

# Catalyzing Private Sector Investment in Low Income Countries and Fragile Situations

a proposal for blended  
finance

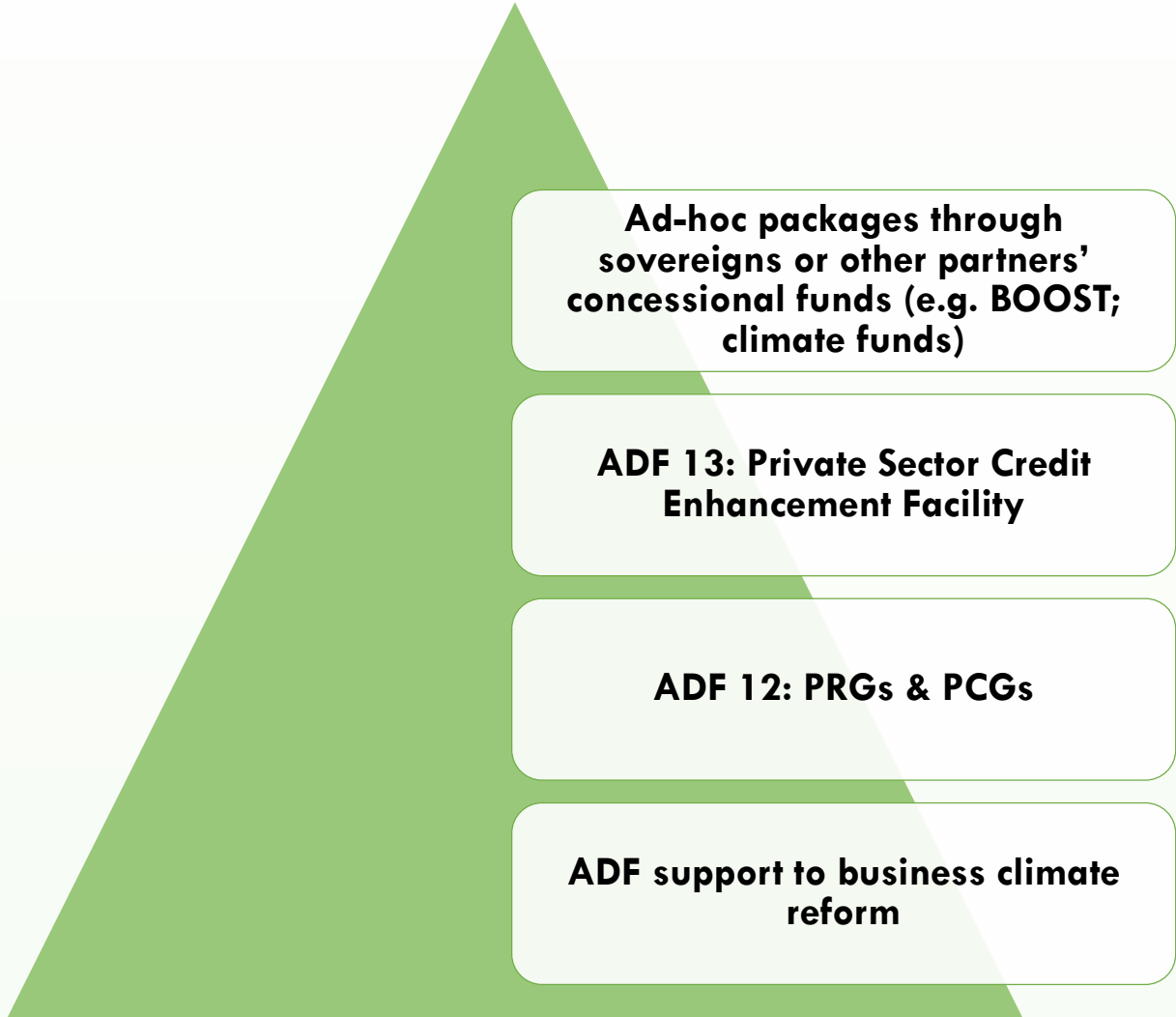


**FAD  
ADF**  
Luxembourg 2016 **14**



FONDS AFRICAIN  
DE DÉVELOPPEMENT  
