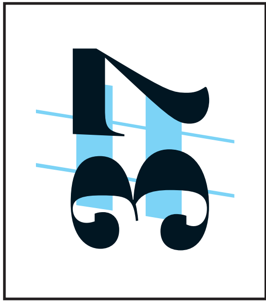

Private Sector & Development

PROPARCO'S MAGAZINE SECOND QUARTER 2022

FACED WITH THE CRISIS

WHAT PROSPECTS FOR THE PRIVATE SECTOR?

FOCUS ON THE STRATEGY OF EUROPEAN DEVELOPMENT FINANCE INSTITUTIONS

EDFI European Development Finance Institutions

INCLUSIVE RECOVERY | HEALTH | INNOVATIONS
GENDER | CLIMATE CHALLENGE | TEAM EUROPE

PS&D

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Chief executive officer, Proparco

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The spread and impact of Covid-19 on populations around the world has triggered unprecedented economic shock waves. In emerging and developing countries in particular, the entrepreneurial fabric has been severely damaged by the effects of health measures and the freezing of many local commercial activities. Whole sectors of these economies have been slowed down and MSMEs – which account for up to 80% of formal jobs in these countries – have suffered significant financial difficulties.
More than two years later, the situation is still precarious. In Africa as elsewhere, businesses continue to be directly affected financially and they face a very uncertain future. Young people and women face "significant employment shortages", as recently demonstrated by the International Labour Organization.
By its sheer magnitude, this crisis has also impacted the activity of development finance institutions (DFIs) which have been able to deploy comprehensive responses to support the private sector in the countries in which they are present. They opted, very early on, for innovative solutions tailored to the needs of private businesses impacted by the health crisis and its economic fallout. This is especially the case for European DFIs – members of the EDFI Association (European Development Finance Institutions) – who, from the start of the pandemic, stepped up their cooperation to play an essential countercyclical role by providing cumulative financing of €9 billion in 2021.
This collaborative approach has also made it possible to strengthen European DFI's partnerships with the European Union and to increase their visibility within the framework of the "Team Europe" approach.
As the EDFI Association celebrates its 30th birthday this year, cooperation among its members continues to progress and highlights the necessity to strengthen synergies to provide an effective response to the need of the private sector in developing countries. European DFIs are at the forefront in terms of harmonizing standards and procedures in particular to measure and report on impact. European DFIs are at the forefront in terms of harmonizing impact methodologies and standards. They have also developed numerous innovative co-financing platforms that enable the various players involved in development finance to meet the needs of MSMEs as effectively as possible.
Crises are becoming increasingly complex and don't stop at borders. They will always call for greater solidarity. It is our role and our duty to ensure that, together, we offer sustainable, green and inclusive solutions to our clients, on a global scale.

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Climate change director, British International Investment

Amal-Lee Amin joined British International Investment (BII) as director of Climate Change, in February 2020. Previously, Amal-Lee was chief of Climate Change at the Inter-American Development Bank (IADB) and spent ten years working on sustainable energy and climate change policy within the UK Government. At BII, Amal-Lee plays a pivotal role in leading the Climate change team and implementing the strategy.

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Guillaume Barberousse is head of the Banking and Financial Markets Division at Proparco. After beginning his career at BNP Paribas, he joined Proparco's Risk and Portfolio Division in 2007, prior to being appointed Deputy director of the Corporate Division, where he was responsible for agribusiness. He managed the Istanbul office from 2013 to June 2016. Guillaume Barberousse is an agronomist and holds a Masters in Finance from the ESCP Business School.

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Jutta Urpilainen
European Commissioner for International Partnerships

As European Commissioner for International Partnerships, Jutta Urpilainen oversees the European Commission's work on international cooperation and sustainable development. Before joining the Commission, Jutta Urpilainen served as a Member of the Finnish Parliament, from 2003 to 2019. From 2011 to 2014, she served as Finland's Deputy Prime Minister and Finance Minister. She has served as the Foreign Minister's Special Representative on Mediation (2017-19).

Innovative responses to Covid-19 for private sector recovery in Africa

Charles Odoom, Head of private sector development unit, African Centre for Economic Transformation (ACET)

In Africa, micro, small and medium enterprises (MSMEs) have been the hardest hit by the Covid-19 pandemic, which resulted in the biggest contraction in Africa in the last 25 years. While large-scale enterprises relied on technology in responding to the effects of the virus, informality and low literacy among the entrepreneurs heading smaller-scale enterprises in Africa prevented them from doing the same.

AN ARTICLE BY
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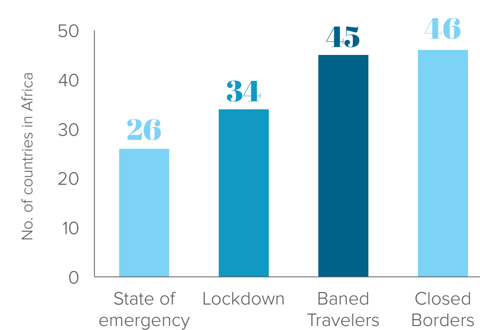
The Covid-19 crisis pushed many developing countries, especially in Africa, into an economic slump in 2020. The crisis was sparked by the ripple effect of the lockdown measures implemented to contain the spread of the virus, a drop in commodity prices and the slump experienced by its major trading partners. According to the UNDP (Figure 1), about 26 countries in Africa declared states of emergency, 45 countries implemented some sort of travel ban, while 46 countries closed their borders. This negatively impacted business in Africa. Indeed, growth in Africa contracted by about 1.5% – the biggest amount in more than 25 years[1]. The social and economic disruptions caused by Covid-19 have been unprecedented. It has frozen production, significantly scaled-down consumption, heightened market uncertainties, weakened business confidence and seized global supply chains. Though the effects of the pandemic impacted the private sector globally, Africa was hardest hit. Although multinational corporations have felt the impact, it is MSMEs in the informal sector that have suffered the most.

SMEs in Africa play an essential role in their economies and employ an estimated 80% of the continent's workforce in the formal and informal sectors. In 2020, the International Labor Organization (ILO) surveyed approximately 1,000 micro- to medium-sized enterprises in 8 countries across four continents when the Covid-19 pandemic was at its most intense and found that 70% had had to shut down their operations. The ILO also reported that 75% of these had experienced a downturn in revenues because of plunging demand owing to Covid-19.

Figure 1: Governance policy responses



Source: UNDP data

The impact of Covid-19 on MSMEs has however been disproportionate. Vulnerable and marginalised entrepreneurs were the hardest hit. For example, women entrepreneurs account for approximately 34% of MSMEs globally and between 30% and 37% in emerging markets, translating into 8 to 10 million enterprises in this category.

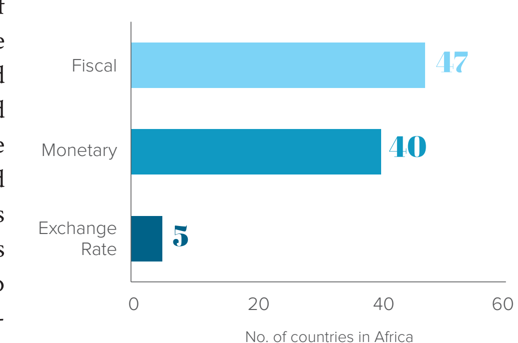
> *“Although the responses have been commendable, there were no clear guidelines on fund utilization and disbursement. The funds did not incentivize innovation; neither did they promote inclusiveness.”*

WHERE WERE THE RESPONSE STRATEGIES?

The private sector responded to the impact of the virus. However, it was the policy response of governments in support of the sector that proved most effective. This was fairly reflected among developed and developing countries, which deployed strategies to accelerate their recovery and bolster their health systems and economies against future pandemics. With respect to the private sector, large-scale enterprises relied on technology as their main strategy for responding to the threat posed by the virus. MSMEs in Africa attempted to follow suit; however, informality and low literacy among their entrepreneurs meant that they were less likely to be as successful as their larger counterparts.

In Africa, governments implemented economic support systems for this category of enterprises to cushion them from the impact of the virus. Figure 2 gives a graphic overview of some of the macroeconomic responses by these governments. The strategies employed focused on providing cash transfers to temporarily laid off staff, moratoriums on loan servicing, free or subsidized utility services, tax breaks and deferrals of other statutory payments, as well as guarantees to incentivize financial institutions to extend loans to SMMEs. Central banks also responded by easing their macroprudential policies, to support the liquidity challenges of these enterprises. In addition, some countries disbursed loans directly through new and existing business support programs. Although the responses have been commendable, there were no clear guidelines on fund utilization and disbursement. The funds did not incentivize innovation; neither did they promote inclusiveness. Support systems primarily focused on cash transfers to owners of SMMEs who may or may not have applied the funds to innovative business activities. As a result, support to the affected smaller-scale companies was unsustainable, losing the very essence for which governments allocated those funds.

Figure 2: Macroeconomic responses

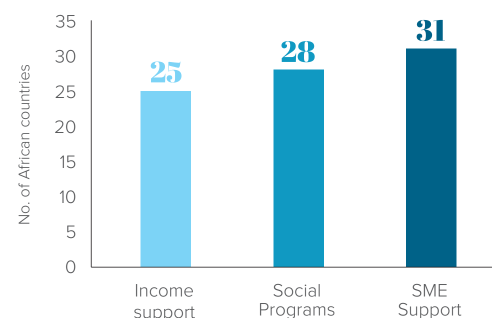


Source: UNDP data

1 › https://www.deginvest.de/DEG-Documents-in-English/About-us/What-is-our-impact/The_African_private_sector_in_the_COVID-19_crisis.pdf

INNOVATIVE RESPONSES TO COVID-19 FOR PRIVATE SECTOR RECOVERY IN AFRICA

Figure 3: Socio-economic support



Source: UNDP data and ACET construct

Moreover, the fiscal support was woefully inadequate. The developed world spent between two and three times their usual expenditure to counter the impact of the virus. The fiscal support in Africa was a meagre 2.5% of the continent's GDP. Moreover, the transmission mechanism in Africa is weak, as this central bank support did not achieve the outcomes that it was aimed at.

Smaller-scale ventures are teaching establishments that creatively internalize technology and market opportunities to extend their production frontiers. The graph showing socio-economic support per number of African countries (Figure 3) shows the socio-economic responses by governments. Interestingly, MSMEs support programs were initiated in 31 countries. However, the support packages did not sufficiently leverage innovation for MSMEs to enable them to navigate the changing work environment. A recent ACET paper on post-Covid-19 priorities for governments raised concerns about a disconnect between private sector policy and the needs of technology and innovation hubs, which can drive enterprise but need investment and support.

Large firms that have responded well to the impact of Covid-19 have resorted to innovative technologies and digital products and platforms to accelerate innovation.

African governments must support innovation in developing their micro-, small-, and medium-sized enterprises, a core element of inclusive growth strategies, even more so in the Covid-19 era. The companies in this size range that innovate are likely to employ more workers, pay higher wages, and be more productive than their counterparts who do not innovate. Innovation among the players in this sector can resolve social challenges efficiently, drive productivity and improve long-term growth. Innovative MSMEs develop resilience and grow regardless of their ecosystems.

LESSONS LEARNED FROM THE CRISIS AND BEYOND

While governments worldwide have provided various support packages to MSMEs, policymakers could do more on social inclusion and innovation to ensure business continuity. However, successful responses to the challenges of these companies will be insufficient if policy responses do not prioritize inclusion. The blueprint for all Covid-19 response initiatives must be inclusive; it must capture the nuances in the needs of all vulnerable groups to ensure that no one is left lagging in the recovery.

While there are significant long-term challenges – including the absence of technological infrastructure, digital literacy, and skills – in the short term, Covid-19 interventions by governments need to include innovation promotion strategies for micro- to medium-sized enterprises.

Such interventions would address some of the immediate limitations to innovation that these ventures face – and instil an innovation culture that could persist after the pandemic. Examples include reductions in data and telecommunication charges, the provision of mobile internet connectivity technology, and training in digital marketing strategies, among others.

WHAT ARE THE CHALLENGES FACED?

Limited access to low- and medium-cost funding is constraining business growth. Even when funding is available, low awareness of opportunities and a lack of financial knowledge remain significant barriers to micro- to medium-sized enterprises in Africa accessing the required support. Slowing demand in this sector has led to them having to limit expansion plans and identify alternative channels to sell products.

The private sector is the lifeline for sustainable, transformative economic growth in Africa. To build more resilient economies in order to reduce the pressures brought on by crises such as the Covid-19 pandemic, countries in Africa will need to develop and implement strategies that focus on private sector development. Creating ecosystems for MSMEs and businesses in the informal sectors to thrive should be a priority. Using a plethora of recovery programmes to improve the diffusion of technology and innovation in the micro- to medium-enterprise space is highly recommended.

For financial recovery packages to drive innovation in this space, development finance institutions must work with governments to ensure a more efficient allocation of funding to specific innovative activities. It is also critical for DFIs and governments to implement more inclusive, targeted Covid-19 economic recovery programs for women and marginalized MSME entrepreneurs. The MSMEs themselves should as a necessity begin to mainstream and formalise structures for innovation that make it easier and ready them to receive intervention support from both governments and the development community. This must be a shared responsibility.

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ACET

The African Centre for Economic Transformation (ACET) is an economic policy institute supporting Africa's long-term growth through transformation. ACET undertakes research, offers policy advice, and galvanizes action for African countries to develop their economies, reduce poverty, and improve livelihoods for all their people. ACET's PSD unit anchors the organisation's private sector objectives.

Dealing with Covid-19: a case of the private sector support programs in South Africa

Micro-to medium-sized enterprises in South Africa account for more than 98% of businesses and employ 50 to 60% of the country's workforce across all sectors. The impact of the Covid-19 pandemic on the South African economy was massive, as it was already in reverse gear when the pandemic started. Lockdown measures caused revenue losses for many of the enterprises in this space. They were forced to cut spending to survive, which translated into job losses.

A Consumer Pulse Survey by McKinsey (2020) revealed that more than 80% of consumers were looking forward to decreasing spending across all retail categories, a further 70% were looking to cut transport-related expenditure. Like many governments in Africa, South Africa initiated a series of programs to reverse the impact of the pandemic on their economy. The major program that was implemented to support MSMEs was the debt relief fund. The fund aimed at providing relief on existing debts and repayments, to help businesses navigate the Covid-19 pandemic.

There has also been other support from development finance institutions, such as a $750 million development policy loan (DPL) given by the World Bank to South Africa. The loan was to help the government's efforts to accelerate its Covid-19 response aimed at protecting the poor and vulnerable from the adverse socio-economic impacts of the pandemic and to support a resilient and sustainable economic recovery.

European DFIs in a troubled world: strategic actors of the European financial architecture for development

San Bilal, Senior executive and head of Economic recovery and transformation, ECDPM

In a rapidly changing world threatened by the risk of irreversible climate change, major crises and an increasingly polarised world order, Europe has to articulate its external actions in a more strategic, geopolitical, principled and impactful manner. In this context, European development finance must become an integrated part of this comprehensive European international strategic endeavour. This should be the direction of the reforms of the European financial architecture for development (EFAD).

AN ARTICLE BY
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San Bilal is a senior executive and head of Economic recovery and transformation at the European Centre for Development Policy Management (ECDPM). His current activities are focused on financing for development and investment, blended finance and the role of financial institutions for development, trade and development, and economic transformation in Africa, with an emphasis on building back better and greener, in a more inclusive and gender-sensitive manner. He is also a member of the Coordination Group of the OECD THK Blended Finance Platform.

European development finance institutions (DFIs) are playing an increasingly critical role in European ambitions and the evolving EFAD, supporting private investment for transformative development. Their specificities are at least three-fold.

First, their private-sector focus, as part of their DNA, gives them a critical perspective on mobilising private finance and supporting private entities, linking public development objectives to private needs and initiatives.

