

M O B I L I Z I N G I N V E S T M E N T S B Y
D E B T F U N D S F O R U S A I D
D E V E L O P M E N T P R I O R I T I E S

F I N A L C A P S T O N E P R E S E N T A T I O N

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OUTLINE

PROJECT

- Team
- Client
- Executive Summary

RESEARCH

- Methodology
- Countries and Thematic Elements
- Funds Landscape Analysis
- Case Studies

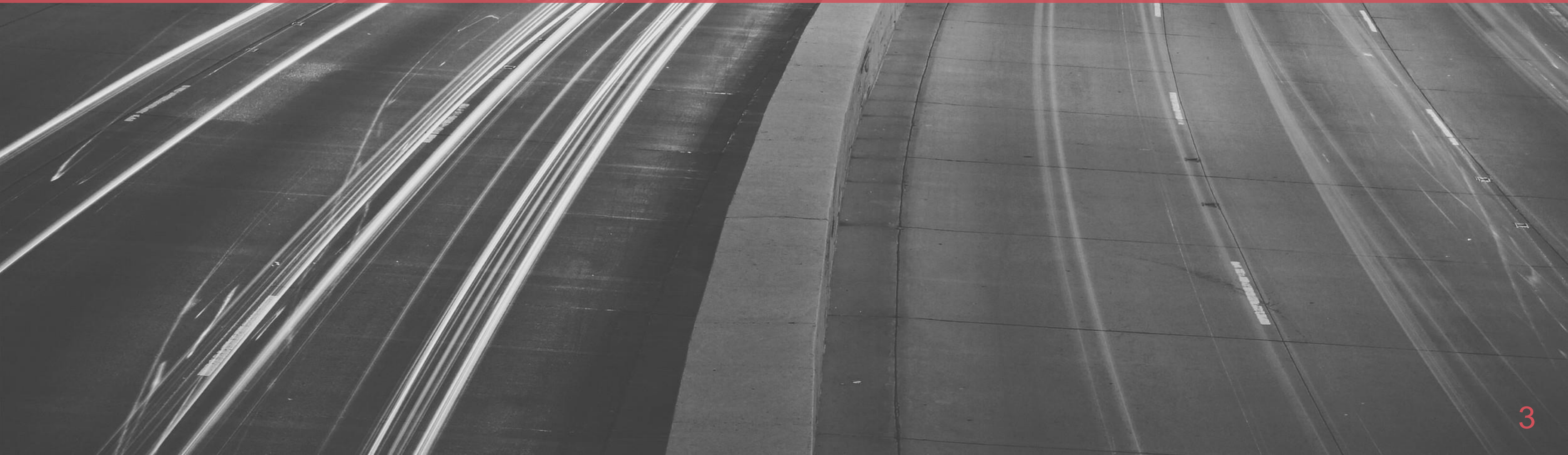
RECOMMENDATIONS

- Partnerships
- Risk Structures
- Pricing
- Value-Added Services

APPENDIX

- Glossary
- Survey

PROJECT



TEAM



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CLIENT LIASON

CLIENT: UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT (USAID)'S
DEVELOPMENT CREDIT AUTHORITY (DCA)



\$5.4 billion
76 countries

1999 - 2017
PORTFOLIO



Loan
Loan Portfolio
Portable Bond

GUARANTEE
PRODUCTS



Risk Reduction
Longterm Lending
Continued Lending

MISSION



EXECUTIVE
SUMMARY

How can we leverage the DCA risk-sharing tool to increase investment in priority sectors in the next 12-18 months, by identifying and attracting debt funds that require credit enhancement to lend?

EXECUTIVE SUMMARY

Third-party guarantors with similar regional and sector focus (e.g. - ATI, MIGA, GuarantCo).

PARTNERSHIPS

Innovative risk structures with third-party guarantor partners (e.g. - Bridge Loan vs. Long-term Debt Coverage)

RISK-STRUCTURES

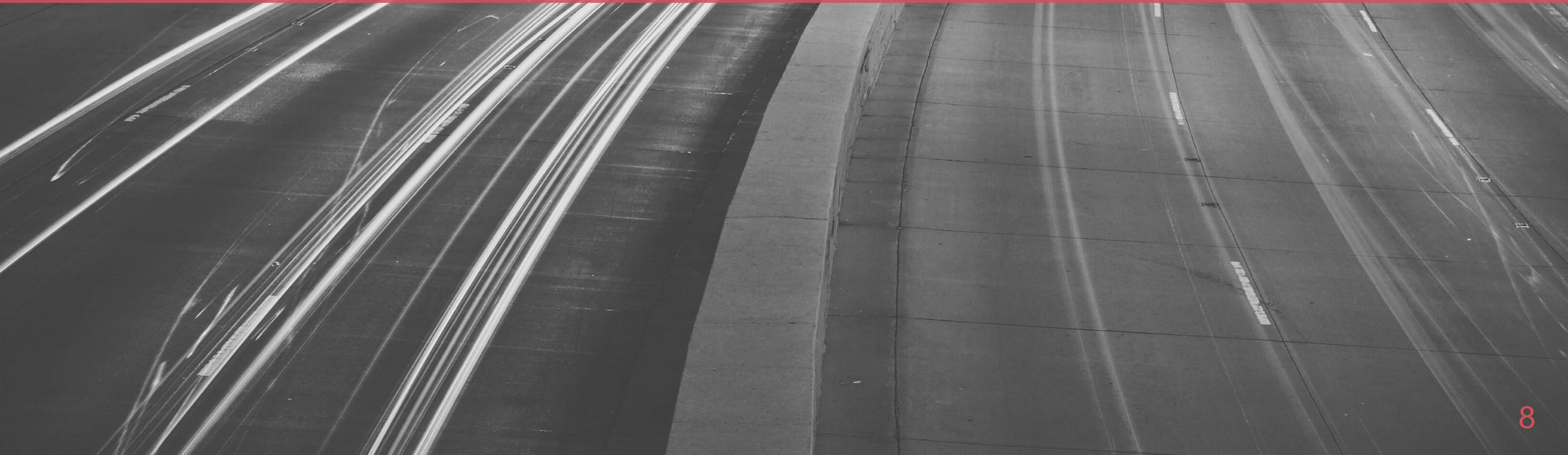
Dynamic pricing to leverage risk splits, guarantee profile and investment ticket size.