AFRICAN  
DEVELOPMENT FUND

# Private Sector Development: **The ADF Experience**



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

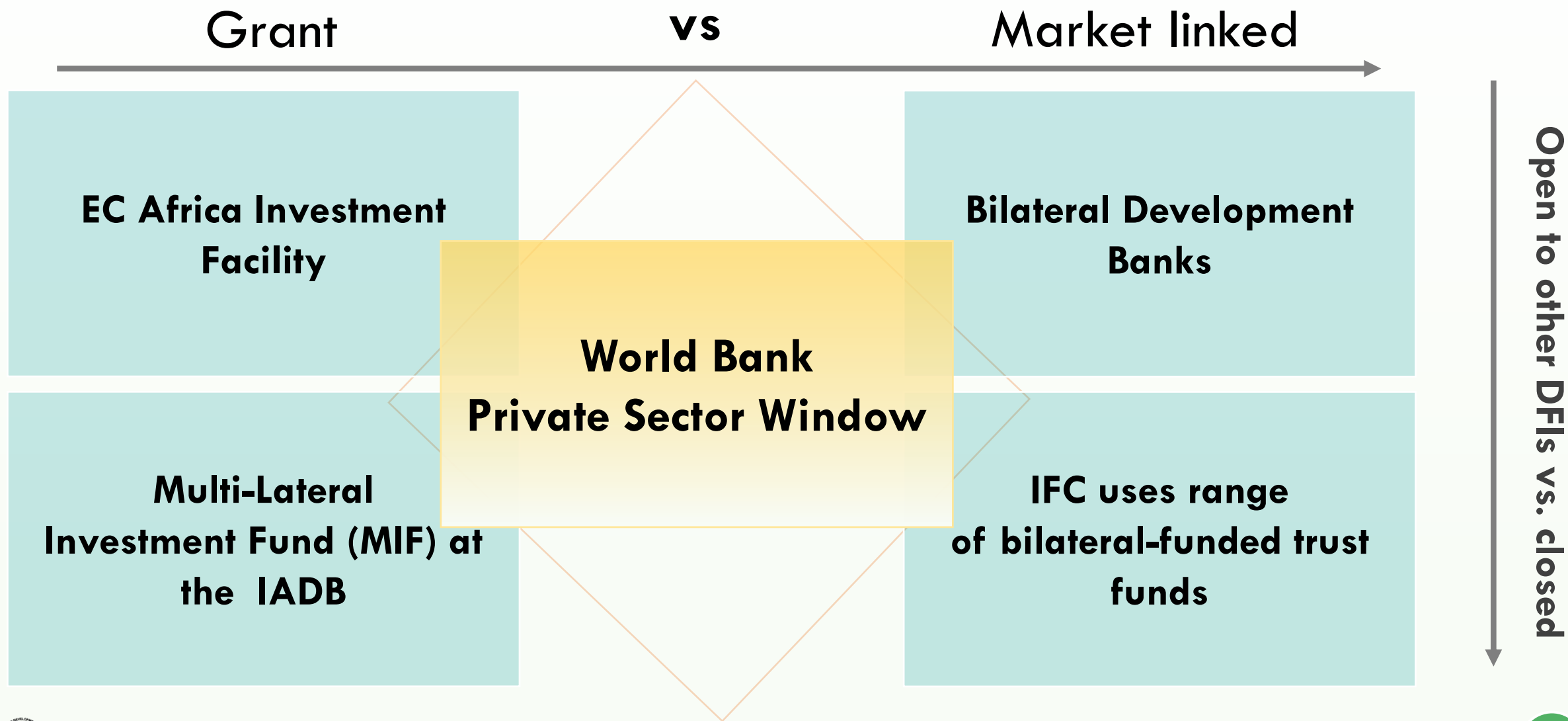
**ADF 13: Private Sector Credit  
Enhancement Facility**

