Catalyzing Private Sector Investment in Low Income Countries and Fragile Situations

a proposal for blended finance
Private Sector Development: The ADF Experience

...what is missing is a mechanism that changes the financing terms for the borrower and allows direct ADF investment in the private sector.

Ad-hoc packages through sovereigns or other partners’ concessional funds (e.g. BOOST; climate funds)

ADF 13: Private Sector Credit Enhancement Facility

ADF 12: PRGs & PCGs

ADF support to business climate reform
Other partners’ experiences

Grant vs Market linked

EC Africa Investment Facility

Multi-Lateral Investment Fund (MIF) at the IADB

World Bank

Private Sector Window

Bilateral Development Banks

IFC uses range of bilateral-funded trust funds

Open to other DFIs vs. closed
Why blended finance in ADF countries?

Developing countries face $2.5 trillion annual investment gap to meet SDGs

Addis Ababa Agenda for Action: “From billions to trillions”

But....
Why blended finance for fragile situations?

Agricultural productivity, vulnerability to climate change

Their economies are more vulnerable to shocks...
Why blended finance for **fragile situations**?

Tax to GDP ratio, situation of fragility (2016)

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...can count on less public resources...
Why blended finance for fragile situations?

.....receive less external investment..

.....have less domestic finance available.....

...and have lower access to existing blended finance mechanisms.
## Why an ADF window for blending?

### For the client

- **Fills a gap** in supply of products that directly improve private sector borrowing terms
- **Crowds in** additional investment
- **Alleviates the fiscal burden** of state participation to projects

### For the ADF

- **Generates efficiency gains** streamlining design and reducing time lags compared to using external facilities
- **Underpins leadership** of the ADF in designing blended solutions fit for Africa’s problems.
- **Strengthens synergies** between blending solutions, policy dialogue and business climate reform programs
An ADF Window for Blended Finance

- ADF
  - Blended Finance Window
- ADB Non-Sovereign
- Other investors
- ADF countries
  - Transformational Projects

Blended Finance
Where is the largest need/impact?

To increase private sector investment in low income ADF countries and especially situations of fragility

- Financing SMEs
- Agriculture and Agribusiness
- Climate Change

**Products**
- Senior Loans, subordinated loans, guarantees, local currency solutions

**Women and youth business and employment**
Blended Finance: Criteria for Eligibility

Minimum concessionality

- “subsidy” kept at minimum necessary to make the transaction feasible;

Additionality of the blended finance component

- development objectives could not be achieved without the ADF component; and

Long term commercial viability

- business model is commercially viable after a first phase with concessional support.
Timeline

- **2015**: London meeting on opportunities for blended finance
- **2016**: 2nd repl. meeting Stock-take of ADF work in PSD
- **2017**: 3rd repl. meeting Deputies’ agreement on concept and timeline
- **2018**: ADF MTR: report of WG
  - ADF 15 replenishment proposal to Deputies for allocation decision
Conclusion

- ADF has been at the forefront of innovation in deploying concessional finance for PSD;

- Achieving the SDG in Africa requires a further scale up for PSD especially in the most difficult markets and segments;

- A mechanism for Blended Finance – improving lending terms for borrowers – is what is missing from the ADF private sector toolkit;

- Deputies are invited to endorse the concept of the ADF lending directly to private sector and the timeline to finalize the mechanisms.
Thank You
Additionality

**Note:** simulation is purely illustrative for the next three years when projections are available.