

ANNEX 1 to APS 003-FHM-IND ACTIVITY DESCRIPTION

Title of Activity: Partnership with Financial Intermediaries for Enabling Access to Finance Products for Supply Chain Partners.

Summary/Brief Description: FHM-ENGAGE is considering issuing 2-3 sub agreements to local organizations in five Indian states, namely Maharashtra, Karnataka, Assam, Meghalaya, Delhi, that have shown strong leadership and the ability to implement interventions to influence demand and supply side solutions in women's healthcare ecosystem. Some of the proposed initiatives will be led by implementing partner CGF with support from FHM Engage India team nested under WOHLA: Women's Health & Livelihood Alliance, a flagship marketplace activity aimed at empowering women's health and economic development through collaborative partnerships and strategic interventions. These are mentioned below.

1. Advance stewardship by working alongside important stakeholders both in private sector and regulatory space to shape the market forces and make important recommendation to further private sector engagement in the national family planning program.
2. Influence market by employing market development constructs at demand and supply side for better channel flow and absorption of newer women's healthcare products, such as 3rd and 4th generation contraceptives and ECPs.
3. Build markets by promoting contraceptive choices and dispel misconceptions around modern contraceptive methods especially among 19 to 29 age group in targeted geographies expanding access to health care, including sexual and reproductive health care and ensure equity and economic security for women.
4. Improve mCPR in the targeted geographies through innovative outreach methods to reach the vulnerable populations in North-Eastern states by intertwining sports, livelihood, and health messaging along with creating awareness about contraceptive choices through physical and digital interventions.
5. Address market constraints identified to address supply channel financing and working capital need of different channel partners with respect to women's health products.

I. Objective:

The objective of the sub-agreement **is to partner with a regulated financial intermediary to facilitate availability of credit for small and medium enterprises.** The loan intermediary would; either by itself or in collaboration with a scheduled bank or a third-party aggregator, provide fit for purpose for loans at reduced cost of capital to different entities like distributors/super-stockiest, Small and Medium Enterprises such as Clinics, Maternity hospitals, supply chain logistics companies for improving consumer uptake, sales and distribution of women's health products, including contraceptives.

The proposed entity would leverage a \$ 200,000 arrangement provided by Chemonics International under FHM Engage project to spur market facilitation and provide innovative healthcare solutions in the targeted geography within the WOHLA ecosystem.

II. Background:

Frontier Health Markets (FHM) Engage is a global cooperative agreement designed to provide technical assistance (TA) supporting local actors to improve the ability of health markets to meet supply-side capacity gaps and consumer preferences and contribute to equitable provision of and access to high-quality family planning (FP) and other health services and products in mixed health systems. FHM Engage is implemented by four core consortium partners – Chemonics International (prime and co-technical lead), Results for Development (R4D) (co-technical lead), Pathfinder International, and Zenysis Technologies.

The Indian domestic market, despite access to a network of 400,000 entrepreneurial distributors³ and an estimated one million chemists⁴ to serve the world's largest youth population, is a missed opportunity. Women play a key role in the informal and formal workforce, and creative leadership and innovation is needed to engage private sector and industry in application of policies and interventions that shift social norms for contraception and expand access to family planning information, products, and services.

To address this challenge, USAID India Mission initiated a Market Development Approach (MDA) diagnosis and design process with Frontier Health Markets (FHM) Engage, that included co-creation process with other market actors and cross sector stakeholders. The goal of the FHM Engage project (2022-2026) is to initiate and put in place market development efforts, including economic empowerment of women, which in turn can contribute to the reduction of maternal and infant mortality.

III. Activity Description:

FHM Engage seeks to provide immediate support to local entities, by way of channel financing to at least 100 channel partners / 50 SME partnerships and explore user financing models in the 5 states within a specified geographical area.

Indian credit market is highly regulated by RBI, regulation cover aspects like interest rates, risk management, prudential norms for banks, lending practices, capital adequacy. While all the regulations have strengthened the banking infrastructure and the public perception around banking. The country's credit to GDP ratio is woefully inadequate compared to some of the small developing economies in Asia. Borrowers still rely on bank relationships, manual models, collateral based lending to acquire credit which are some of the reasons why the penetration of credit is still low.

Ushered in by the arrival of India stack and Account Aggregator platform, where consent-based access to KYC and access to client's credit history has opened a whole new possibility for access to capital. Problem of cost of capital and cost of servicing are attempted to be mitigated by a radically new digitally enabled mechanism through alternative credit assessment and digital based lending and collection, bringing down the operating cost and hence enabling quick and timely access to credit with bespoke loans tailored to suit the business and cashflow. It is envisaged that everything from underwriting to collection is automated.

Market Development Approach is the foundational framework that will anchor the FHM Engage project in India to address the root causes of constraints for increased adoption of modern contraceptive methods among Indian youth population (19- 29 years age group).

Within the MDA construct, supporting functions like financing is a critical lever to address market failure. In the present context, selecting a fit-for-purpose financing intermediary who can satisfy the following activities will help us to address the critical market failure.

