

Opportunity Brief: Menstrual Health Market in the Pacific

Trade Finance as a Tool for Strengthening the Ecosystem

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This opportunity brief outlines the investment opportunity posed by menstrual health social enterprises in the Pacific region. It explores how trade finance vehicles can be used to move financial capital toward community-based social enterprises in order to strengthen the supply chain, and ultimately create a sustainable production of reusable menstrual pads in the Pacific. The brief specifically outlines how the structuring of trade finance can account for a potentially novel approach to investing in informal markets. It suggests that investment can be pooled into a financial intermediary who would then offer a set of different trade finance vehicles to meet the needs of local enterprises. These could include but is not limited to: trade credit insurance, pre-shipment capital, factoring, export credit etc. Trade finance vehicles therefore can be used as investments into the ecosystem, which ultimately strengthen the businesses, but also creates a more effective and appropriate market infrastructure in the long-term. This brief suggests that through innovative investment vehicles, investors can capitalise on this market (and social) opportunity and support venture creation for community-based enterprises. The menstrual health market is just one example of a variety of informal markets whereby trade finance could be used to deliver considerable financial and social returns.

BACKGROUND

This opportunity brief is written in the context of a year of concerted efforts by Criterion Institute and Pacific Rise to understand the market opportunity of menstrual health in the Pacific and identify innovative approaches to moving capital. In September 2018 the Criterion Institute, supported by DFAT and Pacific Readiness for Investment in Social Enterprise (Pacific RISE), facilitated a four-day workshop in Melbourne, Australia. The workshop brought together a diverse range of social and business actors focused on improving menstrual health management (MHM) in the Asia-Pacific region to understand and overcome inefficiencies and obstacles in the menstrual health market across the region. The workshop focused on understanding the challenges faced by local social enterprises and identifying opportunities to improve market performance, and how appropriate types of capital could increase local access to menstrual health products.

ASSESSING THE OPPORTUNITY

Like many community-based enterprises in developing countries, menstrual health enterprises face a variety of challenges in securing the financial backing necessary for their growth. Little efforts have been made to explore how innovative financing could improve the scalability and viability of early-stage finance provision for menstrual health enterprises. It is this task that Criterion Institute and Pacific Rise have undertaken.

The Menstrual Health Market

Menstrual Health is a sizeable market estimated to be worth \$42.7 billion by 2022. One of the fastest growing markets is the Asia-Pacific region, which accounted for the largest market share in 2015 at 48.9%, owing to increased awareness of menstrual hygiene and the higher adoption of sanitary pads

across the region. ¹ Whilst large corporations such as Procter and Gamble, Johnson and Johnson and Unilever maintain a monopoly over the market (particularly in developed countries), in emerging contexts menstrual products remain widely inaccessible and affordable to large segments of the population. To solve for this gap we need to invest in approaches that create appropriate alternatives, driven by the community.

“There are an estimated 1.2 billion women globally who lack access to the menstrual hygiene products to adequately manage their menstrual cycle.” ²

Within emerging contexts, alternatives to mainstream disposable menstrual product companies are increasing in popularity and remain a relatively undervalued and underinvested opportunity. In a variety of regions, grassroots enterprises have proven effective in designing and distributing products to this underserved market. These local enterprises are community focused, fit for purpose, and serve multiple needs in the community, including sustainable employment. Additionally, they are often women-led.

However, they largely exist in the informal sector lacking access to the necessary financing to manage and strengthen their business. Capitalising on this opportunity, would enable the growth of the market itself, as well as increased investment in venture creation for primarily community-led and employed businesses.

