves are experiencing shocks due to increased defaults and damages, the whole economy can stall. Because disasters can affect such wide swaths of land and populations, local insurers alone are frequently unable to provide sufficient coverage as their risk pools are not large enough.

Solution

Mercy Corps pioneered the Indonesia Liquidity Facility After Disaster (ILFAD) as proof-of-concept initiative in partnership with the USAID Office of Foreign Disaster Assistance (OFDA). ILFAD has taken a systems approach to help build resilience to disasters up and down the financial sector spectrum by

- Training Indonesian FIs to prepare for emergencies
- Providing stabilizing liquidity post-disaster
- Working with FIs to develop financial products for clients immediately after disasters
- Facilitating partnerships to bundle savings products with disaster insurance
- Supporting FIs to construct membership-based pooling mechanisms, while resolving regulatory and structural obstacles to building formal and broader liquidity funds
- Engaging global reinsurer Swiss Re and the World Bank's Global Index Insurance Facility to design portfolio-level insurance products (in partnership with FIs and local insurer Aswata), which enable FIs to purchase protection for their portfolios and infrastructure

Mobilizing Private Capital

This initiative shows that USAID can play a role in coordinating a series of private sector financial actors to allocate, finance and distribute risks from smallholder farmer to global reinsurance firms. Because FIs are covered by parametric insurance which pays out in response to defined triggers, such as the strength of an earthquake, insurance beneficiaries receive their payouts much sooner than they would under a traditional insurance product. This will help FIs access funds and provide bridge-loans to their clients even when their own liquidity and equity are under stress from the same disaster.

Open Capital Advisors in East Africa

Focus	Supporting Growing SMEs
Intervention	Business Support Services, Partial Grants
Location	East Africa
Implementor	Open Capital Advisors

Challenge

Small and growing businesses (SGBs) are the leading providers of new jobs in most economies, yet they face many challenges: from recruiting the best talent to obtaining financing to expand. The challenges are even greater in developing countries where the environment and institutions to support such firms are weaker, as well as for smaller and newer firms who do not yet have much of a track record needed to attract investors. Meanwhile, there are ever-growing sources of capital looking to invest in developing countries (domestic and foreign), but they struggle to find sufficient numbers of "investment ready" firms. Open Capital Advisors, an East African consulting firm established in 2010, supports SGBs growth though strategy, fundraising, and business readiness services. To better reach smaller and less established businesses, OCA developed a model that would provide technical assistance that would be co-funded by OCA and outside investors, as well as by deferred payments from the SGBs themselves. However the higher transaction costs and perceived higher risk of investment, investors were reluctant to support OCA test this model.

Solution

Through the Partnering to Accelerate Entrepreneurship (PACE) Initiative, USAID provided support to OCA's pilot program to source and support early-state SGBs which were looking investments of $50,000 to $500,000. Because USAID is deferring the costs of sourcing and vetting SGBs at a lower cost to the co-funders, investors are more willing to commit to pay for pre-investment acceleration services. OCA hopes to use this pilot program as evidence to encourage investors to commit to covering the full cost of pre- investment support.

Mobilizing Private Capital

With USAID support of $634,000, OCA has been able to raise $3.75 from private investors, and firms that would most likely be overlooked by traditional or foreign investors, are becoming "investment ready" through the services OCA is providing. Firms such as PureFresh—which extracts, purifies, bottles and sells premium drinking water targeted at low-income communities; and KadAfrica—which empowers disenfranchised girls to start their own passion fruit farms in Uganda (1,000 to date). Kad provides training in farming, life skills and financial management, and then buys the produce at a premium to sell to local and international markets.

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Helping Smallholder Farmers Tackle Coffee Leaf Rust

Focus	Supporting Growing SMEs and Financial Infrastructure/Intermediation Systems
Intervention	Partial Grants, Guarantees, Fund and Facilities, Business Support Services
Location	Latin America
Implementor	Root Capital

Challenge

Since 2012, a fungal disease known as coffee leaf rust has devastated crops and stunted coffee yields throughout much of Latin America. Coffee leaf rust has caused roughly $1 billion in damages in Latin America, and the outbreak has been particularly devastating for the region's smallholder farmers, many of whom depend primarily on coffee for their incomes. With dramatic volatility in coffee prices and increasingly unpredictable weather, Latin American coffee farmers were already financially vulnerable. Now, the scourge of coffee leaf rust combined with a lack of access to credit needed to replant fields, is pushing many to the brink.

