October, 2020

The power of blended finance to build back stronger.

Report on Virtual Webinar Series#2.

Introduction

According to a recent report produced by The Sustainable Development Goals Center for Africa, remittances, Official Development Assistance (ODA), and portfolio flows to Africa have "taken a nosedive and are likely to remain subdued through 2021." The same report points out that the "financing gap for SDGs is expected to widen, increasing fiscal vulnerability on African governments".[1] Brookings Institute's *Africa In Focus* report, estimates the continent needs between $500 billion and $1.2 trillion annually to meet the SDGs by 2030 yet one in three Sub-Saharan countries can not raise enough revenues to meet basic state functions.

To meet the SDGs, Africa needs to urgently and strategically crowd-in private sector funds from the capital markets valued at about $250 trillion. Attracting private sector capital will require key development players to leverage innovative blended finance transactions that can help derisk social investments.

The organizers of this virtual seminar series, believe that Blended Finance can disrupt traditional development finance as we know it, by leveraging and deploying grant funds as catalytic risk capital in order to attract and crowd-in private sector capital for development initiatives. The broader theme in having this virtual seminar series is about igniting thought leadership, collaboration and action around the adoption of innovative financing models that will help Kenya, and by extension East Africa, Build Back Stronger post COVID, while also achieving the UN Sustainable Development Goals (SDGs).

To help promote the concept of Blended Finance, relevant and timely knowledge about innovative financing is critical. This virtual seminar series (part two) is only one way of building and capturing such knowledge.

Key Highlights from Guest Panelists:

- **Peter Mathenge Principal, Public Sector – Standard Chartered Bank**

Fundamentally the world and the banking industry is changing and the subject of meeting the SDGs is central to the leadership at Standard Chartered Bank (SCB). That's why the

[1] https://sdgcafrica.org/wp-content/uploads/2020/10/2020_africa_index_and_dashboards.pdf

bank decided to developed a framework, Opportunity 2030 SDG Investment Map report - that quantifies the actual infrastructure spend required to meet these goals. The report looks at three of the SDGs that are the easiest to translate into actual investment opportunities: (1) SDG6: Clean Water and Sanitation (2) SDG7: Affordable and clean energy (3) SDG 9: Industry, Innovation and Infrastructure. Looking at a list of 15 countries in Africa and Asia, the Bank identified that the investment needed stands at $10 trillion dollars which translates into huge viable opportunities.

Many banks across the globe have really evolved and are now targeting sustainable investments. Blended finance is critical to achieving such investments. In 2018 Standard Chartered Bank was engaged in implementing a Blue Bond transaction in collaboration with the World Bank for the Republic of the Seychelles. It was a $15million instrument. The partners were able to attract investors to raise funds to expand and protect marine areas in the Seychelles. Such projects are long term in nature, which is very challenging for banks unless other partners can subsidize the debt and help lower the capital cost.

The real problem in the agricultural space is the erosion of the traditional, trusted institutions, like cooperatives and marketing boards, that were initially established to support small-scale agriculture producers. Large-scale agriculture producers have no problem securing finance in the form of debt. But it's the small-scale farmers that really need us to come up with creative ideas to help them grow their operations in much the same way players in the solar energy space have done.

The confluence we see today, of the Government focusing more on financial returns (ROI) while the private sector is focusing more on social returns, is very encouraging.

Of course it's the Government's role to take part in derisking Public Private Partnership (PPP) projects and providing the legislative and regulatory framework that helps to attact viable private sector players.

There is so much innovation happening across Africa. We have the solutions within us, especially if we are committed to forming strong coallitions. All of the necessary tools are available to us and there is a lot of private capital available and good will to achieve the SDGs. We just need a focused push, open mindedness and optimisim.

- **Irene Gathiaka, Regional Head for E.A. - Total Impact Capital**

We need to create more robust investment vehicles so that investors have a solid place to direct their funds. Despite the interest by private money in financing models geared towards achieving SDGs, there are key requirements that cannot be overlooked: (1) Risk has to be under control (2) there has to be quantifiable returns (3) deal sizes have to be attractive (4) buseinesses have to be acurately valued.

Medical Credit Fund is an example of a great investment vehicle that raised about $80 million from a diverse group of investors including IFC, British CDC and USAID.
Since 2010 the fund has grown exponentially and in the last two years has disbursed KES2 billion, through mobile lending, to small pharmaceutical and medical practitioners. This fund helped launch M-TIBA the first pay-as-you-go health insurance.

We need African solutions for African opportunities that often come in the form of small and medium size businesses. One way to do this is to pool smaller deals together and create a Special Purpose Vehicle (SPV) that is more attractive to investors.

Total Impact Capital is currently working on an asset backed security (ABS) that is pooling invoices from several companies this helps mitigate risk, enhance viability and improve the internal rate of return.

Total Impact Capital is also trying to pool invoices from small farmers as well as information that can demonstrate the expected return. Farmers need training on how to run their farms like true businesses.

To excellerate the adoption and uptake of innovative, sustainable finance practices in Africa, we need to unpack the topic so that decision makers better understand this space. Investor education is critical. For example, pension funds in Kenya primarily invest in Government bonds or tier-one corporate bonds because trustees don't want to invest in structures they don't fully understand.

It's time to move away from the dependency on government and grants and recognize that there is private capital out there, that's looking for opportunities to invest in.