Pacific-Specific Challenges

There are a variety of regional and in-country limitations in terms of the availability and affordability of menstrual products across the Pacific.³ In response to these challenges, menstrual health focused enterprises have emerged to develop locally specific, and environmentally friendly products for women. However, they face a variety of Pacific-specific challenges in building and scaling their businesses including:⁴

- a) Major obstacles experienced by producers and businesses across the Pacific include supply chain difficulties, poor access to capital and market fragmentation segmentation.
- b) Limited bargaining power of local actors to address national and regional structural challenges such as regulation, policy and legislation, and quality control.
- c) The excessive costs associated with the importation and transportation of materials to produce products

“Materials represent approximately 70-90 per cent of the average unit cost of menstrual products produced in the Pacific, making it the largest barrier to improving the affordability and accessibility of reusable menstrual products in the region.”

As producers all use the same materials (cotton textiles, polyurethane laminate and button snaps), there is an opportunity to aggregate their supply through a single purchasing and distribution system

¹ https://www.researchandmarkets.com/research/9nnpv6/world_feminine

² <https://www.wsscc.org/2017/03/08/womens-rights-are-human-rights-period/>

³ <https://dfat.gov.au/about-us/publications/Documents/the-last-taboo-research-menstrual-hygiene-management-pacific-project-report.pdf>

⁴ <https://criterioninstitute.org/resources/unlocking-the-opportunity-in-the-pacific-menstrual-health-market>

in order to dramatically reduce the financial and time costs associated with sourcing materials, and potentially produce more as a result. This could have enormous consequences in terms of increased profitability and facilitating market growth. Shipping to and within the Pacific will remain a challenge, however, the benefits of a consolidated supply chain would make it worthwhile. Ultimately, such an adjustment to costs, would radically lower the unit cost, and increase revenue leading the development of more sustainable business models and a more efficient market to meet the menstrual health needs in the region.

INVESTMENT OPPORTUNITY

There is significant market growth potential that exists in the Pacific, however for investment to be effective, value-adding needs to be viewed differently to a typical impact investment. Investors should not be looking for a single small growth business to scale. Investors should instead be investing in strengthening the market so that enterprises are more adequately able to participate and deliver goods.

Menstrual health is an attractive area for investors, particularly social impact investors, gender lens investors, investors with a focus on young women and girls, and public and donor agencies in the Pacific. The high level of commitment by actors to build sustainable, affordable, and accessible menstrual health solutions that protect the environment, increase gender equitable economic and educational outcomes, and support the dignity and well-being of women and girls is extremely compelling.

We have identified two viable routes to investment in the context of the maturity of the market and Pacific-specific challenges: 1) Direct investment in a select number of enterprises; 2) Ecosystem-level coordination and investment.

a) Direct-enterprise level investment through early-stage financing

The provision of working capital and capital expenditure financing into several of the local enterprises whose focus is distribution, would drastically improve the sustainability of their supply chain and enable growth within their markets. Such an investment would need to be non-asset-based and invested through financial intermediaries who would embed some kind of business development support to assist the businesses with their growth plans. Current use of low cost and volunteer labour, relatively modest growth potential and low return on investment, mean a direct investment could be costly for the investor and risky for the enterprise. However, small amounts of direct investment could considerably improve financial and social outcomes for the local enterprises themselves.

While several of the menstrual health enterprises have the potential to receive such capital, an enterprise level investment would be less efficient considering the constraints in the local market. Therefore, the emphasis of this brief is on ecosystem level coordination and investment and on how trade finance could be used to deliver considerable financial and social returns for both the menstrual health market, as well as applied to other similarly constrained informal economies.

b) Ecosystem-level coordination and investment.

Using financing to invest at an eco-system level, rather than through single distribution companies, would enable the movement of capital to address the aforementioned challenges facing menstrual health enterprises. Of particular note, is how ecosystem investment would aid in consolidating a supply

chain to alleviate the pressure of material costs. This could dramatically reduce the price point of the products and overhead for enterprises. Such an investment would aid in correcting market inefficiencies inequalities and make the scope and scale of the opportunity more attractive to investors. Attention needs to be paid to ensure that correcting inefficiencies does not disempower local businesses who are currently focused on production.