Second, most European DFIs are relatively small compared with European public development banks, such as the European Investment Bank (EIB), the European Development Bank for Reconstruction and Development (EBRD), the French Agence française de développement (AFD) and the German KfW Development Bank. Yet, they collectively account for about half of the European overall non-sovereign operations outside the EU, matching the combined private sector investment of the EBRD and the EIB[1].

Third, European DFIs are a perfect example of the benefits of collective action, without impeding the autonomy of each DFI. The association of European DFIs (EDFI) has become a very effective club, giving visibility and clout to a large number of DFIs.

> *European DFIs are a perfect example of the benefits of collective action, without impeding the autonomy of each DFI. The association of European DFIs (EDFI) has become a very effective club, giving visibility and clout to a large number of DFIs.*

EDFI has enabled the harmonisation of processes, the promotion of greater reliance, the adoption of common standards and principles, and the fostering of mutual reliance and co-investment. Co-investments account for about half of the operations of European DFIs. To ease the process, co-investment facilities have been put in place, as in the cases of the European Financing Partners (EFP) with the EIB, the Interact Climate Change Facility (ICCF) with the EIB and the AFD, and the Friendship Facility between the Dutch, the French and the German DFIs. The EDFI Management Company, a subsidiary set up by EFDI, effectively manages EDFI facilities and other EU blended finance vehicles, such as the ElectriFI and AgriFI facilities, as well as facilitates European DFIs access to EU risk-sharing programmes under the (enhanced) European Fund for Sustainable Development (EFSD/EFSD+).

> *European DFIs managed to adapt to the new situation, adjusting their procedures and reengaging effectively, so as to return in 2021 to their 2019 level of commitments, at €9 billion.*

RESPONDING TO THE COVID-19 CRISIS

With the Covid-19 crisis, DFIs were asked to step up their efforts in a countercyclical manner, to help address the economic contraction and provide enhanced support for private sector investment, in particular to small and medium-sized enterprises (SMEs), which are the main job providers.

The pandemic and the resulting travel restrictions limited European DFIs' local presence and ability to generate new deals in developing countries, while increasing uncertainty and their risk exposure. Their immediate efforts are focused mainly on supporting their existing clients. This resulted in a drop in their total operations by about one fifth, from €9 billion in 2019, a record year, to €7.5 billion in 2020.

Unlike what happened within Europe, and advanced economies in general, where support measures for the private sector were readily available at scale, the European DFIs were generally not given the strategic impulse and means to immediately boost their operations in the crisis context and more actively stimulate private sector investment in developing countries.

European DFIs could get inspire by the countercyclical crisis response by multilateral development banks (MDBs), whose non-sovereign commitments increased by 11% in 2020 (still a modest increase compared to their 39% increase in sovereign operations), whereas those of European DFIs fell by 18%.[2] This illustrates the fact that private investment in developing countries has overall not been given enough attention in the Covid-19 response, but also that European DFIs were not equipped for an immediate response to the crisis.

Nonetheless, European DFIs managed to adapt to the new situation, adjusting their procedures and reengaging effectively, so as to return in 2021 to their 2019 level of commitments, at €9 billion. This capacity to quickly rebound, which has been much stronger than in the case of the global financial community, demonstrates the willingness and ability of European DFIs to pull their act together, adjust their operational processes, and identify new ways to engage with local partners, even in the face of the successive pandemic waves and their aftermaths. But these efforts will not suffice to address the longer-term recovery and resilience of developing countries, in particular among African private actors.

1 ▸ Gavas, M. (2022), The Future of the European Financial Architecture for Development
Wieser, T. et al. (2019), Europe in the World: The future of the European financial architecture for development

2 ▸ EDFI (2022), European DFIs report strong 2021 activity and record investment in Africa. January; Lee, N. and R. Aboneaaj (2021), MDB Covid-19 Crisis Response: Where Did the Money Go?, CGD Note, Center for Global Development, November.

FOCUS
ECDPM

The European Centre for Development Policy Management (ECDPM) is a leading independent think tank that wants to make policies in Europe and Africa work for inclusive and sustainable development. ECDPM has over thirty years of experience in development policy and international cooperation and has a thorough knowledge of African and European institutions. ECDPM's partners include officials from ministries and institutions, international organisations, think tanks, academia and social and economic actors from Africa, Europe and beyond.

So far, the African financial sector has shown remarkable resilience during the Covid-19 crisis, partly due to strong reserves and public support measures[3]. Yet, African SMEs have been seriously affected, even more so women-led enterprises[4]. While a liquidity crunch was avoided, the quality of assets of African financial institutions has deteriorated considerably. The divergent recovery paths between advanced and developing economies, the global economic and geopolitical turmoil, combined with the impacts of the Russian war in Ukraine – in particular on food security, energy, commodity prices and development assistance – will increase hardship and uncertainties for many developing nations. European DFIs, as part of a broader set of endeavours by the development community, will have to step up their efforts and revisit their business models.

WAY FORWARD TO UNLEASHING THE POTENTIAL OF EUROPEAN DFIS

Many of the European DFIs have been around for a long time, but never before have so many hopes been pinned on, and demands made of them. Among other things, they are being asked to:

a) Leverage more private finance, at scale:
The needs and financing gaps are increasing. DFIs generally tend to adopt conservative risk-tolerance, to exhibit a preference for senior debt[5]. European DFIs, and in particular their shareholders, should adjust their approaches and instruments to enable them to mobilise significantly more private investment.

b) Seek greater development impact, including in poorer countries and more fragile contexts:
While maintaining their focus on bankable projects, European DFIs should emphasise the additionality and development impact of their operations. This may require greater effort towards transparency and impact monitoring. Given the lack of bankable projects, in particular in poorer and weaker markets, more effort should be dedicated to identifying and preparing projects, mitigating risks and providing accompanying measures. This can be done in cooperation with local actors and development partners.

c) Adopt more transformational strategies and approaches, aligned not only with the Paris Agreement, but also with the SDGs:
This may require adjusting DFI mandates and long-term vision, internal culture, business models and incentives. It also means seeking more systemic engagement, beyond an opportunistic approach to single deals, toward portfolio approaches enshrined in transformative objectives, with partners promoting the SDG-alignment of private finance, and seeking to influence the ecosystem, together with other partners[6] .

d) Address climate change more forcefully:
As part of an SDG-aligned endeavour and harmonised approaches to the Paris Agreement, European DFIs must contribute more significantly to boosting private investment not only in climate mitigation (already a priority for many of them), but also in climate adaptation and resilience (an area largely neglected by most of them). European DFIs could all join initiatives such as the Coalition for convergence of climate and biodiversity finance, and the DFI+ Adaptation and Resilience Collaborative[7].

3 ‣ EIB (2021), Finance in Africa for green, smart and inclusive private sector development, European Investment Bank, November.
4 ‣ IFC (2021), COVID-19 and Women-led MSMEs in Sub-Saharan Africa: Examining the Impact, Responses, and Solutions, International Finance Corporation, World Bank Group
5 ‣ C3 and Convergence (2022), How DFIs Deploy Catalytic Capital, Catalytic Capital Consortium (C3) and Convergence Blending Global Finance, March.
6 ‣ ETTG (2021), Financing the 2030 Agenda: An SDG alignment framework for Public Development Banks, European Think Tank Group, October.
7 ‣ Amin, A.L. and C. Trabacchi (2022), How can collaboration accelerate investment in climate adaptation and resilience?, CDC.

e) Be more responsive and resilient to crises:
A more turbulent world, characterised by multiple crises and shocks, and increased international tensions, is likely to become the norm for the medium-term future. European DFIs should adjust to this new environment, better assess compound risks and enhance their ability to respond more rapidly, effectively and in a countercyclical manner, as well as increase their own and their partners' resilience.

f) Increase inclusivity and engagement in social sectors and human development:
The Covid-19 pandemic has had very negative effects on poorer and vulnerable groups, highlighting the importance of inclusive approaches. It has also exposed the importance of private investments in the health sector[8]. Other social sectors, such as water and sanitation, and education and skills development should also get greater attention from European DFIs. Technological innovation, digitalisation and financial services are some of the areas where private investment and human development also connect.

g) Further enhance gender-sensitive approaches:
European DFIs have made important commitments to gender finance and mainstreaming gender approaches, in line with the 2X Challenge. In pursuing this essential endeavour, they should focus on demonstrating the effects of these approaches, and leverage them with their clients. They should also make a greater effort to promote women's leadership, including in their ranks, which remain overwhelmingly dominated by men.

> *" European DFIs should ensure greater accountability and transparency of their approaches and operations, towards citizens in Europe and in the developing countries where they operate. "*

European DFIs do not need to be jacks of all trades, and can - and generally do - specialise in their respective comparative advantage and core mandate. But the range of demands made of them does reflect the level of expectations of their roles in an evolving European financial architecture for development and troubled world.

To unleash the potential of European DFIs, shareholders must empower them, increasing their financial and human capital when needed, adjusting their incentives and business models, and including them in broader development endeavours. European DFIs should be included more systematically in multi-stakeholder partnerships with other DFIs and PDBs, private sector initiatives, development agencies, and local actors. The reform of the EFAD should empower European DFIs and allow them to innovate, giving them greater access to blended finance instruments and guarantees, including as part of the current operationalisation process of the EFSD+. This is also the essence of the Team Europe approach and the collective and cooperative approach undertaken by European DFIs. Last, but not least, European DFIs should ensure greater accountability and transparency of their approaches and operations, towards citizens in Europe and in the developing countries where they operate.

8 ‣ Bilal, S., K. Karaki, P.E. Ahairwe and P. Apiko (2022), African regional hubs to manufacture health products: Towards comprehensive joint AU-EU actions, ECDPM Briefing Note No.145, February.
Kaneganti, S. (2021), Unlocking the Power of the Private Sector to Build Resilient and Equitable Health Systems, World Bank Blog.

The pandemic as a driver of innovation for private sector companies in Africa

Franziska Hollmann, Director corporates Africa, DEG

During the last two years, a large number of companies have developed innovative strategies to navigate through the Covid-19 crisis. What this meant: everything that could be organised remotely in doing business helped them and their customers to cope with the consequences of the pandemic. In addition, these companies were able to secure jobs and develop new economic perspectives thanks to new digital business models. They emerged stronger from the crisis, or even benefited from it.

AN ARTICLE BY FRANZISKA HOLLMANN

Franziska Hollmann has been working for the German Investment corporation (*Deutsche Investitions- und Entwicklungsgesellschaft*, or DEG) for 22 years and has extensive experience in the sustainable financing of companies in manufacturing, agribusiness and services in developing and emerging countries. She is responsible for new business development, structuring and managing DEG's corporate loan portfolio of over 500 million euros in Africa and Europe, the Middle East, and Central Asia.

Private companies in numerous developing countries are important driving forces behind jobs, training, local income and local value creation. During the pandemic too, their efforts helped to mitigate the economic and social impacts of the crisis. Some companies even managed to benefit from the crisis and come out of it stronger than before.

According to a current analysis, the 700 or so companies financed by DEG employed 2.8 million people and generated local income with a total volume of EUR 146 billion in 2021. Of this, the 140 or so African companies financed by DEG employed over 600,000 people and made up a share of one quarter of the local income generated. These figures are a testimony to their performance, achieved despite the pandemic-related restrictions that continued to be imposed on the economy and society in many developing and emerging countries in 2021.

What made these companies evidently fare so well during the pandemic, comparatively speaking? Good crisis management hinged not only on the quality of management and corporate governance, but also on solid resources, for example, in the area of technological innovation and digitisation. Swift access to financing also played an important role. Companies with these skills and resources had the flexibility to adapt to the ever-changing challenges of Covid-19 or to better respond to them. However, the pandemic has also posed a major challenge for well-positioned companies that operate in particularly hard-hit industries, for example.

> *“Good crisis management hinged not only on the quality of management and corporate governance, but also on solid resources, for example, in the area of technological innovation and digitisation.”*

RESILIENCE IN PANDEMIC TIMES

The Covid-19 crisis has affected countries and companies in Africa to very different extents. In countries that rely on tourism, the global travel restrictions led to significant downturns, with supply chains interrupted and sales markets rendered inaccessible. DEG supported companies in Africa with special pandemic response measures, thereby ensuring that they had a supply of liquidity, for instance. Ghanaian fashion company “Do the Right Thing” (DTRT Apparel), founded in 2013, was able to keep up with its rent and maintenance payments thanks to the swift provision of liquidity financing by the AfricaConnect programme. As a consequence of the Covid-19 pandemic, DTRT Apparel – which employs 2,600 persons (65 % are women) in Accra – had to halt production for several weeks in 2020. Thanks to rapid liquidity funding, the company was able to retain all jobs, despite its decline in sales and production stoppage. Furthermore, DTRT Apparel used part of this funding to produce simple face masks for the local market.

On the other hand, there were some signs of positivity during the pandemic. Digital products and services were developed to an increased extent, such as for the health sector and e-commerce. In addition, companies used the rising demand from a growing middle class for consumer goods to further expand local supply chains and shorten delivery routes, among other things. This helped to create more value locally and increase local income. By financing and supporting innovative companies committed to developing new technologies, and in particular facilitating digital connectivity, DEG contributed to modernisation efforts in these areas – and by doing so, also covered a need driven by the pandemic. In the past 15 years, these sectors in Africa have been the driving forces behind development, with some countries on the continent coupling infrastructure expansion with early-stage investments, not only in the energy sector, but also in broadband networks and telecommunications. From 2018 to 2020, foreign direct investment in Africa's ICT[1] sector rose from around USD 4 billion to around USD 9 billion, according to UNCTAD.

> *“From 2018 to 2020, foreign direct investment in Africa's Information and communication technology (ICT) sector rose from around USD 4 billion to around USD 9 billion, according to UNCTAD.”*

DIGITISATION AS A DRIVING FORCE IN THE FINANCIAL INDUSTRY, HEALTH SECTOR AND TRADE

Fintech companies, for example, are benefiting from this today. Online financial services are in demand in developing and emerging countries because only a few people there have a traditional bank account or other access to banking services. Digital technologies have been used for more than a decade to create new banking models, such as “mobile money”, which enables bank transactions to be conducted on mobile phones.

Digital financial services especially saw increased demand during the pandemic, when used to further expand online trade. In 2020, for instance, DEG customer Copia, in Kenya, expanded its offering to include integrated fintech services, such as operating loans for intermediaries (see box on next page). →

1 ▸ Information and communication technology

> *Online financial services are in demand in developing and emerging countries because only a few people there have a traditional bank account or other access to banking services.*

Other financial products for credit services allow users to carry out all of the steps of the loan process on their phone, in digital form, from finding a loan to getting it approved and repaying the amounts due. DEG finances fintech companies that reach out to entrepreneurs who have previously not had access to financial services or who have been dependent on lenders, often charging very high-interest rates.

Digitalised health services are helping to improve the provision of health care in Africa, particularly in pandemic times. They have helped to provide information to patients with a suspected coronavirus infection at an early stage. This is especially important in developing countries, which have very few intensive care beds. Penda Health, one of the largest private health care providers in Kenya, thus makes use of its strong presence on social media. The company uses different channels to raise awareness of its call centres, which are available to answer any Coronavirus questions and share preventative measures. The aim is to reach as many people as possible and better manage patient numbers in medical care centres.

Ensuring the provision of consumer goods to individuals in the countryside is another area of activity in terms of digital connectivity. Digital ordering and transport systems in the areas of trade and logistics can be used by retailers to reduce distribution costs and by farmers and other producers to expand their sales markets. Regional e-shops supply their products to their end customers through established kiosks, thus solving the "last mile" problem, even in rural regions without traditional postal services. The Coronavirus pandemic, in particular, has shown just how important digital trade is today, with Copia (see below), for example, managing to significantly increase its turnover during this time.

These examples from the fintech and e-health sectors show that sound resources, technological innovation and the courage to embrace transformation have played a substantial role in tackling the challenges posed by the pandemic. Companies that were well positioned in these areas managed to keep their head above water during difficult times and, in some cases, emerged from them stronger than before. Further development of these industries will require professional training programmes, long-term financing and, above all, comprehensive advisory services during this challenging process of transformation.

