



# Private Sector & Development

PROPARCO'S MAGAZINE    FOURTH QUARTER 2020

## PUBLIC DEVELOPMENT BANKS TACKLING GLOBAL CHALLENGES

PERSPECTIVES FROM  
EUROPEAN DEVELOPMENT FINANCE INSTITUTIONS

**EDFI** European  
Development  
Finance  
Institutions

**PROPARCO**  
GROUPE AGENCE FRANÇAISE DE DÉVELOPPEMENT

RESPONSIBLE FINANCE | BLENDED FINANCE | GENDER FINANCE | CLIMATE FINANCE  
COVID-19 | FRAGILE STATES | IMPACT MEASUREMENT | MOBILISATION

## Private sector & development

is published by Proparco, Agence Française de Développement Group, share capital of EUR 693,079,200

151, rue Saint-Honoré, 75001 Paris - France

Tél. (+33) 1 53 44 31 07

E-mail : revue\_spd@afd.fr

Website : www.proparco.fr

Blog : blog.secteur-prive-developpement.fr

**Publications director** Grégory Clemente

**Founder** Julien Lefilleur

**Editorial director and editor in chief**

Laurence Rouget-Le Clech

**Deputy editors** Pierre Tiessen

and Mathilde Poncelet

## Editorial committee

Axelle Bergeret-Cassagne,  
Christel Bourbon-Seclet, Laure Bourgeois,  
Myriam Brigui, Marianne Cessac,  
Fariza Chalal, Johann Choux, Christophe  
Cottet, Xavier Echasseriau, Pierre Forestier,  
Thomas Hofnung, Djalal Khimjee,  
Olivier Luc, Elodie Martinez, Gonzague  
Monreal, Gregor Quiniou, Françoise Rivière,  
Laurence Rouget-Le Clech,  
Bertrand Savoye, Camille Severac,  
Hélène Templier, Samuel Touboul,  
Baptiste Tournemolle, Hélène Verrue

## Advisory board

Jean-Claude Berthélemy, Paul Collier,  
Kemal Dervis, Mohamed Ibrahim,  
Pierre Jacquet, Michael Klein, Nanno Kleiterp,  
Ngozi Okonjo-Iweala, Jean-Michel Severino,  
Bruno Wenn, Michel Wormser

**Graphic design and creation** LUCIOLE

## Photo credit (front cover)

iStock / Getty Images

**Translations** Jean-Marc Agostini,  
Lawrence Cohen, Neil O'Brien/Nollez Ink,  
Sam O'Connell

## Editorial office

( : ? ! ; ) DOUBLEPUNCTUATION,  
www.double-punctuation.com

Printing on 70% PEFC-certified paper

Pure Impression – ISSN 2103-334X

Legal deposit at publication 23 June 2009

# SUMMARY

## 04 CONTRIBUTORS

## 06 OVERVIEW

*Promoting sustainable development: building back better with the help of development finance institutions*

**By Dirk Willem te Velde**

## 10 CASE STUDY

*Blended finance and partnerships to increase climate-resilient economic growth*

**By Aart Mulder**

## 14 ANALYSIS

*Gender lens investing: private-sector solutions driving gender equality*

**By Jessica Espinoza**

## 20 ANALYSIS

*Beyond avoided emissions, DFIs seek carbon removals*

**By Kenneth Söderling**

## 24 CASE STUDY

*Mitigating climate change through small-scale renewable energy projects*

**By Camille Fronville**

## 26 KEY FIGURES

## 30 SPOTLIGHT

*The Covid-19 response: supporting businesses and economies through the crisis*

**By Yasemin Saltuk Lamy**

## 34 OPINION

*Supporting private initiatives in fragile countries: what role for development finance institutions?*

**By Sébastien Fleury**

## 38 SPOTLIGHT

*Cofides' new impact measurement model*

**By José Luis Curbelo**

## 40 ANALYSIS

*Mobilising private sector capital to achieve the SDGs*

**By Søren Peter Andreasen**



PEFC Certified

This product is from sustainably managed forests and controlled sources

PEFC™  
10-31-3162

pefc-france.org





**Grégory Clemente**

*CEO,  
Proparco*



**Bruno Wenn**

*Chairman,  
EDFI*

**F**inancial institutions have proven that they can be a major catalyst for positive change. The need for us to act collectively and with strength has never been greater than at this moment when we need to ensure a sustainable and inclusive recovery from the Covid-19 pandemic. Public development banks (PDBs) from around the world have decided to convene for a first global summit, Finance in Common, on 11 & 12 November 2020. The aim is to coordinate action to confront the current crisis, while contributing to the Sustainable Development Goals (SDGs) and the implementation of the Paris Agreement on climate.

Collectively, the 450 PDBs that will join the summit invest more than USD 2 trillion annually, which represents as much as 10 per cent of the total amount invested globally by all public and private sources combined. PDBs contribute to developing countries' economic, environmental and social transformation.

Over the past decade, development finance institutions (DFIs), the public development banks dedicated to the private sector in low- and middle-income countries, have moved to the centre stage of global development finance. European bilateral Development Finance Institutions have become key contributors to the private sector mobilisation efforts needed to achieve the SDGs by 2030. As such, our institutions have experienced remarkable growth and a strengthening of our investment practices. Today, European DFIs strive to be role models for other investors in the delivery of sustainable development impact.

At European level, the EDFI Association has been supporting cooperation among its member institutions, and with European and multilateral institutions, for more than 25 years. EDFI offers a valuable platform to promote the networks of European DFIs, to drive industry innovation and inform policy, and to manage joint financing instruments on behalf of its members through the EDFI Management Company.

In this special edition of the *Private Sector & Development* magazine, EDFI member institutions are sharing their perspectives and exploring ways to increase their cooperation with other financial institutions. They examine a number of global development challenges. What can PDBs and DFIs do to support the private sector in developing countries and reinforce the impacts on gender equality, decent jobs and climate? How can European DFIs achieve impact on key SDGs and climate? What responses are provided to help small and medium-sized enterprises (SMEs) overcome the Covid-19 crisis? How can DFIs and partners help improve the business environment for the private sector in fragile and conflict-affected countries? Experts from across the EDFI network are exploring answers to these important questions. We hope that you will enjoy reading the magazine.



**José Luis Curbelo**  
*Chairman and CEO, Cofides*

Jose Luis Curbelo has been Chairman and CEO of Cofides since July 2018. Prior to this appointment, he held various positions, including deputy Chairman for development strategies and public policies, Chief economist at the CAF-Development Bank of Latin America, CEO of the Basque Institute of Competitiveness, and Head of the Small Business Development Unit for the Multilateral Investment Fund (MIF) with the Inter-American Development Bank (IDB). His academic background in the field of economics includes a PhD from the University of California-Berkeley, a master's degree from the University of Wisconsin-Madison, and he has completed courses at Harvard University, among others.



**Jessica Espinoza**  
*Global Gender Finance Lead, DEG*

Jessica Espinoza is Chair of the 2X Challenge and Global Gender Finance Lead in DEG's department for Corporate Strategy and Development Policy. She has a track record spanning more than 10 years in banking and investing, and has led debt, mezzanine and equity deals in developing country markets, with a strong focus on social impact. Prior to joining DEG, she was a Member of the Management Board at ProCredit Bank Nicaragua and Head of the Africa Regional Office of MicroFinance Transparency in Ghana.



**Sébastien Fleury**  
*Director "Investing in Complex Environments", Proparco*

Sébastien Fleury joined Agence Française de Développement (AFD) in 2003, firstly in the Financial Department, later moving to the Risk Department, where he managed AFD's non-sovereign portfolio. From 2013 to 2016, he was Proparco's representative in South Asia; then, when he returned to Paris, he took over as Director of Proparco's international network and partnerships with European development finance institutions (DFIs). Since 2019, he has been managing and coordinating Proparco's activities in fragile countries and complex environments.



**Camille Fronville**  
*Manager and Senior investment officer, BIO*

Camille Fronville is manager of the infrastructure department at BIO. The department focuses on infrastructure projects that provide basic services to the population and to the entrepreneurial ecosystem. This includes, but is not limited to, renewable energy, telecommunications and transport & logistics. Camille has been active in the renewable energy sector for 10 years. Prior to joining BIO, Camille worked for Triodos Bank where she was in charge of financing wind, solar and hydro projects in Europe. She holds a Master's degree in Finance (ICHEC, Brussels) and in Environment and Resource Management (VU, Amsterdam).



**Aart Mulder**  
*Fund manager of the Dutch Fund for Climate and Development, FMO*

Aart Mulder is the fund manager of the Dutch Fund for Climate and Development. He works at FMO, the Dutch entrepreneurial development bank, within the Department of Partnerships for Impact. Aart is motivated by finance solutions that combat climate change and reduce poverty, which he believes are the world's two biggest challenges.



**Søren Peter Andreasen**  
*CEO, EDFI*

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 (UN) Secretariat in New York, before joining McKinsey & Company in Copenhagen; subsequently, he co-founded the consulting firm Dalberg Global Development Advisors.



**Yasemin Saltuk Lamy**  
*Deputy CIO, CDC*

Yasemin Lamy joined CDC as Deputy CIO in August 2018. She is responsible for Catalyst Strategies, a portfolio aimed at transformational, system-level impact and innovation across its target geographies of Africa and South Asia.

Previously, at Omidyar Network, she spent three years building two new portfolios: one to develop empowering digital identity technologies and one to establish a trendspotting capability. Prior to this, at J.P. Morgan, she worked across several different roles within capital markets, starting out in fund-linked derivatives, and then becoming a credit derivatives analyst, before building and leading the impact investment platform for the firm.



**Kenneth Söderling**  
*Impact analyst, Finnfund*

Kenneth Söderling is an Impact Analyst within the Development impact team at Finnfund, a Finnish development financier. He focuses on measuring impact and carbon accounting of emissions, avoided emissions and carbon removals, both at project and portfolio level. Kenneth holds a master's degree in environmental economics from University of Helsinki.



**Dirk Willem te Velde**  
*Director of Programme, International Economic Development Group, ODI*

Dr Dirk Willem te Velde is a Principal Research Fellow and Director for International Economic Development. He is the director of Supporting Economic Transformation and a Research Leader for the DFID-ESRC Growth Research Programme. He was also Team Leader for the European Report on Development (ERD) 2015 on Combining Finance and Policies to Implement a Transformative Post-2015 Agenda. He was specialist advisor on development finance and CDC reform inquiries to the International Development Select Committee of the UK House of Commons.

## 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.



# Promoting sustainable development: building back better with the help of development finance institutions

👤 Dirk Willem te Velde, Director of Programme, International Economic Development Group, ODI

*The private sector is crucial to engineering a recovery from Covid-19 and supporting sustainable development. Lack of finance hampers the private sector from playing this role in the poorest countries. Development finance institutions (DFIs) have easier access to funding compared to national development banks, with a cost substantially lower than the cost of capital in developing countries. Local banks can leverage this funding to invest more broadly in private sector opportunities. The current crisis provides the right context for DFIs to step up their support for private sector firms.*

AN ARTICLE BY  
👤 DIRK WILLEM  
TE VELDE

Director of Programme,  
International Economic  
Development Group, ODI

Dr Dirk Willem te Velde is a Principal Research Fellow and Director for International Economic Development. He is the director of Supporting Economic Transformation and a Research Leader for the DFID-ESRC Growth Research Programme. He was also Team Leader for the European Report on Development (ERD) 2015 on Combining Finance and Policies to Implement a Transformative Post-2015 Agenda. He was specialist advisor on development finance and CDC reform inquiries to the International Development Select Committee of the UK House of Commons.

**T**he world is facing unprecedented global challenges, which set the context for development, particularly in the poorest countries. Climate change, health pandemics, financial crises, food and oil price swings, security threats, increasing scarcity of water, energy and land resources, and global

poverty set the context within which development efforts continue. Development finance for the private sector plays a crucial role in tackling these challenges through channelling international finance to where it is needed most, alongside global cooperation, global rules, and co-ordinated national public action.

## GLOBAL DEVELOPMENT CHALLENGES

The global Covid-19 health pandemic has led to a major global recession not seen since the Second World War and is pushing between 88 and 115 million people into extreme poverty in 2020, setting back poverty reduction by around three years<sup>1</sup>. The global development commu-

nity is focusing its attention on how we can recover from the crisis in a way that will be more resilient in tackling these challenges in the future. This includes thinking about creating a stronger private sector that can build back better and promote sustainable development.

<sup>1</sup> World Bank Blogs, "Updated estimates of the impact of Covid-19 on global poverty: The effect of new data", October 2020

The private sector has so far not found adequate solutions to the full range of pressing global challenges, yet we also know that we cannot create jobs, generate energy, produce enough food, or work for a better recovery without the private sector. It is not about whether the private sector plays a role in sustainable development, but about which role, and how its role can be improved. Market imperfections in credit markets mean that private sector firms are unable to generate or receive an adequate amount of finance, especially in the poorest countries. This lack of finance hampers companies in expanding and creating jobs, investing in energy-saving innovation, and repurposing toward the production of personal protective equipment, even where there are sound company plans to invest in profitable opportunities.

**“ The private sector has so far not found adequate solutions to the full range of pressing global challenges, yet we also know that we cannot create jobs, generate energy, produce enough food, or work for a better recovery without the private sector. ”**

This is where development finance institutions (DFIs)<sup>2</sup> can play a part. DFIs can provide finance (e.g. loans, guarantees, equity acquisitions) to the private sector. The shareholders (donor countries) provide callable capital/endowments – counted as official development assistance (ODA) – to DFIs, which they use to provide loans and take equity positions that can leverage other sources of finance, including private finance.

