Pacific RISE Menstrual Health Trade Finance Vehicle

The Menstrual Health Enterprise Trade Finance Vehicle (TFV) is a unique financing vehicle that helps menstrual health enterprises address the financing and supply chain challenges in countries with dispersed populations across large geographic locations with limited income and commercial access.

Tackling the high cost of fabrics

At a workshop focusing on the Menstrual Health Market in the Pacific in 2018, Pacific RISE and partners Criterion Institute and PTI Australia heard from enterprises making reusable pads in the Pacific that materials make up 70-90% of their costs. Materials that can be purchased for much less, and with much less effort, in other countries. This raised an opportunity for Pacific RISE to develop an innovative finance solution to reduce the cost of key fabrics and ultimately expand access to reusable products for managing menstruation in the Pacific.

To progress the work Pacific RISE and Criterion held a design workshop and tender process that culminated in a grant to financial intermediaries Red Hat Impact (RHI) and Lotus Impact (Lotus) who have partnered to design a trade finance vehicle (TFV).

A first version of the TFV (TFV 1.0) is already operating in the Pacific. This first version has been fully funded by a mix of grant funding from Pacific RISE and a successful raise of $50,000 USD in private investment capital. Investors have committed their funds via a 12-month low interest loan to the TFV for the purpose of purchasing and managing a bulk supply of stock on behalf of pad producing enterprises. In December 2020, TFV 1.0 was recognised as ‘impact investment market builder of the year’ at the Australian Impact Investment Awards.

MH TFV 1.0 Key Design Principles

| Market challenges are in the supply chain, not the enterprise. Therefore, we solve for supply chain issues and not work to “fix” the enterprise | Producers should not bear the risk of the financing | Enterprises should be strengthened by this effort to shift their market position in their community, through their access to financing for the movement | Producers are largely informal enterprises and should not have to formalise in order to participate in the scheme | The initial focus is solely on menstrual health enterprises, but could expand to related products, nappies, etc. |

**Women Prospering in the Workforce**
by supporting the stabilisation and growth of independently owned local enterprises that mainly employ women in the reusable pad production process

**Women Succeeding as Entrepreneurs**
by supporting the stabilisation and growth of women-owned, controlled and managed enterprises, through the provision of direct support to their stock acquisition, cash flow and working capital requirements

**Women Enabled in the Economy**
by building up a market solution designed by women for women, and placing women in positions of control and influence at every level of the solution
Criterion Institute worked with RHI and Lotus to ensure a gender and power dynamic lens were incorporated into the design of the vehicle. For example, a syndicate of investors was preferred in place of a single large investor to help balance the power of capital in the deal. The intermediaries are also supported by an advisory board to keep the needs of the Pacific and the sector front of mind.

A Pacific RISE Case study on the work will be developed and publicised in conjunction with World Menstrual Hygiene Day on 28 May 2021.

What is a Trade Finance Vehicle?

The function of trade finance is to introduce a third-party to stock supply transactions to reduce the payment risk and the supply risks for enterprises. In this particular instance, the trade finance (investing funding) sits in between the buyer and the seller to provide up-front payment to the seller and allow the buyer (the enterprises) time to pay for the goods once received.

The TFV works by establishing supply chains that lower the cost of acquiring input materials for producer enterprises and by providing trade finance so that producers can access and use these materials to fill orders before they are required to pay. Supply agreements are established with producers in place of traditional debt contracts. This helps to stabilise cash flows and the supply of input materials for all enterprises, including informal enterprises, and to support the growth of enterprises that are looking to scale their production. This in turn leads to stabilised and increased local production of reusable pads, which supports impacts for local women like income, employment, increasing access to better menstrual health products and the education that is associated with the distribution of these products.

What is the benefit to enterprises?

➢ Access to a stable, predictable supply of lower cost key materials. This could lead to better margins, more working capital

➢ Access to materials that are otherwise hard to access in the Pacific (such as Zorb, for e.g.)

➢ No requirement for enterprises to enter a debt contract - formal and informal enterprises can participate

➢ The TFV does the “leg work” in negotiating/securing supply. Much less time and stress than current/previous possible arrangements

➢ Able to access materials ‘on demand’ – production won’t be held up because of lack of fabric

➢ Suppliers often have minimum order quantities (MOQs) that are too large for a single enterprise
How does it work?

- Investors invest into the TFV via a loan – and will receive a fixed 5% return on their investment, payable after 12 months.
- The TFV uses those funds to make a bulk purchase of the nominated goods and arranges shipping to a hub where goods will be stored and dispatched:
  - Order 1: 6,600m of plain colour PUL and 3,200m of bamboo viscose Zorb
  - A freight forwarder will handle the shipping both from China to the hub (Brisbane) and from hub to enterprise.
- Enterprises enter into a supply agreement with the TFV and submit an order for fabric
  - the TFV arranges shipping to the enterprise using a freight forwarding service.
  - Enterprises pay for the materials on an agreed timeframe that works best for them: on receipt/30 days/60 days. The TFV retains a lien over the stock until payment is received.
- The price per metre paid by the enterprise is inclusive of:
  - Fabric cost
  - Shipping and handling
  - Insurance
  - Cost of finance (the return for the investors, forex risk, etc)
  - A small margin to cover the cost of TFV services and operations
- Once all of the fabric is ‘sold’ to the enterprises, at the end of their loan term investors can decide whether to roll-over their investment or receive their principal and interest.
- Another order from the/a supplier will re-start the cycle. Subsequent orders will be triggered by growing demand and available stock levels.
- The TFV aims to broaden the range of materials available, as demand requires and supplier prices permit
- As the demand for the TFV grows, more investors or larger buy-ins from existing investors will be sought.

What’s next?

Following this first run of the TFV, there will be a lot to learn and improve for subsequent orders. The next steps include:

- Recruit more enterprises to participate in the vehicle and place orders – larger orders will mean more stability for the TFV and potentially even better prices
- Develop a case study on the project for the Pacific RISE learning program and for partners and investors: this will help communicate how this works, and how it can be replicated in other markets or for other products, if scale is possible, what has been learned.
- Lotus, Red Hat and Criterion are working on what the TFV needs to become sustainable – how to take it from pilot to permanence?
- Research alternative suppliers – and/or add suppliers of more types of fabric used in pad production
- Investigate other types of enterprises that could be supported by the TFV, such as those making reusable nappies.