We need to develop attractive investable vehicles.

- **Jan-Willem Scheijgrond, Vice President Global Government & Public Affairs – Royal Philips**

Philips is focused on the primary health care space (SDG #3), which for a long time has been uninvestable. But the sector offers opportunities *if* new business models, flexible financing arrangements and adoption of innovative technology can be developed and embraced. We are creating an ecosystem that allows for the development of primary healthcare projects and attracts private capital.

The complexity of investing in the healhcare space has led Philips to become a funder out of necessity and be the anchor invetor in a fund that aims to raise $100 million. The aim is to build an infrastructure of primary healthcare centers in hard to reach, remote areas.

At least 90 percent of the companies represented under the UN Global Compact in The Netherlands, recognize that they have a role to play in achieving the SDGs but struggle with the 'how'. Many have strated the process by redefining the purpose of their organizations, especially now in the midst of COVID-19: an era that has highlighted the inter-dependance of everything.

Typically, in Africa, project development around the SDGs is quite complex and the business case if often uncertain. Pooling of investment funds can help bridge the so called 'valley of death' and assist projects to get off the ground.

When you line up one SDG initiative next to another one, there are a lot of commonalities that we can learn from, which means that the excelleration of one SDG can help the excelleration of another SDG.

Investor education is key but so is Government education, especially at the County level where there is very little knowledge about blended finance or how to absorb such funds. The appetite is there, from both the project development side and financing side, but there is need for right-sized devolution and education of all stakeholders.

- **Anne Parker Head of Business Development (Consultant) – '*In Their Hands'*, Children's Investment Fund Foundation (CIFF)**

In Their Hands' is an implementor not a funder. We provide adolesent girls a platform to connect to sexual and reproductive health services that can be rated by the users.
The model has been operating since 2017 in Kenya and now has half a million girls registered on the platform.

The success of this platform (from the perspective of users and providers) and the use of real-time-data to help scale up/down, measure performance and achieve impact has led to the organization securing a Development Impact Bond to fund this model. The outcome funder is the UK Government, that provided *'In Their Hands'* with the first tranche of funds. The Children's Investment Fund Foundation (CIFF) are the founders and investors of this initiative. The goal is to secure more outcome funders in order to reach over 700,000 young girls with sexual/reproductive health services by 2023.

Structuring this kind of blended finance transaction takes a lot of personnel bandwidth because it's time and resource intensive. The initial round of funding took 18 months to launch, which means anyone pursuing this route needs to ensure buyin from their Board of Directors and executive team.

In Their Hands used an intemediary to structure this impact bond.

There is huge potential for local foundations to be part of the response to the private catalytic capital gap, given their aptitude for flexible financing and long-term vision for achieving development.

Blended finance brings a lot of advantages for programmes and development outcomes.

Highlights from Seminar Hosts:

Arif Neki, Senior Advisor – UN Strategic Partnerships Coordinator–SDG Partnership Platform

To bridge the SDG financing gap in Africa we need to; develop new financing tools, bring together various stakeholders and create enabling environments.

The SDGs provide a $12billion market opportunity for businesses. More and more private companies are adopting this language and even producing sustainability reports.

Many of the constraints we are seeing have to do with the mismatch between the supply of capital and the demand, ticket sizes, reliable data, derisking instruments and investor knowledge.

Pension funds need to be harnessed. The new Kenyan laws allow pension funds to invest up to 10% in development initiatives but they are only deploying about one percent.

What we see today is a coalition of networks and platforms that is very encouraging but there is still much work to do.

DR. Frank Aswani, Chief Executive Officer – African Venture Philanthropy Alliance (AVPA)

To meet the SDG financing gap we have to start thinking about tapping into the private sector where the capital markets alone have something in the range of $250 trillion. For that to happen we have to think about how to leverage blended finance and derisk social investments inorder to crowd in private capital.

It's not feasible to depend on the rest of the world to educate the continent on solutions. We need to educate ourselves on the problems we have and develop the solutions that are needed.

Einstein once said "If I had an hour to solve a problem, I'd spend 55 minutes thinking about and understanding the problem and five minutes thinking about solutions".

Across Africa there is only one Pan-African institution that offers a programme on innovative financing. AVPA intends to address this problem by building a network of institutions that have the capacity to roll out education programs/material on innovative impact investing.

Africa does not have the luxury of time, this needs to happen with urgency and at scale so we are looking at funding partners who can help us achieve this objective.

Evans Okinyi, CEO, East Africa Philanthropy Network (EAPN)

When thinking about leveraging development finance and philanthropic resources to mobilize private capital and address the SDGs there are so many things we need to consider, for example:

- How to unpack the SDGs and identify those that offer commercial opportunities
- Rewiring of market structure so that traditional commercial entities, like banks, have more flexibility when it comes to offering innovative products to new sectors
- Strengthen of policy frameworks to encourage participation of the private sector and package investor incentives
- Balancing financial incentives with development objectives
- How do we avoid crowding out private financing and ensure there are no market distortions that may arise

This is some of the work that lies ahead for all of us.

Through webinars like this and other initiatives, EAPN aims to share local market knowledge and experience so that various actors feel more empowered to unlock private capital for development.

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To #**buildbackstronger** we need to scale interventions with urgency. We cannot afford to leave anyone behind.