**ADF 12: PRGs & PCGs**

**ADF support to business climate  
reform**

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

# Other partners' experiences



# Why blended finance in ADF countries?

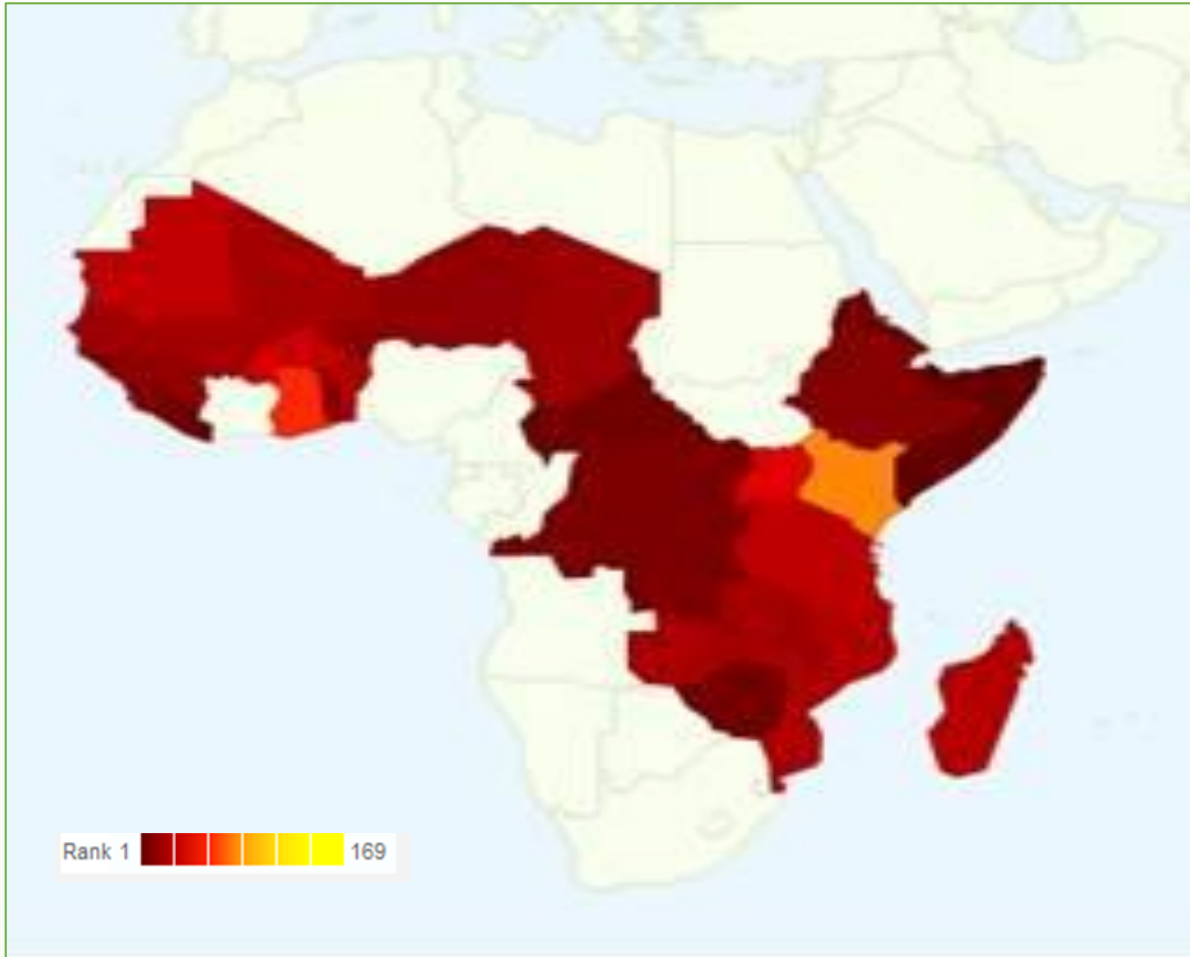
Developing countries face \$2.5 trillion annual investment gap to meet SDGs

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

But....