“Through a systems-focused investment approach, issues around market size and supply chain challenges would be consolidated at the market rather than enterprise level. Consequently the risk of the opportunity is reduced, and the size of opportunity increased.”

This ecosystem investment would enable the investment of capital into an intermediary which would then offer a set of trade finance vehicles to meet the different needs of enterprises. This approach would ultimately use trade finance as a vehicle to invest in multiple scenarios (see figure 1), rather than one concerted effort, approach or business model. Consequently, local enterprises do not need to formalise or standardise to be considered investable, rather the vehicles would be able to meet them where they are.

Therefore, enterprise-level investments should be targeted at strengthening their specific business models, rather than aspiring for significant growth. In the context of informal economies, particularly within menstrual health market in the Pacific, investment should not require the total formalisation of the market. This interrupts the ways that good will facilitates this market currently. Whilst there is potential to scale in this approach, how capital enters the market should respect that many of the menstrual health enterprises in the Pacific are already appropriately scaled.

THE CASE FOR TRADE FINANCE AND MENSTRUAL HEALTH IN THE PACIFIC

The following explores how a possible trade finance deal could be structured in order to move capital to the Pacific. It outlines what the structure of such an innovative ecosystem level investment could look like using trade finance as the organising principles. It identifies some of the key questions which would need to be answered in the next stage of research.

Why trade finance?

Trade finance makes it easier for importers and exporters to transact business through trade. The primary function of trade finance is to introduce a third-party to transactions to remove payment and supply risk. As early-stage businesses that primarily exist within the informal economy, menstrual health enterprises are often perceived by finance providers to be a particularly risky and a challenging segment to serve given their limited track record, high failure rates, low collateral and high transaction costs.

By structuring a trade finance deal which accounts for these market risks, financial capital could be pooled into a financial intermediary who would then offer a set of different trade finance vehicles to meet the needs of menstrual health enterprises. These could include but are not limited to: trade credit insurance, pre-shipment capital, factoring, export credit etc. Alternatively, the establishment of a special purpose vehicle may be necessary to enable the joint venture and isolate the risk. Figure 1 (below) outlines some of the trade finance vehicles under a series of scenarios