## THE ROLE OF PRIVATE SECTOR DEVELOPMENT

It is not hard to understand the role of the private sector in building back better, by which we mean a more sustained, equitable and greener future. Hundreds of millions of jobs have already been lost globally this year due to lack of demand brought about by lockdown policies, and most of these were provided by private sector firms, especially in the services sector and manufacturing. As a result of the Covid-19 pandemic, Africa's private sector is facing a large recession, the likes of which have not been seen for 25 years. This is putting more than 20 million jobs and many livelihoods at risk and is pushing millions of people into poverty.

Some firms have been resilient, by using digital solutions, or by beginning to produce personal protective equipment. But many are not resilient, or cannot respond, due to lack of finance or

support measures. Africa is unable to provide the economic stimulus required to protect jobs (Bilal et al, 2020). This will jeopardize many years of private sector development and job creation on the continent, and is wiping away hopes of a resilient recovery. There is an urgent need to provide additional liquidity for Africa's private sector. International donors have begun to step up their support to African public sectors through, for example, World Bank, IMF, WHO, and European Commission aid. But crucially, in the poorest countries, this support does not appear to be reaching the private sector in satisfactory ways.

A recent survey conducted by the World Bank suggests that only a fraction of businesses interviewed reported that they have access to public support, with the findings being much

2 • International Finance Corporation (IFC), European DFIs, such as the UK's CDC Group (formerly the Commonwealth Development Corporation), the German Investment Corporation (DEG), Proparco (a subsidiary of Agence française de développement, focused on private sector development), and the European Bank for Reconstruction and Development (EBRD), as well as the European Investment Bank (EIB).

“

***The private sector is crucial in engineering a recovery from Covid-19, but lack of finance and access to public support measures is hampering the private sector from playing this role in the poorest countries.*** ”

worse in low-income settings. For example, only 4.6% of firms had access to public support measures in countries with a GDP per capita

of less than \$2,500, but this increased to 37.9% in countries with a GDP per capita higher than \$10,000. The reasons are manifold, including that many firms in the private sector are in the informal sector and hence are difficult to reach. Additionally, there is a lack of finance for such support measures because low-income countries do not have access to large sources of finance, and where they do, they may not channel such finance to the companies that need it. More attention is urgently needed in supporting national development banks that can reach the local private sector.

#### **WHAT IS NEXT FOR EUROPEAN DFIS IN BUILDING BACK BETTER?**

The private sector is crucial in engineering a recovery from Covid-19, but lack of finance and access to public support measures is hampering the private sector from playing this role in the poorest countries. National development banks and other local financial institutions frequently have the knowledge and reach to support the local private sector, but they need additional liquidity. National development banks are also often in need of capacity building and institutional strengthening, especially with regards to working with the private sector. DFIs however, are able to access funding relatively easily and at a cost substantially lower than the cost of capital in developing countries. In this context, national development banks and DFIs should partner more often in implementing joint private sector financing solutions, where national development banks bring their local knowledge and networks, and DFIs bring funding and private sector expertise.

While the rationale for private sector support is obvious, and developed countries have included this at the forefront of their economic stimulus packages, developing countries cannot afford them on a sufficient scale, and donor responses have some bias towards public sector

intervention, while forgetting about private sector-oriented solutions to economic problems. Most significantly, efforts by the IMF, the World Bank, AfDB (African Development Bank Group), and the EU, have mostly been aimed at the public sector.

This bias towards public sector intervention needs to change. The United Nations Economic Commission for Africa (UNECA) argues that Africa's private sector needs to be supported through economic stimulus in the respective countries to prevent firms from collapsing, and to help them maintain jobs, as well as to enable them to earn export revenue during the recovery. Without a way for the African private sector to meet its leasing, debt and other repayments, there may be no companies left to lead the recovery when the Covid-19 pandemic is over. This is a risk and challenge not only for Africa but also for the entire global economy.

Multilateral, regional, and national DFIs should be mobilised in this endeavour. In Europe, the focus has so far been mainly on larger financial institutions, such as the EIB and the EBRD. But DFIs in EU member states should be more actively mobilised and supported. European



DFIs have the ability to channel liquidity to the private sector at great speed, particularly given their strong existing links to some African commercial and development banks. During the Ebola crisis, for example, CDC and Standard Chartered joined together to support firms. European DFIs have three times more exposure to the private sector in Africa than the

EIB, and they are known to be able to channel liquidity into the African private sector, but they need to be tasked to take more risks now, and to act quickly. Such support could go hand in hand with other initiatives championed by UNECA, such as the Liquidity and Sustainability Facility, which aims to unlock liquidity for a green new deal.

## FOCUS

### ODI

ODI (Overseas Development Institute) is an independent, global think tank, working for a sustainable and peaceful world in which every person thrives. We harness the power of evidence and ideas through research and partnership to confront challenges, develop solutions, and create change [www.odi.org](http://www.odi.org).

## CONCLUSION ▼

European DFIs are already strong supporters of job creation in the poorest economies. In 2019, EDFI members collectively supported the employment of 2.7 million people directly, and 5.8 million jobs indirectly, totalling 8.5 million jobs. A rough estimate (for 2018) is that EDFI members provide around 2 million jobs in Africa. European DFIs support many different companies and have excellent links to national banks. They are also already tackling climate change challenges by providing climate finance and supporting the transition to a low-carbon

economy. They can also be called upon to finance renewable energy projects, which can support private sector operations whilst not harming the environment.

European development finance institutions and their shareholders must step up with additional resources and use their links to the domestic financial sectors, as well as their competencies to channel liquidity to the private sector in low-income countries. This will enable the private sector to build back better. ■

**“ European DFIs have the ability to channel liquidity to the private sector at great speed, particularly given their strong existing links to some African commercial and development banks. ”**



## DFIs and the “building back better” approach

The international DFIs support private sector projects in sectors including agriculture and manufacturing, build energy and transport infrastructure, and invest in the financial sector, including through national development banks, which have long supported local firms and other actors. By doing this, they combine a number of advantages. DFIs have access to capital markets or guarantees in relatively cheap ways, and channel this finance for a small margin, where elsewhere the costs of such finance would be much higher or prohibitive. By investing in the local financial sector, and especially by using their experience and expertise in working with national development banks, DFIs can channel credit to firms that lack finance but are financially sustainable and contribute to building a better future. In this sense, DFIs have already practised building back better for decades.



# Blended finance and partnerships to increase climate-resilient economic growth

👉 Aart Mulder, Fund Manager of the Dutch Fund for Climate and Development, FMO

*Commercial investment in climate adaptation is limited by the associated low returns and high risk. The Dutch Fund for Climate and Development (DFCD) bridges the developmental stages of well-designed and impactful climate-relevant projects, by absorbing the 'first losses', thereby assuring returns and reducing risks for commercial investors. During these stages, the fund's NGO partners support projects until they become viable commercial investment opportunities. The goal of the DFCD is to promote climate-resilient economic growth, while mitigating the consequences of climate change, with a focus on ecosystems that sustains communities.*

AN ARTICLE BY  
👉 AART MULDER

*Fund manager of the Dutch Fund for Climate and Development, FMO*

Aart Mulder is the fund manager of the Dutch Fund for Climate and Development. He works at FMO, the Dutch entrepreneurial development bank, within the Department of Partnerships for Impact. Aart is motivated by finance solutions that combat climate change and reduce poverty, which he believes are the world's two biggest challenges.  
[www.thedfcd.com](http://www.thedfcd.com)

In recent years, investments by commercial investors in solar panels and wind energy have accelerated – including in developing countries. These involve projects that deal with mitigation: combating climate change by limiting the amount of greenhouse gases emitted into the atmosphere. But commercial investment in

the climate adaptation space is lagging. This is not only because there is not enough money, there are also not enough adaptation projects to finance with private money. The projects that exist have too low a return and are too risky for commercial investors. New blended finance and partnership structures can contribute to closing this gap.

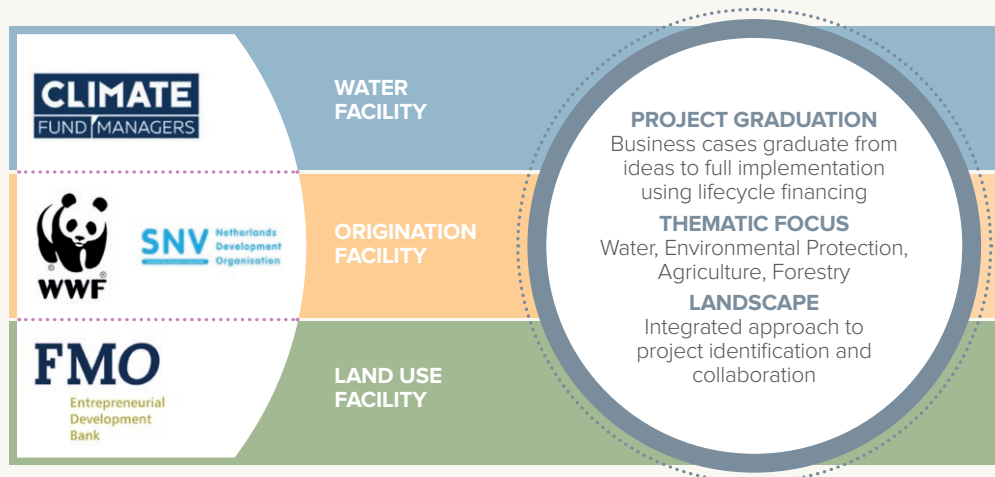
## BLENDING FINANCE COLLABORATION BETWEEN A DEVELOPMENT BANK, TWO NGOS, AND A CLIMATE INVESTOR

The Dutch Fund for Climate and Development (DFCD) illustrates how innovative blended finance instruments can attract and deploy public and private capital in well-designed and impactful climate-relevant projects. This €160 million climate fund is managed by a

unique consortium consisting of the Dutch development bank, FMO (lead manager), SNV Netherlands Development Organisation, World Wide Fund for Nature (WWF) and Climate Fund Managers (CFM), and is funded by the Dutch Ministry of Foreign Affairs.

“ *Commercial investment in the climate adaptation space is lagging. This is not only because there is not enough money, there are also not enough adaptation projects to finance with private money.* ”

### Four organisations, three facilities ▼



Source: DFCD

There are still few commercial investments in climate adaptation because the risks facing these types of projects are high, especially in developing countries. The fund therefore uses the money supplied by the Ministry of Foreign Affairs as risk capital, in order to attract more commercial finance. This is done through a so-called blended capital structure. The project is financed by a “blend” of government and commercial investments, but the public party bears more risk than the private parties. The DFCD takes the “first loss”. This means we provide a risk buffer to the commercial parties and make smart use of the different degrees to which the parties expect returns and can, and want to bear the risk. In setting up this fund, we combined these two parties, and as a result, with €160 million, we can ultimately make many more investments. The DFCD aims for a total investment value of between 500 million and 1 billion euros. Investments are divided between the water facility (“Climate Investor Two”) – led by Climate Fund Managers and covering equity solutions, for projects ranging from coastal protection to sanitation – and the land-use facility, led by FMO. Land-use projects are focused on solutions for (forest) agriculture, such as climate-resistant seeds and more efficient irrigation.

The land-use facility finances projects by providing debt, equity, and mezzanine solutions. The aim of blended finance is not to distort markets, but rather to create new markets. For the DFCD this means that we help develop a market for climate adaptation projects. Our finance needs to be additional, meaning that if private capital is already available to (fully) fund the project, the DFCD will not provide any financing. However, the facility can provide subordinated capital to mobilize other financiers, which can be refinanced once the project is de-risked after a couple of years, when it is generating sufficient cash flow. The challenge lies in providing the minimum amount of public blended finance capital to ensure that a project has sufficient finance to get off the ground.

**“ The aim of blended finance is not to distort markets, but rather to create new markets. For the DFCD this means that we help develop a market for climate adaptation projects. ”**



## MULTIPLYING INVESTMENTS IN CLIMATE MITIGATION AND ADAPTATION PROJECTS

There are many innovative projects that address climate resilience, but not all of these are bankable yet, which means that the risk for investors is still too high. To attract (commercial) financing, projects have to be developed into revenue models or develop a track record. This is where the DFCD's origination facility comes in. The fund's NGO consortium partners SNV and WWF help projects to create a solid earnings model and business plan, and guides them in scaling up. The fund uses technical assistance and grants for this. As soon as a project is eligible for commercial financing, this part of the fund is ready, and the project moves on to the next phase. The goal of the DFCD is to promote climate-resilient economic growth. The fund improves the

resilience of vulnerable groups to the effects of climate change, with the intention of enhancing the well-being, economic prosperity and livelihoods of women and children in particular. In addition, the fund is aimed at protecting ecosystems such as river basins, tropical rainforests, swamps and mangroves. Preservation of these ecosystems must provide better protection for the communities that live in or nearby them from the consequences of climate change.

The DFCD promises to build a portfolio with a long-term strategy, working towards the following goals for 2037:

- 40 million tons of CO<sub>2</sub> avoided;
- 100,000 Ha of farmland and 100,000 Ha of forest and wetland under sustainable management;
- 12.5 million people with improved access to climate-resilient drinking water and sanitation;
- 13.5 million people benefitting from improved wellbeing, economic prospects and livelihoods.

In order to obtain these results, the DCFD is expected to leverage €500 million to €1 billion over its lifetime, generating a significant multiplier effect with the €160 million from the Ministry of Foreign Affairs. As these funds are revolving and keep growing, they ensure financial sustainability and real impact on a local and global scale.