Africa is a focus region for DEG and has been so ever since its foundation in 1962. DEG's current Africa portfolio amounts to EUR 2.4 billion. Even if the Covid-19 pandemic gives positives impulses for certain sectors and industries it remains a challenge for many countries in Africa. The DFI will continue to be in demand as providers of development financing to overcome its effects. ■

Copia Kenya: e-commerce company integrates fintech services

Until now, 750 million people in Africa have been cut off from the supply of goods for their everyday needs, or they have had to go a long way to get them. Copia Kenya's recipe for success is a mix of local infrastructure and new technologies. The company is training local micro-enterprises such as small shopkeepers and hairdressers to act as intermediaries – so-called Copia Kenya agents. Through them, customers in regions without a traditional postal delivery service can use an app or catalogue to order goods, which they receive from the intermediaries within 48 hours.

The importance of digital commerce was demonstrated during the Covid-19 pandemic, when Copia significantly increased its turnover. The company currently supplies more than a million people with affordable everyday items, such as household products, medicines, electronic goods or simple tools. This is done through a network of over 25,000 mainly female intermediaries, known as Copia agents, who earn additional income in this way.

INNOVATIVE BUSINESS MODEL

Over the past year, Copia Kenya has expanded its offering to include integrated fintech services, such as operating loans for businesses, which the company grants and manages through a digital channel. Additional credit and insurance products and a Copia Kenya e-wallet are in the pipeline. DEG, the German development finance institution, provided equity capital of USD 7.5 million to finance these expansion investments. It provided Copia Kenya with funds under the Up-scaling programme, enabling it to acquire storage space and invest in IT infrastructure. Through financing from the Up-scaling programme, this development financing institution supported the company in the early stage of business development in order to establish its innovative business model in Kenya. With its current investment, DEG not only offers young companies a financing continuum, but it also commits itself to the innovative business field of embedded finance.

> *These examples from the fintech and e-health sectors show that sound resources, technological innovation and the courage to embrace transformation have played a substantial role in tackling the challenges posed by the pandemic.*

FOCUS
DEG

For almost 60 years, DEG has been a reliable partner to private sector enterprises operating in developing and emerging-market countries. It provides its customers with tailor-made solutions, including financing, promotional programmes and advice tailored to individual needs. They can thus develop successfully and sustainably, while generating local added value and creating qualified jobs. With a portfolio of over EUR 9 billion in more than 80 countries, DEG is one of the largest private sector development financiers.

Stakeholders' voice – using technology to collect feedback directly from the key people

Anne Arvola, Senior development impact advisor, Finnfund

The world has now lived with the Covid-19 pandemic for over two years. The evidence shows that it has hit the least-developed countries the hardest. At the same time, climate change is increasingly affecting peoples' daily lives. Again, those already in vulnerable positions are suffering the most. In this milieu, there is a need to understand the roles and impacts of companies, and the development financiers and investors backing them, on peoples' lives. New digital tools are making this possible.

AN ARTICLE BY
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Dr Anne Arvola is a Senior development impact advisor with Finnfund's Development impact team. She has worked in development cooperation and development financing for over 20 years. In Finnfund, Anne specialises in the forestry and agricultural sectors, climate change adaptation, biodiversity, and gender issues. She enjoys building bridges and feeding synergies between public and private sector, civil society and communities and understanding the wider impacts created with development financing.

In the absence of comprehensive social security systems and government budgets to invest in climate adaptation and resilience, expectations for the private sector to fill the gap are high – and even higher during a health crisis. There is also a need for better understanding of the role of development financiers and other investors in the picture and support for 'building back better' to ensure resilience against shocks will be better in the future. In order to analyse the impacts companies can have on peoples' lives, we need to ask their key stakeholders directly about these. New digital tools can help us to deal with the challenges caused by travel restrictions and other limitations in collecting data from stakeholders.

In collaboration with WorkAhead, a Finnish tech company, Finnfund has been developing in 2020-2021 a practical survey tool that allows companies to reach out to their stakeholders, such as employees, communities, and suppliers. The aim is to build understanding of the wider impacts that companies have on their stakeholders' lives. In addition, these surveys can strengthen relationships with important stakeholders, such as workers, neighbouring communities, partners, and suppliers.

Monitoring reports, visits and specific audits can only confirm compliance with policies and practices and provide impact data collected at the 'output level'. For example, 'number of jobs and suppliers' does not tell us how the more secure income from a quality job or an established supplier relationship can change lives more broadly.

Traditionally, these wider impacts have been explored through specific studies and data collection methods that often involve time-consuming in-person and group interviews, making the exercises expensive and not easy to repeat on a regular basis. Even though such studies are critical in building an in-depth understanding of impact mechanisms, they do not work well for regular monitoring.

During the two piloting phases, we worked towards a standardized set of questions that would allow us to gradually build time series for companies to compare their own performance over the years. Data accumulating from portfolio companies will allow them to compare their performance with their peers, and the poverty probability index data allows comparisons at the national level. As we begun the first pilots in 2020, some of the companies were slightly reserved on the method, but after completing the pilot, they were keen to continue using the tool.

REACHING LARGE GROUPS OF PEOPLE EVEN DURING THE PANDEMIC

The guiding principle in developing the tool was that it should be scalable and cost-effective, allowing easy data collection from large groups of respondents. The surveying application presents the respondents with a user interface enabling them to hear questions in their own language, and with a video. They may then answer multiple-choice questions by selecting given symbols. The technology allows those who cannot read or write to participate.

Facilitators conducting the surveys in the field hand respondents a smartphone with the app, guide them in getting started, and then provide them with a safe and private space to ensure anonymity in giving their responses.

Responses are uploaded when an internet connection is available. Thus, surveys can be conducted where there is no connectivity. Depending on the number of smartphones available and other practicalities in assembling people for surveying – such as pandemic-related restrictions and safety measures – one facilitator could survey hundreds of respondents in a day.

Even though gathering people together may be challenging, the survey allows collecting peoples' views during times of travel and meeting restrictions: facilitators can be easily trained with basic skills in carrying out the survey; thus, local teams – for example, HR teams and corporate social officers – can collect the data.

The pandemic may have influenced peoples' lives in many ways: family members may have fallen ill, and lockdowns may have cut incomes and even destroyed livelihoods. Children might have dropped out of school if there were no opportunities for distance learning. Furthermore, they may have needed to help put food on the table during the tightened economic situation, and reduced income may not have allowed paying the costs of schooling. All these topics are covered in the survey questions.

Health questions in the survey assess respondents' views on companies' performance in taking care of their employees' health and safety. Another aspect is respondents' experience of and access to health services. Both of these provide valuable information in assessing how the health system and companies are performing under 'normal conditions' and in the face of the pressure caused by the pandemic.

Similarly, questions on children's school attendance and the reasons for possible absence serve in reflecting changes between the 'normal' and pandemic situations. When these findings are combined with the questions on income, poverty, and poverty probability, they give a good indication of the correlations, if not necessarily the causalities.

HARD TIMES

In the two pilots, we have thus far surveyed employees and community members in Zambia, Tanzania, Afghanistan, and Colombia. In general, the results indicate clearly that formal employment improves people's access to health services.

Even though multiple-choice questions have their limitations and cannot produce qualitative data, they give us an indication of trends.

The survey asks whether respondents feel that their lives are better than they were two years ago, thus revealing the possible effects the pandemic has had on their lives. A question about their capability to bounce back after hard times indicates their resilience and access to safety nets when they experience shocks, whether those are caused by climate change or a pandemic.

The global pandemic has shown that strong coping mechanisms are elementary in building resilience and supporting recovery from shocks. We believe that there is a need for better understanding of how to support building back better through private sector financing, to ensure that resilience against shocks will be better in the future – and digitalisation can help us to do that. ■

FOCUS
FINNFUND

Finnfund is a Finnish development financier and impact investor. It aims to build a sustainable future and generate lasting impact by investing in businesses that solve global development challenges in developing countries. Each year Finnfund invests 200–250 million euros in 20-30 projects, with an emphasis on renewable energy, sustainable forestry, sustainable agriculture, financial institutions and digital infrastructure and solutions. Today Finnfund's investments and commitments total about 1.070 billion euros, half of which is in Africa.

SPOTLIGHT

Beyond recovery: toward innovative, inclusive private sector financing

Jessica Espinoza, CEO of 2X Collaborative, Chair of 2X Challenge

Despite the extensive use of development finance institutions (DFIs) in recent years, the Covid-19 pandemic has shed a harsh light on the persistence of gender inequalities, particularly in terms of access to finance in emerging markets. It is therefore urgent to break down the systemic barriers that limit the flow of capital to gender-smart funds and diversity entrepreneurs. Only a collective and innovative response can lead to a paradigm shift in development finance.

AN ARTICLE BY
JESSICA ESPINOZA
Jessica Espinoza is CEO of the 2X Collaborative and Chair of the 2X Challenge. She has a track record spanning more than 12 years in development finance and investing. In her previous role as Vice President at DEG, she led debt, mezzanine and equity transactions across developing country markets and served on multiple boards. She is a PhD candidate at the University of Siegen, researching the transformative potential of gender-lens investing.

The 2X Challenge, launched by the DFIs of the G7 countries at the G7 Summit in 2018, was joined by all EDFIs (European Development Finance Institutions), and mobilized USD 11.4 billion by the end of 2020, demonstrating a robust pipeline in times of crisis with a 2X capital pool growth of almost 170% in the Covid-year 2020.

Globally, the pandemic highlighted gender inequality and exacerbated existing inequalities and gaps in capital allocation. Its magnitude led to health, economic and inequality crises, confronting EDFIs with unprecedented challenges.

LESSONS FROM THE COVID-19 RESPONSE

Small and medium-sized enterprises (SMEs), especially small and growing businesses (SGBs), play a pivotal role in job creation, innovation and prosperity. They are the backbone of developed economies and the engine of developing economies. The turbulence and uncertainty brought about by the pandemic significantly impacted the SME sector globally. While liquidity and other Covid-response support was made available to SMEs in developed markets, their peers in developing markets largely navigated the crisis without external support. Women-owned and -led SMEs, already facing a significant funding gap across emerging markets, were disproportionately impacted. A World Bank analysis across 52 countries shows that women-led businesses were less likely to have received public Covid-support, although they were more severely impacted.

Notable gender-lens Covid-19 responses emerged in 2020, with structures based on new data on how SGBs can be effectively and equitably reached. Examples are the *CFF Covid-Response Bridging Facility* (aimed at channeling Covid-response liquidity to SGBs through local gender-smart capital providers) and other pioneer gender-smart investment funds and alternative vehicles led by diverse teams from emerging markets, which came up with fast response mechanisms. Many of these were too innovative for DFIs to support, for the following reasons.

1. DFIs focused on supporting existing clients and portfolio projects during the crisis. These were largely gender-blind, making it hard to shift to supporting new clients with more effective, gender-equitable strategies.

2. The Covid-19 response for SMEs/SGBs was channeled through financial intermediaries with whom DFIs had existing relationships. Hence, female-led funds and other intermediaries with gender-lens investing (GLI) strategies – often headed up by first-time fund managers – that had entered the pipeline of DFIs were now at the back of the queue.

3. As many DFIs themselves were under pressure from regulators and shareholders to control risk during the prevailing uncertainty, there was little flexibility and risk capacity for deal teams to pursue innovative investment approaches based on new data insights.

The legacy of DFIs and other development finance actors backing predominantly male-led fund and facility managers – who invested largely in male-led and gender-blind companies – meant that channeling Covid-19 responses through these relationships perpetuated gender gaps in capital allocation to both fund managers and businesses.

Beyond the few DFIs that intentionally worked with traditionally gender-blind intermediaries to design gender-smart Covid-19 response mechanisms (see box “Spotlight on DFIs’ gender-smart Covid-19 responses”), there was still a misconception that the traditional gender-blind approach was gender-neutral and that the Covid-19 response would reach SMEs and benefit community members equally. However, previous crises and data from investments in normal times indicate that a gender-blind approach perpetuates gender gaps and inequality. Therefore, an important lesson is to apply a gender lens across all investment activities, not only to a few niche projects.

FOCUS
2X COLLABORATIVE
The 2X Collaborative is a global industry body for gender-lens investing, launched at the UN Generation Equality Forum 2021 by 20 DFIs and MDBs in partnership with GenderSmart and the Investor Leadership Network (ILN) of global pension funds. It builds on the 2X Challenge, which has invested and mobilized more than USD 11 billion under the 2X criteria since 2018. The 2X Collaborative now brings together the full range of investors, deploying capital with a gender lens globally.

THE NEXT FRONTIER OF GENDER-LENS INVESTING

The success of the 2X Challenge and the strong pipeline in 2020 evidences the success of DFIs in implementing GLI. In early 2021, the 2X Challenge DFIs and Dalberg conducted a detailed study on the key lessons of the 2X Challenge from 2018-2020. It revealed success in working with existing clients to identify gender-smart opportunities.

Thus there have been notable achievements in transforming traditionally gender-blind businesses and financial intermediaries into gender-smart ones across the 2X criteria. Yet the growing interest in GLI has not led to reflection on the investment strategies and criteria of DFIs, such as which investment approaches might have the greatest impact on ensuring access for female entrepreneurs and fund managers. This is important because apparently gender-neutral investment criteria can perpetuate historic inequalities. Transforming non-diverse businesses into diverse ones is thus much needed, but is not sufficient for an inclusive recovery and more resilient and equitable economies. Transformation must also extend to DFIs and their investment strategies.

GENDER-SMART INNOVATION: THE WAY FORWARD

Reflecting on the Covid crisis and the first three years of the 2X Challenge, 2X members identified inequalities and systemic barriers limiting capital from flowing towards gender-smart funds and diverse entrepreneurs, which require collective action.

The gender and diversity bias in capital allocation from private equity (PE), venture capital (VC) and private debt funds to businesses is well documented since before Covid. Women-led companies receive only 7% of PE and VC investments in emerging markets. In Africa, capital allocation is also skewed towards expatriate-run businesses. This gender and diversity gap is largely attributed to the 92% of investment decision-makers in emerging market PE and VC being homogenous and men. Still, fewer than 10% of traditional fund management firms

→

GLOSSARY

Gender-blind is defined as "ignores gender norms, roles and relations". It is often constructed as "treating everyone the same" but often reinforces gender-based discrimination. An alternative term would be **gender-unaware**.

The next levels along the spectrum are **gender-sensitive** (considers gender norms, roles and relations), **gender-responsive** (considers gender norms in intentional project design for positive outcomes) and **gender-transformative** (intentionally transforms gender norms by addressing root causes).

have strategies to increase their numbers of female investment professionals.

Yet there is no lack of female-led PE, VC and debt funds. Over recent years, funds led by women and diverse teams have emerged with the very types of GLI strategies promoted by the 2X Challenge. Still, they have struggled to raise funds from DFIs as they are often first-time fund managers.

Also, in many developing-country markets, due to historic inequalities, women-led businesses are predominantly smaller and at an earlier stage of growth. As a result, DFIs' traditional investment criteria and risk assessment approaches put them at a disadvantage. The same is true for women-led funds and other capital vehicles focusing on the needs of women-led businesses, which tend to have smaller-size funds. If they were to meet DFIs' minimum fund-size requirements, they would lose their focus on underserved gender-smart SGBs.

Ensuring gender equality in allocating capital to fund managers and businesses is not only the right thing to do, but it also has a strong business case: PE and VC funds with gender-balanced leadership teams have a 20% higher net IRR than those with all-male investment managers. Research also reveals that although women-led businesses receive significantly less funding than their male-led counterparts, they make twice as much revenue per dollar invested.