# Why blended finance for **fragile situations**?

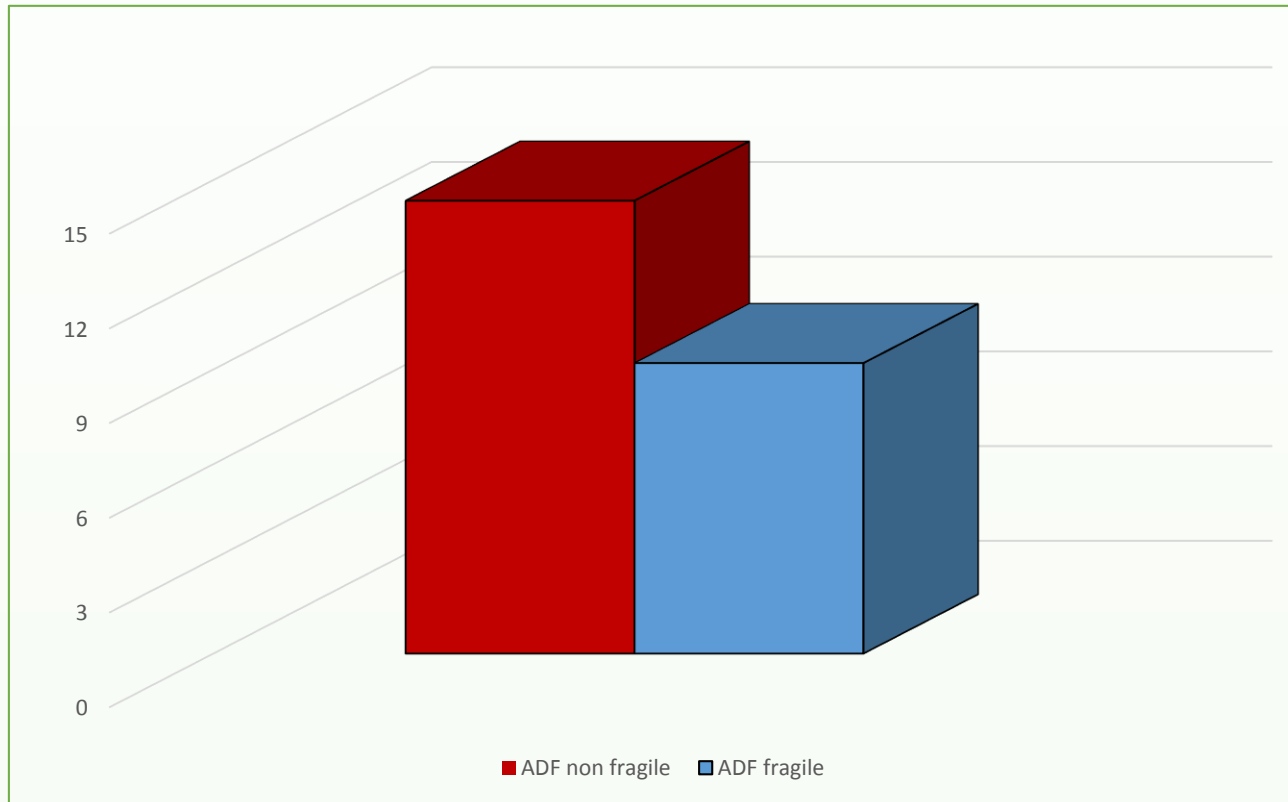
Agricultural productivity, vulnerability to climate change



**Their  
economies  
are more  
vulnerable to  
shocks...**

# Why blended finance for **fragile** situations?

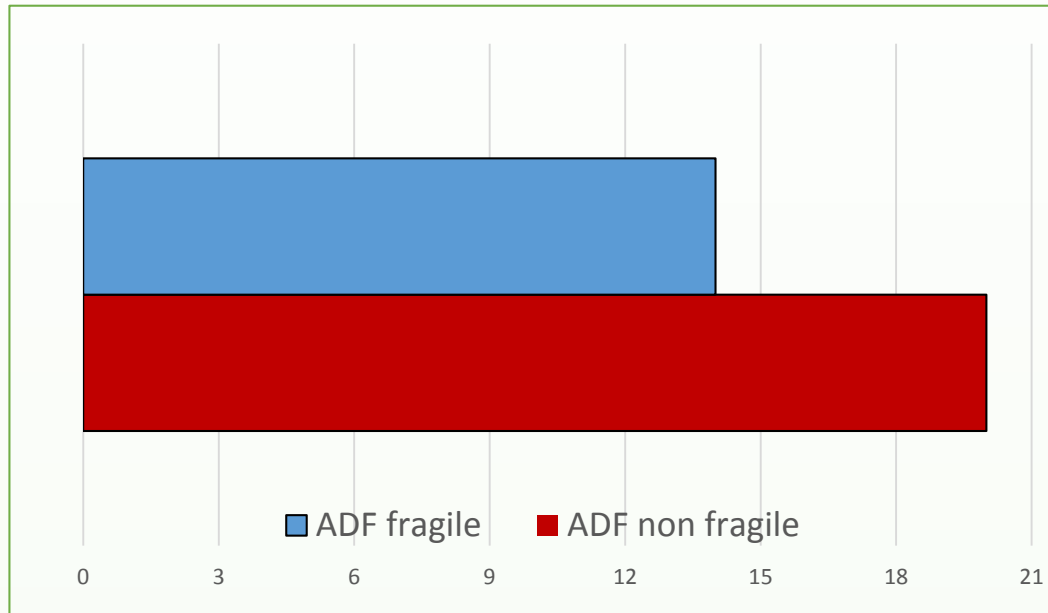
Tax to GDP ratio, situation of fragility (2016)