**“ The fund is aimed at protecting ecosystems such as river basins, tropical rainforests, swamps and mangroves. Preservation of these ecosystems must provide better protection for the communities that live in or nearby them from the consequences of climate change. ”**





## LEVERAGING FOR COLLABORATION IN “LANDSCAPES”

The key ambition of the fund is that these results be linked to less advanced climate projects, preferably in a landscape with climate adaptation challenges. Such a “landscape” is a geographical unit that has to deal with the same climate effects, for example, a riverbed or a dry region. The landscape focus provides opportunities to

identify projects that amplify the impacts of other projects or offset the negative impacts that a standalone project might have. For example, upstream conservation agriculture and solar irrigation efficiency projects may enhance the efficiency of downstream water treatment and drinking-water supply installations.

### CONCLUSION ▼

From a climate perspective, landscape projects are crucial, but mostly not realisable or scalable without a proper finance solution. By blending “concessional money” with other funding, the risk profile improves and enables other investors to step in. This multiplier effect will bring a

project to an optimal size. Leveraging at a project level and replicating this kind of structure will create economic opportunities and protect crucial ecological landscapes and communities. It will generate impacts and attributes for a more climate-resilient world. ■

### 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 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 & water. With a committed portfolio of EUR 10.4 billion spanning over 80 countries, FMO is one of the larger bilateral private sector developments banks globally.

**“ The landscape focus provides opportunities to identify projects that amplify the impacts of other projects or offset the negative impacts that a standalone project might have. ”**



# Gender lens investing: private-sector solutions driving gender equality

📍 Jessica Espinoza, Global Gender Finance Lead, DEG

*Around the world women still face a multitude of inequalities. The Covid-19 pandemic threatens to roll back the progress made on women's empowerment in recent decades and exacerbates gender inequalities. More than ever, the role of the private sector and Public Development Banks in promoting gender equality in developing countries is crucial.*

## AN ARTICLE BY

📍 JESSICA ESPINOZA

*Global Gender Finance Lead,  
DEG*

Jessica Espinoza is Chair of the 2X Challenge and Global Gender Finance Lead in DEG's department for Corporate Strategy and Development

Policy. She has a track record spanning more than 10 years in banking and investing, and has led debt, mezzanine and equity deals in developing country markets, with a strong focus on social impact.

Prior to joining DEG, she was a Member of the Management Board at ProCredit Bank Nicaragua and Head of the Africa Regional Office of MicroFinance Transparency in Ghana.

**I**nvestments in women and girls are associated with important ripple effects at the micro, meso and macro levels, understood as a win-win-win for women and their communities, companies, and economies. It is widely recognized that gender equality and women's empowerment (SDG 5) are prerequisites for achieving all of the other Sustainable Development Goals (SDGs). However, despite a significant body of evidence on the imperative of gender equality for social justice, economic prosperity, and attainment of all the SDGs, at the current rate of progress, it will take 257 years to close the economic gender gap, according to the World Economic Forum's Global Gender Gap Report 2020.

Finance can be a powerful tool for change. It has been argued that "how we deploy capital shapes where it grows, how it grows and the world we live in. It shapes who has the power to solve problems, which problems are solved, and which are left unexplored". Gender Lens Investing (GLI) is emerging as a major global trend gaining traction not only among Development Finance Institutions (DFIs) and impact investors, but increasingly also among mainstream commercial investors. The impact and business case for investing with a gender lens is persuasive and has gained momentum globally.

**“ It is widely recognized that gender equality and women's empowerment are prerequisites for achieving all of the other Sustainable Development Goals. ”**

**Figure 1 - 2X Challenge criteria** ▼**ENTREPRENEURSHIP**

51% women ownership or the business is founded by a woman

**LEADERSHIP**

20-30% women in senior leadership positions (depending on sector) or 30% women on the Board or Investment Committee

**EMPLOYMENT**

30-50% share of women in the workforce (depending on sector) and one quality indicator beyond compliance

**CONSUMPTION**

Product(s) or service(s) that specifically or disproportionately benefit women

**INVESTMENTS THROUGH FINANCIAL INTERMEDIARIES**

30% of the DFI loan proceeds or portfolio companies meet the 2x Criteria



Source: 2X Challenge

**2X CHALLENGE: A DFI-LED INITIATIVE**

The 2X Challenge and the Gender Finance Collaborative, both founded in 2018 and with a combined membership of 19 DFIs, have emerged as two leading global initiatives building and advancing the field of GLI, with a focus on private-sector investments in developing countries. The two initiatives have jointly developed five criteria defining what it means for the private sector to invest in gender equality and women's economic empowerment. These criteria were formally adopted by the Global Impact Investing Network (GIIN) and incorporated into the widely used impact measurement and management system IRIS+. The '2X criteria' (Figure 1) are today recognized as a global standard for GLI and provide a broad range of investors with a common investment framework.

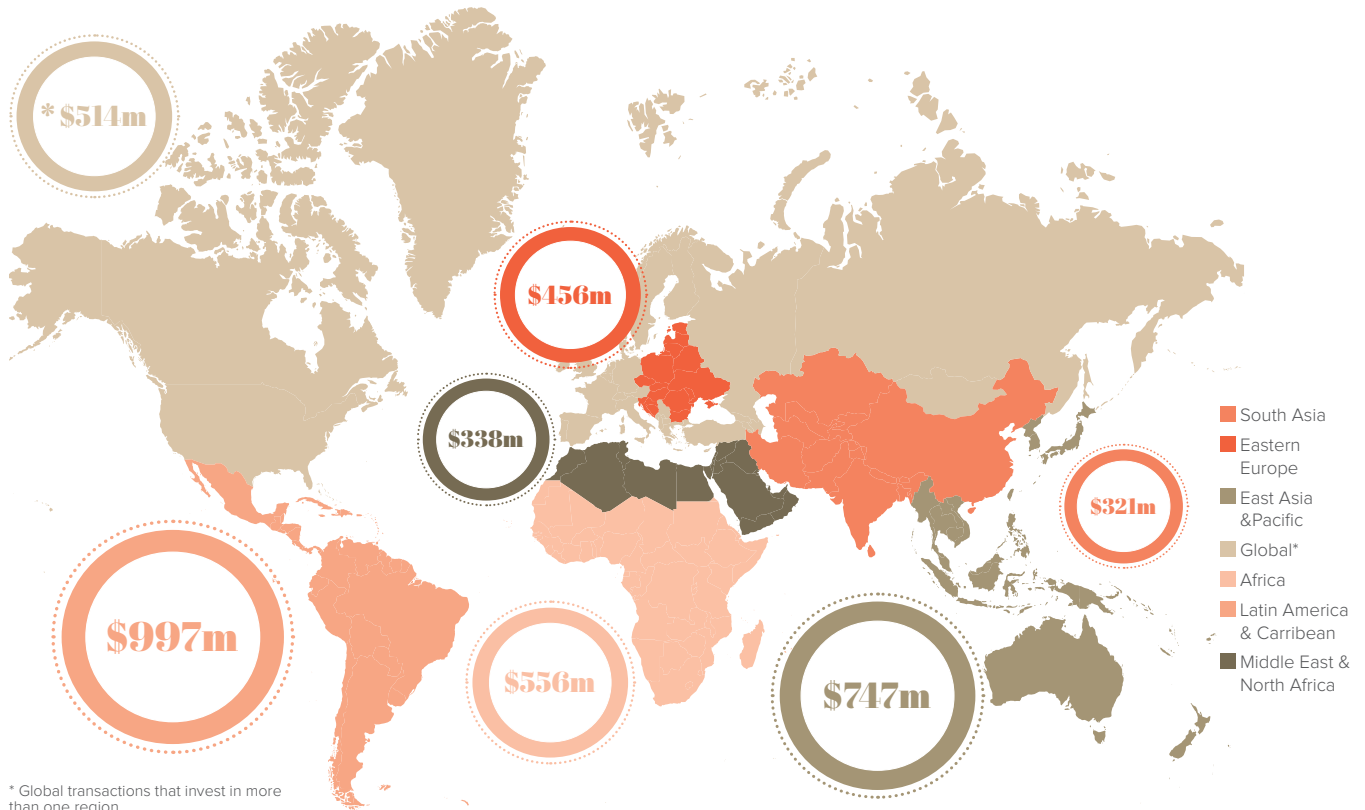
Just two years after the launch of the 2X Challenge, at the G7 Summit in Canada, the initiative has committed and mobilized USD 4.5 billion in gender-smart investments across 42 developing countries, significantly surpassing its initial target of USD 3 billion by the end of 2020. This milestone in deploying and mobilizing unprecedented amounts of capital to support investment projects that empower women – as entrepreneurs, as business leaders, as employees and as consumers of products and services that enhance their economic participation – has demonstrated the significant opportunity that GLI presents.

**FOCUS****DEG**

For almost 60 years DEG has been a reliable partner to 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 around EUR 9 billion in approximately 80 countries, DEG is one of the world's largest private-sector development financiers.



**Figure 2 - 2X investments from June 2018 to December 2019 ▼**



## GENDER BALANCING ENTREPRENEURSHIP FOR DEVELOPMENT

Women entrepreneurs face multiple barriers and gender bias in accessing capital. As a result, worldwide companies owned by women receive only a fraction of total financing. Research by the Boston Consulting Group and MassChallenge found that women-owned start-ups deliver twice as much revenue per dollar invested as those founded by men, but receive only half as much risk capital – illustrating how the allocation of capital is distorted by gender bias.

An example of a recent DFI project promoting women’s entrepreneurship is the co-investment among BIO, EIB, FMO, FinDev Canada and Norfund in the EcoEnterprises Partners III, a women-led private equity fund investing in pro-biodiversity SMEs in sustainable agriculture, forestry, and ecotourism in Latin America. Many of these businesses are themselves owned or run by women as well as indigenous people and promote women’s economic participation as employees and suppliers.





The business case for gender diversity has been demonstrated by a range of international studies associating gender-balanced leadership teams with superior commercial success, profitability, value creation, and ESG (environmental, social and governance) performance of companies across geographies. A recent IFC report reveals that gender-balanced leadership teams in private equity generate a 20% higher net internal rate of return (IRR). Yet only 15% of senior investment teams have a gender balance.

CDC's investment in PEG Africa, an asset-financing solar power company providing home systems to underserved customers in West Africa, illustrates the key levers at the firm level. Recognizing the impact and business case of gender equality, PEG implemented a target-driven gender action plan. It spearheaded a company-wide mentorship program under which 25% of women were promoted within six months. The company introduced a range of family-centered policies, including flexible working hours to allow employees to balance responsibilities at work and home, extending health insurance for leadership to the whole family, and introducing paternity leave. This has allowed PEG to double the number of women in leadership positions from 22% to 44% within 18 months and to reduce employee turnover by 30%.

According to McKinsey, closing the gender gap in the labor force would boost global gross domestic product (GDP) by USD 28 trillion (+26%) per year by 2025. A major barrier to women's access to paid employment and decent jobs is the unequal distribution of unpaid care and domestic work (UCDW). Women spend

**“ Women entrepreneurs face multiple barriers and gender bias in accessing capital. As a result, worldwide companies owned by women receive only a fraction of total financing. ”**

two to ten times more hours per day than men on UCDW. This imbalance, rooted in social norms and stereotypes, results in time poverty and reduces the opportunities of women and girls to participate in education, decent paid work, and public life. As a result, they are often trapped in precarious jobs in the informal economy. Recognizing, reducing and redistributing (“3Rs” framework) UCDW is thus a key driver of women's economic empowerment and labor force participation.

At the firm level, investments in gender-equitable workplace environments contributes to higher productivity, lower turnover, reduced absenteeism, and improved retention rates. Danper is an agro-industrial company in Peru and current investee of FinDev Canada as well as a previous investee of DEG, offering a comprehensive benefits package to permanent and temporary employees that includes access to health services and medical care (including maternal and reproductive health), training and career advancement opportunities, as well as dedicated, on-site facilities for women. Women comprise 46% of the company's permanent employees. Danper is the first and only Peruvian company to be EDGE (“Economic Dividends for Gender Equality”) certified, demonstrating how private-sector companies can significantly contribute to gender equality outcomes.



## REFERENCES

- SDG Knowledge Platform.
- World Economic Forum (WEF). 2020. *Global Gender Gap Report 2020*.
- Quinlan, Joseph and Jackie Vander Brug. 2017. *Gender Lens Investing: Uncovering Opportunities for Growth, Returns, and Impact*. Hoboken, New Jersey: John Wiley & Sons
- Kanze, Dana et al. 2018. We Ask Men to Win and Women Not to Lose: Closing the Gender Gap in Startup Funding. *The Academy of Management Journal*. 61. 10.5465/amj.2016.1215.
- Malmström, Malin et al. 2017. Gender Stereotypes and Venture Support Decisions: How Governmental Venture Capitalists Socially Construct Entrepreneurs' Potential. *Entrepreneurship Theory and Practice*. 41 (5), 833-860
- BCG and MassChallenge. 2018. *Why Women-Owned Startups Are a Better Bet*.
- 2X Challenge. 2019. *Investing with purpose: How EcoEnterprises Fund III became FinDev Canada's First #2XChallenge Investment*.
- Catalyst. 2018. *Why Diversity and Inclusion Matter: Quick Take*.
- McKinsey. 2018. *Delivering through diversity*.
- IFC. 2019. *Moving toward gender balance in private equity and venture capital*.
- 2X Challenge. 2019. *A holistic approach to driving gender diversity helps PEG qualify as CDC's first 2X investment*.
- McKinsey. 2015. *The Power of Parity: How Advancing Women's Equality Can Add \$12 Trillion To Global Growth*.
- Oxfam. 2020. *Unlocking sustainable development in Africa by addressing unpaid care and domestic work*.