There is also a strong impact case linked to investing in funds with gender-balanced management: female fund partners invest twice as much in female entrepreneurs and businesses that serve women consumers. Ensuring that there are more women investors in the ecosystem helps to fill the capital allocation gap to women entrepreneurs and gender-smart businesses, which can provide more quality jobs and opportunities for women and improve the quality and quantity of goods and services for women consumers.

Leveraging these lessons and insights, 2X members with strong participation from EDFIs spearheaded collective action and convened fund managers and fund investors from across emerging markets to co-create a scalable market-building solution in order to jointly overcome these systemic barriers (see box "2X Ignite: from lessons to action").

2X Ignite: from lessons to action

Based on key learnings from the Covid-19 response and an evaluation of the first 3 years of the 2X Challenge, 2X member DFIs spearheaded a groundbreaking series of design sprints in 2021 to co-create an innovative solution together with more than 120 investment professionals, including pioneer fund managers, regional PE and VC associations, and LP (limited partners) investors across developing markets. EDFIs played a pivotal role in this endeavor. The design sprint concluded that the smartest way to unlock capital at scale for more resilient, climate-smart and inclusive economies is to invest in female-led/gender-balanced fund managers with gender lens investing strategies.

The outcome is 2X Ignite, a holistic market-building solution to unlock gender-smart capital at scale by accelerating 100 gender-smart fund managers/vehicles reaching 1,000+ gender-smart businesses across emerging markets over the coming years. 2X Ignite is an innovative facility combining capacity building, working capital and warehousing to accelerate the next generation of gender-smart fund managers, providing LPs with an investable pipeline of GLI funds. This highly scalable solution grounded in context-specific innovation aims to unleash the ripple effects of GLI towards the SDGs. Learn more: www.2XIgnite.org

Spotlight on DFIs' gender-smart Covid-19 responses

Despite the challenges and missed opportunities presented above, there are salient examples of gender-smart response strategies backed by EDFIs and their peers:

1. British International Investment (BII, formerly CDC Group), JICA, and DFC invested in BlueOrchard's *Covid-19 Emerging and Frontier Markets MSME Support Fund*. The fund adopted a gender-lens impact framework and targets 70% women end-borrowers. This example highlights leveraging existing relationships to design gender-smart solutions.
2. DFC and the Small Enterprise Assistance Fund (SEAF) created the SEAF *Global Gender Lens Emergency Loan Finance Facility* to provide emergency funding for SMEs that support women, and gender-smart business support services to mitigate the impact of Covid-19 on SMEs. This is an example of backing a GLI facility with high intentionality.
3. FMO supported the *Women's Enterprise Recovery Fund* to provide funding, TA, mentorship and digital solutions for female entrepreneurs. This example illustrates SDG 17 (partnerships) in action.
4. BII added a gender lens to all three pillars of its Covid-19 response strategy – *Preserve, Strengthen, Rebuild* – representing a good example of mainstreaming a gender lens across the business.
5. FinDev Canada and EIB backed Alitheia IDF, a pioneer female-led GLI fund and prime example of intentionality and innovation.

THE WAY FORWARD FOR EDFIS: INNOVATIVE AND INCLUSIVE FINANCE

EDFIs and their peers have played a significant role in spearheading the 2X Challenge, demonstrating a robust pipeline of GLI opportunities during the pandemic. Their signaling role has attracted a broad range of investors to the GLI space, turning the challenges presented by the pandemic into opportunities. The targeted Covid-response by DFIs, on the other hand, has been predominantly gender blind, with notable exceptions.

Going forward, persistent gender gaps and systemic barriers will require more innovative collective action to unleash the ripple effects of gender-lens investing. Lessons from missed opportunities offer a pathway out of the crisis.

There is a role for EDFIs to play in unlocking gender-smart capital at scale by backing gender-diverse local capital providers with highly effective GLI strategies to support gender equitable SMEs and SGBs, themselves drivers of employment, innovation and inclusive prosperity.

DFIs can pursue this underserved market opportunity by purposely realigning their weighting of (actual and perceived) financial risk versus the tremendous societal and economic impact of backing more innovative and early-stage gender-smart funds and businesses. Overcoming systematic barriers and building more resilient and equitable economies requires a paradigm shift in development finance. ■

European DFIs on the front line in tackling the Covid-19 crisis

Like the majority of other economies, developing countries were hit by the recession in 2020. Two years after the outbreak of the pandemic, their recovery is however slower than in advanced countries. To contribute to reducing this gap, the members of the association of EDFIs (European Development Finance Institutions) deployed record investments in 2021 for the private sector, climate finance and gender equality.

Source: EDFI - Provisional data from January 2022

An exceptional crisis calls for exceptional measures

The EDFI association's 15 member European Development Finance Institutions (DFIs) reacted to the magnitude of the economic shock caused by the Covid-19 epidemic by taking strong action in 2021 to support the companies affected by the crisis and a sustainable recovery in emerging and developing countries.

In 2021

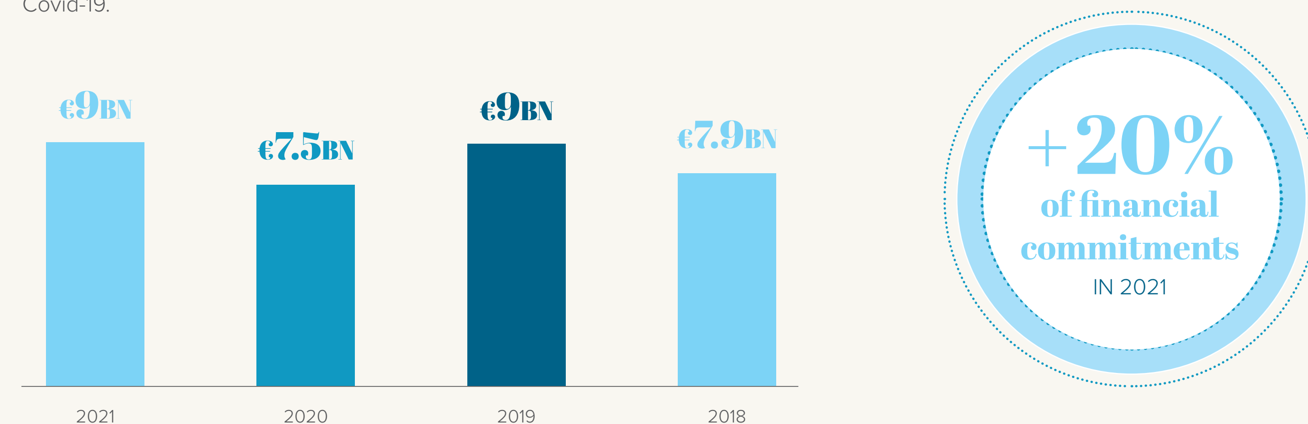
+800
NEW PROJECTS SUPPORTED BY EUROPEAN DFIs

"These results show that the cooperation between European DFIs has been further stepped up during the pandemic. Our members continue to innovate in their commercial practices and are using new instruments and expertise to support their clients."

Søren Peter Andreasen, CEO, EDFI

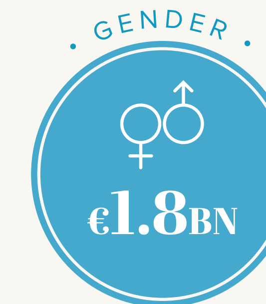
Financial commitments of DFIs return to their pre-pandemic level

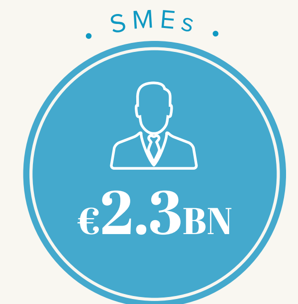
The new investment commitments of European DFIs stood at €9 billion in 2021. They returned to their level in 2019, which was itself a record year, after a sharp decline in 2020 due to the economic crisis caused by Covid-19.



+20% of financial commitments IN 2021

More sustainable and inclusive investments to "build better"





+ 51%* | + 70%* | + 57%*

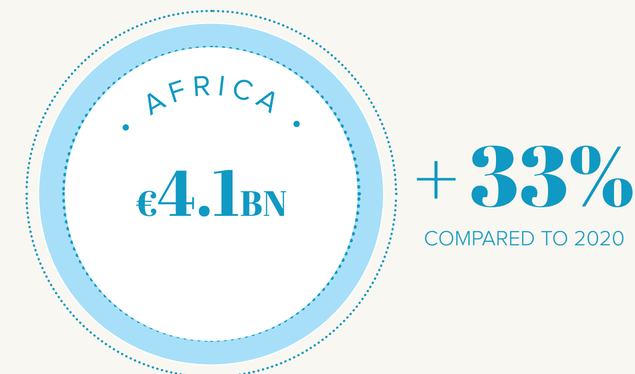
*compared to 2020

In their joint response to the economic crisis caused by Covid-19, European DFIs opted for more inclusive private sector financing. They also built more effective and more resilient development finance solutions.

In addition to providing €2.3 billion of financing for SMEs, amounting to 26% of their commitments in 2021, the members of the EDFI association further stepped up their support for the reduction of gender inequality and women's empowerment in developing and emerging countries, by allocating 20% of their commitments last year.

At the same time, as the climate is more than ever one of the priorities of European Development Finance Institutions, they mobilized €2.1 billion to combat climate change and accelerate the energy transition, *i.e.* 23% of their total commitments.

Strong support for Africa's private sector from "Team Europe"



+33% COMPARED TO 2020

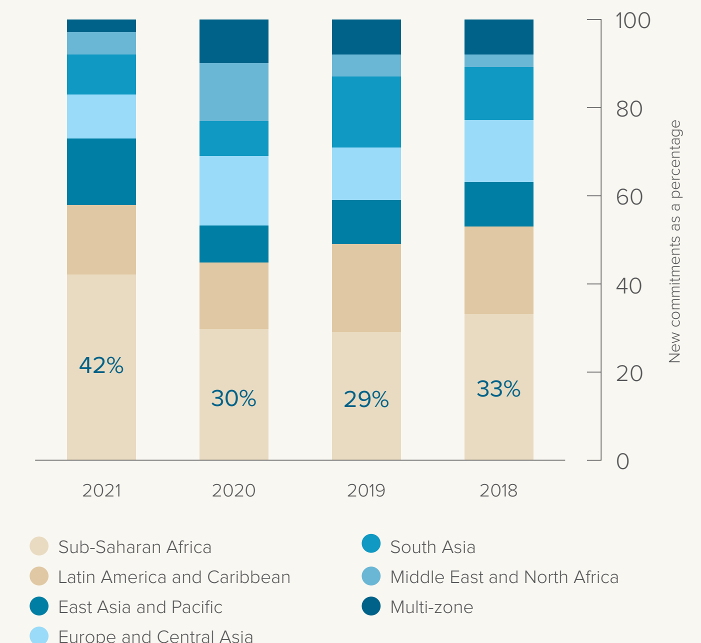
LATIN AMERICA & CARIBBEAN €1.5BN

EAST ASIA & PACIFIC €1.4BN

The strong support for Africa, particularly for African MSMEs, shows that European DFIs kept the promise they made in November 2020 to fully participate in an inclusive and sustainable recovery for Africa's private sector.

IN 2021, AFRICA RECEIVED **42%** OF THE FINANCIAL COMMITMENTS OF "TEAM EUROPE".

Regional breakdown of financial commitments since 2018



Development finance institutions: major players in Africa's post-Covid recovery

Guillaume Barberousse, Head of the Banking and Financial Markets Division, Proparco
Emmanuel Haye, Deputy head of the Financial Institutions and Inclusion Division, Proparco

For the past two years, Proparco and its European counterparts have been on the front line in tackling the economic crisis caused by the Covid-19 pandemic. Through record financial commitments and a wide range of tools, DFIs have deployed an extensive recovery plan in Africa to support the financial sector and MSMEs. They have been effectively fulfilling their countercyclical role in this difficult economic context.

AN ARTICLE BY
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Guillaume Barberousse is head of the Banking and Financial Markets Division at Proparco. After beginning his career at BNP Paribas, he joined Proparco's Risk and Portfolio Division in 2007, prior to being appointed Deputy director of the Corporate Division, where he was responsible for agribusiness. He managed the Istanbul office from 2013 to June 2016. Guillaume Barberousse is an agronomist and holds a Masters in Finance from the ESCP Business School.

EMMANUEL HAYE
Emmanuel Haye is deputy director of Proparco's Financial Institutions and Inclusion Division and covers Africa and the Middle East. Emmanuel spent fifteen years in AFD and Proparco's network in Africa. He graduated from EDHEC and began his career as a bank auditor at Deloitte.

The pandemic has caused a slowdown in economic activity in most African countries, although it has turned out to be not as bad as initially feared. In 2020, there was a decline of 1.9% in Africa, against 3% estimated in early 2021. However, last year, most African economies – 40 out of the continent's 54 countries – experienced the worst recession they had ever seen. The magnitude of the economic shock caused by the Covid-19 epidemic means that it will take a long time for its consequences to die down. Total production losses attributable to the pandemic could reach up to 12 percentage points of African GDP in 2021, with major repercussions on employment, which had already fallen by 8.5% in 2020.

In this context, per capita income is only expected to return to its pre-crisis levels between 2022 and 2025, depending on the country. This will result in an increase in poverty for 32 million people in Sub-Saharan African countries alone. Africa's MSMEs, which account for up to 80% of jobs in the formal sector, have been the hardest hit. Many of them have had cash flow problems, especially in sectors such as catering, tourism and transport. Workers in the informal sector and the most vulnerable people have also felt the full brunt.

This tight economic context has also made it even more difficult for African MSMEs to access finance. Despite the progress already achieved, small businesses and microentrepreneurs remain underserved and may no longer have access to financing if the lending activity is slow to recover.

Faced with an unprecedented crisis in terms of its scale, duration and consequences, banks have often taken a cautious approach in order to maintain the best possible control over the deterioration of their loan portfolios. They have consequently limited loans to MSMEs and shifted their activity towards the least risky assets, such as Treasury bills. Before the crisis, only 20% of MSMEs benefited from bank financing and this proportion has since fallen sharply.

RECORD COMMITMENTS TO SUPPORT THE FINANCIAL SECTOR

From the outset of the health crisis, regulators took strong measures to ensure financial stability, which has reduced the risks of a systemic failure of the banking sector. The strategic measures adopted include reducing the base rate – which has a positive effect on overall demand and the ability of households to repay their debts – , lowering the ratios of banks' liquidity reserves, setting up programs for government bond purchases, and establishing a moratorium on the loans allocated by banks.

In addition, Proparco, like its European counterparts, very quickly sought to meet the demands of financial institutions facing cash flow problems due to the difficulties encountered by their clients, in particular non-banking financial institutions. The latter, like certain microfinance institutions, do not collect deposits from their clients and are therefore heavily reliant on bank financing. It is for this reason that Proparco accepted repayment deferrals, on a case-by-case basis, to allow them to overcome temporary difficulties. It has also played a countercyclical role by maintaining its commitments for financial players focused on MSMEs, such as microfinance institutions, leasing companies and banks.

Supporting the pan-African Ecobank Group and its subsidiary in Liberia

In October 2021, a consortium of European Development Finance Institutions led by Proparco signed a $60 million (€53 million) senior loan to support the liquidity program of the pan-African banking group Ecobank for its subsidiaries. Under the French Choose Africa Resilience initiative, this facility is supporting the operations of the pan-African Group's clients and helping them cope with the impacts of the pandemic.

Ecobank Transnational Incorporated (ETI) is based in Lomé, Togo, and is the parent company of Ecobank Group, which has 33 subsidiaries in Africa. The Group has developed into a key player in Africa's banking sector, especially in fragile countries and for the MSME sector. Over the years, Proparco and Ecobank Group have continued to strengthen their partnership via a number of loans, bond subscriptions and trade finance guarantees for ETI and its subsidiaries.

"Proparco has been a close and longstanding partner of Ecobank together with Norfund (Norway) and DEG (Germany). This $60 million loan will help in our commitment to the economic development of the continent, particularly for the growth of the SME segment which is recovering from the impact of the Covid-19 pandemic", says Ade Ayeyemi, Chief Executive Officer of Ecobank Group.