.....can count  
on less public  
resources...

# Why blended finance for **fragile situations**?

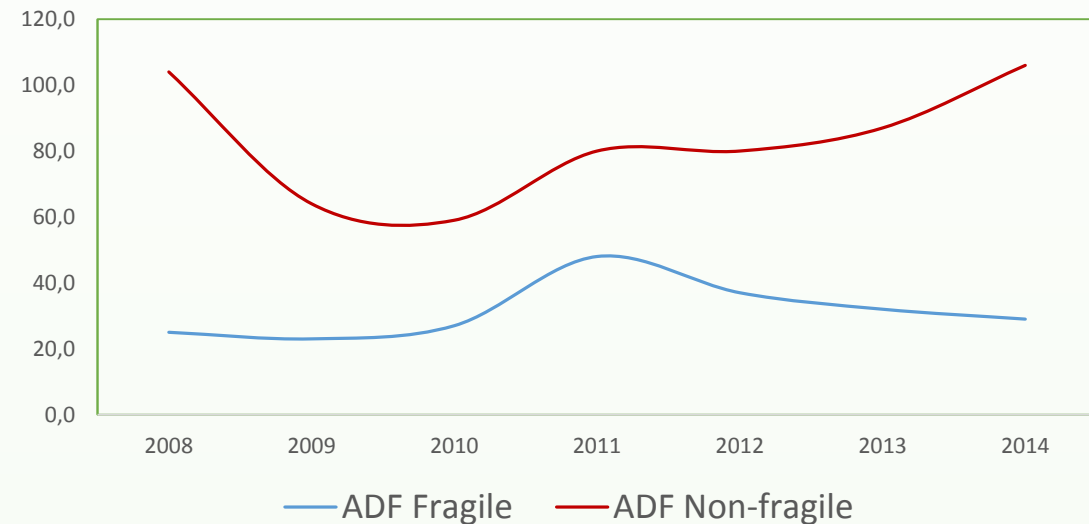
Domestic credit as % of GDP



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

.....receive less external investment..