PRICING

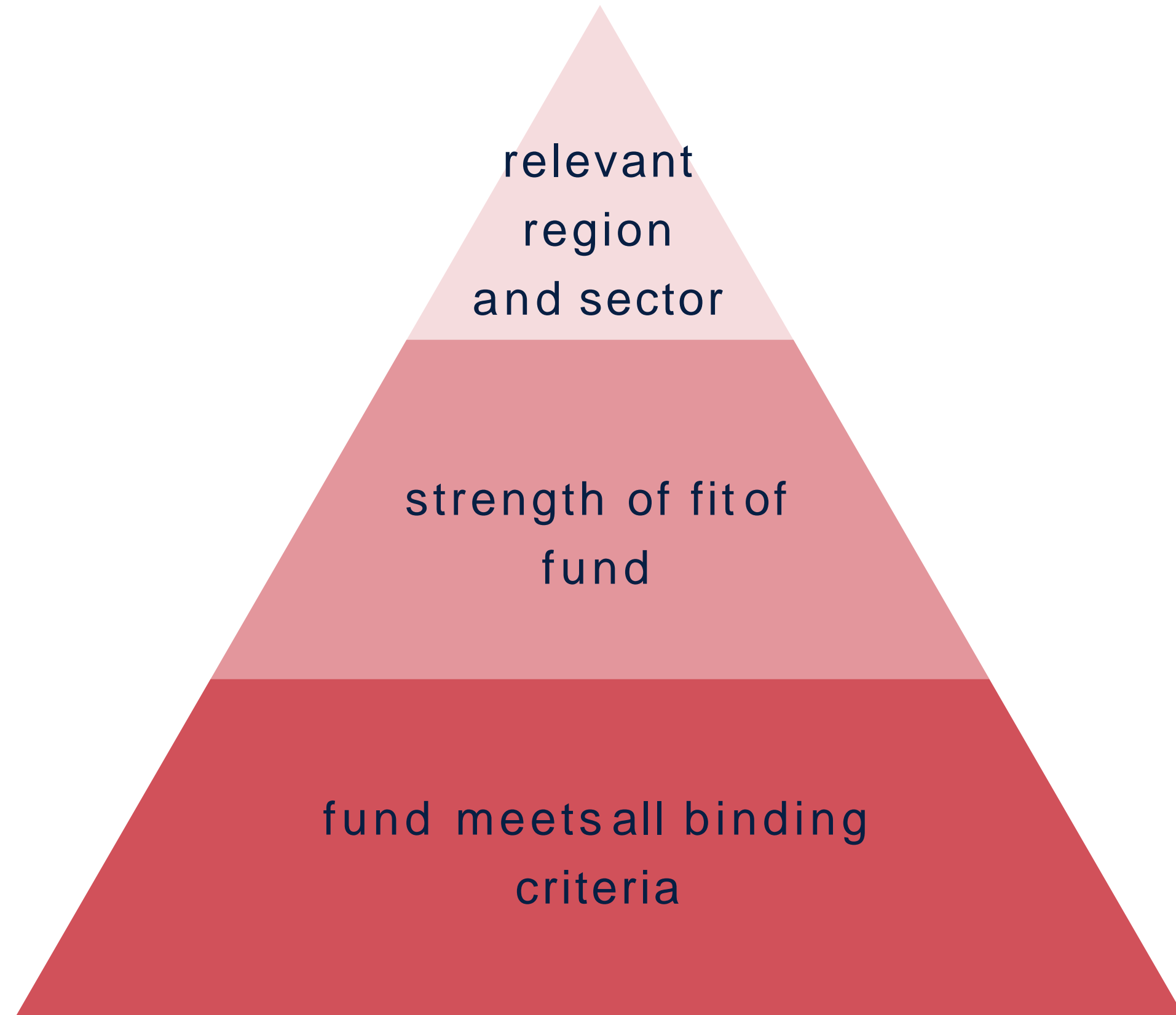
E.g. - Technical assistance and knowledge-sharing, field support, data and due-diligence support.

VALUE-ADDED SERVICES

RESEARCH



METHODOLOGY



METHODOLOGY: BINDING CRITERIA

BINDING CRITERIA/SCORES	0	1
GEOGRAPHIC REGION	no activity in any USAID-focus country	activity in a USAID-focus country
DEBT-FOCUSED/ HAS A DEBT INVESTMENT COMPONENT	no debt component (e.g. only equity, growth capital)	yes
OWNERSHIP	majority government/DFI/ multilateral	majority private
FUNDS PIPELINE	complete	ongoing

KEY:

0 - does not meet binding criteria

1- meets binding criteria

METHODOLOGY: STRENGTH OF FIT CRITERIA

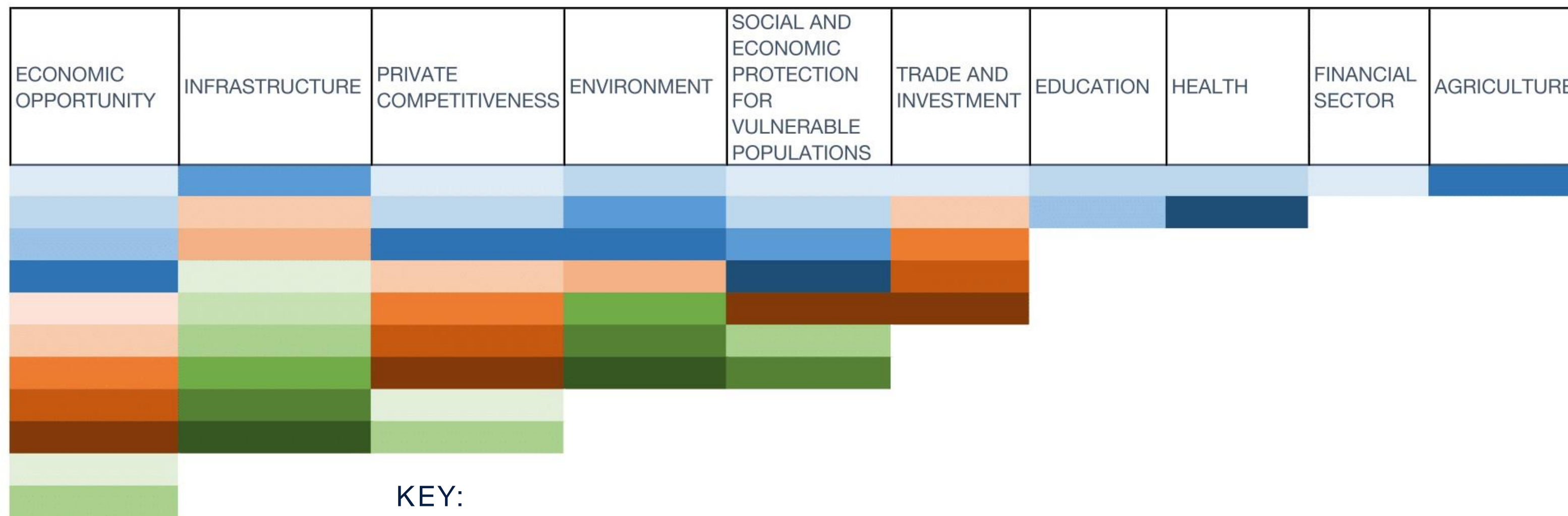
OVERLAPPING CRITERIA/SCORES	0	1
INVESTMENT TICKET SIZE (\$10M CAP)	large (>\$50M)	medium (\$1-50M) and small (<\$1M)
RISK PROFILE	low risk	medium-/high risk
INVESTMENT HORIZON	short-term	medium-/long term

KEY:

0 - weak fit

1- strong fit

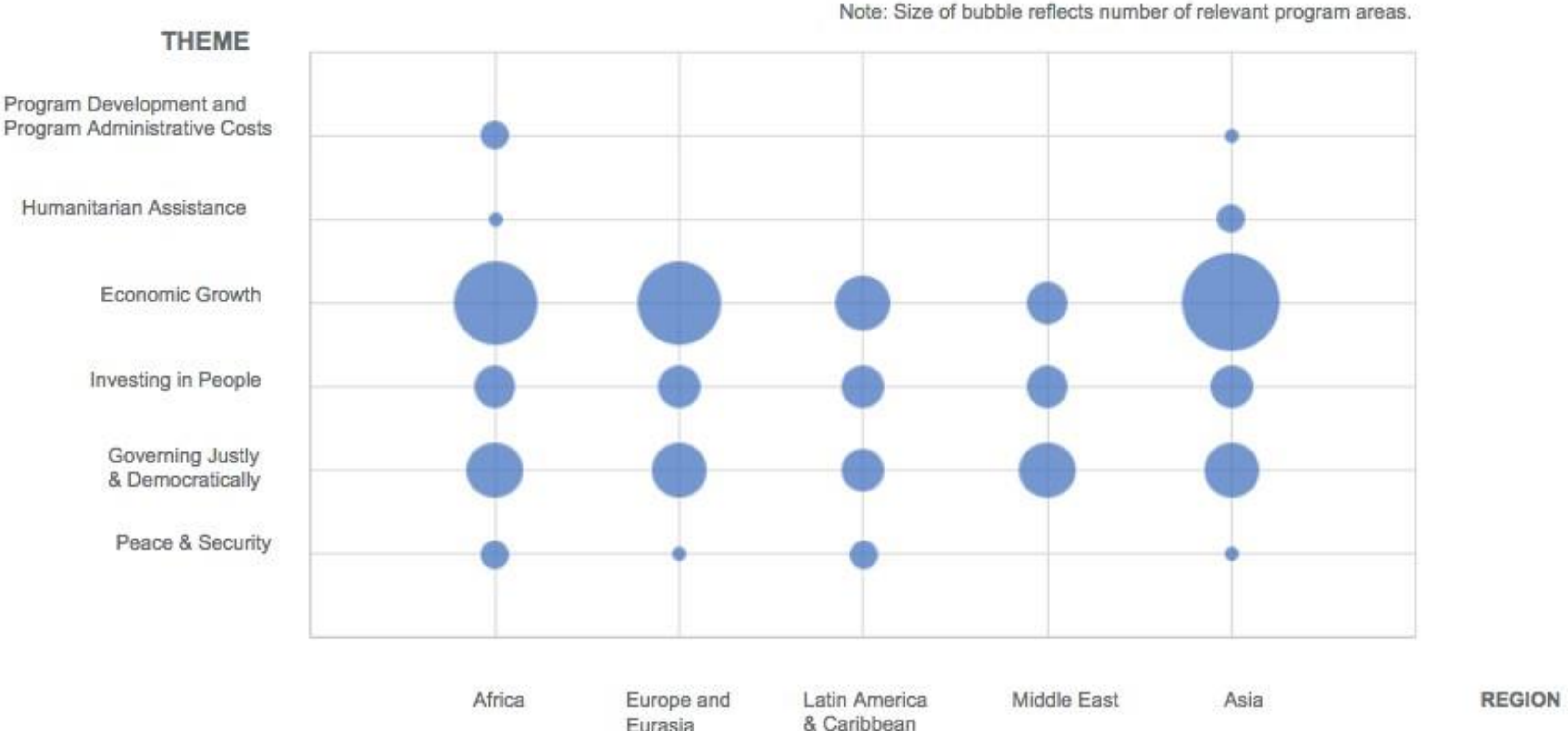
METHODOLOGY: THEMATIC AREA - SECTOR MAPPING