Solution

In 2014, DCA and Global Development Alliance teamed up with Root Capital and leading coffee companies like Keurig Green Mountain Coffee and Starbucks to help smallholder coffee farmer's combat coffee leaf rust. The partners created the Coffee Farmer Resilience Initiative to extend critical support to more than 40,000 coffee farmers in Latin America. Through this initiative, Root Capital provides much-needed loans to farmer cooperatives so that their members can rehabilitate diseased fields and continue to earn an income from coffee production. Lending is encouraged through a $15 million credit enhancement from DCA (assuming 50 percent of the risk in the Coffee Farmer Resilience Initiative's loans to coffee cooperatives). In addition, Keurig Green Mountain Coffee covered the Fund's first $400,000 in potential losses. By limiting risk, Root Capital has already raised $8 million in additional private capital into its fund.

The Fund is supplemented through a GDA to create an accompanying Resilience Fund to help farmers recover lost productivity and repay their loans. The Fund supports technical assistance for farmers in agronomic and financial management training, and extends grants to farmers to promote income diversification activities. With $1.8 million in matching funds from USAID, the Resilience Fund incentivizes the private sector to invest in coffee communities and, by extension, their own supply chains. At present, the Fund has leveraged over $330,000 in private investment. This is the first time that a GDA has been paired with a DCA guarantee: In short, the technical assistance and additional resources leveraged via the GDA serve to increase the likelihood that the DCA-guaranteed loans to coffee cooperatives will be repaid.

Mobilizing Private Capital

By limiting risk, Root Capital has already raised $8 million in additional private capital into its fund

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Using Psychometric Credit Scoring to Increase Access to Credit

Focus	Supporting Growing SMEs and Financial Infrastructure/Intermediation Systems
Intervention	Fintech
Location	Global
Implementor	Entrepreneurship Finance Lab

Challenge

Emerging and developing economies have a large number of micro-firms and some large firms, but far fewer growth-oriented Small and Medium Enterprises (SMEs) compared to developed economies. Despite evidence of high returns, these firms face critical problems in accessing finance due to high transaction costs as well as actual and perceived risks. In addition, lenders want to serve more applicants but lack many of the elements needed to predict credit risk.

Solution

The Entrepreneurship Finance Lab (EFL) and several private firms are attempting to use technologies to reduce the barriers to finance for "the missing middle" to unlock the entrepreneurial potential in developing countries. EFL is evaluating psychometric testing as a new approach to screening and risk evaluation. Psychometric screening tools measure future upside potential rather than traditional risk management tools used by banks for debt contracts, which only measure downside risk. New dimensions of information such as personality, intelligence, ability, and character can provide a complete and accurate understanding of credit risk which is resistant to manipulation. A better and more cost-effective understanding of risks better serves lenders and borrowers alike, increasing profitable lending to "the missing middle."

Mobilizing Private Capital

Using psychometric tools like those developed by EFL can save banks in the developing world time and money when assessing creditworthiness of potential borrowers in environments where there is no established credit history and/or limited collateral. In 2011, EFL was a winner of the SME Finance Challenge, sponsored in part by USAID. In 2015, USAID DIV awarded the firm a $1.5 million grant to support technology and platform innovations. By the end of 2015, EFL had enabled or optimized more than $1 billion to entrepreneurs and individuals around the world. EFL continues to improve its psychometric credit scoring capabilities while simultaneously innovating with new alternative data sources such as mobile phone usage data, social network data, and location data. In addition to its existing online and tablet platforms, EFL has significantly increased its reach by expanding to mobile and SMS.

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Promoting Access to Affordable Housing in Haiti

Focus	Supporting Growing SMEs and Facilitating Financing Providers
Intervention	Blended Capital (Pay-for-Performance), Technical Assistance, Partial Grants
Location	Haiti
Implementor	WOCCU, AHI, and HFH

Challenge

Haiti has a massive housing challenge. Despite the flood of post 2010 earthquake funds, decent affordable housing remains unavailable to the majority of Haitians. The average Haitian household cannot access housing finance loans, nor is there adequate affordable housing stock present.