FDI per capita, situation of fragility



...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

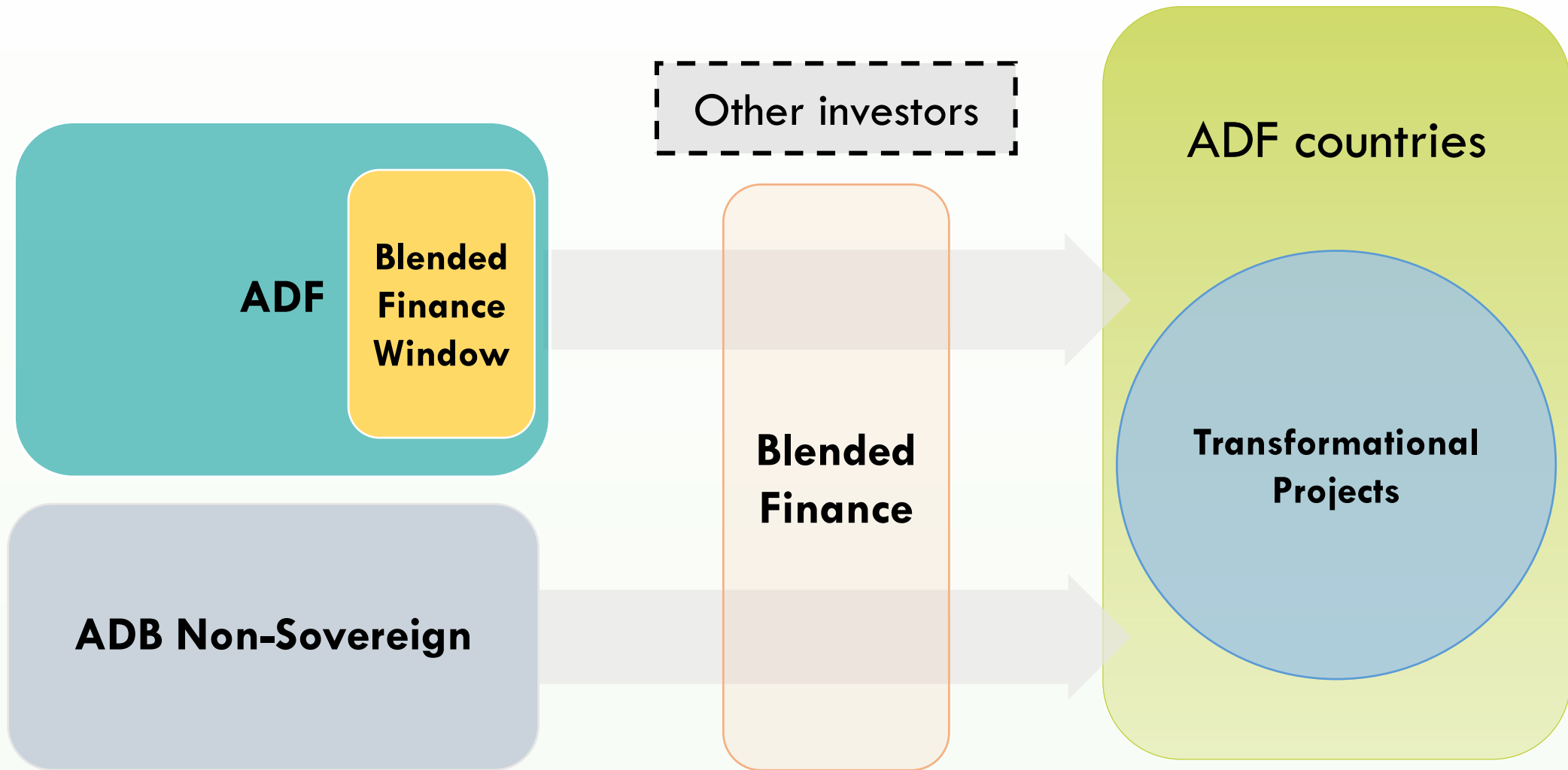
**Generates efficiency gains** streamlining design and reducing time lags compared to using external facilities