KEY:

Banking & Financial Services	Light Blue	Housing & Real Estate	Light Orange	Mining & Other Resources	Light Green
Community Development	Light Blue	Industrials	Orange	Oil & Gas	Light Green
Education	Light Blue	Infrastructure	Orange	Telecom & Integrated Communications Technology (ICT)	Light Green
Energy & Environment	Blue	Manufacturing & Consumer Products	Dark Orange	Transportation & Logistics	Light Green
Food & Agriculture	Dark Blue	Micro, Small and Medium Enterprises (MSME)	Dark Orange	Utilities	Light Green
Healthcare	Dark Blue	Microfinance	Dark Orange	Water, Sanitation & Hygiene (WASH)	Light Green

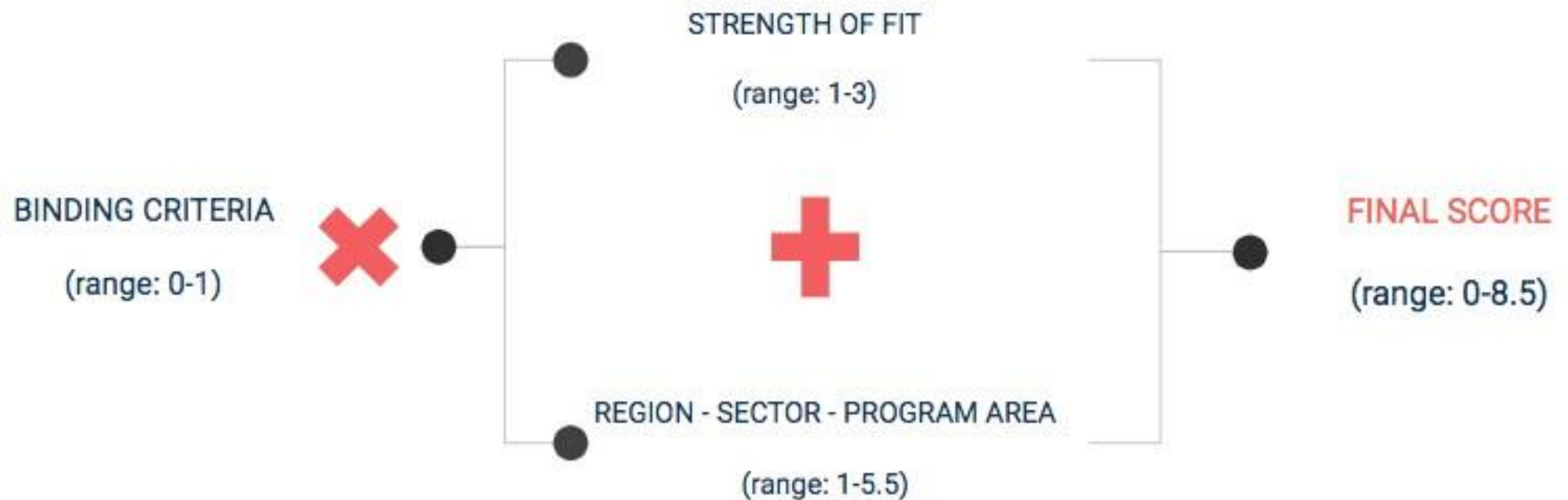
COUNTRIES AND THEMATIC ELEMENTS



METHODOLOGY: SCORING

final score = binding criteria * (strength of fit + region-sector-program area)

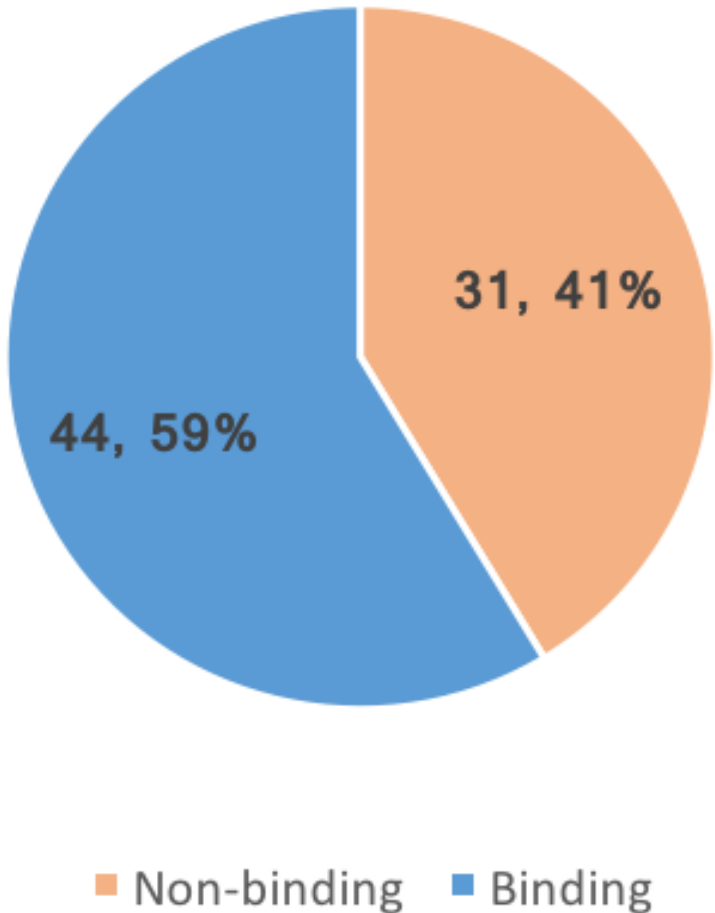
region-sector-program area score = # regions the fund invests in * # of program area overlaps