Solution

In order to catalyze affordable housing, both supply and demand must be met. USAID developed the Haiti Homeownership and Mortgage Expansion Program (HOME) project under which: (i) working with housing developers, HOME offers incentives and partial grants for building lower-cost and innovative affordable housing units; and (ii) working with finance providers, offers incentives and partial grants for lower and middle income Haitian households for housing purchase or construction. These institutions are also provided technical assistance on improved credit underwriting procedures, sales force training, monitoring, as well as marketing in order to cope with housing portfolio growth.

A unique feature of the HOME project is its use of pay-for-performance incentives to housing developers and housing finance providers. These incentives are being used to attract developers and finance providers into the affordable housing space as well as cover some of their costs of entry. The hope and expectation is that some of these actors while find this to be a profitable opportunity and remain when and as incentives are reduced.

Mobilizing Private Capital

HOME's supply side partners have committed more than $10.5 million in private funds against $1.0 million in pay-for-performance incentives to be paid by HOME under conditions that units are sold to clients within HOME's approved income distribution spectrum. As of Q1 of FY17, partner financial institutions have disbursed $2,929,735 of loans in return for $182,471 in pay-for-performance incentives – loans that are truly additional (would not have been extended without the HOME projects.

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Agricultural Input Vouchers in Haiti

Focus	Supporting Growing SMEs
Intervention	Fintech, Partial Grants
Location	Haiti
Implementor	DAI

Challenge

The market for fertilizer in Haiti has been severely distorted by over 30 years of public subsidies given to private importers. The subsidies would lower the costs of imported fertilizer, which was then released at below-market prices through controlled market channels. This system, which ended in 2016, suffered from widespread fraud and collusion as actors in the chain diverted subsidized fertilizer from controlled-price circuits to buyers willing to pay full market prices. As a result, actors in the agro-input supply chain did not sell fertilizer to small farmers outside of the subsidized channel, leading to fertilizer shortages, under-application of fertilizer in major food crop systems and low farm productivity.

Solution

USAID's AVANSE project developed a fertilizer voucher program designed to mimic open-market incentives for all actors in the fertilizer supply chain to order and supply fertilizer outside of the public subsidy mechanism. Under the program, project staff prepare for each planting season by working with fertilizer importers and local agro-dealer retailers in the region, using a competitive bidding process to set benchmark prices based on international market prices. The project sets a subsidy percentage of the total delivered cost of fertilizer at the local agro-dealers. Farmers then deposit cash representing their non-subsidized contribution share at a nearby MFI, who gives them an electronic voucher card that is loaded with the farmer's identity. Importers, seeing concrete evidence of farmer demand, are confident enough to import and distribute the fertilizer to local agro-dealers who pay cash for the products. The voucher cards are then redeemed by the farmers with the agro-dealers. The agro-dealers then invoice AVANSE for the total agreed-upon total price of the fertilizer, which is paid after verification of the transaction and identity records in the voucher management data base.

Mobilizing Private Capital

The AVANSE voucher system has created a functional market mechanism bringing small farmers, agro- dealers and importers together to conduct seasonal fertilizer supply campaigns driven by small farmer demand with no direct project procurement. Through this mechanism, 5,200 rice farmers have been able to access fertilizer based on their own planning needs with private agro-chemical suppliers, in a context where the market had been completely shut. Over the life of the program, the fertilizer subsidy was gradually reduced – starting with 75% subsidy, reduced to 60% in 2016, and currently at 50%. AVANSE will continually reduce the subsidy until the end of the project to ensure sustainability.

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Pakistan Private Investment Initiative Makes First Investment

Focus	Financial Infrastructure/Intermediation Systems
Intervention	Funds and Facilities, Partial Grants

Location	Pakistan
Implementor	USAID

Challenge

SMEs in Pakistan have limited access to equity investment to help them expand their businesses, create jobs, implement innovative new business ideas, and promote economic growth.