“ **Gender-smart products and services present another major business opportunity. Products and services that specifically benefit women and girls have traditionally been neglected by companies and investors.** ”

## PRIVATE-SECTOR WOMEN'S ENTREPRENEURSHIP BOND

Gender-smart products and services present another major business opportunity. Products and services that specifically benefit women and girls have traditionally been neglected by companies and investors, and thus offer significant opportunities for innovation. Case studies in this category illustrate how a strategic approach to GLI can catalyze attainment of multiple SDGs at once. For example, clean cooking could save over 100 billion hours of women's time collecting fuelwood per year, which would free up time equivalent to a workforce of 80 million people, while reducing air pollution, thereby preventing 1.8 million premature deaths per year. Investments in clean cooking solutions could target women as entrepreneurs, leaders, employees and consumers with a single investment, if structured accordingly.

The Financing for Maternal Outcomes Matter (MOMs) Alliance, launched in early 2020, is an innovative partnership between DFC, Merck for Mothers, Credit Suisse and USAID. The MOMs Initiative aims to mobilize private capital to support maternal and child health in sub-Saharan Africa and South Asia. As part of the collaboration, DFC and its partners seek to mobilize up to USD 50 million to improve

and expand infrastructure, services, and access to care in order to ensure healthy pregnancies and safe deliveries.

For financial institutions, there is a strong business case for a strategic focus on women entrepreneurs as customers, as women-owned MSMEs in developing countries face a finance gap of USD 1.7 trillion. A customer-centric approach to banking for women can level the playing field and transform banking cultures.

Focusing on financial products and innovative digital solutions to benefit millions of women across sub-Saharan Africa, EIB launched the SheInvest initiative, which aims to mobilize EUR 1 billion of gender lens investments. In the Asia Pacific region, DEG and IFC recently subscribed to the first private-sector women's entrepreneurship bond, issued by Bank of Ayudhya (Krungsri) in Thailand. The funds of the bond are used specifically to finance SMEs that are majority-owned or -managed by women. As the first gender bond issued in an Asian capital market, this transaction has a signalling effect and paves the way for the issuance of future capital market instruments with a strategic focus on gender.



## CONCLUSION ▼

The Covid-19 pandemic threatens to widen existing gender gaps and roll back the progress made in women's empowerment in recent decades. As systemic inequalities are exacerbated by the impact of this unprecedented, multifaceted crisis, DFIs must ensure that a gender lens remains front and centre in their emergency response

as well as in their efforts to build back better. A key set of recommendations jointly released by all DFIs involved in the 2X Challenge and Gender Finance Collaborative offer practical guidance on how to put women and girls at the centre of Covid-19 response mechanisms. ■

**“ For financial institutions, there is a strong business case for a strategic focus on women entrepreneurs as customers, as women-owned MSMEs in developing countries face a finance gap of USD 1.7 trillion. ”**

## REFERENCES

- DEG. 2015. *DEG evaluation results: Committed to fair working conditions, DBL-Group: High labour and safety standards in the Bangladeshi garment industry pay off*.
- CDC. 2018. *Insight: What we've learned about women's empowerment*.
- 2X Challenge. 2020. Danper (Peru): *A 2X investment committed to women's empowerment and 'shared-value'*.
- IEA. 2017. *Energy Access Outlook 2017: From Poverty to Prosperity*.
- OECD. 2019. *Enabling Women's Economic Empowerment: New Approaches to Unpaid Care Work in Developing Countries*. Paris: OECD Publishing.
- DFC. 2020. *DFC, Merck for Mothers, Credit Suisse, and USAID Seek to Expand Lifesaving Medical Products for Mothers in Africa*.
- FAW. n.d. *Financial Alliance for Women*.
- DEG. 2020. *Women at Work. Win Win Win: Good for Business, Good for Women & their Families, Good for Local Development*.
- IFC. 2017. *MSME Finance Gap. Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets*.
- EIB. 2019. *SheInvest - new initiative to mobilise EUR 1 billion for women across Africa*.
- 2X Challenge. 2019. *DEG and IFC Subscribe to Asia Pacific's First Private-Sector Women Entrepreneurs Bonds*.
- 2X Challenge. 2020. *2X Challenge and Gender Finance Collaborative response to the Covid-19 pandemic*.



# Beyond avoided emissions, DFIs seek carbon removals

 Kenneth Söderling, Impact analyst, Finnfund

*For quite some time, it has been acknowledged that global CO<sub>2</sub> emissions need to be reduced to avoid the catastrophic effects of climate change. Today, many companies, development finance institutions (DFIs) and other investors operating in developing countries are increasingly interested in tracking their CO<sub>2</sub> emissions and taking action to reduce them. However, lack of action on a global level has led us to a situation where emission reductions are not enough. We need carbon removals – and better measures and tools to account for our carbon budgets.*

## AN ARTICLE BY

 **KENNETH SÖDERLING**

*Impact analyst, Finnfund*

Kenneth Söderling is an Impact Analyst at Development impact team at Finnfund, a Finnish development financier. He focuses on measuring impact and carbon accounting of emissions, avoided emissions and carbon removals, both on project and portfolio level. Kenneth holds a masters' degree in environmental economics from University of Helsinki.

**I**t is a clear case. The Intergovernmental Panel on Climate Change (IPCC) report (2018)<sup>1</sup> shows that when the carbon dioxide content in the atmosphere is limited to 420 parts per million (PPM), we have a 66% chance of limiting global warming to 1.5 degrees. In 2019, the average carbon (referring to carbon dioxide, or CO<sub>2</sub>) content in the atmosphere was 409 PPM (NASA 2020). This meant that there was a margin of only 11 PPM left in our carbon budget, which was the sum of all emissions and removals. In recent years, the carbon content has increased by 2.5 PPM annually (NASA 2020). At this rate, we will use up our global carbon budget within the next 5 to 10 years.

Unfortunately, the level of reduced emissions needed to keep us within the carbon budget is basically impossible to achieve. The Covid-19 lockdowns we recently experienced, largely closed many parts of the world for months, but this was not enough to take us to the necessary rate of reduction. Despite the Covid-19 lockdowns, the atmospheric carbon content is estimated to increase by an additional 2.3-2.4 PPM in 2020, which is only marginally less than the 2.5 PPM increase in the previous years.

## WE NEED TO PULL BACK THE CO<sub>2</sub> FROM THE ATMOSPHERE

To stay within the 1.5 degree carbon budget, we would need a reduction of almost 15% in emissions every year. Thus, we would need a permanent lockdown every year and an additional systemic change to stay within the budget.

The only example of when such a reduction took place was the collapse of the Soviet Union. Now

we need similar emission reductions without the collapses of economic and social welfare. Figure 1 illustrates this problem.

While we do not want to be too pessimistic about this, the facts must be recognized. Although the 1.5 degree<sup>2</sup> target is most probably beyond being attained, it does not mean that we should stop

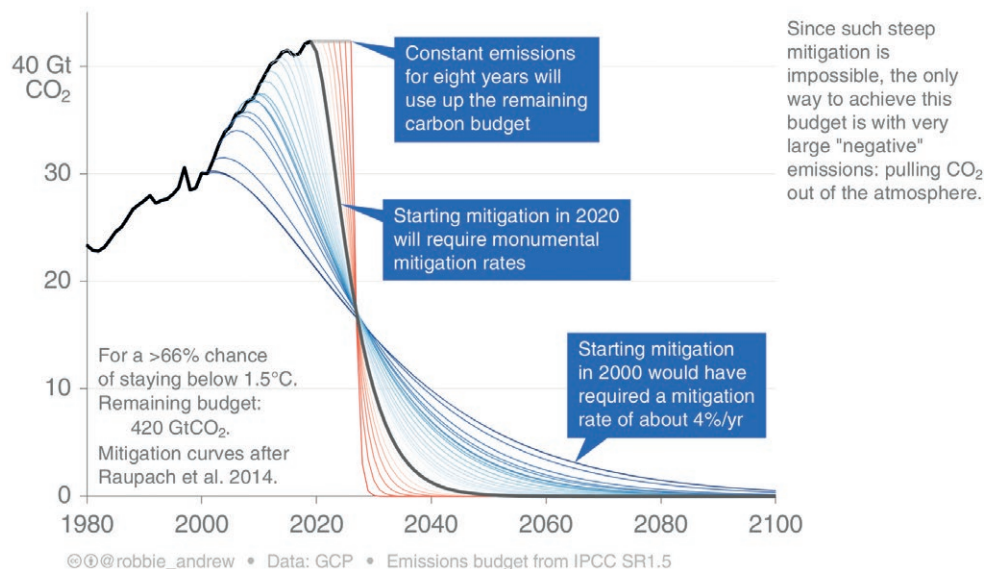
1 <https://www.ipcc.ch/sr15/>

2 For reference: <https://ourworldindata.org/grapher/co2-mitigation-15c?year=latest>





**Figure 1 - CO<sub>2</sub> mitigation curves: 1.5°C ▼**



Source: CGP

trying. On the contrary, 1.6 degrees is better than 1.7 degrees, and so forth. In terms of increased temperature, every one-tenth of a degree avoided is crucial. The IPCC report (2018) shows that the difference between 1.5 degrees and 2 degrees means that we could save at least 10-20% of the world's coral reefs and reduce from 37% to 14%

the world's population that will be exposed to extreme heat, as well as limiting other negative impacts caused by climate change.

So how will it be possible to stay within the budget or not to overshoot it significantly? The only option is to actively use carbon removals. We need to pull CO<sub>2</sub><sup>3</sup> back from the atmosphere.

## CARBON BUDGETING AS MEANS TO ACHIEVE STRATEGIC GOALS

Carbon budgeting means that a budgeting unit accounts for a company's carbon removals and emissions in a coherent, internationally accepted manner. For an investor, carbon emissions consist of annual emissions from all its operations; hence its own emissions plus emissions from investment. An impact-minded investor can use carbon budgeting as a tool to steer its operations towards its strategic goals, and eventually, carbon neutrality. For example, some financial institutions have set a target to reach carbon neutrality by 2050. The chosen target year defines the pathway to reaching the goal.

As the world still largely depends on fossil fuels, and every investment generates some emissions, investors need carbon removals to achieve carbon neutrality. The sooner the target year for carbon neutrality is, the more obvious it is that carbon removals are needed to reach the target.

In addition to mitigating climate change, an investment in carbon removal projects can provide positive economic development and other measurable impacts.

## FOCUS

### FINNFUND

Finnfund is a Finnish development financier and impact investor. Finnfund aims to build a sustainable world by investing in responsible and profitable businesses in developing countries. Each year Finnfund invests 200–250 million euros in 20–30 projects, emphasising renewable energy, sustainable forestry, sustainable agriculture and financial institutions. Today Finnfund's investments and commitments total about 957 million euros, half of them in Africa.



## HUGE OPPORTUNITIES FOR INVESTORS – AND INVESTEES

Carbon removal and climate mitigation projects provide significant opportunities for project developers, companies, and investors. When comparing the costs of these projects, it is worthwhile noting that in terms of climate effects, it is often significantly cheaper to invest in climate mitigation projects in developing countries than in developed countries: in developed countries many of the low-cost activities have already been secured, and the structural changes that would be needed for redevelopments are often costly, both economically and politically.

If a country or company decided to take economic advantage of investing in climate projects in developing countries, where could they find the experience and capacity to finance them? In

many cases, it is with the DFIs. Climate change mitigation projects, such as renewable energy and energy efficiency, have been great successes for the DFIs. These projects fit within the mandate of the DFIs, as they are usually economically viable, socially and environmentally sustainable, and generate economic growth and other measurable impacts.

Over the years, DFIs have successfully invested in a wide range of companies with significant emission reductions, and have played a major role in developing the investment environment for renewable energy projects in developing countries. They have also seen more and more fully commercial financiers step in. Now it is time to do the same with carbon removal projects.

## THE ANSWER LIES IN SUSTAINABLE FORESTRY AND AGROFORESTRY

Currently, the only economically viable means to generate carbon removals is sustainable forestry and agroforestry. Other means of removal, such as direct air carbon capture and storage, as well as bioenergy with carbon capture and storage have not proven to be economically viable. With forestry and agroforestry projects, as the trees grow, they sequester carbon dioxide out of the atmosphere. In our experience, the largest removals are achieved with afforestation projects, for example, when land is converted from grassland to forest land. The forest stores carbon in two ways: one is within the biomass comprising the forest, and the other is within the forest products, such as wooden constructions. Agroforestry combines forestry and agriculture; for example, the land is used for crop (such as coffee) production, and the trees provide both income and shade for the crops.

From an investor's point of view, afforestation projects – such as sustainably managed forest plantation and agroforest companies – have proven to be attractive business cases: these companies plant the trees for commercial use. Responsible practices – such as making good relations with local communities their top prio-

riety – are key. In many developing countries, and particularly in sub-Saharan Africa, land use and food security are prominent issues, not only because of increasing populations, but also because of the increasing effects of climate change.

In terms of carbon, responsible companies provide permanency of carbon storage, as they do not harvest more trees than they grow. From the sustainably harvested trees, the companies produce poles, sawn wood, panels, energy wood and other types of wooden products. The permanency of carbon storage depends on the products. For example, in Africa carbon is stored in the electricity poles for 25 years on average.

So far, there have been challenges in accounting for carbon removals, as the current, publicly available methodologies and tools have not been suited to the needs of financial institutions. Furthermore, they have not provided the accuracy that would be needed to adequately account for carbon removals.



## A NEW TOOL FOR FOREST CARBON SEQUESTRATION IS UNDER DEVELOPMENT

At the beginning of 2020, Finnfund started discussing with some other DFIs, the methodologies and challenges involved in forest carbon accounting, and we noticed that we were not alone.