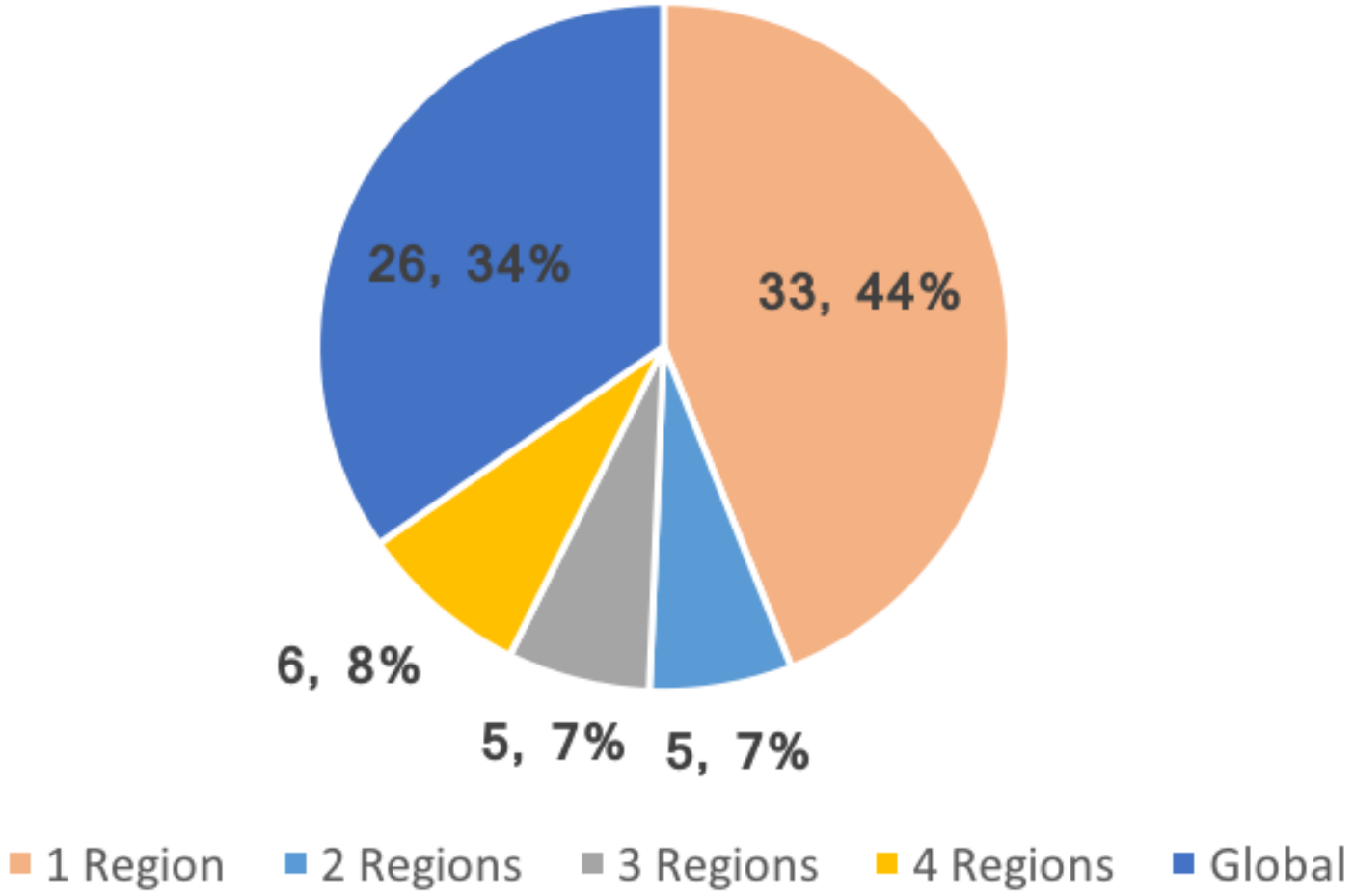
FUNDS LANDSCAPE ANALYSIS

HIGHLIGHTS OF 75 RESEARCHED FUNDS:

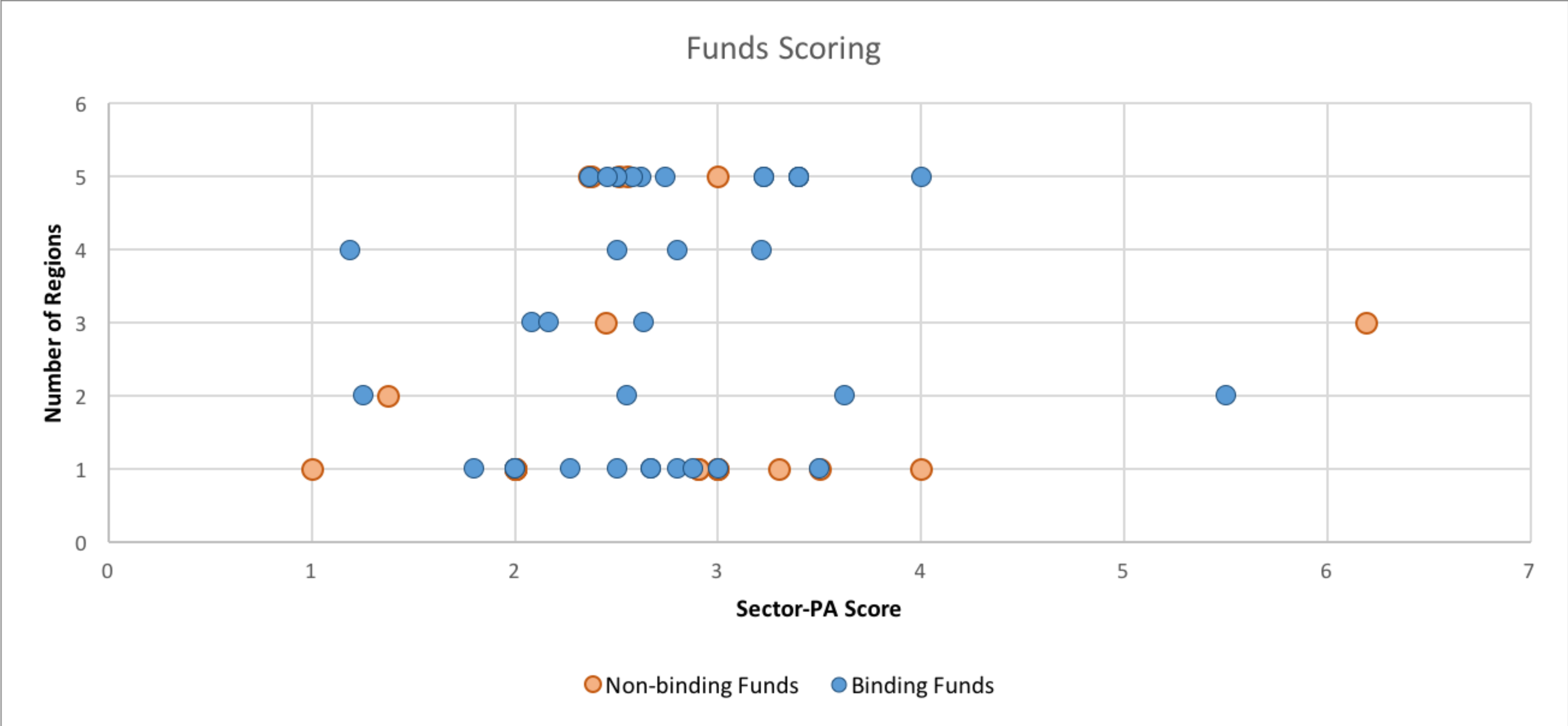
- Most funds meet binding criteria to partner with USAID



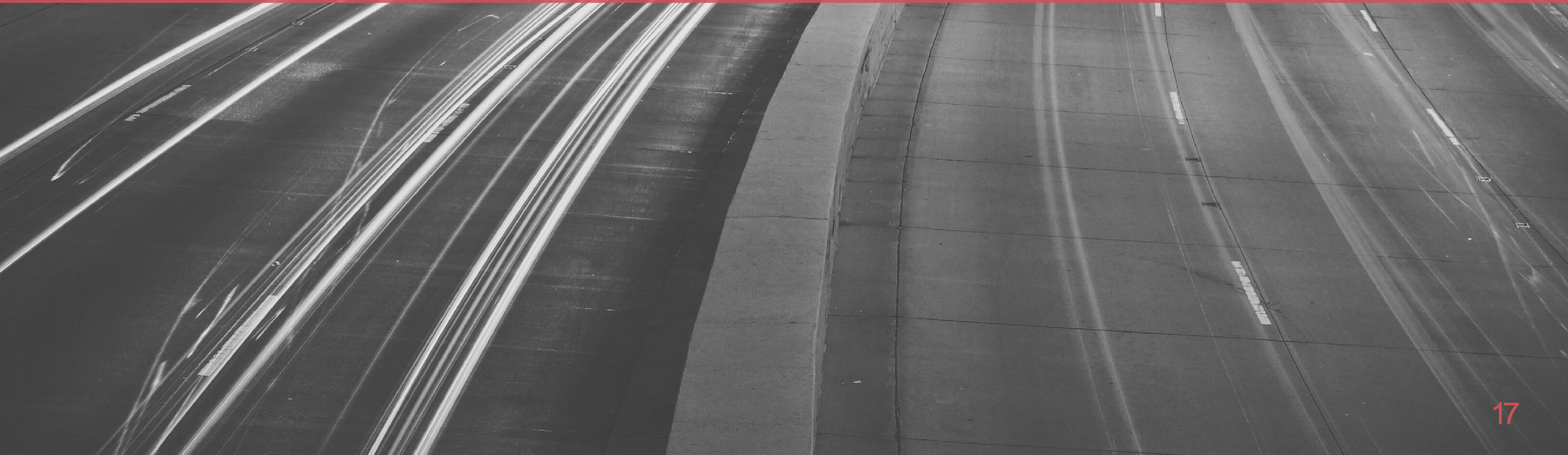
- 57% of Funds invest in 2 or more regions of the globe



FUNDS LANDSCAPE ANALYSIS



RECOMMENDATIONS



OVERVIEW

Third-party guarantors with similar regional and sector focus (e.g. - ATI, MIGA, GuarantCo).

PARTNERSHIPS

Innovative risk structures with third-party guarantor partners (e.g. - Bridge Loan vs. Long-term Debt coverage)

RISK-STRUCTURES

Dynamic pricing to leverage risk splits, guarantee profile and investment ticket size.

PRICING

E.g. - Technical Assistance and knowledge-sharing, field support, data and due-diligence support.

VALUE-ADDED SERVICES

PARTNERSHIPS: DEBT GUARANTEE WITH OTHER PARTNERS

XX is a large and diverse agriculture-focused debt investment fund.