Solution

USAID/Pakistan’s PPII established three professionally-managed equity funds to invest capital in Pakistan’s dynamic small- and medium-sized businesses. USAID provided $24 million as seed capital for each fund, matched by other investors seeking to expand the private equity sector in Pakistan. The PPII consists of the Abraaj Pakistan Fund, the Pakistan Catalyst Fund, and the Boltoro Growth Fund, three professionally managed investment funds that provide equity capital for Pakistan’s fast-growing small- and medium-sized businesses. The Baltoro Growth Fund announced an investment in AGP Limited, a Pakistani pharmaceutical manufacturing company. This investment is the first under PPII and will advance the program’s goal of supporting access to capital for key sectors of Pakistan’s economy. Through Baltoro’s investment, AGP Limited will have access to the financial and operating resources necessary to expand the company’s growth, along with significant cost-saving opportunities that will enhance the accessibility, affordability, and sustainability of pharmaceuticals in Pakistan. Baltoro’s investment will also spur new job growth. The pharmaceutical industry currently employs over 100,000 people in Pakistan. This investment in AGP Limited is expected to facilitate the creation of new jobs as the company expands.

Mobilizing Private Capital

The USAID program has provided grant of 2,496 million Pakistani rupees for each fund, for a total contribution of nearly 7.5 billion Pakistani rupees, and the three funds have each matched or exceeded the USAID contribution. With the matching contributions from the three partner investment firms, PPII is eventually going to make more than 15.6 billion Pakistani rupees in equity financing available to selected SMEs.

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Building Well-Functioning Bank Supervision Authorities

Focus	Enabling Conditions

Intervention	Bank Supervision
Location	Former Soviet Union
Implementor	USAID, Deloitte and others

Challenge

Following the collapse of the former Soviet Union in the late 1980s', most banks in Central and Eastern and the Former Soviet Union (CEE/FSU) were effectively insolvent and widely mistrusted by the public. Competent Central Banks and other regulatory authorities, having legitimacy with the public, are a key requirement for a sound banking system and the sustainable economic growth which a dynamic but secure banking system supports.

Solution

From 1994 on, USAID played an instrumental role in the establishment and strengthening of strong credible bank supervision authorities, primarily at Central Banks in 23 CEE/FSU countries. USAID took the lead among donors in helping to put in place all elements necessary to supervise a market-oriented private banking system – the legal regulatory framework, licensing, on-site supervision, off-site reporting analysis, problem bank resolution, enforcement authorities, and a professional bank supervision staff that could implement the new laws/regulations, policies and procedures.

Mobilizing Private Capital

The wholesale reform and modernization of Central Bank regulatory departments has paid huge dividends. It was key to building confidence in the new banking systems, thereby attracting deposits and other capital which in turn was loaned to new and newly privatized businesses in need of capital. It was also a critical factor in the rapid entry of EU banks into the region, and bringing with them the billions of dollars of lending and investment capital which they hold.

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Colombia Rural Finance Initiative

Focus	Facilitating Financing Providers
Intervention	Technical Assistance, Blended Capital, Partial Grants
Location	Colombia

Implementor	DAI

Challenge

Although Colombia has a large and sophisticated financial sector, access to credit and other financial services is limited in rural areas - only 16% of the country's 4 million farmers have ever received a loan. Limited access to financial services in rural areas constrains the ability to invest in productivity improvement, and contributes to deep inequality which spawned decades of internal conflict.

Solution

The Rural Finance Initiative (RFI) promotes the provision of market-based rural financial services (including insurance) for micro, small and medium-sized producers and businesses, and in the process fosters financial inclusion. To accomplish this, the project uses a combination of technical assistance and milestone (performance-based) grants, targeted to connecting financial intermediaries with rural clients through tailored financial products, expanding delivery channels, reducing transaction costs, and leveraging value chain opportunities.

Mobilizing Private Capital

Since its inception in August 2015, the RFI has had a positive effect in the livelihoods of more than 146,000 persons in 197 different municipalities and mobilized funds for a total value of $198,195,150. It has facilitated the approval of roughly 49,000 credit loans, 15,402 insurance policies, as well as the opening of more than 82,145 savings accounts. Furthermore, 26 new banking correspondents and 7 new branch offices have started operations thanks to RFI's incentive grants. RFI has awarded incentive grants to eight financial institutions totaling $1,379,930., which were matched by an additional $4,374,833 of funds from the supported financial institutions.

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Agriculture, Health and Clean Energy Financing Toolkits

Focus	Facilitating Financing Providers
Intervention	Technical Assistance

Location	Global
Implementor	USAID

Challenge

Banks and other finance providers are reluctant to enter into new lending areas in which: i) they lack knowledge of the industry; and ii) the size of the market opportunity is uncertain. Developing the lending products and the risk management systems needed to profitably lend in a specialized industry is expensive and risky – most banks and other finance providers will opt out unless they see it as a profitable niche. As a result, even though the need may be great, many banks and other financial providers in USAID presence countries tend to focus on serving large corporate borrowers operating in sectors which they know – and specialized sectors (important to accomplishing development objectives) are starved of the financing they need.