A few months earlier, in June 2021, Proparco had already signed a $10 million Trade Finance guarantee program with Ecobank Group's subsidiary in Liberia. This program aims to support this institution – the leading commercial bank in Liberia – on international markets. It also aims to encourage foreign banks to get involved in trade finance operations with Ecobank Liberia and its local clients. This will promote the development of international trade through the import and export of essential goods.

> *In this uncertain environment, Proparco has also mobilized various risk-sharing tools from France and the European Union (EU) to step up its support for its clients.*

Proparco's operations in the financial sector increased in 2020 and even more so in 2021, with a record level for both credit lines and risk-sharing facilities. Last year, Africa benefited from almost €1 billion of credit lines and risk sharing, mainly under the Choose Africa initiative and its Resilience component, which has been topped up with an additional €1 billion to support the recovery in Africa. In this uncertain environment, Proparco has also mobilized various risk-sharing tools from France and the European Union (EU) to step up its support for its clients.

In addition, Proparco has used its wide range of tools to support financial institutions, in particular short-term credit lines, resources to strengthen the equity of its clients and, especially, risk-sharing facilities, for which there was strong demand in 2021, to both cover medium and long-term SME loans and help maintain trade finance lines for African banks. Finally, with Digital Africa, it has supported African start-ups which have had difficulties raising funds due to the crisis. €4 million of bridging loans have been allocated to ten start-ups via the Bridge Fund by Digital Africa. This has put these companies in a more comfortable position to face the crisis.

Senegal: supporting microentrepreneurs affected by the crisis

PAMECAS is one of the main microfinance institutions in Senegal. Through its commitment to microentrepreneurs and MSMEs, particularly in the trade, agriculture and livestock sectors, it plays a major role in social development in Senegal. It offers credit and savings products to its 800,000 members and currently has over 90,000 borrowers.

In mid-2021, Proparco and its Italian counterpart Cassa Depositi e Prestiti (CDP) allocated loans totaling €8 million to PAMECAS to allow it to develop its microcredit portfolio for Senegalese entrepreneurs. It is also Proparco and CDP's first joint operation in the microfinance sector.

This project is part of Proparco and CDP's response plans to the crisis caused by the Covid-19 pandemic. As such, it benefits from guarantees from the European Union's External Investment Plan (EFSD) designed to support small businesses affected by the crisis and encourage local banks to finance them more.

Over 3,800 microentrepreneurs, most of them women, will benefit from this operation. It will thereby contribute to the 2X Challenge, the initiative led by some 20 Development Finance Institutions since 2018 to strengthen the economic role of women in developing countries.

MAIN LESSONS LEARNED FROM THE MANAGEMENT OF AN UNPRECEDENTED CRISIS

While remaining humble and cautious due to the still uncertain health situation, it is nevertheless possible to note that this crisis has demonstrated the ability of States to take action to support their financial sector, which is essential for the development of the economy. Banks, leasing companies and the other financial institutions play a key role in MSME financing, which is especially necessary in times of crisis. However, the quality of banks' portfolios is still under pressure and, due to the provisions required, they may need to restore their solvency in a second stage.

Another lesson we have already learned from the crisis is that having a network close to clients is a real advantage when it comes to providing a swift response. Through its network of a dozen or so offices across Africa, Proparco has been able to monitor the macroeconomic developments and rapidly identify its clients' needs. Similarly, it seems essential to be backed up by a wide range of tools with varied risk profiles in order to meet multiple needs: senior credit lines to support the allocation of new loans, strengthening of the equity and quasi-equity of financial intermediaries whose clients are affected, risk-sharing with banks for its most affected client segments, Trade Finance guarantees when international banks are reluctant to make commitments in Africa, and grants to finance expertise for bank clients seeking to make progress in certain thematic areas (the climate and financial inclusion, for example) or emergency measures.

Finally, the important role played by France and the EU, which have allocated risk-sharing facilities to Proparco, has increased Proparco's capacity to take action in deteriorated situations. It would appear crucial to have this type of tool, with the greatest possible flexibility to adapt to the many situations encountered, in order to play the countercyclical role expected of Development Finance Institutions. ■

FOCUS
PROPARCO

Proparco has been working to support sustainable development in Africa, Asia, Latin America and the Middle East for over 40 years. The private sector arm of Agence Française de Développement (AFD), it finances companies and financial institutions and helps them manage the impacts of their activities. In 2020, Proparco committed over €2 billion of financing, focused on key development sectors such as infrastructure, particularly renewable energies, agribusiness, financial institutions, health and education.

South Africa: minibus taxi drivers have benefited from emergency assistance

From the very outset of the health crisis, in March 2020, Proparco adapted its technical assistance (TA) services to meet the needs of its partners. SA Taxi, a South African company which finances microentrepreneurs operating minibus taxis, the main means of transport in South Africa, benefited from €100,000 of financing to implement protective measures for minibus taxi drivers. This support has allowed them to continue working safely for passengers who use this means of transport every day.

Scaling up blended finance to build back better

Interview with Idsert Boersma, Director of partnerships for Impact (P4i), FMO

Reaching the Sustainable Development Goals (SDGs) has been delayed by Covid-19, leading to a rise in poverty and inequality. Additional effort is needed to adapt to climate change: funding will be required to build back better and make the economy greener, which will create decent jobs and enable citizens in emerging markets to participate. Using blended finance – with public funding opening the way for private impact finance – could be the key to reaching the SDGs.

IDSERT BOERSMA

Idsert Boersma is the director of partnerships for Impact (P4i) at FMO. He has been working at FMO for over 14 years. Before heading P4i, he held senior management positions at FMO: Director Legal Affairs and Manager Private Equity. Prior to this, Idsert worked for the World Bank and at the Dutch Ministry of Finance. He holds a Master of Science in Business Administration and a Master of Law from Erasmus University, Rotterdam.

Covid-19 has pushed back the clock on reaching the SDGs, shining a light on the stark inequality rampant across the globe. More than 100 million people have fallen back into poverty, countless small businesses have been severely disrupted, and many girls have been unenrolled from school. While all of this has been happening, the world has had to learn to cope with climate adaptation, since the world's economic recovery has pushed attainment of the 1.5-degree target off track – impacting those at the bottom of the pyramid the most.

Pre-Covid-19, it was estimated that USD 2.5 trillion a year would be needed to reach the SDGs and the climate goals. With the pandemic, progress toward these goals has been slowing, and in some instances even reversing. In fact, the poverty rate is expected to increase for the first time in more than 20 years.

Yet there is potential for positive outcomes. This is the time for innovative solutions to building back better and greening the economy, by creating new types of partnerships that will enable citizens in emerging markets to participate in society by having more decent jobs. According to Idsert Boersma, blended finance – which involves combining public funds with private capital – could be an important part of the post-Covid-19 solution. According to Idsert Boersma, FMO's Director of Partnership for Impact, "It is up to us to show that it can work; then the big money will start to move to emerging markets, which is absolutely necessary if we want to meet the Sustainable Development Goals (SDGs)!"

YOUR EXPLANATION OF BLENDED FINANCE AS "THE HIGHER RISK APPETITE OF GOVERNMENTS OPENING A PATHWAY FOR BIG [PRIVATE] MONEY" INVITES THE QUESTION: WHAT FORM WILL IMPLEMENTATION TAKE?

Idsert Boersma: It has to be done in a strategic way. The layers must be well designed, with an eye for the specific risks perceived by the private sector. There is a huge amount of money in the private sector, less in the public and philanthropic sectors. The purpose is to use some public funding to mobilize a lot of private funding. It will take a lot of time to get this right, and we should be very mindful of not wasting taxpayers' money. Blended finance can only be used where it is really needed, and the governments' input should only be temporary.

COULD YOU GIVE AN EXAMPLE OF A BLENDED FINANCE PROJECT THAT MEETS THESE CRITERIA?

Let us look at a climate adaptation project. How can we live and protect people's livelihoods if their surroundings are changing due to climate change? Within DFCD, a fund in which FMO works together with two NGOs – SNV and WWF – as well as with Climate Finance Managers, a project in the Mekong Delta, home to 17 million people in Vietnam, is being developed. This is one of the world's most productive ecosystems and at the same time one of the regions in the world most vulnerable to water and climate disasters. Erosion of the riverbed is aggravating saltwater intrusion – in some parts reaching up to 130 km inland – affecting soil fertility and poisoning crops.

To create a climate-resilient landscape, the Mekong Delta Integrated Rice and Aquaculture Project comprises mixed rice and shrimp aquaculture ponds. The ponds produce rice and freshwater shrimps in the rainy seasons and brackish-water shrimps in the dry seasons and periods of saltwater intrusion. The benefit of this is that the shrimps provide the nutrition for the rice to grow. The farmers' income has doubled. This is a relatively small project (USD 150K), but if the positive effects continue, we will scale it up 100 times, with blended finance. It has a demonstrable effect, so others can follow, and then the impact becomes exponential.

FOCUS
FMO

FMO is the Dutch entrepreneurial development bank. As a leading impact investor, FMO supports sustainable private sector growth in developing countries and emerging markets by investing in ambitious projects and entrepreneurs. FMO believes that a strong private sector leads to economic and social development and has a close to 50-year proven track-record of empowering people to employ their skills and improve their quality of life. FMO focuses on three sectors that have high development impact: financial institutions, energy, and agribusiness, food and water. With a committed portfolio of EUR 12.5 billion spanning over 85 countries, FMO is one of the larger bilateral private sector developments banks globally.

HOW MUCH IMPACT COULD BLENDED FINANCE HAVE IF USED ON A BIG SCALE?

If we get it right, it offers big solutions. It could become a powerful tool in attaining the SDGs. But for now, it is still small. It is up to us to show that it works; then the 'big money' will start to move in New York and London. It requires skills that we have to develop together.

WHAT WILL IT TAKE TO REALISE BLENDED FINANCE'S POTENTIAL?

A few current trends could be suitable for blended finance and could help to accelerate it. There is the low-interest environment: people want to invest to make some money, while having an impact. This is an instance where the development finance sector is realizing that it has to act together with the private sector. The private sector does not know how to work with governments that well yet, even though there are ample opportunities to utilize each others' strengths. The technologies used by new fintech and agritech businesses bring new opportunities to reach people who previously were difficult to reach. Investors are looking for opportunities; there is willingness to work together.

WHAT CAN DFIS DO TO UNLOCK THE FULL POTENTIAL OF POST-COVID-19 RECOVERY EFFORTS?

Both *entering into* and *exiting from* emerging market private equity investments is considered high-risk by most investors. A clear market failure exit as a well-functioning secondary equity market is absent for exiting investments, which deters investors from venturing into emerging markets (especially in Africa). A blended finance innovation, establishing a secondary market equity platform — open for all DFIs and MDBs — would fit the European Commission Team Europe aim of 'investing in young businesses in Africa'. Over time, it would also lead to private sector players joining in. ■

How digital innovation supports development and can aid the Covid-19 recovery

Abhinav Sinha, Managing Director and Head of Technology and Telecoms, British International Investment

During the Covid-19 pandemic, many day-to-day activities – meetings, working, shopping- were made possible because they moved online. This highlighted the critical role of digital infrastructure in sustaining economies, and the potential for development impact through increased investment in the sector. Yet commercial investors are still nervous about investing in digital infrastructure and businesses, viewing them as outside of their risk appetite. This makes them perfect candidates for both equity and debt financing from DFIs who can also mobilise private capital into the sector for greater development impact.

AN ARTICLE BY
ABHINAV SINHA
Since joining British International Investment (formerly CDC Group) in 2018, Abhinav has taken the lead on some of the company's most significant investments, including Liquid Telecom, the largest independent fibre and cloud service provider in Africa, and Safaricom Ethiopia, the first private mobile network in Ethiopia. Prior to joining CDC, he was a Partner at Fidelity Growth Partners, where he was responsible for building the industrial and telecom portfolio.

For many in the developed world, the move online has long been inevitable, but the rate of change has accelerated due to the Covid-19 pandemic. Over the past two years, much of our day-to-day activity has moved online. From work meetings to doctors' appointments and grocery shopping, the way we access goods and services has changed dramatically. It is now estimated that global internet traffic this year will exceed all internet traffic up to 2016[1].

Yet, in developing countries, the digital trajectory is less clear. Over a third of the world's population have never used the internet, and the UN's International Telecommunication Union estimates that 96 per cent of this group are in developing countries. What is more, within countries there are future divides between usage in rural and urban areas and between men and women, with the largest divides being in the least economically developed countries. Yet we know that connectivity has the potential to make a difference in people's lives. Access to affordable, good-quality internet is central to development, both to strengthen the growth of businesses and local economies and to increase access to education, healthcare, banking and government services.

However, the challenge to provide internet access is significant. An estimated $100 billion of investment will be required in Africa alone to achieve universal broadband Internet access by 2030[2]. Development finance institutions (DFIs) have a role to play in meeting this challenge. The ability and willingness of DFIs to be first movers on investing in emerging markets have been shown to unlock additional investment. There are three key areas where DFI focus can catalyse investment into the digital sector: digital infrastructure, digitally native and enabled companies, and disruptive digital business.

1 ‣ https://unctad.org/system/files/official-document/der2021_en.pdf
2 ‣ https://www.worldbank.org/en/news/press-release/2019/10/17/achieving-broadband-access-for-all-in-africa-comes-with-a-100-billion-price-tag

DIGITAL INFRASTRUCTURE: CORE TO OPERATIONS – AND LIVES

Digital infrastructure is foundational to the growth of digital economies. A report by Google and the International Finance Corporation (IFC)[3], estimates that Africa's internet economy has the potential to reach 5.2 per cent of the continent's gross domestic product (GDP) by 2025, contributing nearly $180 billion to its economy. By 2050, the internet economy could contribute as much as $712 billion to the continent.

Companies such as Liquid Telecom – the largest independent fibre, data-centre and cloud technology provider in Africa – bring broadband to some of the most isolated and unconnected places across the continent. To date, it has laid over 100,000 km of fibre network across the African continent, including through remote areas in countries such as the Democratic Republic of the Congo, which lacks access to affordable and reliable internet. By investing in digital infrastructure companies such as Liquid Telecom, DFIs can catalyse investment from across the private sector and pave the way to economic growth through the Covid-19 pandemic and beyond it. For example, thanks to Liquid Telecom's successful development, it is the leading African partner for global technology firms, including Microsoft, Google and Facebook. A recent bond refinancing and debt issue raised nearly $800 million for Liquid Telecom at some of the best rates ever seen in emerging markets.

> *“By investing in digital infrastructure companies, DFIs can catalyse investment from across the private sector and pave the way to economic growth through the Covid-19 pandemic and beyond it.”*

DIGITALLY NATIVE AND ENABLED COMPANIES

Over the past two years, the growth of 'digitally native' and 'digitally enabled' companies has been critical to the provision of key goods and services during the Covid-19 pandemic, as well as to ensuring other businesses can continue operating through remote working. The OECD estimates there are over 500 African businesses providing technology-enabled innovation in financial services on the continent.

'Digitally native' businesses such as artificial intelligence company iMerit in India are inherently digital; without the internet the organisation would shut down. iMerit employs 3,000 people in India and Bhutan. Its data labelling services train AI algorithms, which in turn are used in many domains, from medical imaging to flood-risk mitigation. Yet despite the nature of the company's work during the pandemic, the staff were still required to adjust to working online from home, with the support of management.

'Digitally enabled' companies, in contrast, use digital technology to improve the delivery of their services and products, making them more efficient and accessible. We have seen these grow over the past two years, as essential services such as education and healthcare have moved online during the pandemic. For example, in India, Loadshare uses digital technology to bring small- and medium-sized logistics companies together into a nationwide network. That network provides smaller firms with better market access, boosting their growth and creating jobs. By investing in these businesses, DFIs can achieve a measurable impact through increased access to goods and services, often to marginalised communities.