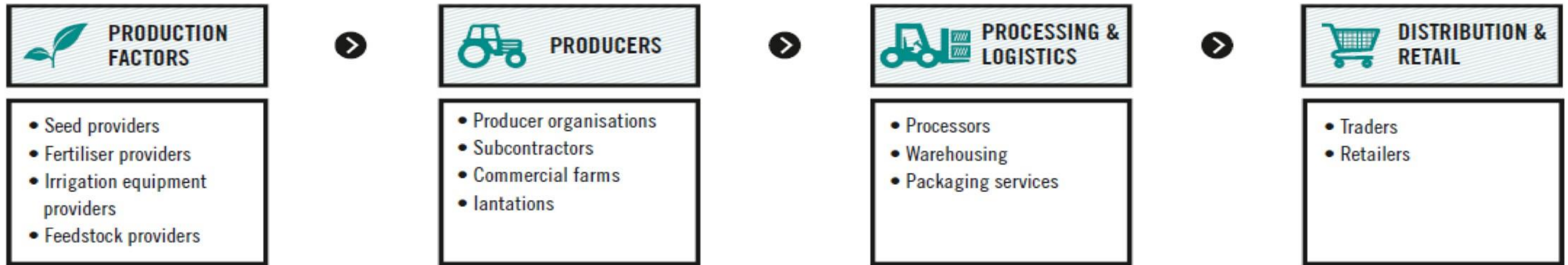
Investment Strategy:

- Direct and indirect investments into selected actors in the agricultural value-chain.
- Diversified across range of agro-commodities selected on strict internal criteria.
- Medium to long-term investment horizon.

Benefits for Investors:

- Attractive yield opportunities in low-interest rate environment.
- Diversification from traditional assetclasses.
- Investments in the real economy of emerging markets.
- Contribution to sector's sustainable development.

PARTNERSHIPS: DEBT GUARANTEE WITH OTHER PARTNERS



Key Impact:

- Improved economic situation of actors along agricultural value-chain.
- Sustained productivity and yield increase.
- Development and prosperity in Emerging & Developing Economies

PARTNERSHIPS: GUARANTEE WITH REGIONAL PARTNER

Guarantee Description: Joint Loan Portfolio Guarantee (LPG) with <Third-party guarantor> to <XX Agriculture Fund> to expand credit to Agriculture sector in Africa.

Risks split between partners based on risk-type (Commercial vs. Non-commercial)

The proposed LPG supports USAID/Africa Program Area 4.5 (Agriculture) and is intended to promote access to finance for agricultural value chain players to improve economic situation of actors and sustain productivity and yield increases with the overarching goal of development and prosperity in the target emerging economies.

PARTNERSHIPS: HYBRID GUARANTEE

- Channel debt fund investments to infrastructure assets in emerging markets.
- Advantage: Portfolio diversification and strong emphasis on USAID's economic development criteria through improved infrastructure.
- Possible risk-splits between USAID and GuarantCo:
 - Debt Service Reserve Account (DSRA) vs. Note Principal Coverage
 - Bridge Loan (e.g. - Engineering, Procurement and Construction (EPC) Guarantee) vs. Long-term Financing coverage
 - First-Loss vs. Residual Loss coverage
 - Proportional Risk (50-50) split for all relevant risk types

PARTNERSHIPS: HYBRID GUARANTEE SECTORS



Energy



Water and Waste Services



Transport



Telecoms



Midstream Gas



Urban/Social Infrastructure



Mining Support Services



Inputs to Infrastructure

RISK STRUCTURES: COMMERCIAL RISK

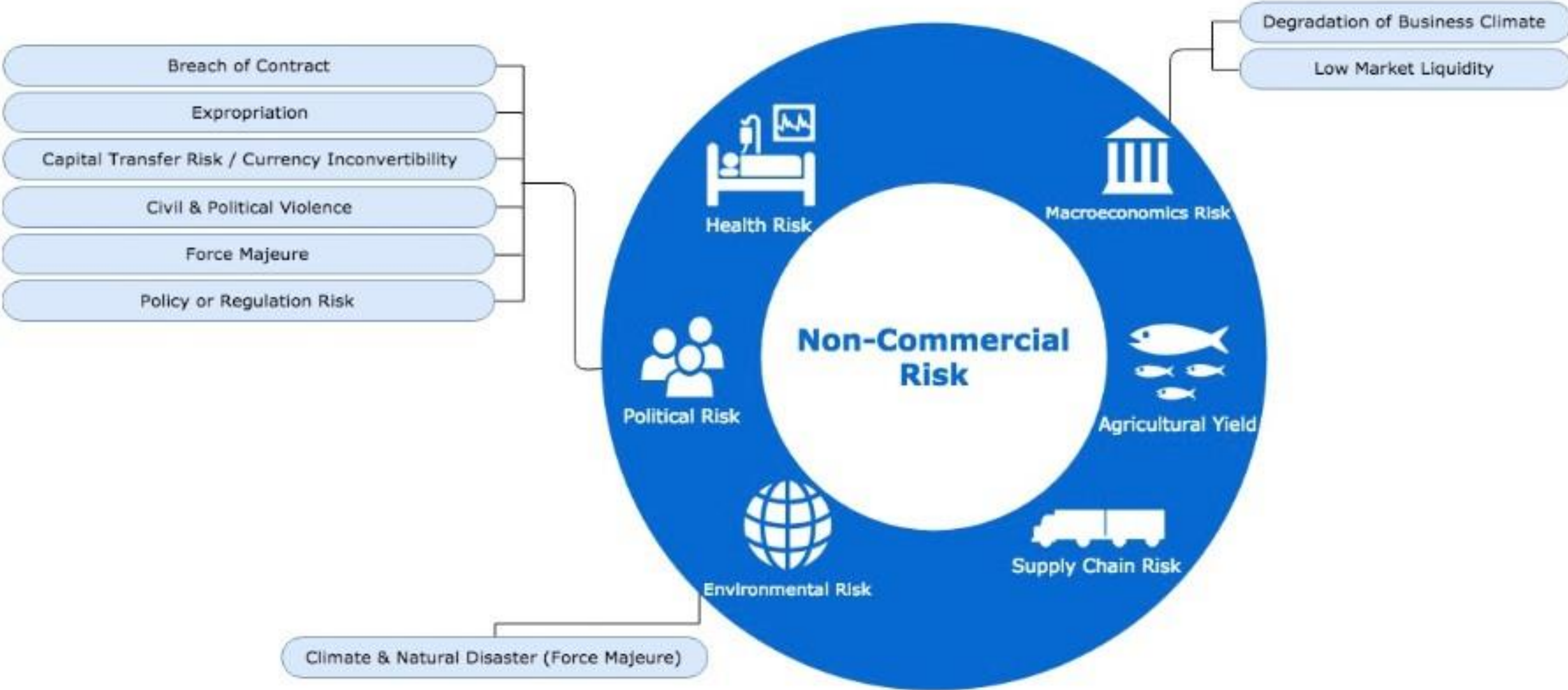
Risk a firm takes with its customers or investments by offering credit terms without collateral or recourse terms and risks that arise from conduct of business

