



Impact Report

2022

TWENTY-TWENTY TWO





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WORD FROM THE CEO



I am pleased to present to you our 2022 Development Impact Report. We published the last one in 2020, and a lot has happened since then, including three global crises— a health and economic crisis caused by the

Covid-19 pandemic, a food and energy crisis caused by the war in Ukraine, with dramatic effects on inflation and exchange rates in the region, and the intensifying climate crisis as evidenced by more frequent natural disasters, including an agonizing multi-year drought in the Horn of Africa. Sub Saharan Africa has been pummelled by these crises. Approximately 30 million people in the region were pushed into extreme poverty in the wake of the pandemic, staple food prices have surged by 23.9% on average, and approximately 130 extreme weather events were recorded between 2020 and 2021 alone. Because of these and other crises, at least 23 countries in the region are now also grappling with debt distress, further worsening their economic outlook.

The need for a robust, resilient and efficient financial sector in Sub-Saharan Africa has never been more apparent. There is an urgent need, and an opportunity, to grow the continent's financial markets to better respond to such shocks in the future, and to finance Africa's development in a more sustainable way. For instance, the continent is endowed with natural capital, which, if sufficiently leveraged, can help to crowd in carbon finance into its development objectives. FSD Africa is at the forefront of working with key stakeholders - on the continent and beyond - to realise this ambition. Our purpose is to make finance work for Africa's future by providing tools and resources to drive large-scale change in financial markets and support sustainable economic development. In doing so, we are guided by our values – our passion for driving change, our belief in collaboration, our commitment to a sustainable future, and our devotion to our people, and to giving them the opportunities they are looking for to become professionally fulfilled.

This Development Impact Report is our first since we revised our strategy early last year. The report presents key insights into our performance under this new green strategy, building on some key achievements from our past. Our ambition remains to transform Africa's financial markets for the better and we provide illustrations of how this is already happening. We have

facilitated transactions that have enabled approximately £1.9 billion to flow into key development sectors, including housing, energy and the MSME sector, creating and sustaining jobs in the process. In Tanzania and Morocco, we have enabled the issuance of pioneering gender bonds to ensure that women are not left behind in development. We have invested in our partnerships, helping to set up institutions, coalitions and infrastructure that the continent needs to realise sustainable growth over the long term. For instance, to realise climate- and nature-positive outcomes, we have actively engaged with like-minded partners to help set up the Africa Green Finance Coalition, the Africa Climate Risk Facility and the African Natural Capital Alliance. We are proud, too, to be represented in the GFANZ Africa Advisory Board. We have also supported the development and launching of new market infrastructure, for instance the Ethiopian Stock Exchange. As we pursue these new frontiers, we have learnt key lessons that can help us achieve even greater impact in the years to come. We share these key insights through this report.

We know that market building and market transformation takes time. As such, our programming approach remains a patient one. We are grateful to the multiple financial market regulators, intermediaries and other stakeholders who continue to open their doors to us - to explore and test new ideas. We're also grateful to FCDO, our funder, for standing with us over the years and for being responsive to the continent's evolving financial sector development needs. And we express our gratitude to our Board for the sound advice and being a reliable sounding board for the many ideas we have. Last but not least, I thank FSD Africa staff for their hard work, and for believing in our mission.

We look forward to hearing your thoughts on the report, and to exploring opportunities that can help make Africa a greener, cleaner and fairer continent.

Mark Napier,
CEO, FSD Africa



1 INTRODUCTION

About FSD Africa


FSD Africa is a specialist development agency working to make finance work for Africa's future. Set up in 2012, we work on policy and regulatory reform, capacity strengthening and improving financial infrastructure, and addressing systemic challenges in financial markets to spark large-scale and long-term change.

Additionally, we provide risk capital by investing in cutting-edge ideas that we believe have the potential for significant impact. We take on projects that are more complex and riskier than those taken on by typical development finance firms, to unlock additional funding for innovative sectors.


Over the past decade, we've seen that investing in financial markets drives economic growth, boosts the income of vulnerable groups and helps to reduce poverty. Through our market-building initiatives, we have directly and indirectly crowded in around £1.9 billion in long-term capital, availing finance for SMEs, affordable housing and sustainable energy projects.

Our work has also enabled development of innovative products, increasing access to financial services for close to 12 million people in Africa. This improved access has been particularly beneficial during the Covid-19 crisis. Between 2020 and 2021, we saw an 87% increase in the use of remittance services to cushion families from the economic effects of the pandemic.


Our programmes have also supported business growth, increasing access to jobs for vulnerable groups such as women. To date, we have created or sustained approximately 67,200 full-time equivalent (FTE) jobs, of which 12% were green jobs and 59% were occupied by women.


increased access to financial services for close to **12 million** people in Africa



87% increase in the use of remittance services



67,200 full-time equivalent (FTE) jobs of which 12% were green jobs and 59% were occupied by women.




