



# Trade Finance Vehicle For Menstrual Health Producers in the Pacific

Concept & Funding Note for v3, August 2023

## Summary

Red Hat Impact (RHI) seeks AU\$100k in philanthropic funding to match AU\$250k from the Australian Government to progress the development of an award-winning finance vehicle to benefit women-led enterprises across Asia Pacific.

## Background

The Trade Finance Vehicle for Menstrual Health Producers in the Pacific (the TFV) emerged from sector level work undertaken by a group of key actors working in the Pacific to address menstrual health. Some of the leading voices amongst the key actors came from a network of women-owned Pacific enterprises who are local producers of menstrual health education and products.

From this work, it became clear that the enterprises were focused on increased access to safe and affordable reusable menstrual hygiene products in the communities in which they operate. The core barrier identified by them to this was the uniquely high raw material and transport costs. As all pad distributors require the same core materials, trade finance was identified as a high-potential leverage point to lower pad costs by aggregating supply chains and increasing access to commodity financing. It was also recognised that a trade finance vehicle could unlock new types of capital for the Pacific region, and there was confirmed private investor interest in playing a part to support such a vehicle for this sector.

In 2020, Red Hat Impact was engaged by the PacificRISE Program (Australian Government, now closed) to work alongside key actors to design and launch a first test version of the TFV. The test version of the TFV essentially involved working with enterprises to understand their stock requirements, purchasing stock to supply them with,



shipping it to enterprises under financed supply agreements and helping the enterprises to meet and manage repayments.

A blended finance approach to funding was successfully employed. Red Hat Impact's time for design and initial implementation was funded at AUD\$75,000 by PacificRISE. A US\$50,000 'crowd loan' was raised from 15 investors (13 of whom are women or organisations exclusively supporting women) for 12 months at 5% simple interest per annum, used as a facility to cover the cost of stock and logistics. Beyond initial implementation, Red Hat Impact has continued to house the TFV and support its operation on a pro bono basis.

## **Performance to date**

The TFV launched operations in September 2020. A container of fabric stock was purchased and shipped to a hub in Brisbane. From there it has been dispatched to enterprises in the Pacific as they order. The TFV finances stock and shipping for producers under supply agreements with repayment schedules designed to meet the cash flow requirements of each enterprise.

These are the headline performance figures to date:

- Stock purchasing and logistics costs of approximately US\$50,000
- Financed sales (covering stock and shipping) to date of approximately US\$30,000
- Five menstrual health enterprises supplied (3 formal, 2 informal)
- Financed sales repaid to date of approximately US\$30,000
- Current stock on hand market value of approximately US\$35,000
- Current cash on hand of approximately US\$12,000
- Investor interest repaid to date US\$6,750 (Years 1, 2 and 3)

Overall, performance has been steady and balanced, Covid-19 disruptions notwithstanding. Demand for stock has been slower than expected, primarily because market reach has been constrained by Covid-19 restrictions. However, several follow-on orders have been made and met, and new orders are currently emerging. The US\$50,000 crowd loan facility ended at 12 months, and lenders were given the option to receive their interest and roll over their investment for a second 12 months. All lenders opted to roll over into a second year, which concluded in October 2022. In October 2022, lenders were again given the option to either receive interest and roll over principal, or receive their principal and interest, for what will be a third and final year. Once more, all lenders opted to roll over their principal into the third year.

The main impacts of supporting producers this way have so far been:

- Enabling two of the formal enterprises supplied to increase their production to a level that has enabled them to take advantage of larger NGO stockpile orders for reusable pads, and more steadily supply their own retail trade and distribution

- Supporting the established trade of the third formal enterprise by helping to even out cash flows
- Enabling two small informal enterprises to access a manageable quantity of affordable stock
- The supply of locally produced reusable pads in the Pacific has grown from the 100s to 1000s (actual numbers are still being confirmed)
- All of the enterprises supplied provide menstrual health education to women and girls and give away a proportion of their product as part of their programs, and steady production supports this
- All of the enterprises have been able to provide steadier employment in the production of the pads to small teams of local women

A comprehensive evaluation of the commercial, community and other impacts of TFV version 1 has yet to be undertaken, but will be conducted as part of creating v2 of the enterprise.

## **Opportunity for v2 of the Trade Finance Vehicle**

The first version of the TFV was a small scale test, which has proved it is possible to use trade finance at the market level to improve supply and to lower some of the costs of production. This test version has maintained strong support from enterprises, investors and other key actors. An advisory group composed of producers and other key actors worked alongside Red Hat Impact during the design and early implementation phases. Most stakeholders have remained engaged throughout, and there is interest in seeing the model expanded and potentially replicated to other sectors, products and regions where similar issues are being faced.

With the development of scale, the TFV's market reach, supply chain connections and cost efficiencies would be substantially further improved, leading towards financial sustainability. For example, the TFV could reduce costs further through increased purchasing power and by shipping direct to Pacific ports rather than via an Australian-based hub.

The TFV would also benefit from full time general management to support operations and business development. Red Hat Impact has housed the TFV and provided partially funded design, implementation and operational support for the past two and half years. We are committed to supporting the TFV but cannot continue to provide unfunded support.

## **Growing and Scaling Through Collaboration and Product Expansion: Bambino Mio + Reusable Nappies**

Through the course of exploring avenues for v2 of the Trade Finance Vehicle, Red Hat Impact was introduced to the team at Bambino Mio, a leading global reusable nappy

business with demonstrated interest in supporting the growth of a Pacific locally-led reusable nappy sector. As context, across the Pacific, families use an estimated 815.5 million single-use nappies for their babies every year, with over 50% being burnt in the open or discarded into the environment through a lack of local waste management infrastructure. This causes air and water pollution, and contributes to climate change and the spread of disease.