Examples:

- Default on payment or debt obligations
- Dishonoring trade credit



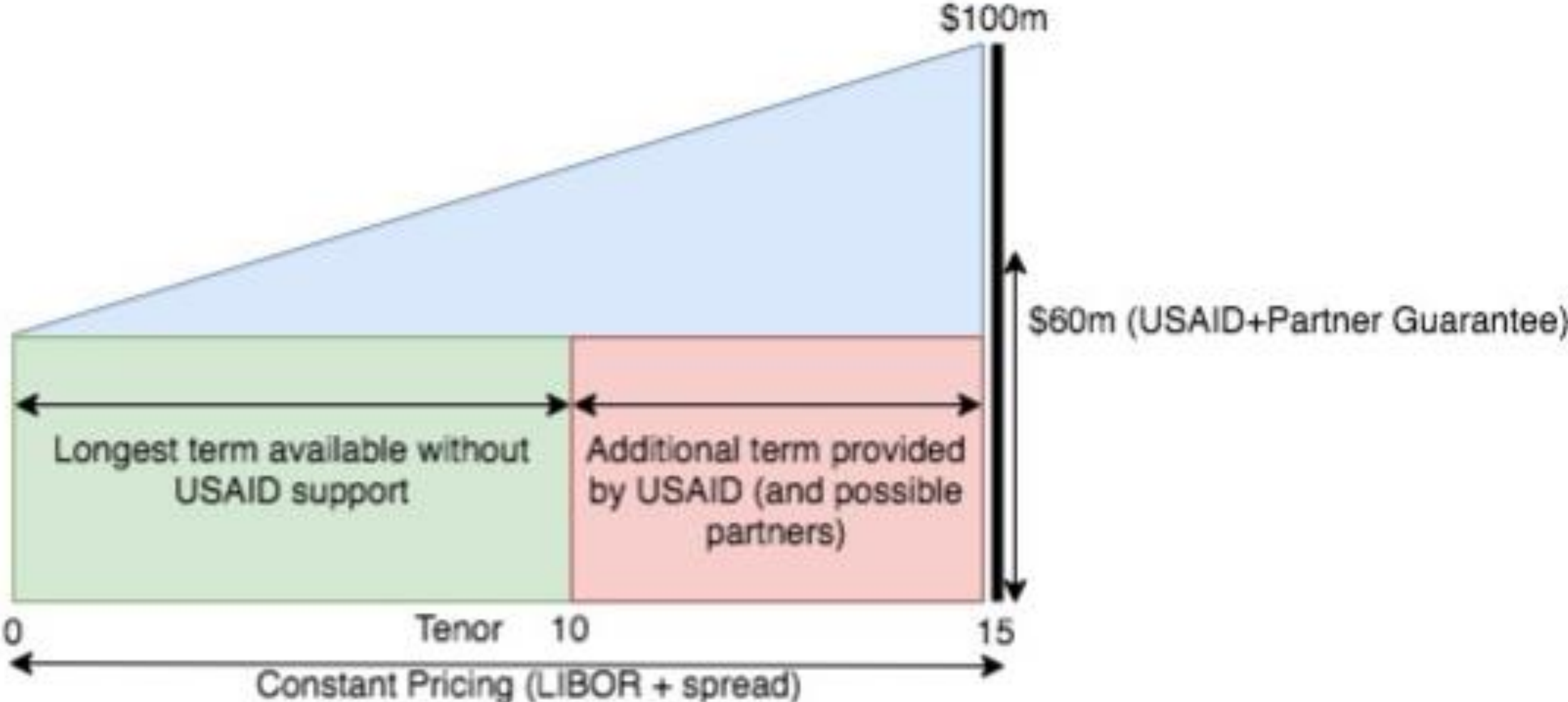
RISK STRUCTURES: NON - COMMERCIAL RISK



PRICING: IMPROVED FINANCING TERMS WITH GUARANTEE

- Longer tenor for debt financing through USAID and third-party guarantors (shown on next slide).
- Lower loan and guarantee fees through appropriate allocation of risks to guarantee partners.
- Reduced collateral requirements for borrowers.

PRICING: IMPROVED FINANCING TERMS WITH GUARANTEE



VALUE-ADDED SERVICES

- Promote a favorable ecosystem for funds and portfolio companies.
- Contribute to DCA long-term goal of proving commercial viability of lending in emerging markets.
- Examples:
 - Technical Assistance and knowledge-sharing resources.
 - Field support for portfolio companies.
 - Data and due-diligence support for smaller funds without significant presence in emerging markets.

WHAT CAN I DO ON MONDAY?

Include survey in communications (quarterly newsletter, annual partner outreach).

OUTREACH

Explore and expand funds database.

ANALYSIS

Share model with country heads to rank prospective debt fund partners.

DISTRIBUTION

Continue conversations with the two surveyed funds - Microvest and Global Partnerships.

BUSINESS
DEVELOPMENT

APPENDIX



APPENDIX I: GLOSSARY

- Binding Criteria - minimum criteria needed to be eligible to partner with DCA
- Strength of Fit - good to have criteria that enables a stronger partnership with DCA
- Sector-PA matching - measurement of overlap of funds and USAID interests
- MFI - Microfinance Institution
- LIFI - Low-Income Financial Institution

APPENDIX I: GLOSSARY

- EM - Emerging Market
- Frontier Market - developing economies, below EM in terms of credit risk to investors.