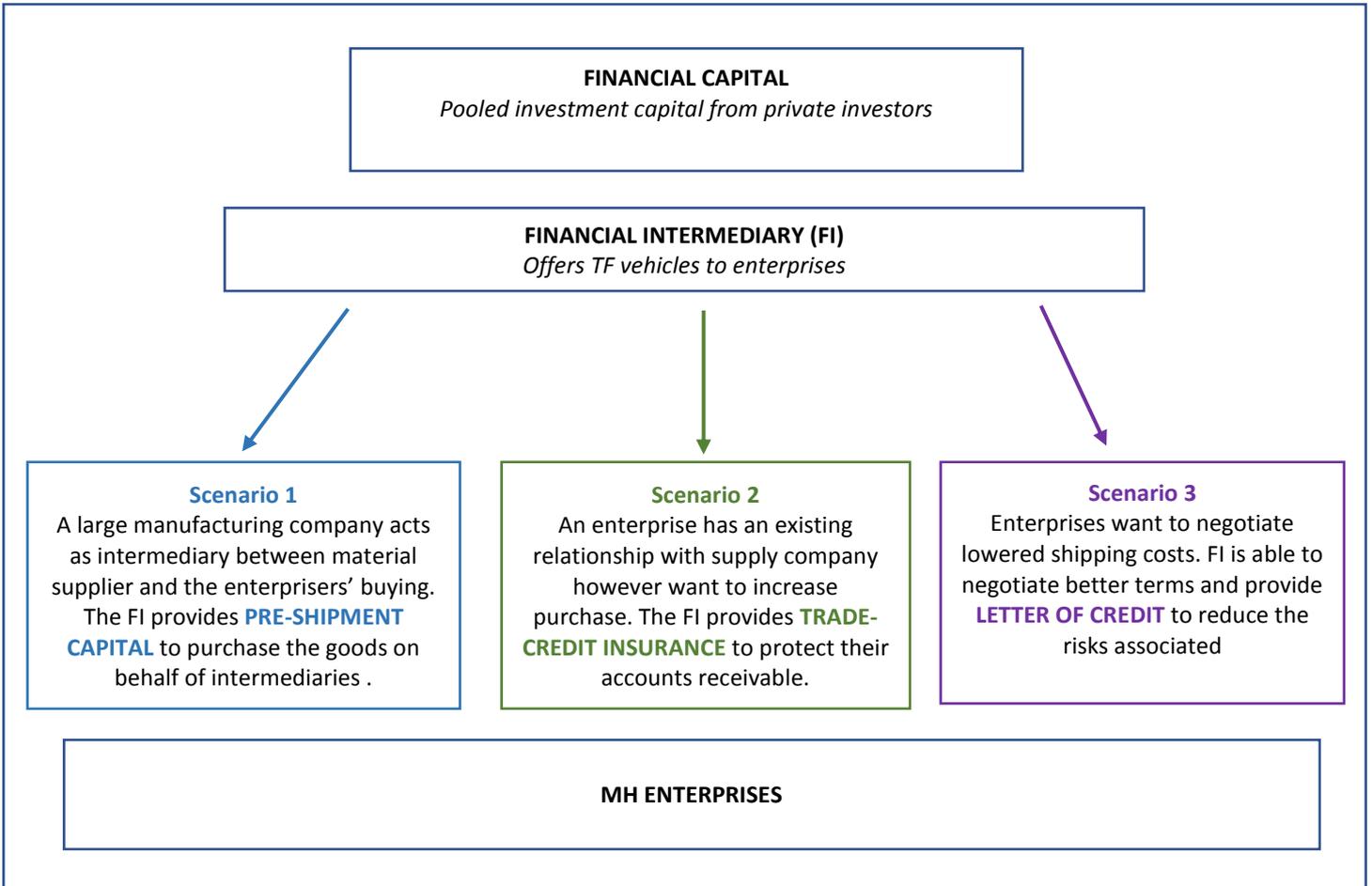


Figure 1: Structuring Trade Finance for Menstrual Health Enterprises

5.2 Market Opportunity

As a whole, the menstrual health market in the Pacific seems small comparable to other regions, however solving for this could have a huge impact. Currently, the existing 30 enterprises across the region have an average annual income of around AUD \$50,000. These enterprises target market is mostly the most-hard to reach populations including women in rural areas, girls in schools, and those living on remote islands. Figure 2 outlines the current market opportunity based on the modelling of the enterprises' current market-based approach.

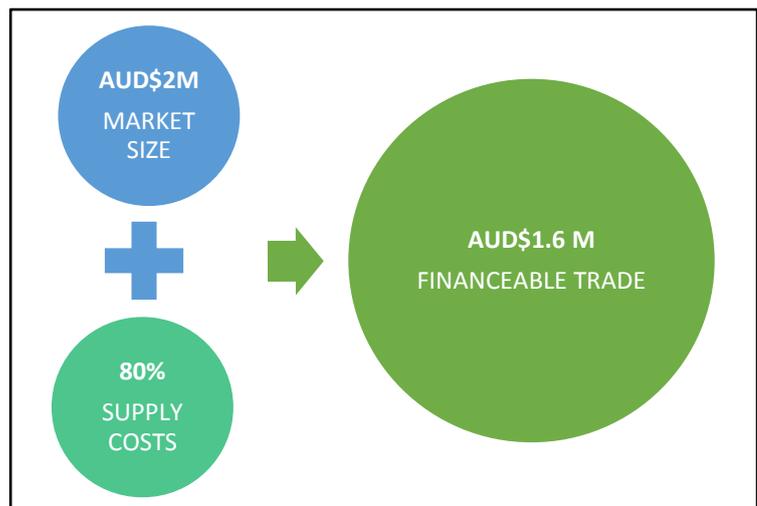


Figure 2: MH market opportunity based on current enterprise modelling

“Ensuring the cost of financing remains low would be central to the investment strategy with a goal of maintaining a 20% or more margin for the menstrual health enterprises to have available for reinvestment.”