We thought we could do better, though, so we teamed up with colleagues from CDC, FMO, Swedfund and Simosol Forestry & Software consultancy, in order to develop a comprehensive methodology and a new forest carbon sequestration tool (FRESCOS). With the tool, one can measure total carbon removals, by accounting for changes in the carbon stocks, such as forest biomass and harvested wood products.

This new tool is needed for two purposes: scenario analysis and ex-post annual accounting. The scenario analysis functionality is used for due diligence purposes and to estimate the total and expected annual amount of carbon removals for a single project. The ex-post annual accounting functionality is used to monitor the absolute carbon removal of a project; this can further be used to analyse the carbon neutrality of a project portfolio.

The FRESCOS project is due for completion by the end of 2020, and our investees and other stakeholders are also invited to use the tool, and eventually, to develop it further.

## IT IS A WIN-WIN-WIN DEAL

At Finnfund, we have noticed that many forestry and agroforestry companies find it useful to demonstrate the climate effects of their operations. Their investors and clients are increasingly interested in carbon removals, and accounting for emissions is increasingly on everyone's agenda. By providing information on carbon removals, investors can see the potential and the additional benefits in relation to their climate strategy. To illustrate this, just ask company executives whether they would like to communicate to investors that a particular project is pulling

CO<sub>2</sub> from the atmosphere instead of emitting it – and listen to what they have to say.

The market for carbon credits – where a company compensates for its own emissions by earning carbon credits from carbon removals – is growing. With the new FRESCOS tool, we are happy to help our investees to account for their carbon removals, as well as to support them in developing their businesses, and in growing their revenue from the compensation markets.

## CONCLUSION ▼

To sum up, companies win, as carbon removals can provide new access to finance and generate additional revenue. Investors win, as a better understanding of, and accounting for carbon removals can provide both a significant boost to meeting their strategic climate goals, and additional opportunities for investment. Humanity and the Earth win, as the globe becomes a cooler and greener place. ■

**“ The forest stores carbon in two ways: one is within the biomass comprising the forest, and the other is within the forest products, such as wooden constructions. ”**



# Mitigating climate change through small-scale renewable energy projects

Camille Fronville, Manager and Senior investment officer, BIO

*A major pillar of BIO's investment strategy is to use its extensive experience in renewable energy to help mitigate climate change. At BIO, we will continue to pursue this goal, with the objective of investing at least €150M in 15 projects by 2023. This includes investing directly in hydro, solar, wind, and geothermal energy projects, as well as in funds that target these types of projects. Energy efficiency is another sector where BIO envisages playing a bigger part.*

**AN ARTICLE BY  
CAMILLE FRONVILLE**

*Manager and Senior  
investment officer, BIO*

Camille Fronville is manager of the infrastructure department at BIO. The department focuses on infrastructure projects that provide basic services to the population and to the entrepreneurial ecosystem. This includes, but is not limited to, renewable energy, telecommunications and transport & logistics. Camille has been active in the renewable energy sector for 10 years. Prior to joining BIO, Camille worked for Triodos Bank where she was in charge of financing wind, solar and hydro projects in Europe. She holds a Master's degree in Finance (ICHEC, Brussels) and in Environment and Resource Management (VU, Amsterdam).

**B**IO intends to reach this objective by targeting two different types of transaction. On the one hand, BIO will keep investing in larger renewable energy projects alongside DFIs and other mission-similar organizations. These projects are crucial to improving the availability and affordability of energy in the countries where they are undertaken. On the other hand, BIO aims to take the lead in providing financing for small-scale projects (up to 10MW). One of the main challenges smaller projects face is finding investors and lenders. These projects are complex to structure due to their smaller size, but they are extremely relevant in the fight against climate change. To ensure flexibility in these transactions, BIO is able to commit up to 60% of the total project cost – whereas for larger projects, it is capped at 50%. Over the last couple of years, at BIO we have developed expertise in translating these transactions into successful investments.

One of BIO's direct investments is the Rwimi Small Hydro Power project (5.5 MW), located in Western Uganda, close to the border with

the Democratic Republic of the Congo. As in most countries of sub-Saharan Africa, unreliable and insufficient power supply poses a substantial challenge to poverty alleviation and economic development. Almost half of the population in the region does not have access to electricity, and continuous power outages hamper the economic performance of those who are connected to the grid. Nationally, only 26.7% of Ugandans have access to the electricity grid, which still suffers major blackouts. Rwimi has been developed by Eco Power Holding (EPHL), a Sri Lankan company that is specialized in the development and construction of hydro power plants. They have a strong track record in their field and were eager to expand their operations in Africa. However, no Sri Lankan or local commercial banks were willing to take this level of risk in Uganda. BIO brought its expertise in project finance to the Rwimi project, allowing it to be financed under a specific structure. A special purpose vehicle, Rwimi EP Company Ltd, was created, and the national transmission company, Ugandan Energy Transmission Company Ltd (UETCL) serves as the energy offtaker.



## CLOSE RELATIONSHIPS WITH THE COMMUNITIES

In addition to its expertise in project finance, BIO provided a longer tenor and grace period than was available locally. Besides providing part of the financing, another element of BIO's mission is to increase awareness among our clients of the environmental, social and development aspects of their projects. We lead our clients toward a global development approach, which includes their communities. Rwimi has developed close relationships with the local communities over the years. A gravity-fed water supply scheme has been built and is being maintained by the engineers of the

Rwimi plant. This scheme was partially financed with technical assistance provided by Norfund. In addition, the medical centre – previously used during the construction phase of the Rwimi plant – has now been converted to host the local community on a biweekly basis. Eco Power ensures the presence of a qualified nurse and the procurement of any medicine she recommends. Finally, a full-time Environmental, Health and Safety Officer, sourced from the local community, remains on site, and a Grievance Handling Committee meeting is conducted every month.

### FOCUS BIO

BIO is a Development Finance Institution that supports private sector growth in developing countries. BIO provides long-term financing to enterprises, financial institutions, and private infrastructure projects, as well as grants for feasibility studies and technical assistance programmes. BIO operates as an additional partner to financial institutions and aims to strike a balance between return on investment and development impact. BIO is a member of EDFI (European Development Finance Institutions) and has more than 1 billion Euros of assets under management.

## INDIRECT INVESTMENTS

In order to reach even smaller projects and companies, BIO invests in funds targeting these unserved markets. In 2020, BIO joined a conglomerate of over 30 investors in Social Investment Managers and Advisors (SIMA), a new generation of impact investment manager which has invested close to \$90M in the off-grid solar and financial access sectors through its senior debt fund, the Off-Grid Solar & Financial Access Senior Debt Fund I. SIMA's objective is to make quasi-commercial investments with a strong social impact an accepted asset class for commercial investors. The fund fights climate change by investing in access to off-grid energy. To date, SIMA has lent to 26 companies who are manufacturing, distributing, and/or financing stand-alone solar systems in more

than 15 developing countries in sub-Saharan Africa and Asia.

In addition to providing financial returns with robust protection, the SIMA Fund aims to create one million new energy connections, and to avoid four million tons of CO<sub>2</sub>eq emissions. It also promotes an industry-wide code of conduct, focused on good customer service and protection. Since the Fund's creation in 2017, its portfolio companies have created more than seven million off-grid solar connections that light homes, charge cell phones, and power farming equipment, water pumps, sewing machines, power tools, TVs, radios, and fans. These companies have about 14,000 full-time employees.

## CONCLUSION ▼

Renewable energy is one of the most effective tools we have in the fight against climate change, and there is every reason to believe it will succeed. BIO supports all projects that are part of the answer, great or small. Of the EUR 65M that the Belgian State injected into BIO's capital in 2020, EUR 25M has already been earmarked specifically to combat climate change. BIO is eager and ready to do its part. ■





# EDFI at a glance

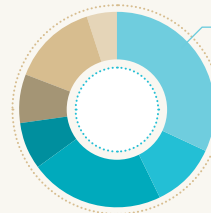
The consolidated portfolio of the 15 member institutions at the end of 2019 was €46 billion in 6.380 investments. DFIs have gained prominence over the last decade as a result of a paradigm shift: governments' increasing focus on approaches that promote private sector development, recognizing its direct contribution to the SDGs. From 2010 to 2019, the EDFI portfolio increased by 112% (€24.3 billion increase).

## EDFI portfolio 2019 ▼



**€46**  
BILLION  
consolidated

**€9**  
BILLION  
of new investments



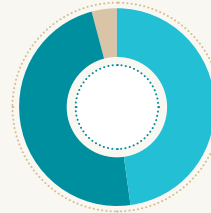
- 32% Financial sector
- 11% Industry/manufacturing
- 22% Infrastructure (power)
- 8% Infrastructure (other)
- 8% Agribusiness
- 14% Multi-sector
- 5% Services

## Total number of investments 2019 ▼



**6.380**

**1.241**  
of new investments

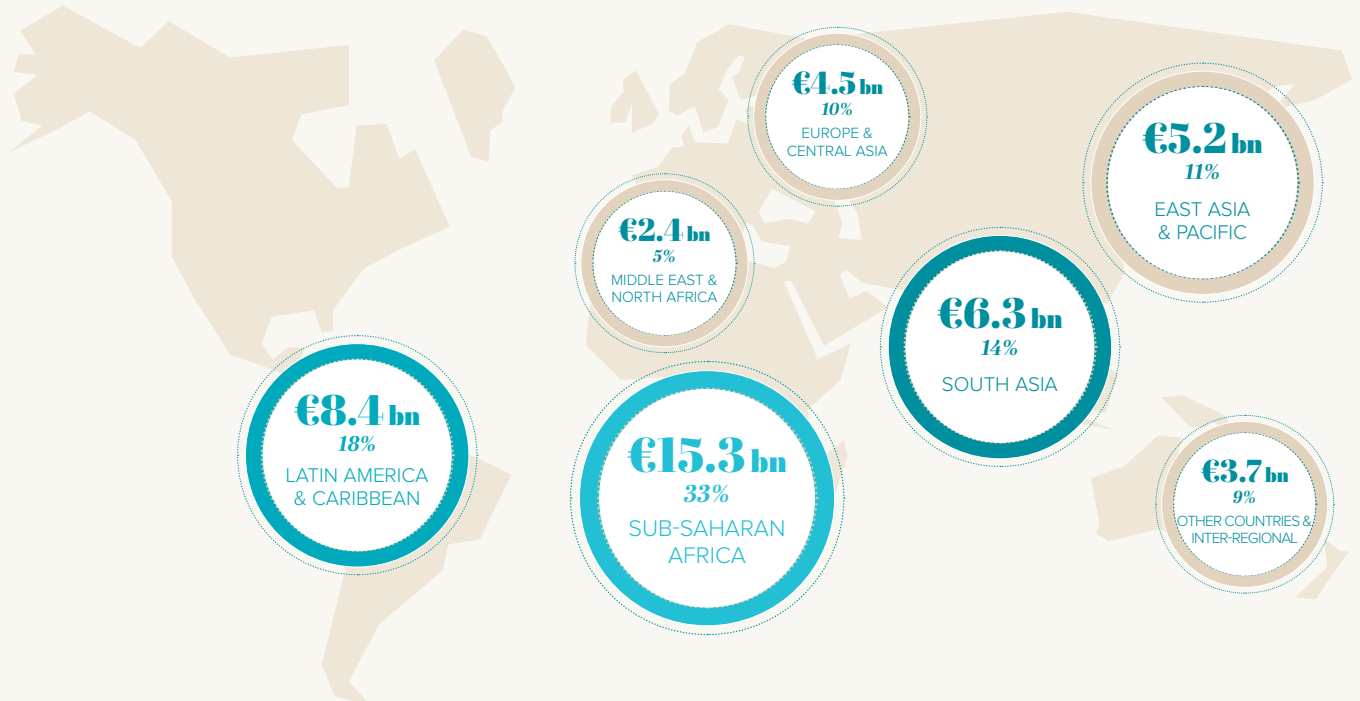


- 48% Equity & Quasi-Equity
- 48% Loans
- 4% Guarantees

Source: EDFI, 2019.

## A global footprint ▼

EDFI members focus on regions and sectors of particular importance for their organisation or government.



Source: EDFI, 2019.



### Supporting those in greatest need ▼

The institutions in Europe best suited to help the private sector in Africa are the DFIs. They have €15 billion invested in Africa, reaching thousands of companies, and already fund many banks operating throughout the continent. EDFI members are increasing their activities in the continent, focusing on four keys areas: growth & jobs, inclusive finance, clean energy and agri-food.

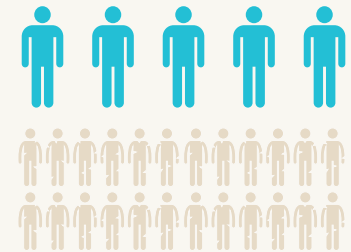


Source: EDFI, 2019.



MORE THAN  
**9 in 10**  
JOBS ARE CREATED  
IN THE PRIVATE  
SECTOR

*in low and lower middle-income countries, and each new job lifts five people out of poverty.*



### EDFI portfolio in fragile countries ▼

Some emerging countries are clearly growing very fast and converging. However, 30 countries – mostly in sub-Saharan Africa – have been designated as particularly fragile and conflict-affected. Together these countries account for 23% of global poverty.



**€2 billion**

*in 298 investments*

Source: EDFI, 2019.