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3 ‣ https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26066

HOW DIGITAL INNOVATION SUPPORTS DEVELOPMENT AND CAN AID THE COVID-19 RECOVERY

DISRUPTIVE DIGITAL BUSINESSES

FOCUS

BRITISH INTERNATIONAL INVESTMENT

British International Investment (formerly CDC Group) is the UK's development finance institution, with the mission to help solve the biggest global development challenges by investing patient, flexible capital to support private-sector growth and innovation. The company has over 70 years of experience in successfully supporting the sustainable, long-term growth of businesses in Africa and Asia, and recently expanded to invest in the Indo-Pacific and Caribbean. It plays a central role in the UK's international financing offer, to help developing and emerging countries meet their significant financing needs for infrastructure and enterprise.

Disruptive businesses use digital technology to directly tackle development challenges, such as improving farmers' access to finance and climate resilience tools.

These firms are usually high risk and founded by entrepreneurs who require external capital to scale up. Because government-backed DFIs have a greater capacity than other investors to take on risk and can provide guidance alongside their capital to support these businesses, they are well suited to supporting them. One example of such a business is CropIn, an India-based specialist in software for agribusiness, which takes a pioneering approach to improving smallholder farmers' resilience to climate change. CropIn uses technologies such as satellite images, AI and machine learning to monitor crop health, generate weather analytics, make yield predictions and pass these insights on to farmers. Armed with the right information, farmers can deal better with the effects of climate change. Studies show that climate resilience increases on average for 92 per cent of farmers in the first year of using CropIn's technology. While initially carrying risk, investing in disruptive businesses has the potential to radically transform markets and scale innovative solutions to meet development challenges.

SO WHAT IS STOPPING INVESTMENT IN DIGITALISATION?

Investment across the digital sector – from large-scale digital infrastructure to early-stage businesses – can make a difference in people's lives by implementing digital solutions to address intractable development challenges. But the gap in financing the sector is significant. This makes it crucial for a range of actors to play a role, from institutional investors to impact investors, development finance institutions, and multilateral development entities.

The current financing gap exists for several reasons. Commercial investors prefer well-proven models and established firms. However, developing economies often need new business models to address challenges and the lack of infrastructure such as electricity, which means commercial investors are reluctant to back these new models. Impact investors, who invest to generate measurable social and environmental benefits alongside a financial return, could play a role, in particular with the larger equity investments needed in digital technology.

Yet the Global Impact Investing Network (GIIN) estimates that only three per cent of impact investments in emerging markets are in the ICT sector. This is the result of a number of misconceptions. First, despite modern reliance on the internet, there is still a misconception among impact investors and others that digital infrastructure is not as important as traditional sector infrastructure like energy or financial services for development. This is not the case. Digital infrastructure is a building block of modern economies, proven to drive business and economic growth. As such, it is critical for sustainable development. This was reinforced during the last two years of the Covid-19 pandemic, where it helped sustain livelihoods and economies.

Second, there is a pervasive belief that the funding needs of digital businesses and infrastructure are met by the private sector and do not require impact investment. But disruptive businesses are an important part of the digital economy and need early-stage capital, which in emerging markets often comes from impact investors.

WHAT ROLE CAN DFIS PLAY?

For DFIs, there are opportunities to make investments across all three areas – digital infrastructure, digitally native and enabled businesses, and disruptive digital businesses. In terms of the approach taken, what sets these groups apart is risk, with digital infrastructure tending to have a less risky profile, while disruptive businesses are riskier (although there are nuances within this framework). This means that infrastructure and most digital businesses are appropriate for both equity and debt financing from DFIs, whereas the experimental nature of disruptive digital businesses makes them typically appropriate only for equity investment. Concessional or grant finance is also important and has a role to play across all three areas to maximise development impact. It can be provided by a range of institutions, including DFIs and philanthropic foundations, to support businesses trialling digital solutions that have the potential for large developmental impact but are beyond the scope of returnable capital.

> “*As the world moves increasingly online, digitalisation is rapidly becoming not only a result of, but also a tool for development.*”

Covid-19 created an even greater need for this type of financing because of the critical role digitalisation had to play in providing access to goods and services and due to its direct improvement impact on lives. For example, in the healthcare sector, digitalisation played a role in providing self-diagnostic tools and access to telemedicine, both necessary when human contact had been restricted. That entailed using technical assistance in instances such as funding the roll-out of a platform for remote medical appointments and launching an app for accessing Covid-19 symptoms.

CONCLUSION

The pandemic has shone a harsh light on global inequality but also highlighted routes for development. Digitalisation offers solutions to some of the development challenges that confront us, such as access to healthcare and education. As the world moves increasingly online, digitalisation is rapidly becoming not only a result of, but also a tool for development. By investing across the digital spectrum, DFIs can not only catalyse development impact but also create opportunities for other investors to follow. ■

Responding to pandemics: development funders light the way

Interview with Fadila Hamdane, Deputy head of the Manufacturing, agricultural & services division, Proparco
Isabel Thywissen, Vice president & healthcare specialist, DEG
Audrey Obara, Head of healthcare & regional office, Swedfund

Three key figures in development finance institutions working with the healthcare sectors of developing countries provide their insights gleaned at the coalface of pandemic responses. The funding and technical assistance provided by the institutions they represent have fortified providers in serving their populations and is enabling greater access to quality healthcare. Lessons shared about challenges and opportunities also will enable solutions aimed at the betterment of populations. To this end, support of the public and private sectors by these DFIs is facilitating collaboration geared towards addressing challenges and embracing opportunities.

PS&D: WHAT ACTIONS, TOOLS AND INITIATIVES HAVE BEEN IMPLEMENTED BY YOUR DFI IN RESPONSE TO THE PANDEMIC TO SUPPORT THE PRIVATE HEALTH SECTOR IN DEVELOPING COUNTRIES AND EMERGING MARKETS?

Fadila Hamdane (Proparco): Proparco has carried out its action as part of AFD Group's Health in Common initiative, which was launched at the outbreak of the pandemic to complement AFD's action. We've worked to support vaccine production in Africa and promote the emergence of new pharmaceutical industries. For example, Proparco has participated in a major syndicated loan to finance the South African group Aspen, one of the leading pharmaceutical groups in Africa. The financing has served to support the deployment of a Covid vaccine manufacturing plant with a capacity of 300 million doses.

Isabel Thywissen (DEG): DEG is engaged in financing health delivery and pharma; in recent times, we have focused on Covid-19 vaccine production. We support our portfolio companies in adapting their pandemic responses – for example, to purchase PPE (Personal Protective Equipment), for infection control, digitalization and training personnel.

Audrey Obara (Swedfund): Very quickly after the first cases were announced in our focus market, we deployed technical assistance funding to support clinics and hospitals so that they could continue to provide care for people in need. This included initiatives concerning protecting staff, protective gear, ensuring safe patient flows, and quick renovations of infrastructure to ensure that patients and staff remained safe. Secondly, together with other shareholders, we assessed the potential to provide additional investment in the portfolio to bridge the consequences of the pandemic and increase the resilience of the portfolio companies.

WHAT HAS BEEN THE IMPACT OF THE CRISIS ON THE PRIVATE HEALTH SECTORS IN THESE COUNTRIES?

Isabel Thywissen (DEG): Covid-19 is a public health issue. Nevertheless, due to a lack of means and infrastructure, it has become a private and public-private partnership matter. A lack of availability of financial means, additional costs for Covid-19 treatment, overworked staff, and income reduction due to the postponement of hospital procedures all have a strong impact on the sustainability of private institutions.

Fadila Hamdane (Proparco): The health crisis has firstly had a negative impact on the private health sector. Indeed, private hospitals have been forced to cancel non-urgent operations. For the pharmaceutical industry, it has caused problems with supplies and the transport of raw materials or finished products. But the industry got organized very quickly and returned to a strong level of activity: hospitals supplied their staff with protective equipment and adapted their working arrangements. Some of our hospital clients have benefited from Proparco's technical assistance to help them reorganize themselves and protect their staff.

Audrey Obara (Swedfund): Many providers have experienced a drop in patient flows because patients stayed away for fear of contracting Covid-19. Operating costs have also increased on consumables such as masks, protective equipment, and medical equipment, due to supply chain hiccups, lockdowns and the overnight spike in demand for these products.

THE PANDEMIC HAS INCREASED THE LEVEL OF POVERTY AND HAS MADE ACCESS TO CARE MORE DIFFICULT IN THESE COUNTRIES. WHAT MEASURES HAS YOUR DFI TAKEN TO IMPROVE ACCESS TO HEALTHCARE?

Isabel Thywissen (DEG): We finance the production of generic medicines, increasing the availability of medicine and reducing treatment costs. The alignment of practices to international standards leads to improved quality and efficiency, allowing better access to treatment. Joining forces with other engaged institutions leads to quicker implementation of the needed measures. Digitalization of the sector also helps to improve access to care.

Audrey Obara (Swedfund): In 2021, we closed a loan facility to Medical Credit Fund II, which provides financing and capacity building to health SMEs, enabling them to provide affordable, quality healthcare in several Sub-Saharan African countries. We also increased funding to HealthQuad II, a fund that supports innovative solutions in India, which are transforming healthcare delivery and ensuring greater access for more people. We continue to build relationships with like-minded institutional investors focused on healthcare in Sub-Saharan Africa and Asia to support access to affordable, quality care.

Fadila Hamdane (Proparco): The crisis has had major economic and social consequences, which limit access to healthcare for a growing proportion of the population. This crisis situation makes the issue of accessibility even more crucial. To address it, in late 2021, we allocated a grant to the Aga Khan Health Services hospital network in Kenya and Tanzania. This grant aims to finance a mechanism devised by the network: the Patient Welfare Program. This mechanism blends external grants with the financial efforts of AKHS to provide access to quality healthcare for disadvantaged people.

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FOCUS

PROPARCO

Proparco is the private sector financing arm of the Agence française de développement Group (AFD Group). It has been promoting sustainable economic, social and environmental development for over 40 years. Proparco provides funding and support to both businesses and financial institutions in Africa, Asia, Latin America and the Middle East. Its activities focus on the key development sectors: infrastructure (mainly for renewable energies), agribusiness, financial institutions, health and education.

DEG

For almost 60 years DEG, has been a reliable partner of private-sector enterprises operating in developing and emerging-market countries. DEG provides its customers with tailor-made solutions, including financing, promotional programmes and advice tailored to individual needs. They can thus develop successfully and sustainably, while generating local added value and creating qualified jobs. With a portfolio of over EUR 9 billion in more than 80 countries, DEG is one of the world's largest private-sector development financiers.

SWEDFUND

Swedfund is Sweden's development finance institution, with a mission to contribute to poverty reduction through sustainable investment in developing countries. The investments of Swedfund in the private sector contribute to a growing number of jobs offering decent working conditions and increase access to essential products and services like electricity and healthcare. Climate and gender are themes that permeate the investment process. Swedfund invests in energy and climate solutions, as well as healthcare and digitalization. It enables financial inclusion and increased access to capital for micro, small and medium-sized companies.

LOOKING TO THE FUTURE, HOW CAN WE MAKE THE PRIVATE HEALTH SECTOR MORE RESILIENT?

Fadila Hamdane (Proparco): Many challenges must be addressed to develop the private health sector and make it more resilient to crises: there is an urgent need to increase the training capacity for health workers and strengthen and coordinate the regulation of the sector at regional level (particularly for pharmaceuticals). It's also essential to improve the general infrastructure so that production can meet the highest standards. Close cooperation with the public sector is necessary to identify solutions to the needs for seed and R&D funding and to secure the marketing aspects. Furthermore, technology transfers, such as those promoted for the production of the Covid vaccine, must be supported to ensure there is a good quality local production.

> *"Technology transfers, such as those promoted for the production of the Covid vaccine, must be supported to ensure there is a good quality local production."*
> Fadila Hamdane (Proparco)

Isabel Thywissen (DEG): Private healthcare provision is part of a complex system. External factors such as regulation, infrastructure – clean water, supply of ingredients and qualified staff, among others – are required as the basis for private engagement. Private companies need to concentrate on good performance, less bureaucracy, better pandemic preparedness and quicker adaptation to changes in the health environment. In the case of Asia Royal Hospital in Myanmar, we assisted with reorganizing their workflows, in parallel to financing an expansion.

Audrey Obara (Swedfund): Affordability remains a key constraint for many people in developing countries accessing healthcare. Solutions need to be cost efficient without compromising on quality, and coordinated efforts are required from various actors such as governments and the private sector, cooperating on traditional aid and investment. Collaboration will also be required between the public and private sectors to utilize excess capacity (for example, equipment and human resources) and to enhance technical capacity.

HAS THE PANDEMIC INFLUENCED YOUR STRATEGY IN SUPPORTING THE PRIVATE HEALTH SECTOR?

Isabel Thywissen (DEG): Different stakeholders, such as the public and private sectors, have started trustful collaborations. One such case was Aspen in South Africa producing vaccine, financed by a consortium of IFC, Proparco, DFC and DEG. Later on, we increased the volume of our financing in the pharma sector, including of Grupo Ave in Colombia. We have also backed private hospitals affected by the drastic reduction of revenues during the pandemic.

Fadila Hamdane (Proparco): There has never been such a need for massive investment in health infrastructure and human resources training. It's also necessary to strengthen social protection systems in our countries of operation. In this context, we need to adapt our strategy, with the aim of further stepping up our support for the health sector. This must also include working closely with AFD's teams to improve the supervision of the private sector, as well as the consideration of its specific characteristics. It must enable us to initiate an ambitious dialogue with the public authorities to establish the conditions for the development of quality healthcare accessible to all.

Audrey Obara (Swedfund): Covid-19 has highlighted the importance of building resilient health systems in developing countries and the critical role that the private sector plays and can play in complementing the public sector in this pursuit. Payment mechanisms such as taxes and insurance need to be expanded, including government interventions for the vulnerable and underserved. The pandemic has reinforced our commitment to the health sector to financially support companies and funds that seek to improve services and access to quality healthcare for underserved populations in a sustainable manner.

> *"The crisis has brought increased awareness of the importance of a well-functioning system, ready to respond to pandemics and other threats to health systems."*
> Isabel Thywissen (DEG)

WHAT CHALLENGES AND OPPORTUNITIES HAS THE CRISIS REVEALED FOR THE HEALTH SECTORS IN DEVELOPING COUNTRIES?

Isabel Thywissen (DEG): The crisis has brought increased awareness of the importance of a well-functioning system, ready to respond to pandemics and other threats to health systems. Also, it has exposed the need for medical training and supply chain challenges to be resolved.

Audrey Obara (Swedfund): Most of the pre-existing challenges were exposed during the crisis: shortage of healthcare workers, beds, and specialized equipment (e.g. ventilators); poor supply chains; and limited local production of key medical consumables and drugs. There is a strong case for enhancing the local production of medicines and consumables and for reducing reliance on imports. This need not be in each country but within regional blocks, with certain countries manufacturing specific drugs/consumables. According to an article by McKinsey in 2019[1], Africa had only 375 drug manufacturers, mostly in North Africa, serving a population of around 1.3 billion people, compared with 10,500 in India serving 1.4 billion people. The role of digital technology in solving many healthcare challenges is growing and received a big boost from the pandemic.

Fadila Hamdane (Proparco): The crisis has highlighted the vulnerability of healthcare systems. It has also demonstrated the capacity of States to take action and join hands to allocate larger budgets to the health sector. Indeed, it has created a political momentum that helps bring about new projects and promotes greater investment by various types of players (private sector, DFIs, NGOs).