1. Ability to use digital tools and platforms to run a credit assessment and ascertain a credit limit for each customer. We are looking for tech transformative, tech driven models which leverage risk tolerant loan financing.
2. Disburse loans or do interest subvention as per the need assessed by customers into their existing account of the bank with which the distributor/stockiest/SME are dealing.
3. Gender-sensitive lending practices and offer customized financial products that address the unique needs of women entrepreneurs in healthcare.
4. Preference will be given to entities registered on the *Account Aggregator* platform specializing in cashflow based credit decision-making.
5. Ability to aggregate the demands of numerous smaller entities to catalyze larger ticket sizes and improve commercial terms.
6. Develop transparent loan pricing and collection mechanism.
7. Ability to leverage the loan corpus up to 5 times of the grant amount and arrive at an acceptable loan pricing based on weighted average cost of capital, operational cost, and risk pricing.
8. The lending institution/loan service provider or fintech partner should follow the Fair Practices Code and Data Security and Privacy including Personal Data Protection Bill promulgated by authorities from time to time.
9. Such entities should be complying with Indian regulations for KYC (Know Your Customer) and AML (Anti-Money Laundering) guidelines as stipulated to digital lenders.
10. Must have a robust and responsive system of grievance redressal and access to such systems should be easily available to customers.
11. Ability to work with multiple banks and support CGTMSE¹ backed loan guarantees.

Specific activities to be funded under these sub-agreements may include but are not limited to:

¹ Government supported CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises), covers a wide range of credit facilities, including loans and advances, working capital, term loans, and letters of credit.

1. To the extent of total funds, the loan origination will be done by WoHLA and based on such recommendation the loan service provider will do the credit and disburse finance.
2. Credit decisioning and disbursal will be as per the parametric evaluation mechanism stipulated by the lender.
3. To the extent of grant amount, should be able to leverage CGTMSE credit guarantees without the need for collateral or third-party guarantees. Where needed, credit default guarantee will be available on the loan originated based on WoHLA's recommendation.
4. Loan service provider will provide process MIS from origination to disbursement and collections till the end of loan tenure.
5. Two minimum products based on the cashflow requirement of the channel are proposed.
 1. A credit line based on drawdown, like OD without collateral.
 2. A term loan product for specific tenures

IV.Expected Results and Key Performance Indicators (KPIs) –

1. The objective of the sub-agreements is to mobilize availability of credit at distributor/stockiest level to increase the inventory and trade volume for women's healthcare products, and help the distribution channel to access innovative credit, thus freeing the channel partner from the burden of providing lock-in security and immovable collateral. Hence the most important performance indicator will be the graduation of distributor/stockiest from collateral based loans to collateral free loans.
2. From a customer's perspective, time is of utmost importance in a loan application, sanction, and disbursal process. Tracking how onboarding the loan application and decisioning process through digital channel will enable the quick disbursal needs to be benchmarked and documented to ensure the reduction in Turn-Around-Time.
3. The sub-agreement's purpose is to improve access to modern methods of family planning and women's health care products through the distribution channel. Hence any loan service provider needs to look across pharmaceutical value chain, for product innovation like bill discounting, working capital loan, lending against stock, retailer financing, user financing and providing payment gateway support to collect and disburse funds.
4. Fostering the growth of women-led healthcare businesses would be a key performance indicator.

V.Link to FHM ENGAGE agreement and FY2024 Implementation Plan (IP):

Activities under this program will contribute to the achievement of FHM ENGAGE India Objectives. Activities envisaged under supporting services for supply chain financing is consistent with WOHLA thematic areas as listed below -

Theme 1: Increased uptake of health services within young girls and women in targeted geography

Theme 2: Increase financial and non-financial resources for women's health and livelihood.

Theme 3: WOHLA Innovations and Enterprises platform

Theme 4: Women Leadership and Efficiency in Health Workforce

Theme 5: Strengthen Advocacy for Women Health and Livelihood priorities among stakeholders.

This also involves providing funding and support for innovation and business expansion and working with the private sector to enhance contraceptive choices through improved market segmentation and introducing new contraceptive methods.

The approaches under these thematic areas involve:

1. **Public-Private Partnerships (PPPs):** Establishing collaborations among government agencies, NGOs, and private sector companies.
2. **Healthcare Services:** Ensuring women have access to affordable, quality reproductive healthcare services.
3. **Education and Awareness:** Running awareness campaigns and educational programs about family planning and reproductive health.
4. **Microfinance and Livelihood Programs:** Offering microfinance and credit services tailored to women entrepreneurs.
5. **Skills Development and Training:** Providing training and skills development programs for women.
6. **Product Innovation:** Encouraging the innovation of contraceptive products and delivery methods.
7. **Supply Chain Management:** Ensuring a consistent, reliable contraceptive supply chain.

This thematic focus aligns directly with Intermediate Results 2 (IR 2)- **Increasing supply/access to a range of affordable and accessible contraceptives** and 3 (IR 3) - **Improved demand for SRH products and services**. Specifically, it aims to enhance access to and demand for priority Sexual and Reproductive Health (SRH) products, services, and information.

Estimated Amount: USD 200,000 to be distributed within 2-3 sub-agreements

Subawards anticipated: 2-3 sub-agreements.