**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



# 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;

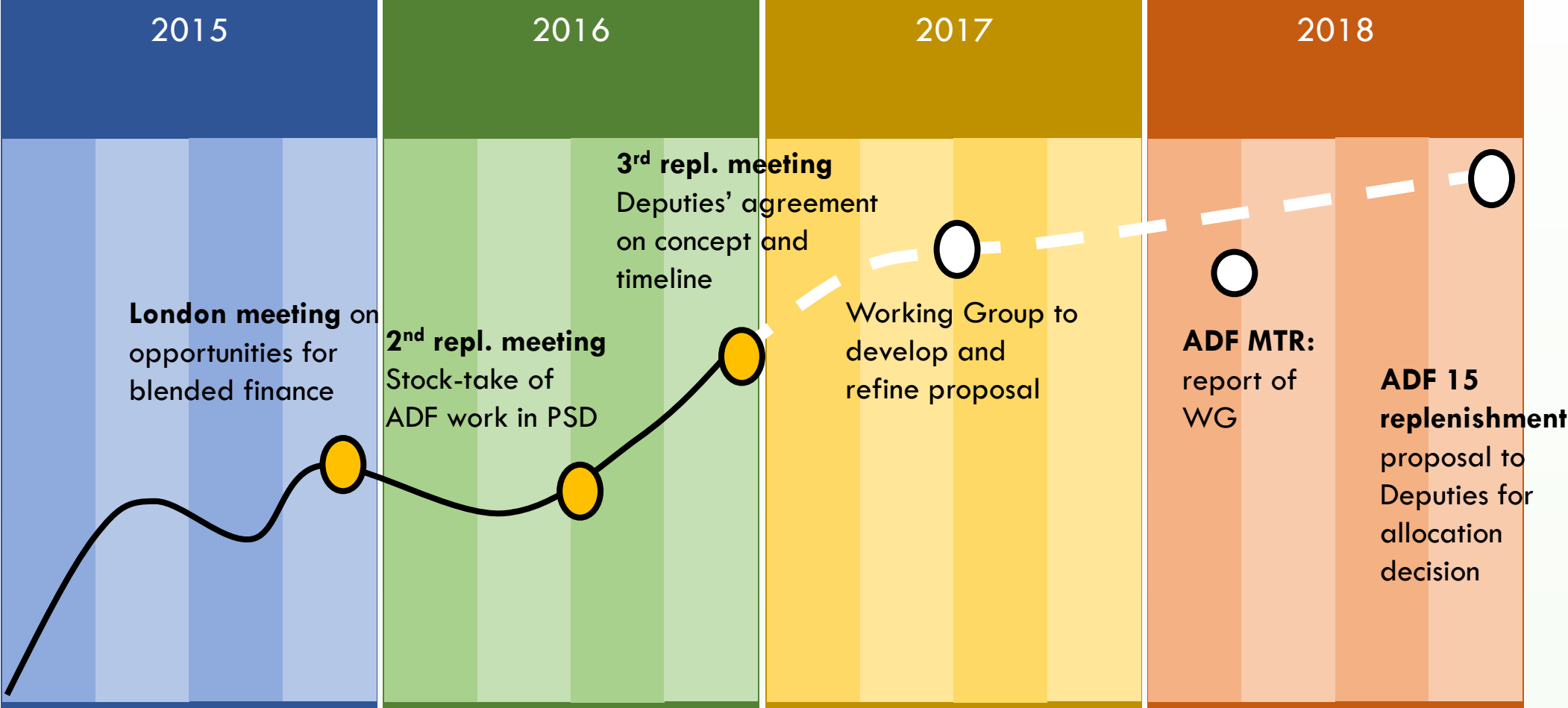
## **Additionality of the blended finance component**