> *"Covid-19 has highlighted the importance of building resilient health systems in developing countries and the critical role that the private sector plays and can play in complementing the public sector in this pursuit."*
> Audrey Obara (Swedfund)

1 https://www.mckinsey.com/industries/public-and-social-sector/our-insights/should-sub-saharan-africa-make-its-own-drugs

Europe's huge opportunity: mobilising the private sector for development

Jutta Urpilainen, European Commissioner for International Partnerships

"Team Europe" is a space that allows for strengthened cooperation across European development finance actors. For the European DFIs, strengthened cooperation with EU institutions will be key to enabling the European response to address the challenges of private sector development and private sector mobilisation to fill the investment gap.

AN ARTICLE BY
JUTTA URPILAINEN
As European Commissioner for International Partnerships, Jutta Urpilainen oversees the European Commission's work on international cooperation and sustainable development. Before joining the Commission, Jutta Urpilainen served as a Member of the Finnish Parliament, from 2003 to 2019. In 2008, she became the first woman leader of the Social Democratic Party of Finland. From 2011 to 2014, she served as Finland's Deputy Prime Minister and Finance Minister. She has served as the Foreign Minister's Special Representative on Mediation (2017-19) and has chaired the Finnish National Commission for UNESCO (2015-18).

In 2019, the UN Secretary-General estimated the shortfall in financing needed to achieve the Sustainable Development Goals (SDGs) in developing countries to be USD 2.5-3 trillion per year. However, in 2020 official development assistance (ODA) amounted to only USD 161 billion.

It will not be possible to close this gap with public funds alone. In contributing to this effort, the EU will need to mobilise private capital, to "build back better" together and support partner countries in their common efforts towards more inclusive, green and digitalised economies. Partner countries' private sectors, as well as European micro, small and medium-sized enterprises (MSMEs) play an important role, not least through innovation and investment, but also through the jobs they create.

The EU's renewed strategy with Africa as endorsed at the summit with the African Union in February 2022 clearly highlights this message: sustained economic transformation and growth across the continent will happen with a dynamic private sector that draws on the creativity and entrepreneurship of all of Africa's people – in particular its women, youth and vulnerable populations. Promoting partnerships helps to achieve these objectives. For the EU, this means working together with the private sector in partner countries and in Europe. It also means reinforcing coordination with EU Member States and European development financial institutions in a 'Team Europe' approach.

THE EU'S RESPONSE: ENABLING THE PRIVATE SECTOR TO FLOURISH

The EU supports private sector development and SMEs in its partner countries and seeks to strengthen the win-win nature of the links between local and European businesses wishing to operate overseas.

As such, the EU supports partner countries in their efforts to promote industrial development, investment in infrastructure, digitalisation, and renewable energy, and to improve their competitiveness. It works with them to develop local and regional markets, facilitate trade, advance regional integration and make value chains more sustainable.

The African Continental Free Trade Area is one of the key accelerators for sustained economic transformation and growth in Africa. The EU supports it with the aim of creating a single continental market for goods and services, strengthening regional integration and making regional and global value chains more sustainable.

Additionally, the EU works with partner countries to create the right ecosystems and enabling environments, through strengthening policy and regulatory frameworks, developing skilled workforces, and improving investment climates.

In 2020 alone, the EU's backing for business environment reforms in sub-Saharan Africa amounted to almost EUR 500 million. It supports sustainable growth and decent jobs in partner countries by promoting decent work, as well as by supporting actions aimed at preventing child and forced labour.

Further, the EU promotes public-private dialogue and engagement of the private sector for development. To do this, it facilitates dialogue between the private sector and international financial institutions with the goal of improving the investment climate and leveraging private capital.

The EU also combines technical assistance to both the private and public sectors with greater access to finance for businesses through instruments such as the European Fund for Sustainable Development Plus (EFSD+).

THE EU'S NEW FLAGSHIP INITIATIVE: GLOBAL GATEWAY

On 1 December 2021, the European Commission launched Global Gateway, the new European connectivity strategy, based on five policy priorities: digitalisation, climate and energy, transport, health, and education and research.

Global Gateway aims to mobilise up to EUR 300 billion in investment by 2027 to support a sustainable, digital and green global recovery, taking into account both partners' needs and the EU's priorities.

It stands for sustainable connections that work for people and the planet, to tackle the most pressing global challenges, from climate change and protecting the environment to improving health security and boosting competitiveness and global supply chains.

The private sector will be a crucial partner in achieving this ambitious target: to scale up infrastructure investment and deliver benefits and protection to the EU's partners in tackling today's most pressing challenges.

Global Gateway provides an enabling environment by promoting attractive investment and business-friendly trading conditions, regulatory convergence, standardisation, and the integration of supply chains and financial services.

The Gateway's projects will be developed and delivered through Team Europe Initiatives. These initiatives will work with European businesses as well as with governments, civil society and the private sector in partner countries.

The Union's new external spending instrument – the Neighbourhood, Development and International Cooperation Instrument (NDICI), or "NDICI-Global Europe", is part of the EU's current long-term budget up to 2027, known as the Multiannual Financial Framework.

Within NDICI-Global Europe, the European Fund for Sustainable Development Plus (EFSD+) will offer up to EUR 53.4 billion in External Action Guarantee capacity. It will have global coverage, including the EU Neighbourhood, Africa, Latin America, the Caribbean, Asia and the Pacific.

EFSD+ is a continuation of the successful EFSD, which ran until 2020. The new instrument will multiply its resources by ten – and go global.

It provides financial guarantees, blended finance, and technical assistance; it will help to de-risk and mobilise private investment, improve the investment climate, advance economic integration that supports entrepreneurs, SMEs and start-ups, and in this way bring concrete benefits to local communities.

In order to benefit from the range of financial instruments, the private sector will have to engage with European and non-European development financial institutions, which will manage the investment programmes, backed by the guarantees.

Through close collaboration with the business community, financial institutions and policy-makers, the EU aims at mobilising additional finance to bridge the gap towards the SDGs in its partner countries and to build back better, leaving no one behind.

FOCUS

DG INTPA

The Commission's Directorate-General for International Partnerships (DG INTPA) is responsible for formulating the EU's international partnership and development policy, with the ultimate goal of reducing poverty, ensuring sustainable development, and promoting democracy, human rights, and the rule of law across the world.

TEAM EUROPE

The "Team Europe" package was launched in April 2020 to support EU partner countries in the fight against the Covid-19 pandemic and its consequences. It includes the EU, Member State institutions, national development agencies, European DFIs, the EIB and the EBRD in an unprecedented coordinated effort.

Building a collaborative recovery

Søren Peter Andreasen, General Manager (CEO), EDFI

Collaboration among European DFIs has continued to grow during the pandemic and has helped these institutions achieve their investment objectives based on complementary expertise, networks and capacities. This approach also represents an important example for the mobilisation of private co-finance, which will be crucial to achieving the SDGs and objectives of the Paris Climate Agreement.

AN ARTICLE BY SØREN PETER ANDREASEN

Before joining EDFI in 2016, Søren Peter Andreasen worked for 15 years in the consulting industry, specialising in development, finance, and investment in emerging markets. He holds a master's degree in public policy from Harvard University. He started his professional career with the United Nations Secretariat in New York, before joining McKinsey & Company in Copenhagen; subsequently, he co-founded the consulting firm Dalberg Global Development Advisors.

The Covid-19 pandemic has generally been the cause of separation. This has applied to families, friends and colleagues. We have all had to learn the phrase "social distancing" and to practice a great deal more of it than we would like. This separation has also marked the reality among staff, clients and partners of European development finance institutions (DFIs) for most of the past two years. The pandemic has been the cause of togetherness as well, however, particularly where it has presented challenges that are insurmountable for a single individual, or a single institution. This has been the experience of the European DFIs, where colleagues in home offices from Lisbon to Helsinki have found it valuable – and reassuring – to work together in unprecedented ways. This collaboration has been a response to factors that, in many cases, predate the pandemic and will continue after it ends, though the disruption of the pandemic provided added impetus for new approaches and innovation. In this way, the experience of the European DFIs – a collaborative association that will be 30 years old this year and which has grown steadily both in terms of membership and annual investment – will be common to others in the private sector development and impact investing communities, and the example of what has been achieved (and what lies ahead) may be instructive.

COLLABORATION BEFORE AND DURING THE CRISIS

Prior to the onset of the Covid-19 pandemic, DFIs already faced challenges to their prevailing business models. The regulatory environment in which DFIs operate has become increasingly complex and rules-based, occasionally in ways that do not take into account the unique circumstances of DFIs and their clients in the private sector in low- and middle-income countries. The Sustainable Finance agenda, and the EU Taxonomy, in particular, will impact development finance in a manner that is still unfolding and presents challenges as investors become subject to rules that are often written for advanced economies. DFIs will strive to overcome these impediments to operating in their target markets over the coming years. Simultaneously, DFIs are being called on to demonstrate the alignment of their business practices with the UN Sustainable Development Goals (SDGs) and the Paris Agreement, and the public's expectation that DFIs will play a central role in delivering on the response to climate change and the ambitions of COP26. These challenges have been both strategic and operational for DFIs, relevant to how they do business but also to how they conceptualise their mission as publicly backed, impact-focused investors. The pandemic itself also brought new challenges, including impediments to travel that have limited DFI's ability to form new business relationships and conduct due diligence, a shift towards remote working, challenges in monitoring and delivering impact without face-to-face interactions with investees, along with the effects of the pandemic on profitability, among others. As for so many, perhaps the greatest challenge has been the high level of uncertainty for both clients and DFIs, which has complicated efforts to respond.

> *"This collaboration has been a response to factors that, in many cases, predate the pandemic and will continue after it ends, though the disruption of the pandemic provided added impetus for new approaches and innovation."*

Collaboration was already a major feature of the pre-pandemic DFI landscape. "Co-investment" among the European DFIs already accounted for approximately 50% of total investment commitments (with two or more member institutions financing the same client). This percentage has grown steadily because of the benefits co-investment offers in terms of increased efficiency, scale, shared experience, and diversification. Co-investment has been most pronounced in the financing of financial intermediaries (funds and banks) and in infrastructure project finance, but it has also helped boost capacities to grow financing in other sectors. In responding to the challenges outlined above, DFIs have demonstrated the continued relevance of collaboration and have enhanced their ways of working together, such as by creating a dedicated task force bringing together the chief investment officers of institutions in the EDFI and DFI Alliance networks to discuss the investment-related impact of the crisis on their institutions, their approach to supporting clients and staff, and principles for working together amid these new challenges. EDFI also continued its work on harmonisation, in particular in relation to climate matters, developing a shared methodology to align DFIs' investment projects and portfolios with the objectives of the Paris Agreement[1]. New partnerships were also built and expanded with private institutional investors through the Climate Finance Leadership Initiative (CFLI)[2] and initiatives such as the Global Energy Alliance for People and Planet[3]. In each case, rather than hunkering down and focusing narrowly on their own institutions in response to external challenges, European DFIs have recognised the need to face the challenges collectively and to lay the foundation for more cooperation going forward. These collaborative efforts have helped ensure a strong recovery in investment activity and client performance. Following a decline of 18% due to Covid-19 in 2020, EDFI members' investment activity recovered fully to pre-pandemic levels in 2021 with record levels in Africa and in priority impact themes of climate, gender-lens and SMEs. These results were also helped by a step-up in technical assistance and collaboration with donor agencies on blended finance solutions. →

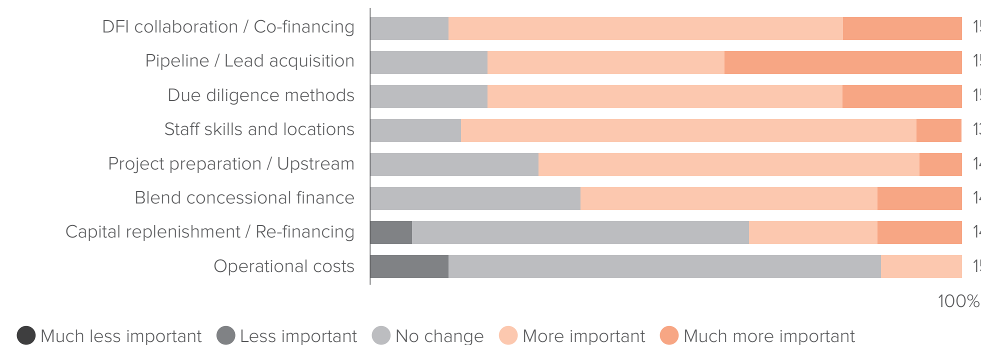
> *"Collaboration was already a major feature of the pre-pandemic DFI landscape. "Co-investment" among the European DFIs already accounted for approximately 50% of total investment commitments (with two or more member institutions financing the same client)."*

1 ▸ https://www.edfi.eu/news/edfi-adopts-harmonised-paris-alignment-approach/
2 ▸ https://www.edfi.eu/news/climate-finance-leadership-initiative-details-approach-for-unlocking-climate-finance-in-emerging-markets/
3 ▸ https://www.edfi.eu/news/edfi-supports-launch-at-cop26-of-alliance-to-accelerate-renewable-energy-climate-solutions-and-jobs

FOCUS
EDFI

EDFI (the Association of European Development Finance Institutions) was established in 1992 to support and promote the work of bilateral Development Finance Institutions (DFIs). With a combined portfolio of €44 billion, including over €10 billion of climate finance, EDFI's 15 member institutions share a vision of a world where the private sector offers people in low- and middle-income countries opportunities for decent work and improved lives, and where private investment flows are aligned with the Sustainable Development Goals and the Paris Climate Agreement. EDFI's mission is to promote the joint interests of its members, inform policy, and drive innovation in industry standards.

Figure: Survey results showing EDFI members' pandemic changed priorities



THE FUTURE OF DFI COLLABORATION

In a recent survey (see figure), more European DFIs identified increased collaboration and co-financing as having become "more important" or "much more important" since the onset of the pandemic than any other issue. One aspect of this discussion is how the pressures and shifting expectations described above are affecting a change in the role of DFIs. Increasingly, DFIs are focused on supplementing their investment support of clients with expertise and technical assistance, and on de-risking private sector investment with blended concessional finance. As European DFIs seek to navigate these changes, they are exploring new forms of collaboration that could ease this process, including implementing high standards, facilitating greater reliance among institutions, avoiding duplication for DFIs and clients, and delivering different forms of value-added support to clients. Emerging priorities for DFI collaboration include:

- *Deepening Harmonisation* – Working together to harmonise impact measurement approaches and reporting requests made to direct clients and financial intermediaries, thereby reducing client burdens and increasing efficiency. Additionally, engaging at an industry level to promote wider convergence in impact measurement and reporting.
- *Process Innovation* – Developing new forms of operational coordination – such as shared tools, systems and capacities – that will help to streamline investment processes and thereby enhance co-financing for DFIs as well as clients.
- *Joint Facilities* – Continuing to promote and strengthen joint financing facilities, including the co-financing facility European Financing Partners (EFP) and the market development and guarantee facilities delivered by the EDFI Management Company in a "Team Europe" partnership with the EU institutions.
- *Promoting Collaboration at all Levels* – Continuing to fuel DFI collaboration by valuing partnership and a culture of joint work among investment and other staff, as well as acceptance from the institutions' boards and shareholders.

Importantly, this effort will not be limited to EDFI member institutions. As has been demonstrated by the increased engagement with the U.S. International Development Finance Corporation (DFC), FinDev Canada, as well as multilateral partners in the pandemic response, collaboration can increase its benefits when it extends more widely. This also applies to EDFI's harmonisation efforts, which must necessarily be part of a broader convergence in impact measurement and reporting at the industry level. This has also been the thinking behind EDFI's participation in the development and launching of the Joint Impact Indicators[4], the signing of an MOU[5] with the European Bank for Reconstruction and Development (EBRD) in 2021, and the participation in the new Alliance for Entrepreneurship in Africa[6].

Just as the pandemic has helped to usher in new forms of cooperation that are already delivering benefits, deeper collaboration will also help DFIs respond to long-term challenges and to build resilience in the face of future crises. At the same time, DFIs that are highly oriented towards collaboration will be well positioned to mobilise more co-financing from private investors. This is a journey that the entire industry is on, and one that we expect to result in more support to clients, new capabilities and better delivery on our development mission in the long-term.