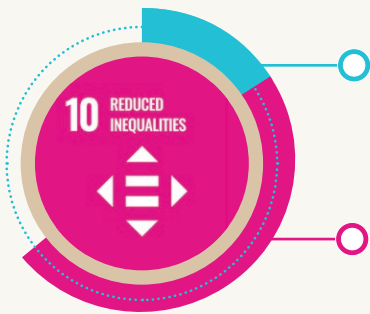


What is the EDFI impact? ▼



EDFI members invested almost  
**€500m**  
 in  
**41 projects**  
 promoting women's economic  
 empowerment

MORE THAN  
**8 million**  
 JOBS  
 are supported by EDFI financing



**16% (€5.6 billion)**  
 OF TOTAL DIRECT INVESTMENTS  
 distributed in least developed  
 countries & low-income countries

**48% (€16.5 billion)**  
 in lower middle-income countries



EDFI consolidated portfolio in  
 climate finance at the end of  
 2019 was

**€10.3 billion**

EDFIs invested  
**€1.75 billion**  
 IN CLIMATE FINANCE IN 2019

EDFIs reported a total amount of

**€6.5 billion**

OF TOTAL PRIVATE CO-FINANCE MOBILISATION  
 IN NEW INVESTMENTS FOR 2019

**€17.3 billion**

OF DOMESTIC RESOURCES MOBILISATION



Source : EDFI, 2019.



### Gender parity: a void to fill ▼

Gender equality and women's empowerment are undoubtedly a prerequisite for social justice, economic prosperity and the achievement of the Sustainable Development Goals (SDGs). But at the current rate of progress, it would take 257 years to close the economic gap between women and men.

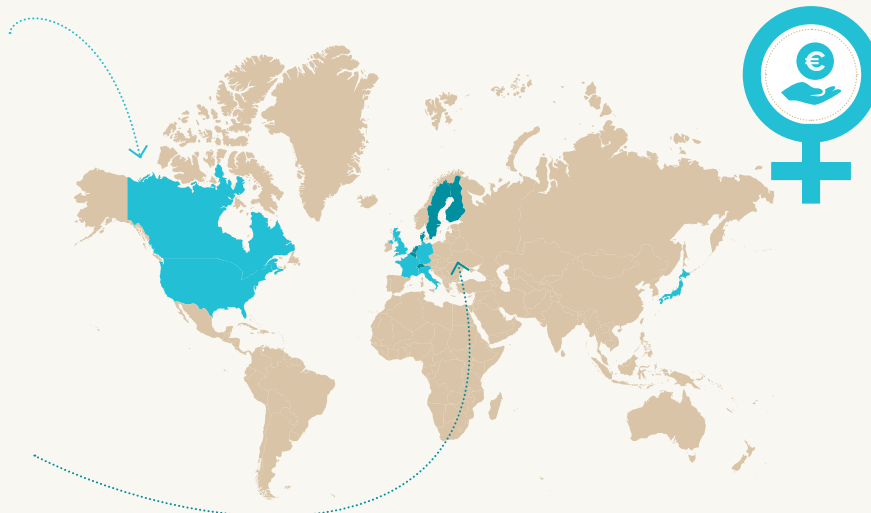


Source: World Economic Forum (WEF), *Global Gender Gap Report 2020*.

### Investing for women ▼

**In June 2018, the DFIs of Canada, France, Germany, Italy, Japan, UK and the US launched the 2X Challenge Initiative and developed a set of 2X Challenge Criteria to help identify and promote gender-smart investments.**

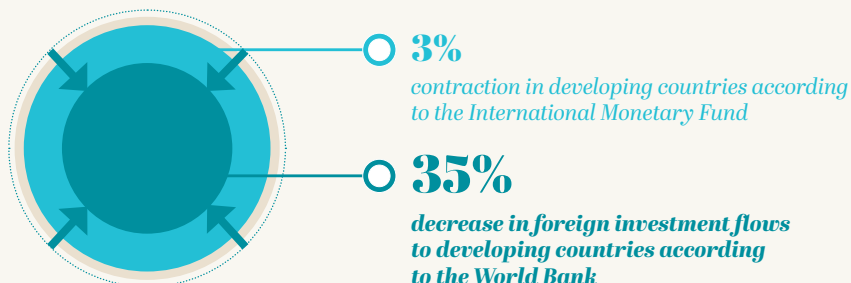
**They were subsequently joined by the DFIs of Netherlands, Denmark, Sweden, Finland, Belgium and Switzerland.**



Source: EDFI, *EDFI Resolution on Advancing Gender Smart Investing*, 2019.

### The global impact of Covid-19 ▼

The Covid-19 pandemic will have a major impact on developing economies. Back in May 2020, the International Monetary Fund anticipated a global economic contraction of 3% in these countries while the World Bank predicted a 35% decrease in foreign direct investments flows to developing countries due to the impact of Covid-19.



Source: EDFI, *Scaling up cooperation among Development Finance Institutions in response to Covid-19*, 2020.

UNCTAD (2020) ESTIMATES A

**\$2.5**  
TRILLION

cost to developing countries. WTO (2020) expects world trade to **fall this year by between 13% and 33%**

ACCORDING TO THE ILO (2020), AFRICA IS EXPECTED TO LOSE

**19 to 22**  
MILLION JOBS



# The Covid-19 response: supporting businesses and economies through the crisis

Yasemin Saltuk Lamy, Deputy CIO, CDC

*The economic impact of the Covid-19 pandemic has meant the role of development finance institutions (DFIs) has never been more important. DFIs' mandates mean they are particularly well suited to providing financing during financial crises, when other sources of business finance are limited. CDC, the UK's development finance institution, has focused its response on three areas – preserving the impact and financial stability of its current investees, strengthening businesses that are scaling up their responses to the economic and health challenges of the crisis, and supporting economies to rebuild.*

AN ARTICLE BY  
YASEMIN SALTUK  
LAMY

Deputy CIO, CDC

Yasemin Lamy joined CDC as Deputy CIO in August 2018. She is responsible for Catalyst Strategies, a portfolio aimed at transformational, system-level impact and innovation across its target geographies of Africa and South Asia. Previously, at Omidyar Network, she spent three years building two new portfolios: one to develop empowering digital identity technologies and one to establish a trendspotting capability.

Prior to this, at J.P. Morgan, she worked across several different roles within capital markets, starting out in fund-linked derivatives, and then becoming a credit derivatives analyst, before building and leading the impact investment platform for the firm.

The global economic impact of Covid-19 will be severe – but particularly so in the regions and countries where development finance institutions (DFIs) invest. The economic predictions for these regions indicate there will be a real challenge to overcome not just in the coming months, but likely in the years ahead too. For example, Africa is due to experience its first recession in a quarter of a century. Growth on the continent has dropped from 3.2 per cent for Africa overall before the pandemic to a forecast negative 3 per cent growth in some places. This will have a huge impact on poverty levels, jobs and even food security. It is now estimated that globally, over 70 million people could be pushed below the poverty line, with South Asia and sub-Saharan Africa being particularly hard hit. We know that the impact on jobs will be huge – McKinsey estimates that between 9 million and 18 million formal jobs will be lost in Africa and that 100 million informal jobs are vulnerable. The countries where CDC invests are facing two further problems. First, many governments are fiscally constrained, making it more difficult for them to provide financial support to affected businesses, to shield them from the downturn. Second, in many of these countries, commercial investors are becoming more risk averse, in these uncertain times, withdrawing money from the places they know least about and perceive as having the greatest risk.

## THE ROLE OF DEVELOPMENT FINANCE HAS NEVER BEEN MORE IMPORTANT

All of this means that DFIs have needed to step up over the last six months – with an important role to play, both immediately to protect their existing portfolio companies, and in the long-term. The role of development finance – to support the economic stability that enables

countries to leave poverty behind, by providing long-term capital to the private sector – has never been more important. DFIs' mandates mean they are particularly well suited to providing countercyclical financing during financial crises, when other sources of business finance





are limited. At a time when companies are going through extraordinary circumstances, they have needed the working capital and the liquidity that DFIs can provide, in order to survive. From CDC's perspective, as the scale and impact of the pandemic became clear we worked quickly to focus our response on three areas – first, to preserve the impact and financial stability of our current investees; second, to strengthen businesses that are scaling up their response to the economic and health challenges of the crisis; and third, to help economies to rebuild.

**“ DFIs’ mandates mean they are particularly well suited to providing countercyclical financing during financial crises, when other sources of business finance are limited. ”**

## BUSINESS RESILIENCE IN THE FACE OF THE CRISIS

Our first priority – as has been the case with other DFIs – was to preserve the viability of our current portfolio of businesses – critical with a portfolio of over 1,200 businesses that together employ over 800,000 people. Our teams have been working closely with portfolio companies and funds, supporting them through the challenges and uncertainty of the crisis. Early on, we introduced several changes to our investment process to speed up our response and to ensure that we could meet our investees' immediate needs as quickly as possible. We have found that most of our investee businesses have been incredibly resilient in the face of the crisis, but of course, it is still difficult to predict what the full impact of the pandemic will be, particularly as we now shift from an acute to a chronic challenge. Among the challenges and difficulties of the pandemic, we have also supported portfolio companies as they have adapted in the face of those challenges. iMerit, a data and technology services business in India, with almost 3,000 employees, has been able to pivot to meet the transforming needs of its clients, despite the

challenges it has faced. For example, one of its teams is delivering geospatial imaging solutions to one of the largest agriculture companies in the world. When Covid-19 hit, that company had new needs. Within three days, the iMerit team was up and running in meeting this new request.

Another investee company, mPharma, a Ghanaian tech-enabled healthcare company with a mission to make quality healthcare affordable and accessible to all consumers in Africa, has mobilised partners to help the continent respond to the crisis. When it was clear that Covid-19 was going to have a major impact in Africa, the team identified what they saw as existing bottlenecks to an effective response on a wider scale: the lack of laboratory equipment and testing kits. The company has worked with shareholders – including CDC – to find a way to supply test kits to the people who need them. And, after realising that constraints in public laboratories were hampering the potential impact of testing, the company has helped private laboratories to repurpose and join the effort.

## PROVIDING LIQUIDITY TO BANKS TO SUPPORT LOCAL BUSINESSES

Under the 'Strengthen' pillar of our response, we repositioned our priorities to support businesses, scaling up our response to the economic and health challenges of the crisis. As part of this

pillar, we stepped up to provide liquidity as other funding fled, leveraging partnerships with banks to reach businesses with crucial capital when they need it most. A key part of this has been



**“ *The role of DFIs has gone beyond providing finance in the crisis. At CDC, one way we have been doing this is by providing advice and guidance to support employers, investors, and financial institutions* ”**

to ensure the continuation of trade, supporting supply chains, and in turn helping protect economies and livelihoods. According to the World Trade Organization, world trade is expected to fall by between 13 and 32 per cent in 2020, as the pandemic disrupts normal economic activity and life around the world. We are finding that trade finance facilities are proving to be one of our quickest and most scalable tools to ensure that businesses get the working capital they need to maintain operations and jobs.

### **SUPPORT BEYOND LIQUIDITY**

The role of DFIs has gone beyond providing finance in the crisis. At CDC, one way we have been doing this is by providing advice and guidance to support employers, investors, and financial institutions on issues ranging from job protection and customer protection to remote working and returning to the workplace. The guidance also provides advice on how the pandemic is affecting certain groups – for example, how to support women working from home with limited access to technology. Another part of our approach has been to provide support to investee businesses through our

technical assistance facility, CDC Plus. It has launched two new programmes – one to help our investee businesses to adapt or scale-up to form part of the response to the pandemic and, the other, to develop guidance for companies on how to respond to the crisis. To date, the team has approved 47 technical assistance projects, providing support to a diverse range of businesses. For example, one project is scaling up an Indian logistics company so it can deliver critical medical supplies to some of the most remote parts of the country.

Since the start of the pandemic, we have committed over \$400 million of systemic liquidity. For example, in July we built on our existing partnership with pan-African bank Absa, providing \$75 million of new capital to enable the bank to continue supporting supply chains during the crisis. The facility is particularly innovative because it specifically incentivises lenders to boost trade finance to some of Africa’s most vulnerable countries and in sectors that are critical to serving people’s basic needs during the crisis – food, security, and health. To support those that have a direct role in combating the pandemic, we’re investing in businesses providing healthcare or access to basic goods and services. In addition, MedAccess – a subsidiary of CDC that provides innovative social finance to enable life-changing medical supplies to reach people in Africa and Asia – has responded rapidly to the pandemic, announcing a guarantee of up to \$50 million to help UNICEF secure vital Covid-19 medical products.

### **COLLABORATING AS A DFI COMMUNITY**

Importantly, given the scale of the challenges faced by the countries where we invest, DFIs came together very early on to find ways to work collaboratively to respond to the pandemic and co-operate for greater impact. The DFI Alliance, involving organisations from 16

OECD countries, has been working together to bring liquidity to the market, support companies impacted by the virus, and promote new investment. And among both the bilateral DFIs and the multilateral DFIs, various working groups have been set up. We have been coordinating



on areas ranging from technical assistance and funding to our approach to infrastructure or financial institutions, to supporting the liquidity of investment funds.