Solution

Specialized Financing Toolkits were developed by USAID in conjunction with implementing partners and are designed to support finance providers to rapidly increase financing in the areas of agriculture, clean energy and healthcare. They provide banks and other finance providers with a guided process with which to: (i) conduct a market assessment as to financing opportunities in those sectors, and (ii) assuming those market opportunities attractive enough, support them in rapidly developing credit products and programs to pursue them.

Mobilizing Private Capital

The Specialized Financing Toolkit first 'whets the appetite' of finance providers by demonstrating the potential profitability of new market segments which they here-to-fore have not served. It then cuts the cycle time of build programs and products to go after financing opportunities in these new market segments, and significantly reduces transaction costs associated with originating and managing loans and investments in these new areas.

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Homestrings Risk Mitigation and Investment Platform Mobilizes Diaspora Capital

Focus	Supporting Growing SMEs and Financial Infrastructure/Intermediation Systems
Intervention	Partial Guarantees, Funds and Facilities, Fintech, Matchmaking
Location	Global
Implementor	Homestrings and SEAF

Challenge

Today, more than 62 million Americans are first or second generation diaspora-people living outside their country of origin. Many of these diaspora communities play a unique and important role in addressing development challenges abroad, through the transfer of knowledge, technology and financial capital to developing countries. Additionally, many diaspora communities retain emotional, financial and familial ties to their birthplaces. In 2014, the World Bank estimated global remittances—financial resources sent back to their countries of origin to be $540 billion, making diaspora groups important stakeholders with the potential to transform developing countries around the world.

Solution

Through the Development Credit Authority (DCA), USAID has established a $20 million loan portfolio guarantee to help raise debt capital from institutional and individual investors, including from the diaspora. The guarantee supports the confluence of global migration and remittance flows with emerging market investment and rapidly growing crowd-funding and social media technologies. Homestrings, an online investment platform with deep connections to the global diaspora community, makes guaranteed loans to Small Enterprise Assistance Funds (SEAF), an active SME investor with a proven track record. SEAF then makes investments into SMEs in emerging markets like Macedonia, Serbia and Armenia. The USAID guarantee provides an important credit enhancement to Homestrings, enabling it to attract a wider range of private sector investors, both individuals and financial institutions. The proceeds from this mechanism are invested in local companies from agribusinesses to financial service companies to information technology businesses that have a strong potential for growth but limited long-term financing options.

Mobilizing Private Capital

This USAID guarantee will support $20 million in debt, and is leveraging an additional $40 million from equity investors into the SEAF SME Funds, a total leverage of 75 times the USAID contribution to the transaction.

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Supporting Entrepreneurship and Job Creation

Focus	Supporting Growing SMEs and Financial Infrastructure/Intermediation Systems
Intervention	Business Support Services, Funds and Facilities, Partial Grants
Location	Middle East
Implementor	Berytech

Challenge

The MENA region is currently experiencing the highest regional unemployment in the world, with the World Bank estimating that Arab countries must create 80 million new jobs by 2020 to ensure sustainable social development and economic growth. Entrepreneurs in the Middle East and Africa typically lack access to the key ingredients they need to grow their businesses - growth finance, business skills and market connections - due to a lack of collateral, track record and experience.

Solution

USAID's Middle East North Africa Investment Initiative (MENAII) will provide needed support to early stage businesses in order to create and sustain jobs, advance and develop the investment eco-system and encourage increased equity investment in early stage businesses. Insure & Match Capital (IM Capital), a subsidiary of Berytech, has been launched to manage a $15 million fund under MENA II, to be doled out over the first five years of the 20-year program. The money will be distributed along three channels: 1) Matching capital: IM Capital will match up to 50% of new outside private sector investment capital; 2) Equity guarantee: IM Capital will provide partial guarantees for investors in early stage businesses; and 3) Technical assistance.

Mobilizing Private Capital

These lines of effort will result in reflows, or program income, that will make MENAII a sustainable endeavor allowing for continued support to early stage businesses. Qualified partners will invest with an expectation of return on investment as a result from positive operational results and are expected to devote considerable effort to better governance, strategic guidance, market-linkages, and continuous mentoring. All of these factors produce a natural alignment of USAID's development goals and qualified partners' goals of sustainably and profitably growing businesses.