> *"In a recent survey, more European DFIs identified increased collaboration and co-financing as having become "more important" or "much more important" since the onset of the pandemic than any other issue."*

4 ▸ https://www.edfi.eu/news/leading-impact-investors-make-progress-toward-harmonised-impact-measurement-with-release-of-joint-indicators/
5 ▸ https://www.edfi.eu/news/together-towards-more-impact/
6 ▸ https://www.edfi.eu/news/ifc-african-and-european-partners-launch-alliance-to-support-private-sector-growth-in-africa/

BUILDING A
COLLABORATIVE
RECOVERY

EDFI members

The 15 EDFI members are focused on the development of private sector enterprises and operate in developing countries and emerging economies. They are mandated by their governments to contribute to the SDGs by creating jobs, boosting growth, fighting poverty and climate change.

Building inclusive, green and resilient economies

Amal-Lee Amin, Climate change director, British International Investment
James Brenton, Senior programme manager, EDFI

Recovery from the Covid-19 pandemic has provided countries with a unique opportunity to 'build back better'. Leveraging this opportunity will entail ensuring that stimulus and policy packages are both inclusive and green. Yet recovery-related spending must be directed in accordance with evidence of what works. Support from the international development finance community will enable lower- and middle-income countries to deliver evidence-backed inclusive and green recovery measures.

AN ARTICLE BY
AMAL-LEE AMIN

Amal-Lee Amin joined British International Investment (BII) as director of Climate Change, in February 2020. Previously, Amal-Lee was chief of Climate Change at the Inter-American Development Bank (IADB) and spent ten years working on sustainable energy and climate change policy within the UK Government. At BII, Amal-Lee plays a pivotal role in leading the Climate change team and implementing the strategy.

JAMES BRENTON

James Brenton is senior programme manager at EDFI, where he coordinates DFI collaboration efforts related to impact & ESG harmonisation, process innovation and the COVID-19 response. He previously worked at the European Bank for Reconstruction and Development, and is a graduate of Harvard Law School.

With the first cases of Covid-19 now over two years behind us, it is clear that, among its many other human consequences, the pandemic has been expensive. Governments have spent to protect their populations, to cushion the economic blow of recession, and to support the recovery. Spending to sustain that return to growth continues today. Amidst such significant public outlays, it is relevant to ask what kind of future this money is directing us towards. Countries face a once-in-a-century opportunity to ensure major public stimulus and policy packages are consistent with climate resilient development pathways to net-zero emissions by 2050.

Former Governor of the Bank of England Mark Carney has highlighted[1] that a properly managed recovery from the Covid-19 crisis has the potential to accelerate the reallocation of capital towards sustainable pathways. Meanwhile, failure to embed principles of inclusivity, sustainability and resiliency within public-led recovery programmes threatens to exacerbate the dual climate and inequality crises, with investment in new carbon-intensive infrastructure and businesses locked-in for decades.

It is already known that significant green investment is necessary to deliver net-zero emissions by 2050[2], and if recovery-related spending is to contribute to the green transition, it must be directed based on the available evidence of what works, and what does not. Support from the international development finance community will also be essential to ensure that lower- and middle-income countries receive the support they need to ensure that the delivery is inclusive, as well as green.

CONTEXT FOR BUILDING BACK BETTER

Government-led recovery plans in the face of Covid-19 have generally comprised two kinds of measures: fiscal stimulus packages of public spending and investment, and accompanying policies to incentivise private sector output and investment. Fiscal stimulus packages include both capital investment (e.g. energy, digital infrastructure and lending to businesses) and public expenditure (e.g. health care, social protection, and public works programmes).

Policies to incentivise private sector output and investment include measures such as tax breaks, de-risking and the strategic use of public procurement. The two measures are not rigidly separated and can be mutually reinforcing, particularly in the case of the green transition. Measures taken to reform fossil fuel subsidies and increase spending on green energy options can level the playing field for private investors in low carbon power and mobility, and the reform of inefficient agricultural subsidies can incentivise climate-smart and resilient farming practises.

For economies heavily dependent on fossil fuel exports, fiscal stimulus measures taken in the shorter term could help diversify economic output, supporting the phasing out of less competitive assets, and investment in new workers and skills. Governments have demonstrated a willingness to spend trillions[3] to support the recovery, in many cases with the conscious[4] (if not always realised) intention to ensure the funds will allow countries to "build back better".

National budgets and political will being finite, it is important that spending reflect the evidence. A working paper by Hepburn et al. (2020)[5] assessed the potential value of different fiscal recovery measures across G20 countries in terms of their capacity to act as an economic multiplier and to deliver on climate impact metrics. The top five recovery options, identified as having high economic multipliers and positive climate impact, were the following:

- **Clean physical infrastructure investment** in the form of renewable energy assets, storage (including hydrogen) and smart grids/ modernisation;

> *"Countries face a once-in-a-century opportunity to ensure major public stimulus and policy packages are consistent with climate resilient development pathways to net-zero emissions by 2050."*

- **Building efficiency investment** in the form of renovations and retrofits, including improved insulation, heating, and domestic energy storage systems;
- **Education and training investment** to tackle both the immediate impacts of Covid-19 on employment and wider structural shifts from decarbonisation;
- **Natural capital investment** to improve ecosystem resilience and the restoration of degraded land and habitats;
- **Rural support and investment**, to accelerate the adoption of sustainable agriculture, ecosystem regeneration, and accelerate clean energy installations.

The above policy options are generally applicable to countries at a range of different development stages, while the authors identified "Clean R&D investment" to bring down the cost of innovative new clean technologies as being better suited for less developed economies. Importantly, several of these policies also directly connect to the private sector, as suppliers, sources of innovative technology, and investors. Governments will not be able finance the green transition without private capital, and this is particularly true of the developing world, where the needs are greatest. →

1 ‣ https://www.climatechangenews.com/2020/04/29/imf-chief-1-trillion-post-coronavirus-stimulus-must-tackle-climate-crisis/
2 ‣ https://www.weforum.org/agenda/2019/09/cutting-emissions-to-net-zero-is-possible-heres-what-we-need-to-do

3 ‣ https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-10-trillion-dollar-rescue-how-governments-can-deliver-impact
4 ‣ https://www.carbonbrief.org/coronavirus-tracking-how-the-worlds-green-recovery-plans-aim-to-cut-emissions
5 ‣ https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-02.pdf

FOCUS

BRITISH INTERNATIONAL INVESTMENT

British International Investment (BII - formerly CDC Group) is the UK's development finance institution, with the mission to help solve the biggest global development challenges by investing patient, flexible capital to support private-sector growth and innovation. The company has over 70 years of experience in successfully supporting the sustainable, long-term growth of businesses in Africa and Asia, and recently expanded to invest in the Indo-Pacific and Caribbean. It plays a central role in the UK's international financing offer, to help developing and emerging countries meet their significant financing needs for infrastructure and enterprise.

EDFI

EDFI – the Association of European Development Finance Institutions – was established in 1992 to support and promote the work of bilateral Development Finance Institutions (DFIs). With a combined portfolio of €44 billion, including over €10 billion of climate finance, EDFI's 15 member institutions share a vision of a world where the private sector offers people in low and middle-income countries opportunities for decent work and improved lives, and where private investment flows are aligned with the Sustainable Development Goals and the Paris Climate Agreement. EDFI's mission is to promote the joint interests of its members, inform policy, and drive innovation in industry standards.

The pandemic has demonstrated again that wealthier nations cannot afford to ignore the developing world. Just as public health measures in Europe can be undermined by virus variants that have arisen in countries without the benefit of widespread vaccination, ambitious climate policies will not shield developed nations from the effects of climate change if developing countries are not also supported in their efforts to reform their economic models This does not even take into consideration the moral case for helping developing nations, who will suffer disproportionately effects of climate change whilst also having contributed least[6] to its causes. Development finance institutions (DFIs) are an effective tool to channel this support to the developing world, while also helping to attract and mobilise private investment, and such institutions have made significant progress recently in improving their own capacity to deliver green investment.

THE ROLE OF DFIS

DFIs stand to support the green transition in the developing world in several ways, including by delivering green finance, technical support to clients, and policy support, while also prioritising the mobilisation of private sector investment. The experience of the Association of European Development Finance Institutions (EDFI), whose membership of 15 DFIs includes the UK's British International Investment (BII, formerly CDC Group), provides an illustrative example.

The most recent available data, from 2020, when the pandemic was already a significant barrier to investment, shows that EDFI members delivered a total of almost €1.4 billion in new climate finance (approximately one-third of which was invested in renewable energy projects), adding to an overall climate finance portfolio in excess of €10 billion. This investment is supported by having adopted a harmonised definition of climate mitigation finance, to ensure comparability across institutions, and ambitious recent public commitments[7] (see box below) to align investment with the Paris Agreement and develop common methodologies to ensure this.

EDFI's recent public climate commitments also included a recognition that DFIs must support clients in their own transitions, and much of the nearly €40 million in technical assistance funds that EDFI members deployed in 2020 (over 40% of which are going to Africa) went into supporting climate-related improvements. With one-third of EDFI members' portfolio in Africa, 18% in Latin America and the Caribbean, and 15% in South Asia, the investment is being directed to countries where it is sorely needed, and in ways that support a just transition.

As public-backed institutions, DFIs have demonstrated their ability to deliver investment on behalf of developed countries in ways that support a green and inclusive transition in the developing world. Increasingly, DFIs are also seeking to partner with public authorities in developing countries to create enabling conditions for such investment, whether made by DFIs or private investors. EDFI members have partnered with the Climate Finance Leadership Initiative (CFLI)[8] on delivering a report for policymakers entitled "Unlocking Private Climate Finance in Emerging Markets[9]".

This report has been followed by the development of "country platforms", led by governments, to promote a "whole of financial system" approach to addressing climate investment needs. CFLI, the UK Government, the City of London, the Global Infrastructure Facility (GIF), BII and other EDFI members are now working together as part of CFLI India to generate a pipeline of bankable opportunities for scaling up investment in sustainable infrastructure in India. This includes renewable energy and the associated grid infrastructure and storage capacity (e.g., electromobility charging stations). The ability to combine investment with policy advice, while bringing in the voice of the private sector, is unique to DFIs and makes them a vital tool in the effort to support sustainable growth in developing countries.

CONCLUSION

The pandemic, and the associated public spending, provides an opportunity that the planet cannot afford to miss. The declared aspirations around much of this spending have been encouraging, and we must continue to ensure that the money is directed towards a recovery that is more sustainable than the economies that preceded it, in particular by reflecting on the growing body of evidence around policy effectiveness.

The interconnected nature of the problem also demands a global response. DFIs have demonstrated that they are capable of effectively directing green investment, while also providing insight into reform initiatives, and should be a cornerstone of efforts to support a just transition in low- and middle-income countries.

EDFI statement on climate and energy finance

1. EDFIs will align all new financing with the objectives of the Paris Agreement by 2022 and will transition our investment portfolios to net-zero GHG emissions by 2050 at the latest.

2. EDFIs will exclude new coal and fuel oil financing, and will limit other fossil fuel financing to Paris-aligned projects until generally excluding them by 2030 at the latest.

3. EDFIs will build on our track record in climate finance and mobilizing private sector finance by holding ourselves to ambitious individual targets and by reporting publicly on our progress.

4. EDFIs will invest strategically and provide assistance to our clients to support the development of Paris-aligned projects, and to promote green growth, climate adaptation and resilience, nature-based solutions, access to green energy, and a just transition to a low-carbon economy.

5. EDFIs will make climate-related financial disclosures in line with high international standards, specifically adopting the recommendations of the Task Force on Climate-related Financial Disclosures.

6. EDFIs will embed climate action and climate risk management at every level of our institutions.

6 ‣ https://www.nature.com/articles/srep20281
7 ‣ https://edfi-website-v1.s3.fr-par.scw.cloud/uploads/2020/11/1.-EDFI-Statement-on-Climate-and-Energy-Finance-Final.pdf
8 ‣ https://www.bloomberg.com/cfli/
9 ‣ https://assets.bbhub.io/company/sites/55/2021/03/CFLI_Private-Sector-Considerations-for-Policymakers-April-2021.pdf

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Private Sector & Development (PS&D) is Proparco's magazine that compares the views of experts on issues relating to the role the private sector plays in the development of Southern countries, particularly in Sub-Saharan Africa.

The magazine calls on the expertise of development players in these geographical areas, especially private sector decision-makers, donors, international organizations, NGOs, as well as academics and experts from development research institutes.

Each issue of the PS&D magazine focuses on a theme addressed through about a dozen articles. Since its launch in 2009, Private Sector & Development has become a reference publication on the role of the private sector.

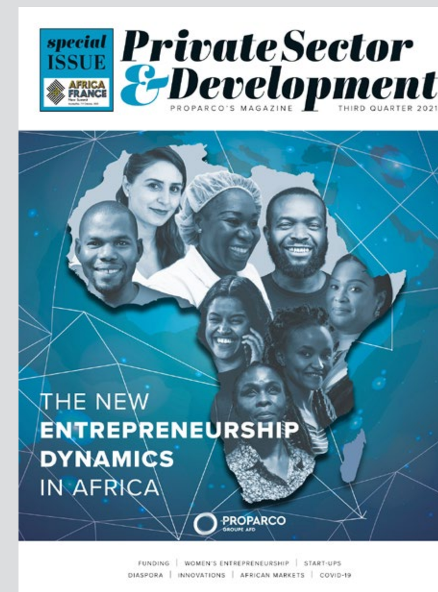
THE WEBSITE

The PS&D website is a space for debate. It gathers the contributions published in the magazine, as well as video interviews with development players produced at Proparco by the team responsible for the editorial coordination of the magazine.

blog.private-sector-and-development.com

PS&D#36
TECHNICAL ASSISTANCE: OPENING UP NEW HORIZONS

This issue, which was published in late 2021, provides avenues for reflection on technical assistance (TA) and what it involves. It gives a voice to a number of experts from development finance institutions, the European Union, investment companies and beneficiaries of TA programs.



PS&D #SPECIAL EDITION
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The objective of this special edition, which was published to mark the Africa-France Summit organized in October 2021, is to report on Africa's entrepreneurial revolution and show how this dynamic stimulates business relations between Africa and France.

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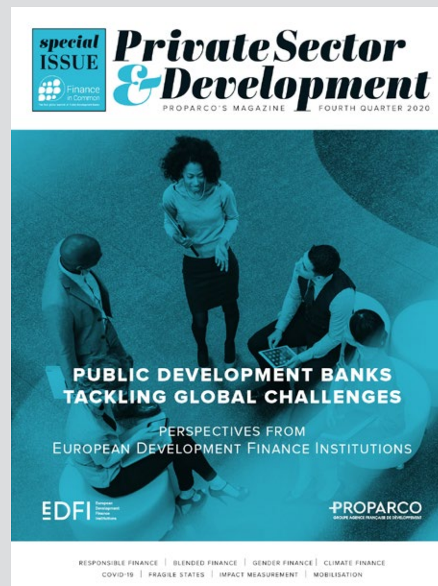
This issue gives a voice to some 20 researchers and leaders of companies, foundations and NGOs which present some of the inspiring private sector initiatives to preserve biodiversity, backed up by concrete cases and key figures.



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HARNESSING THE PRIVATE SECTOR TO REDUCE GENDER INEQUALITY

While there has been progress since 1995 and the Beijing Declaration, much remains to be done in terms of gender equality. The insight provided by the authors of this issue – business leaders, economists and investors – gives an idea of the efforts that still need to be made.

2ND QUARTER 2022

Private Sector & Development

Private Sector & Development (PS&D) is a quarterly publication that provides analyses of the mechanisms through which the private sector can support the development of southern countries. Each issue compares the views of experts in different fields, from academia to the private sector, development institutions and civil society. An extension of the magazine, the PS&D blog offers a wider forum for discussion on private sector and development issues.

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