We recognise that as the crisis shifts to a longer-term challenge, there is still a long road to recovery. At CDC, we have already begun to take action under the ‘Rebuild’ pillar of our response, approving over \$250 million of new investments over recent months, and confirming our commitment to the countries where we invest. At the same time, we have been thinking about the impact that the pandemic is having on our areas of strategic focus, including gender equality and climate change. We know that the impacts of Covid-19 have been felt particularly among women. McKinsey estimates that if you are a woman, you are nearly twice as likely as a man to lose your job as a result of the Covid-19 pandemic. Women often work in sectors more likely to be negatively affected by Covid-19 disruptions, and in low-skilled, low-paid, and informal jobs, facing higher risks of job and income insecurity. The pandemic has also exacerbated pre-existing challenges faced by women in the labour markets, including those faced by female entrepreneurs in accessing capital and the lack of women in leadership positions. This is why it has been crucial that DFIs have been collaborating on how to support the rebuilding

of businesses and economies in a way that works better for women. Collectively, we called for a gender-sensitive approach among investors in both their immediate responses and longer-term recovery solutions to the crisis. This includes working with financial intermediaries to support women’s access to finance and helping champion a strong pipeline of female talent across the workforce. We know that helping businesses become resilient is not just about financially surviving future pandemics, it is also about building businesses that can withstand the impact of climate change and supporting economies as they make the transition to net zero. For us at CDC, that means three things. First, ensuring our investment portfolio reaches net-zero emissions by 2050 and making an investment only if it supports a country’s plan to meet its ambition to become a net-zero economy by 2050. Second, supporting a ‘just transition’ to a net-zero economy by keeping the creation of decent jobs and skills development at the forefront of the change — something that countries will be very focused on when coming out of the Coronavirus crisis. And finally, because we know that the countries in Africa and South Asia where we invest are particularly vulnerable to the negative impacts of climate change, strengthening the adaptation and resilience of sectors, communities, businesses, and people.

## CONCLUSION ▼

While we feel proud of what we have been able to achieve so far, we know there is much more to do. Our approach of providing much-needed liquidity through financial intermediaries is very likely to continue to be needed in the

coming years. We will continue to stand firm in playing our role at a time when commercial investors are pulling back, so that in the long-term, businesses and economies are able to rebuild successfully. ■

## FOCUS CDC

CDC is the UK’s impact investor with over 70 years of experience of successfully supporting the sustainable, long-term growth of businesses in Africa and South Asia. A champion of the UN’s Sustainable Development Goals, CDC invests in companies with a focus on fighting climate change, empowering women and creating new jobs and opportunities for millions of people. The company has investments in over 1,200 businesses with total net assets of £6.4 billion and a portfolio of £4.7 billion.

# Supporting private initiatives in fragile countries: what role for development finance institutions?

Sébastien Fleury, Director “Investing in Complex Environments”, Proparco

*In fragile countries, job creation in the private sector is a driver for post-crisis recovery. In difficult contexts, the support provided to local entrepreneurs by development finance institutions (DFIs) must go beyond investment financing and tackle the factors hindering entrepreneurship. Proparco, along with other DFIs, is now supporting the creation of industries. The strategy aims to make entrepreneurs central to the coordinated action of donors in order to support the entire value chain, from producers to customers and processors.*

**AN ARTICLE BY**  
**SÉBASTIEN FLEURY**  
 Director “Investing in Complex Environments”, Proparco

Sébastien Fleury joined Agence Française de Développement (AFD) in 2003, firstly in the Financial Department, later moving to the Risk Department, where he managed AFD’s non-sovereign portfolio. From 2013 to 2016, he was Proparco’s representative in South Asia; then, when he returned to Paris, he took over as Director of Proparco’s international network and partnerships with European development finance institutions (DFIs). Since 2019, he has been managing and coordinating Proparco’s activities in fragile countries and complex environments.

**T**wo billion people around the world live in countries where development is hindered by crises, conflicts, or violence. And the projections are not optimistic: the proportion of regions with a concentration of extreme poverty, a breeding ground for conflict situations, is expected to soar by 2030, from 17% today to almost 50%. According to the OECD,<sup>1</sup> if no action is taken, fragile countries will constitute 80% of world poverty by 2030 and will consequently be at the

root of the majority of humanitarian, health, security, and environmental crises.

As pointed out by the British economist Paul Collier,<sup>2</sup> Director of the Centre for the Study of African Economies at Oxford University: “With rising prosperity, societies gradually become less fragile”, adding that business activities are “the main engines of economic growth [in these countries]... But the condition of fragility discourages firms from operating in these countries.”

## DIFFICULTIES OF DFIS IN FRAGILE COUNTRIES

Along with Paul Collier, Proparco is convinced that employment and a fair distribution of wealth will increase the resilience of societies and stem the emergence of crisis situations. DFIs, through their knowledge

of entrepreneurs, can help them create sustainable jobs.

DFIs have always contributed to financing the private sector in fragile states.<sup>3</sup> However, in

1 • *States of Fragility* 2018. Paris : OCDE. [https://www.oecd.org/dac/conflict-fragility-resilience/docs/OECD%20Highlights%20documents\\_web.pdf](https://www.oecd.org/dac/conflict-fragility-resilience/docs/OECD%20Highlights%20documents_web.pdf).

2 • *The Private Sector in Fragile Countries: what role for the DFIs?* Paul Collier. Paris : Proparco, 2017. <https://www.proparco.fr/fr/le-secteur-privé-dans-les-pays-fragiles-quel-est-le-rolé-des-dfi>.

3 • The World Bank puts the amount invested in 2018 at USD 1.8bn.



view of the issues at stake, this amount, and the related impacts, need to be scaled up. To achieve this, new approaches adapted to these specific environments need to be devised, in addition to the products traditionally provided by DFIs. Reflection is under way, and proposals are being made, but DFIs are faced with difficulties related to the economic environments of these countries and the specific constraints of their economic models. Fragile countries often have small and fragmented markets, marked by breaks in the supply chains and a lack of skilled labor. Their regulatory systems are often very complex, and there is widespread political intervention in the economic sphere. Finally, they are particularly vulnerable to climate risks.

The scope of the risk appetite of DFIs is not suitably adapted to all of these factors, which limits transactions. Furthermore, while the objectives for business volumes and profitability do have an impact, they do not encourage interventions

in these difficult contexts. Indeed, the human and financial investment required for each transaction is high compared with the returns on small risky investments. Consequently, the success of DFI interventions in fragile countries involves working to improve the business environment and creating industries by adapting the economic models of DFIs to create customized investment capacities.

To contribute to the development of the economic fabric in fragile countries, the AFD Group has decided to invest in an integrated sectoral approach. It has entrusted Proparco, its private sector financing arm, with the implementation of this strategy in fragile countries. Proparco's objective is to deploy an average of €200 m a year in fragile countries (mainly located in Africa and the Middle East, as well as Haiti) and, at the same time, to take action to promote the emergence of markets and industries specifically in the most fragile countries.

## SUPPORTING THE CREATION OF INDUSTRIES

It is one thing to support the emergence of industries, but the right candidate needs to be selected. The priority given to employment guides the choice towards agricultural sectors, which are the main sources of jobs in fragile countries. Proparco's approach is to focus on a key industrial player in a value chain, in order to structure the entire sector: from upstream (raw material supplies) to market outlets. In addition, Proparco focuses on the factors that hinder the development of companies in sectors that have limited access to financing and energy (especially in the rural areas not served by the national electricity grid).

A pilot project for this new approach is currently being financed in Mali and Burkina Faso, where Proparco is financing a sectoral study on eight agricultural sectors (including fodder, milk, corn, cowpea and fisheries). This analysis will make it possible to select one or two sectors in each country and to define action plans to support private players in these agricultural value chains. Proparco cannot work in such

broad areas single-handedly. It operates with the International Finance Corporation (IFC), the AFD, which shares its expertise in agricultural sectors, and national development banks (such as the National Agricultural Development Bank of Mali - BNDA). In addition to these partners, there are, of course, governments, which also invest in the sectors.

This targeted operational strategy in fragile countries is changing the approach of DFIs and requires new resources, both human (particularly in the countries of operation) and financial. The French Government has supported the AFD Group's approach by allocating it a facility to launch this initiative in fragile countries. These resources are financing the studies required to create activities; work on local legal frameworks; initiate projects, by reducing the costs for local entrepreneurs (development costs, for example); and help strengthen companies through technical assistance.





## A “DFI PACK” ATTUNED TO LOCAL NEEDS

Today, there is consensus among public development banks and DFIs on the role that entrepreneurs need to play to contribute to the development of their countries. The implications this will have for the approaches and tools of DFIs, their economic models, and the new areas of cooperation that are now necessary prompted Paul Collier to say that “Fragile states are the future of aid”.

With support from its network, the AFD Group has analyzed the conditions for implementing these programs to create jobs via a sector-based approach. Findings are emerging that will guide Proparco’s action in the coming months.

## GOOD PUBLIC GOVERNANCE AN ESSENTIAL BASIS FOR INVESTMENT

In fragile countries, the political sphere is closely involved in the economy. This means that conflicts of interest can arise among policy-makers, leading to a given corporation, sector or company being favored, to the detriment of the collective interest. In addition, political control over the economy holds back entrepreneurial aspirations and the willingness to invest. Infrastructure and training are not sufficient

to support business growth, due to the lack of resources. These are well-known facts, but they still hamper market development and job creation in the formal economy. The dialogue needed between the State and sector players must benefit from support provided by development banks and DFIs.



### *Partnerships on a new scale: The MoU between IFC and Proparco*

These developments and this new strategy to support sectors are central to the Memorandum of Understanding (MoU) signed between the International Finance Corporation and Proparco in April 2019. This agreement aims to more effectively share and coordinate the operations of both institutions in fragile countries, particularly in the “G5 Sahel” countries and Democratic Republic of Congo (DRC), which have been designated as pilot countries. The areas of enhanced cooperation include information sharing, the coordination of strategies, and the identification and co-financing of development projects. This agreement has increased the effectiveness of the operations of both DFIs on the ground. It is also aimed at coordinating actions on the economic fabric, through the interactions of the two groups with public players.



## ROLE OF DFIs IN PUBLIC DEVELOPMENT BANKS (PDBS)

Work on strengthening and creating sectors is not new. PDBs have been working with governments on this for a long time. For example, this is the case in Mali, with the National Bank for Agricultural Development (BNDA). The bank has been involved in financing the cotton value chain for forty years. It wants to increase its support of the agricultural community by adopting this approach in other sectors, such as the gum arabic, shea, cashew, and mango sectors. In addition to the traditional financing for seasonal loans, BNDA is directing its financing toward investments in processing tools and logistics in the agriculture sector. This interest in the processing industry is supported by refinancing from donors such as AFD and KfW, which are also orienting the agriculture sector toward more sustainable solutions (small equipment running on renewable energies, such as solar

motor pumps and biofertilizers), involving more women and operating in more complex areas (via risk-sharing tools). This strong support for the agriculture sector from PDBs is very similar to the ongoing activities of DFIs in value chains.

By using the same refinancing and risk-sharing tools, DFIs are able to assist private banks that support the formal agriculture sector, and microfinance for the informal sector, thereby complementing public intervention. The added value of DFIs lies also in their ability to identify and directly support structural players in a sector and to assist them upstream (financing of inputs) and downstream (marketing) in the sector. The convergence of approaches and the provision of the same tools for all public and private players clearly illustrate the complementarity of DFIs and development banks.

## FOCUS PROPARCO

Proparco has been supporting sustainable development for 40 years across Africa, Asia, Latin America and the Middle-East. As the private sector financing arm of Agence Française de Développement (AFD), Proparco provides funding and support to companies and financial institutions, and helps them control the impacts of their activity. In 2019, Proparco committed € 2.5 bn of financing, focused on key development sectors: infrastructure, especially renewable energies, agribusiness, financial institutions, healthcare and education.

## THERE ARE NO FIVE-LEGGED SHEEP IN FRAGILE COUNTRIES!

In situations of tension or conflict, it is essential to ensure that the intervention of a DFI does not create more problems than it solves, for example, favoring one community to the detriment of another. Financing is consequently accompanied by extensive preliminary analyses that carefully verify the context of a project. The conflict-sensitive approach is being developed by certain donors, such as AFD and the World Bank, and leads to the exclusion of initiatives that create inequality between communities.

In this specific context, should support be given to entrepreneurs who move faster than administrative authorizations, or to those who obtain these authorizations very quickly? Should investments be made in an agricultural processing industry that currently does not comply with European environmental and social standards, or should investments not be made in the sector? Should microfinance institutions working with farmers in conflict zones, without having full control over the final beneficiary, be refinanced? These are all questions that are raised on the ground and remain unanswered.

## CONCLUSION ▼

By drawing on the expertise of public development banks and adopting their approach to creating markets, DFIs seek to provide their added value of familiarity with entrepreneurs, in order to foster job creation. This approach

requires mobilizing players that have not up to this point had many dealings with each other: governments, private economic players, entrepreneurs, public development banks and DFIs. ■



# Cofides' new impact measurement model

🗨️ José Luis Curbelo, Chairman and CEO, Cofides

*Impact investing is gaining momentum worldwide, while generalized fiscal scarcity demands accountability from state-owned financial institutions. Within this context, it is essential to set up efficient ways to measure the impact of the private sector in development finance. Cofides' new impact measurement model (MIP) has been designed to facilitate the future accountability of our institutional mandates, as well as to bring transparency, credibility, and discipline to the impact investing market.*

## AN ARTICLE BY

🗨️ JOSÉ LUIS CURBELO

*Chairman and CEO, Cofides*

Jose Luis Curbelo has been Chairman and CEO of Cofides since July 2018. Prior to this appointment, he held various positions, including Deputy Chairman for development strategies and public policies, Chief economist at the CAF-Development Bank of Latin America, CEO of the Basque Institute of Competitiveness, and Head of the Small Business Development Unit for the Multilateral Investment Fund (MIF) with the Inter-American Development Bank (IDB). His academic background in the field of economics includes a PhD from the University of California-Berkeley, a master's degree from the University of Wisconsin-Madison, and he has completed courses at Harvard University, among others.

**H**ow could we best define the term 'Impact Investing' and why has 'Impact Investing' gained so much relevance over recent years? The answers to these questions probably explain why at Cofides we have recently decided to design and implement our own impact measurement tool.

Impact investments must provide financial returns, positive environmental results, and socially positive effects. In short, they are an intermediate point between philanthropy and traditional commercial investments.