With an influx of capital, and improvements to the supply chain, this market has the potential to grow exponentially including to unserved female populations, as well as across other related female health products.

USP of this type of investment

Increased revenue	Menstrual health enterprises, are small but have the potential to significantly increase revenue through low levels of investment
New employment and economic activity for women	With women primarily the founders and employees, investment can have tangible economic outcomes for women in terms of livelihood and employment benefits
Scale to different female health products	Menstrual health is the entry point to a variety of female health related issues therefore scale for these businesses could include other products such as maternity wear, incontinent products, nappies etc.

Key questions to be considered

1) How material would be transported from supplier to buyers?

We can facilitate the purchasing of materials at a lower cost, but also need to find ways to move the goods to and within the Pacific. We have explored a range of options here but have not settled on one option. Enterprises may use trade finance or through a financial intermediary to be better able to negotiate shipping terms. Alternatively, some may consolidate shipping routes.

2) Where does the trade financial vehicle sit?

We have many people who would like to facilitate the trade but need to determine the best place to house the trade finance. It could be run by a financial intermediary in the Pacific, or an SPV could be established as the central organising entity.

3) What are additional risk mitigation strategies, for disruptions of trade based on political risk, currency risk or climate risk?

We can explore the integration of some level of insurance into the product to reduce the risk for both the enterprise and the investor.

4) Is there a role for a guarantee as we prove out the model?

We are working to identify investors who are willing to participate in testing the model.

5) What is the role of major buyers (NGO's) in guaranteeing demand for products?

NGOs have a role to play as major buyers and potentially market facilitators contributing to the sustainability of the menstrual health ecosystem. Collaborations between the two could enable receivable financing.

6) What is the potential volume of trade?

We have imagined this as relatively small vehicle to begin with, but the vehicle could grow to facilitate other forms of trade ie. Scale, aligned products, or other markets

7) What other parts of the ecosystem need to continue to be strengthened in order to have this function effectively?

There is a need to look at the balance of investing in an overall ecosystem and then isolating the needs around trade. Blended finance could be used to enable elements of ecosystem building and coordination not possible through trade finance alone.

8) What over time will drive down the cost of the transaction?

Efforts need to be made to continue to build trust within a network of producers so that this is not some distant external financier but rather a trusted part of the ecosystem

9) What level of formalisation is needed by enterprises to be able to participate?

A set of minimum viable legal/administrative structures will be needed. These should not place an unreasonable burden on enterprises. One formalized centralised system would potentially interrupt the benefits that are informally working in the market. For example, some enterprises have existing relationships with shipping companies which provide subsidised shipping, others are given free labour etc. Central to the design of this investment opportunity is the use of trade finance to be able enable local enterprises to leverage existing relationships or imagine other configurations of partnerships that could meet their needs.

NEXT STEPS

This opportunity brief explores how trade finance can be used to create a sustainable ecosystem of menstrual health enterprises in the Pacific region. Moving capital through such a vehicle could not only improve the economic and social outcomes of women in the region related to menstrual health but could grow to align for different markets whose similarly small size and informality make them less desirable to traditional investment vehicles.

With Criterion Institute's commitment to exploring innovative investments in menstrual health globally, we are working on developing and testing this trade finance structure further to strengthen community based menstrual health enterprises, as well its application to other market opportunities.

We invite you to explore this opportunity with us as we create new approaches to moving investment capital in the Pacific that address women's economic empowerment.