Bambino Mio has been working since 2019 with social enterprise Mamma's Laef Vanuatu (also a customer of the TFV and producer of reusable menstrual pads) to produce modern reusable nappies specifically for Ni-Vanuatu families. Bambino Mio has provided technical and financial support to Mamma's Laef to build the local capacity to establish a sustainable modern reusable nappy enterprise that can meet the needs of local communities, reduce pollution, and save families money.

A trial of the nappies undertaken across three different communities found 85% willingness to buy the Mamma's Laef nappies in place of single-use. However, although much cheaper over the long term, the initial high upfront cost of reusables compared to single-use nappies was identified as a barrier to uptake.

In 2021, the Secretariat of the Pacific Regional Environment Programme (SPREP) published a report into nappy options for communities across the Pacific, which concluded that:

- For the majority of communities, reusable nappies are recommended over single-use;
- Reusable nappies represent a saving for families of at least US\$1,377 per child;
- Common misperceptions about the dryness of single-use nappies lead to families to change these nappies less often (4 times per day compared to global average of 5-8 times per day), potentially resulting in poor health outcomes;
- Limited availability of high-quality reusable nappies, especially in rural areas, leads to poor user experience and rejection of reusable options.

Therefore, support for Pacific-based manufacture of modern reusable nappies, alongside support for importers and suppliers, was highlighted as a key recommendation for the private sector. As is the case for Mamma's Laef Vanuatu, in several instances across the Pacific, producers of menstrual health products are also engaged in producing nappies, as the materials and markets overlap. There is therefore an opportunity to encourage the scaling up of support for both sectors by considering them together. The greater volume of input materials required for two complimentary product streams may provide the TFV with sufficient trade to generate both the returns on capital for impact investors and margin to fund its own operations. Bambino Mio's supply chain and logistics experience also presents unique possibilities for the TFV's future.

Conceptualising a trade facilitation and finance vehicle to address the market asymmetry of all women-led Indo-Pacific enterprises relying on imports to operate their businesses may provide an even greater catchment and impact opportunity. Red Hat Impact has discussed with the International Centre for Democratic Partnerships, an Australian NGO focused on the Pacific, engaging its extensive network of women entrepreneurs in the research for v2 to explore this broader scope.

## **Funding requirements for next steps towards TFV v2**

The same blended finance approach used in the establishment of the TFV can be used to deliver the opportunity for further development and the transition to TFV v2.

Private capital can continue to provide the debt facility that underwrites trade finance activities - we have full confidence that a mix of current lenders and engaged stakeholders can grow the US\$50k fund operated by TFV v1 up to US\$250k plus if the v2 case is compelling. The current US\$50k fund (third round) is due to be repaid to lenders on 30th September 2023.

**DFAT has committed AU\$250k to anchor the evaluation, engagement, design and implementation work** over the remainder of 2023 and the first half of 2024 to take the TFV to a next level of manageable scale (v2), and achieve the following:

1. Establishing a stand alone, Pacific-owned and led legal entity, ensuring that menstrual health and other similar enterprises remain the primary beneficiaries of the TFV
2. Recruiting a full time General Manager to continue current operations and drive business development
3. Stabilising and expanding the TFV's footprint in the Pacific and broadening out the range of stock it could supply, including beyond the menstrual health sector into other high impact local producers facing similar supply challenges, i.e. reusable nappies
4. Evolving operations so that the TFV is focussed more tightly on financing the supply chain and not running it

Red Hat Impact is **seeking up to an additional AU\$100k of philanthropic support** to invest alongside DFAT's project finance to achieve the above objectives. Through its partnership with the International Centre for Democratic Partnerships and its Pacific-focused Foundation, **financial contributions for TFV can be tax deductible** for Australian gifts.

Indicative tasks, budget and timeline are provided on the next page.

*To discuss co-investing with Red Hat Impact, Bambino Mio, DFAT and the International Centre for Democratic Partnerships in creating a Pacific owned and led trade facilitation*

and finance organisation to grow women's enterprise in the Pacific, contact Cameron Neil via [cam@redhatimpact.com](mailto:cam@redhatimpact.com) or +61402072452 to discuss.

## Indicative Tasks, Budget and Timeline

<b>Task</b>	<b>Budget (AU\$ ex GST)</b>	<b>Timing (2023/24)</b>
Setup project infrastructure, stakeholder steering group, website, communication channels, etc.	\$10,000	Aug '23
Evaluation of TFV v1 (commercial, market, community, advocacy and other impacts) with current clients and partners  PLUS/ALONGSIDE  Research for TFV v2 (products, materials, supply chains and logistics, markets, desired impacts, Pacific HQ, etc) with current clients and partners as well as new potential users and partners  Across: Timor Leste, Papua New Guinea, Solomon Islands, Vanuatu, Samoa, Fiji, Indonesia	\$130,000  Inclusive of 5 days of effort per country, Pacific travel, oncosts	Sep, Oct, Nov '23
Write up of TFV v1 evaluation and TV v2 research findings to present to all stakeholders  Convene stakeholder sessions to present findings and discuss options for v2	\$40,000	Dec '23, Jan '24
TFV v2 design sprints x 3, including demos and retros with stakeholders to get feedback  Design including new business model, financial projections, resourcing, scope, products, materials, etc	\$80,000	Feb, Mar '24
Implementation of TFV v2 including establishing Pacific entity, facilitating round 4 of the fund, setting up mgmt systems, etc. and first 3 months operating costs	\$90,000	Mar, Apr, May '24
<b>Total</b>	<b>\$350,000</b>	