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Economic Prosperity Initiative in Georgia

Focus	Supporting Growing SMEs Facilitating Finance Providers
Intervention	Insurance, Technical Assistance
Location	Georgia
Implementor	USAID, Bank of Georgia, Aldagi BCI

Challenge

More than half of the Georgian workforce lives in rural areas and relies heavily on farming to support their families. While agriculture accounts for 9% of Georgia's GDP, the total amount of loans disbursed to the agricultural sector is only 1% of the Georgian loan portfolio, indicating that lenders find the agriculture sector too risky for investment. Additionally, many small-holder farmers do not have access to the required collateral to receive traditional loans, meaning that they are unable to secure financing to grow and improve their farming practices and yields.

Solution

USAID's Economic Prosperity Initiative (EPI) partnered with the Bank of Georgia and Aldagi BCI, an insurance company, to develop a pilot program to offer a combined loan and crop insurance product to small-holder farmers. Farmers leverage the crop insurance policy as alternative collateral to receive a loan. By pairing a loan with crop insurance, farmers are able to pay back their debts if all or a portion of their crop is lost due to natural disasters, which reduces the risk for lenders who would otherwise deem agriculture too risky of an investment. This integrated loan/insurance product is the first of its kind on Georgia, and provides a dual benefit, allowing banks and insurance companies to reduce administrative costs while lowering the high premium rates for growers and setting a precedent for purchasing crop insurance.

Mobilizing Private Capital

By year 4 of the EPI Pilot, the program had catalyzed a cumulative increase of $13.7 million in the amount of loans facilitated by crop insurance. Additionally, EPI helped create new financial products to allow groups of mandarin and hazelnut growers to access low cost finance for agricultural inputs, including a partnership with a microfinance institution, Credo, to create an interest-free loan for agricultural inputs and soil analyses. This product development allowed 1,200 small-holder farmers to access interest-free loans totaling more than $240,000. This scheme is being replicated by the Government of Georgia to facilitate interest-free inventory loans to Georgian farmers countrywide.

For more information visit:
https://www.usaid.gov/news-information/frontlines/risk-resilience-and-media/relief-georgian-growers-when-skies-open

Jordan Economic Development Program

Focus	Enabling Conditions, and Supporting Growing SMEs
Intervention	Advocacy, Policy Reform, Investment Promotion; Technical Assistance
Location	Jordan
Implementor	USAID and Deloitte

Challenge

Jordan's economy is one of the smallest in the Middle East and the country lacks natural resources, presenting significant challenges to economic growth. Historically, the Jordanian government has relied heavily on foreign assistance as a driver of economic growth, leading to investments with an artificial comparative advantage. Exacerbating economic stagnation are rigid and non-competitive practices of the Jordanian private sector, which has resisted public sector efforts to transition to a more competitive economic environment. Thus, a primary goal of the government has been to demonstrate the positive national impact of economic reform to both private sector and public sector actors who are needed to make economic reform a success.

Solution

USAID collaborated with the Government of Jordan and BearingPoint (now part of Deloitte Consulting LLP) to fund, design, and implement the multi-faceted five year Jordan Economic Development Program. While the Program supported both the public and private sectors with technical assistance, it was particularly effective at advocating for policy reform to support private sector development. Examples of successful policy action include: collaborating with the Ministry of Industry and Trade to reduce capital requirements to establish a limited liability company in Jordan, working with the Greater Amman Municipality to create a Small Office Home Office vocational license, establishing a development zone framework, and launching the Jordan Investment Board as a proactive investment promotion agency.

Mobilizing Private Capital

The Jordan Economic Development Program has facilitated the creation of more than 60,000 jobs and increased exports in targeted sectors by 117% (just over $84 million). The Program has also increased direct revenues in target sectors by 108% and indirect revenues by 121%, totaling over $400 million.

Additionally, the Program has generated over $1 billion in investment. Many of the activities developed by the Program were demand driven by both public and private sector stakeholders, and over $8 million was dispersed as grants to Program stakeholders. Finally, the Program utilized 62 local subcontractors to deliver technical assistance valued at over $14 million.