In the current context of budgetary constraints, while developed economies accumulate trillions in public debt, financing for achievement of the Sustainable Development Goals (SDGs) cannot be afforded with public resources alone. The United Nations has calculated the investment deficit to meet the 2030 Agenda at \$2.5 trillion.

Cofides adhered to the "Operating Principles for Impact Management" initiative, led by the International Finance Corporation (IFC), in May 2019, becoming one of 60 initial investors to adopt a market standard that seeks to generate positive impacts for society, alongside financial returns, in a disciplined and transparent way.

## THE IMPACT FORUM INITIATIVE

At a domestic level, for more than a year now the 'Impact Forum' (Foro Impacto) initiative has been under development in Spain. This initiative from the private sector, openly supported by Cofides, fosters collaboration between economic actors from the public and private sectors, along with civil society. A salient objective of the initiative is the development and consolidation of an impact investing ecosystem in Spain.

With such ambitious policy goals at international and domestic levels, it seems obvious that

there is a clear need for effective tools that will contribute to aiding accountability for public resources and for financiers. For national DFIs, this is especially challenging since evaluating the role and contribution of the private sector to the SDGs needs to rely on effective and comparable methodologies. Therefore, DFIs need to make advances on a consensual definition of such comparable methodologies and standards.

As part of this overall strategy, during 2020, Cofides adopted a completely new impact model, adapted



to its own needs and policy objectives. The PIM (Project Impact Measurement) tool is aimed at aligning investment performance and outcomes with Cofides' corporate strategic objectives.

Cofides' corporate values, reflected in the 2019-2021 Strategic Plan, include sustainability, impact, and commitment to the Sustainable Development Goals as its main drivers. By the same token, Cofides is committed to the social, environmental, and economic sustainability of all its investments. Within the Spanish context, we like to talk about "the Cofides standard".

**“ Impact investments must provide financial returns, positive environmental results, and socially positive effects. In short, they are an intermediate point between philanthropy and traditional commercial investments. ”**

## IMPACT MEASUREMENT TOOL

The need to design an impact measurement tool arose from the following two main causes: the absence of a reference framework to measure, in a unified and comparable manner, the impact on the SDGs of the different investments structured by Cofides, independently of the funding source;<sup>1</sup> and a wish to combine the various measurement tools previously used by the company which, although having similar foundations, did not allow for a comparison, nor for aggregation at the level of the overall portfolio.

PIM is a further step in the implementation of the IFC's Operating Principles for Impact Management, namely principle numbers 4, 5 and 6, which involve: analyzing the expected impact of each investment using a systematic approach; identifying, addressing, monitoring, and managing potential negative investment impacts; and monitoring the progress of each investment with regard to the impact achieved against the expected one.

The PIM tool will also be able to unify impact measurement for all the activities carried out by Cofides under its dual policy mandate (the internationalization of Spanish business abroad as well as further development in developing economies and emerging markets).

PIM will introduce ex-ante baselines and expected results. The methodology is based on a set of key performance indicators (KPIs) grouped into five blocks of impact targets (employment, environment, domestic income, market development, and gender and social inclusion). These indicators are aligned with good practices and specific sectorial methodologies and initiatives – such as HIPSO, IRIS+, 2X Challenge and others – adopted by most EDFI members, including Cofides.

As Chairman of Cofides, it is a pleasure to announce that this new tool is already a reality, aimed at bringing greater transparency, credibility, and discipline to the impact investing market. ■

## FOCUS COFIDES

As a development finance institution, Cofides endeavours to promote the internationalization of the economy and of Spanish companies and contribute to the sustainable development of developing and emerging countries. Cofides provides financing for viable private investment projects in emerging markets and developing economies. Cofides is an accredited entity for the indirect management of the European Union budget and is also accredited to the Green Climate Fund (GCF). It is a founding member of EDFI, the association of European Development Financial Institutions.

<sup>1</sup> Cofides invests, structures and manages operations, funded not only from its own balance, but also against the balances of third parties (the most important are FIEEX, FONPYME and FONPRODE, funds from the Spanish Development Cooperation Agency, AECID)



# Mobilising private sector capital to achieve the SDGs

 Søren Peter Andreasen, CEO, EDFI

*Mobilising private investors is essential to achieving the SDGs. How do development finance institutions (DFIs) catalyse private capital for development, and how can they increase their mobilisation? By sharing risk, being first-movers, vetting projects and sharing knowledge, European DFIs already play a crucial role in leveraging their capital to attract private investment, and greater innovation could allow them to do even more.*

**AN ARTICLE BY**  
 **SØREN PETER ANDREASEN**  
CEO, EDFI

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 (UN) Secretariat in New York, before joining McKinsey & Company in Copenhagen; subsequently, he co-founded the consulting firm Dalberg Global Development Advisors.

**T**o achieve the Sustainable Development Goals (SDGs), trillions of dollars of investment are needed. Even as the supply of funding from development finance institutions (DFIs) and multilateral development banks (MDBs) increases, it is clear that the investments of such institutions will not meet the development financing needs of low- and middle-income countries. This fact is recognised in SDG 17 (“Partnerships for the Goals”) whose targets highlight that it is necessary

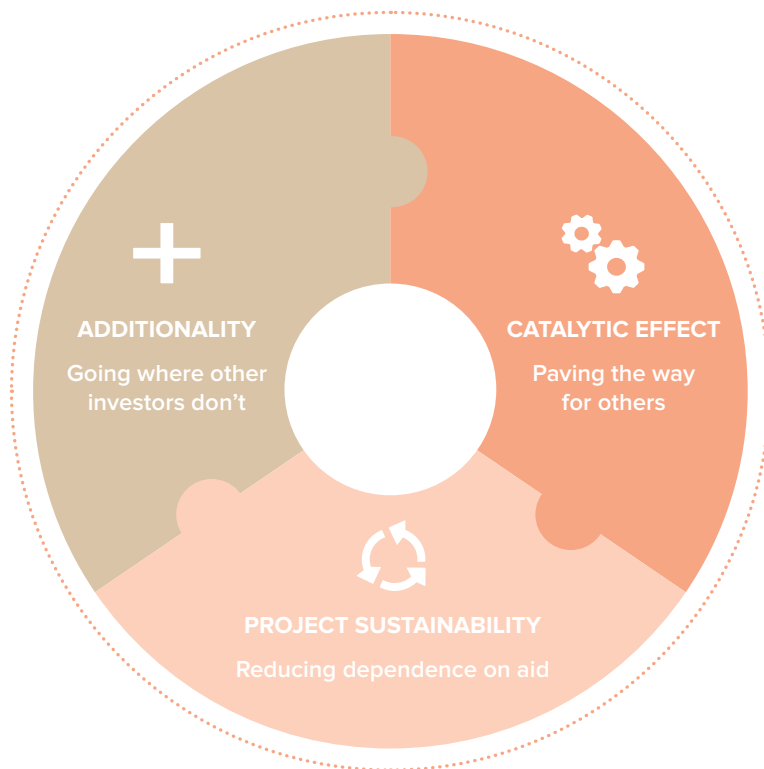
to “mobilise additional financial resources for developing countries from multiple sources” beyond governments and other traditional development finance actors.

The private sector is an underutilised source of capital for development, and one with the power to be transformative. The mobilisation of private sector capital stands to be among the DFIs’ greatest contributions to the SDGs, and is at the core of what makes the DFI offering unique.

**“ The private sector is an underutilised source of capital for development, and one with the power to be transformative. ”**



**Figure 1: The three core elements of DFI investment. ▼**



Source: EDFI

## CATALYSING PRIVATE SECTOR INVESTMENT

Private sector investors wishing to seek out opportunities in emerging and frontier markets face a range of challenges. Some challenges exist above or outside of the investment arena, at the level of policy or the macroeconomy, but often the most important obstacle is the absence of good examples: successful projects, investments with acceptable risk profiles, and opportunities for co-investment.

This is where development finance can play the role of catalyst. As described in the recent *Mobilisation of Private Finance* joint report of DFIs and MDBs, development-focused investment can catalyse the flow of private capital by:

- helping evaluate and structure high-quality investment projects;
- helping mitigate the real and perceived risk associated with investments that will have a positive development impact;
- mobilising resources from, and co-investing alongside both traditional investors and new sources of commercial financing for development; and
- developing new financial products to help unlock additional flows.

European DFIs share a vision of aligning private investment flows with the SDGs and the Paris Climate Agreement, and they already have a strong track record in this area. To give a sense of the proportions of this, the 15 bilateral DFIs in the Association of bilateral European Development Finance Institutions (EDFI) reported a total of €8 billion in new commitments of their own, along with €10 billion of total private co-finance mobilised for these new investments in 2018. In addition, there was more than €12 billion in domestic resource mobilisation that year, in the form



## FOCUS EDFI

EDFI promotes the work of 15 bilateral European development finance institutions that invest in the private sector in emerging and frontier markets to create jobs, boost growth, and fight poverty and climate change. Since EDFI was set up in 1992, its members have invested in approx. 15,000 projects. They now manage a combined investment portfolio of EUR 46 billion across financial services, clean energy, industry and many other sectors in more than 100 countries. An important part of EDFI's work is to promote financial cooperation between its members and with the EU institutions, and for this purpose EDFI has established the EDFI Management Company and several joint financing facilities.

of taxes and fees that EDFI-backed businesses paid to their respective governments in low- and middle-income countries. These amounts illustrate the important leveraging effects of DFIs' investment activities. Expectations are high that the EDFIs will do even more and develop new strategies to increase private co-finance and domestic resource mobilisation.

An important component of mobilisation is ensuring that for DFIs, one priority (i.e. mobilisation) does not interfere with another priority (i.e. additionality). This can happen when, for example, steep concessionality in pricing is used to achieve development effects, but with

the collateral effect that private investors are crowded out of the market, to the detriment of longer-term outcomes. For this reason, European DFIs have been at the forefront of ensuring that safeguards are observed, including adopting the "Enhanced DFI Principles for Blended Concessional Finance". EDFI also works closely with private sector institutions, such as through the Climate Finance Leadership Initiative, to understand their needs and priorities when reviewing opportunities in developing markets. This is done to make impact investing more credible and accessible, and to promote market development that will attract greater amounts of capital in all forms.

## INNOVATIVE FINANCING FACILITIES SHOWING THE WAY FORWARD

Another key component of EDFI's efforts to mobilise capital – in this case through a focus on risk mitigation, market development, and the streamlining of coordination among institutions – is the innovative financing facilities that allow DFIs to invest more, go further into high risk markets, and mobilise more private capital. These facilities combine blended finance with classic DFI approaches to offer a range of products that enable DFIs to mobilise capital for projects at different stages of maturity and at different levels of risk. Important examples of joint financing facilities set up by European DFIs in recent years include:

- **Co-financing facilities such as EFP and ICCF** are designed for investments that require large amounts of capital and can be financed on market-based terms. These facilities promote financial cooperation amongst bilateral European DFIs, Agence Française de Développement (AFD) and the European Investment Bank (EIB), with the effect that DFIs can invest more and diversify risk according to a swift and highly efficient co-investment process where institutions rely on each other's work.
- **Market development facilities** focus on sectors that will become critical vectors for supporting the Sustainable Development Goals in

the future but are not yet mature enough to attract commercial investment at scale today. These sectors, such as renewable energy and smallholder finance, present extraordinary social, economic, and environmental benefits but currently lack access to sufficient capital. Facilities such as EDFI ElectriFI and EDFI AgriFI provide early-stage private enterprises in developing countries with equity and long-term debt financing, creating future investment opportunities for DFIs and the private sector alike. These facilities have already improved the lives of millions of people by providing access to clean energy, finance, and agricultural inputs.

- **Risk-sharing facilities** are designed for investments that are perceived as being too risky for commercial investment. Risk-sharing programs are targeted financial instruments, often in the form of guarantees, that improve the risk profile of prospective investments to draw in new sources of capital. This type of facility is expected to expand significantly in the coming years – not least with the backing of the European Union's Fund for Sustainable Development (EFSD) – in areas such as climate finance, and SME and local currency finance.



EDFI set up the EDFI Management Company in 2016 as a shared platform for launching these types of joint financing facilities involving European DFIs, European Union institutions, and donor agencies in areas of common interest. Today, EDFI MC is involved in managing an expanding portfolio of joint financing facilities, totalling approximately €1 billion, and has an exciting pipeline of new initiatives that will support the current activities and future investments of DFIs, and in particular their mobilisation priorities.

**“ European DFIs share a vision of aligning private investment flows with the SDGs and the Paris Climate Agreement, and they already have a strong track record in this area. ”**

## WORKING TOGETHER TO MOBILISE EFFECTIVELY

European DFIs share a key strategic priority to increase mobilisation, including by deepening cooperation and developing new scalable partnership structures. In a recent survey, EDFI members expressed a clear need for additional risk-sharing facilities that would allow them to increase investments in sectors such as climate, renewable energy and energy access; financial services and inclusion; agriculture, forestry and biodiversity; and health, water, and sanitation. These sectors also offer large and compelling investment opportunities for private sector capi-

tal. This is particularly the case in the context of the Covid-19 crisis. Increasing investment will require continued commitment from DFIs as well as donors, but the potential rewards in terms of mobilisation and development effectiveness are great: private sector capital represents the best possibility of marshalling the funds necessary to achieve the SDGs, and the best lever that DFIs have to multiply their own impact. ■



## *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.

[blog.private-sector-and-development.com](http://blog.private-sector-and-development.com)

Special issue realized in  
collaboration with EDFI

**EDFI** European  
Development  
Finance  
Institutions

**PROPARCO**  
GROUPE AGENCE FRANÇAISE DE DÉVELOPPEMENT