- 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



# 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.**



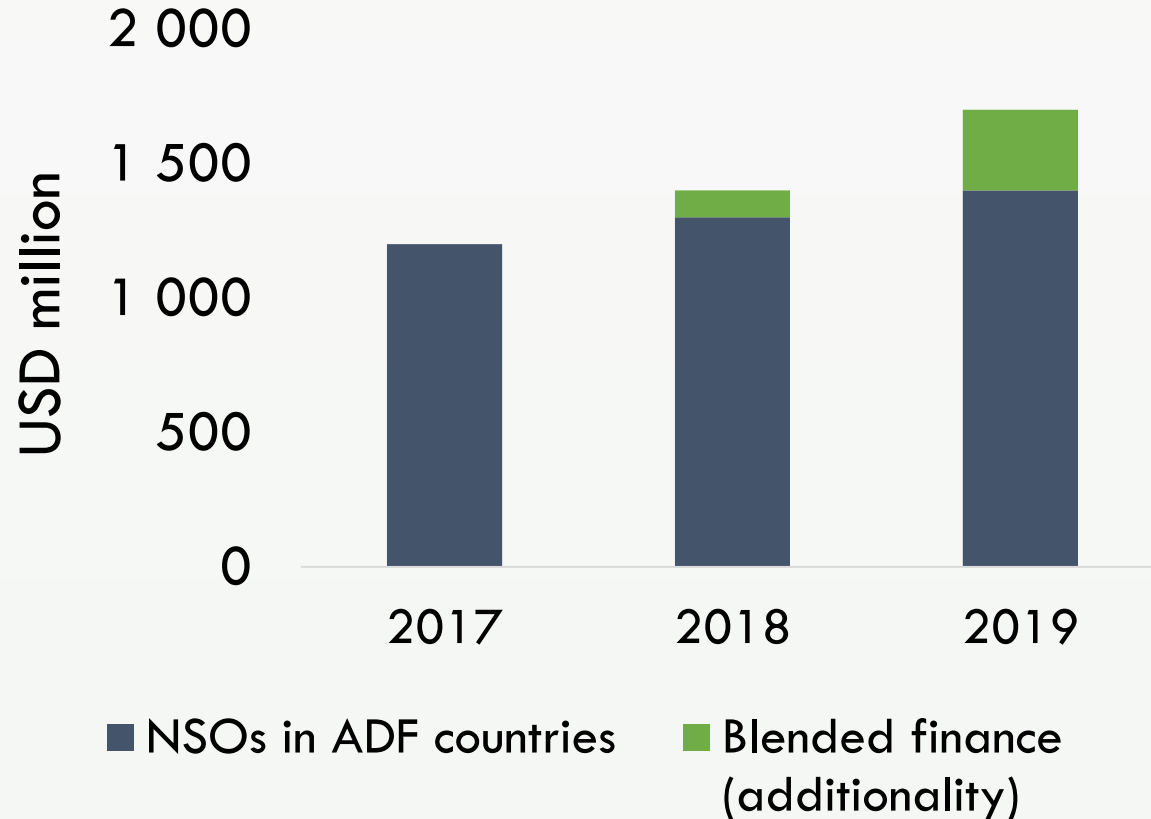


Thank You

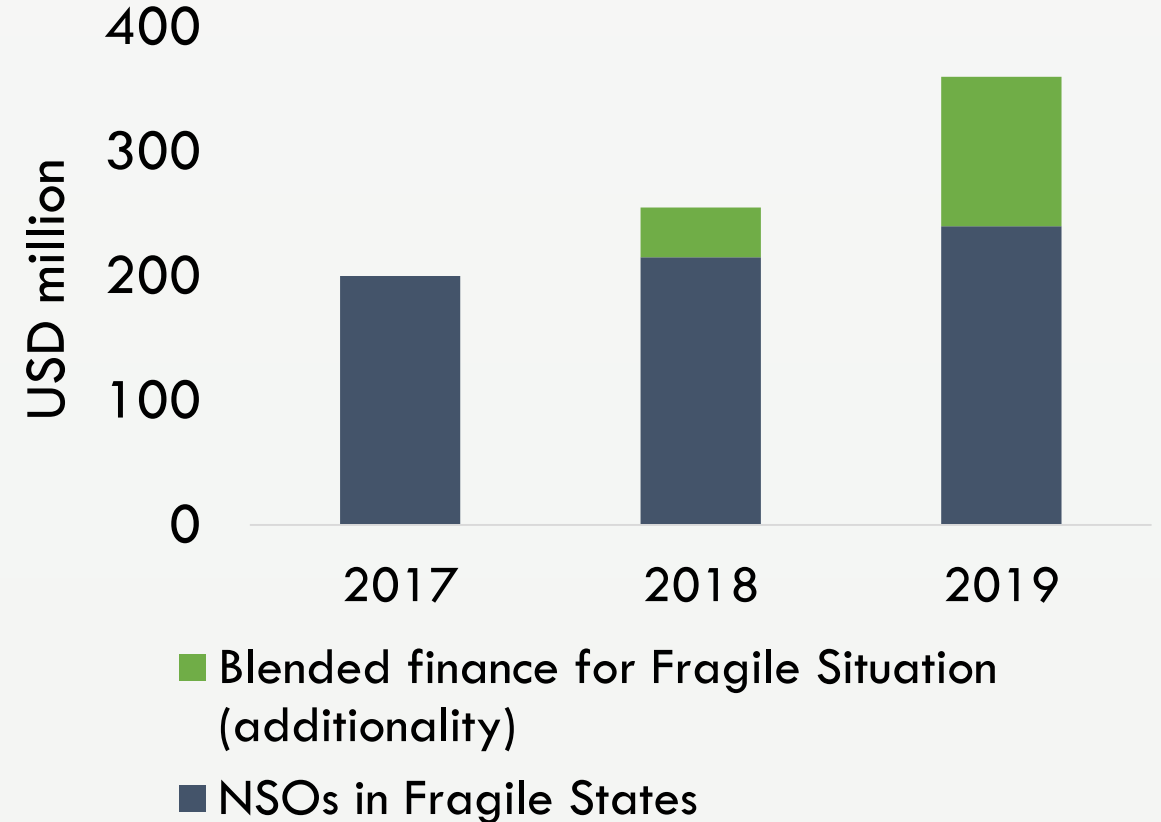


# Additionality

## ADF Countries



## Fragile Situations



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