For more information visit:
https://www.usaid.gov/jordan/economic-growth-and-trade

Catalyzing Diaspora Entrepreneurs for Economic Development in Herzegovina

Focus	Supporting Growing SMEs
Intervention	Partial Guarantees, Business Support Services
Location	Bosnia and Herzegovina
Implementor	DCA

Challenge

More than 1.4 million Bosnians live abroad, mostly in search of better economic opportunities. But many BiH diaspora have maintained strong emotional and financial ties back home, evidenced by the $2 billion transferred annually (more than 4 times FDI). Most transfers are used for household consumption, which is a necessity but the challenge remains on how to encourage more resources flows for productive investments, particularly by entrepreneurs seeking to start and scale up businesses but unable to access finance.

Solution

While most remittances support families, the diaspora can play a critical role investing in small businesses. Opportunities to invest directly are limited, however, due to a lack of transparency in local markets, nascent and illiquid capital markets, and uncertain regulatory environments. Guarantees can help correct these market imperfections.

Mobilizing Private Capital

The Diaspora SME Program encourages BiH diaspora to launch innovative startups and scalable businesses by providing seed capital, training, business mentoring, networking, and ultimately access to finance through a joint USAID and Sida credit guarantee. Through a business plan competition, innovative entrepreneurs will be selected to receive a comprehensive package of services to help them grow and succeed. Nova Banka, USAID and Sida's partner bank, will forego a portion of its remittance fee income to co-fund the establishment of the Program, in anticipation of capturing a new target clientele and expected future income during the program's life. DCA in conjunction with SIDA will provide a 50% loan guarantee for this program, mobilizing $10 million for a total cost of $1.3 million.

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Pooled Financing for Urban Infrastructure in India

Focus	Financial Infrastructure/Intermediation Systems and Facilitating Finance Providers
Intervention	Partial Guarantees
Location	India
Implementor	DCA

Challenge

Accelerating urbanization puts a great deal of pressure on the services that local governments can provide to its citizens. India's capital investment needs for urban infrastructure are quite high, and projected to be over $1 trillion over the 20-yr period from 2010-2030. Private financing must be tapped to fill this tremendous gap. In this example, a small but established and growing local bond market existed. However, local governments were characterized by weak finances, lack of budgeting and financial planning skills, and little experience with project development.

Solution

Pooled finance is one method for accessing the capital markets. A "pooled" bond is one debt security issued by a consortium of entities (borrowers), which could not otherwise access the capital markets because there are too small, financially weak, and/or project is not big enough to justify the transaction costs. DCA enabled this bond by covering 50% of the risk, thereby catalyzing $6.4 million of financing for a cost of $392,960.

Mobilizing Private Capital

USAID provided significant assistance in structuring a pooled bond mechanism to raise funding for water and sanitation projects in the greater Chennai area off of the local capital markets. Technical assistance included support with regulatory changes, developing the technical specs of the projects, and building the financial capacity of the 13 Urban Local Bodies (ULBs). Funds are pooled through a special purpose vehicle managed by an independent management firm and supported by three cascading levels of credit enhancement: an escrow account, a bond service fund and a DCA guarantee.

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Mobilizing Credit for MSMEs

Focus	Supporting Growing SMEs
Intervention	Partial Guarantees
Location	Kosovo
Implementor	DCA

Challenge

MSMEs, in particular in the agriculture value chain, lack sufficient capital to grow. They are either unable to access capital or are not able to access it on favorable terms. Interest rates are high and collateral requirements are often several times a loan's value. Banks have limited experience in agricultural lending (which at the start of the guarantee comprised less than 1% of the loan portfolio for four of the banks.)

Solution

In 2012, a DCA agreement was signed between USAID and six local commercial banks with funding from Kosovo's Ministry of Agriculture, Forestry, and Rural Development (MAFRD). MAFRD contributed a €2.5 million to cover the full cost of the guarantee, a cost typically born by USAID, to back the $26 million in loans planned to be generated through the DCA.

Mobilizing Private Capital

To date, $23 million in loans have been disbursed to encourage the growth of private enterprises operating in the horticulture, livestock, and cereal value chains. For some the increased competition in the market has even led to reduced interest rates. After this successful DCA guarantee partnership, the Government of Kosovo established the Kosovo Credit Guarantee Fund (KCGF), modeled after DCA, to issue its own guarantees to local Kosovan financial institutions to mobilize lending for MSMEs across the country.

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