£1.9 billion in long-term capital



Transitioning to a Green Strategy, 2021–2025

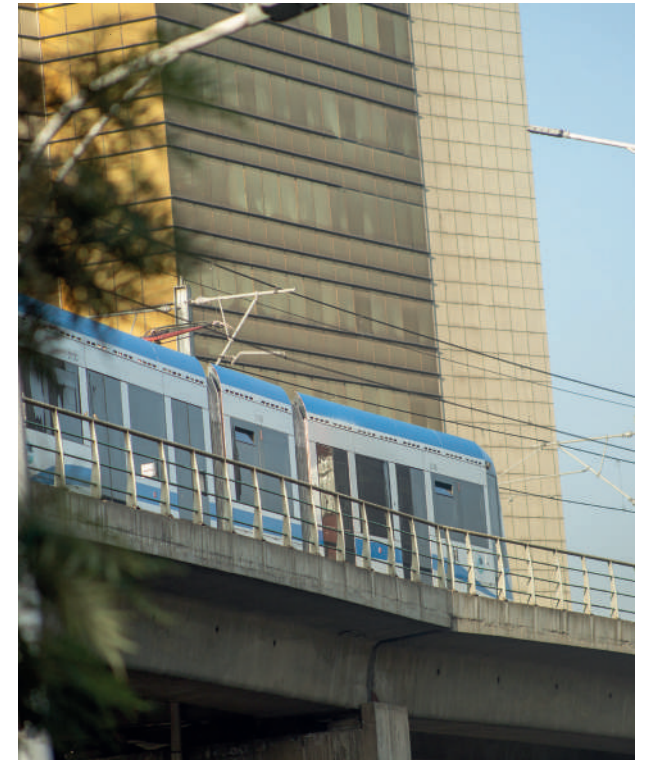
While our foundational work on transforming financial systems continues, the increasing need for green finance¹ and transaction readiness is a big priority for financial sector development. Finance is essential in delivering Africa's sustainable future, but capital remains insufficient and often expensive. This is contributing to low investment rates in Africa.

Over the years, our strategy has evolved to respond to the continent's growing needs, including innovative ways to crowd in capital for sustainable development. Following several successful initiatives, such as developing regulations and supporting green bond issuance programmes in Kenya and Nigeria, we have doubled our work on sustainable finance, helping to build a future for the continent that is greener, cleaner and fairer. To make this a reality, we have gradually increased our commitment to green. To date, we have committed £52 million and expect this to grow to £122 million by 2025.

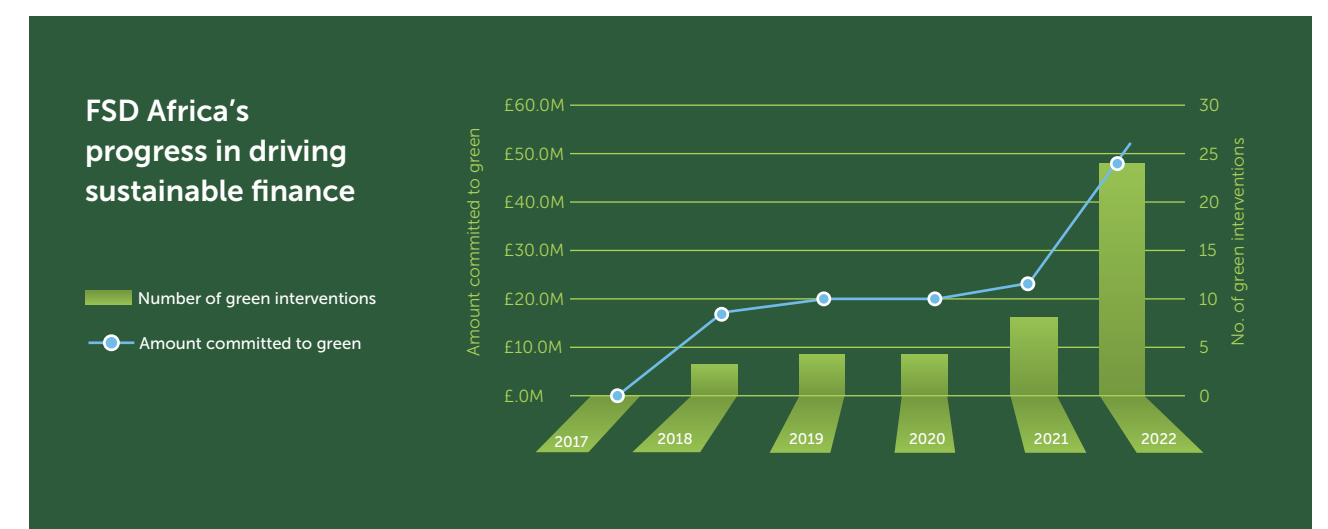
We're also concentrating our programming on initiatives that have the potential to:

- mobilise green investment capital for Africa
- deliver both environmental and social outcomes
- assist government champions in driving transformational, pro-investment policy reforms
- develop novel transactions to finance Africa's transition to a green economy, while safeguarding natural resources.

The graph below shows our transition to investing in sustainable finance programmes.



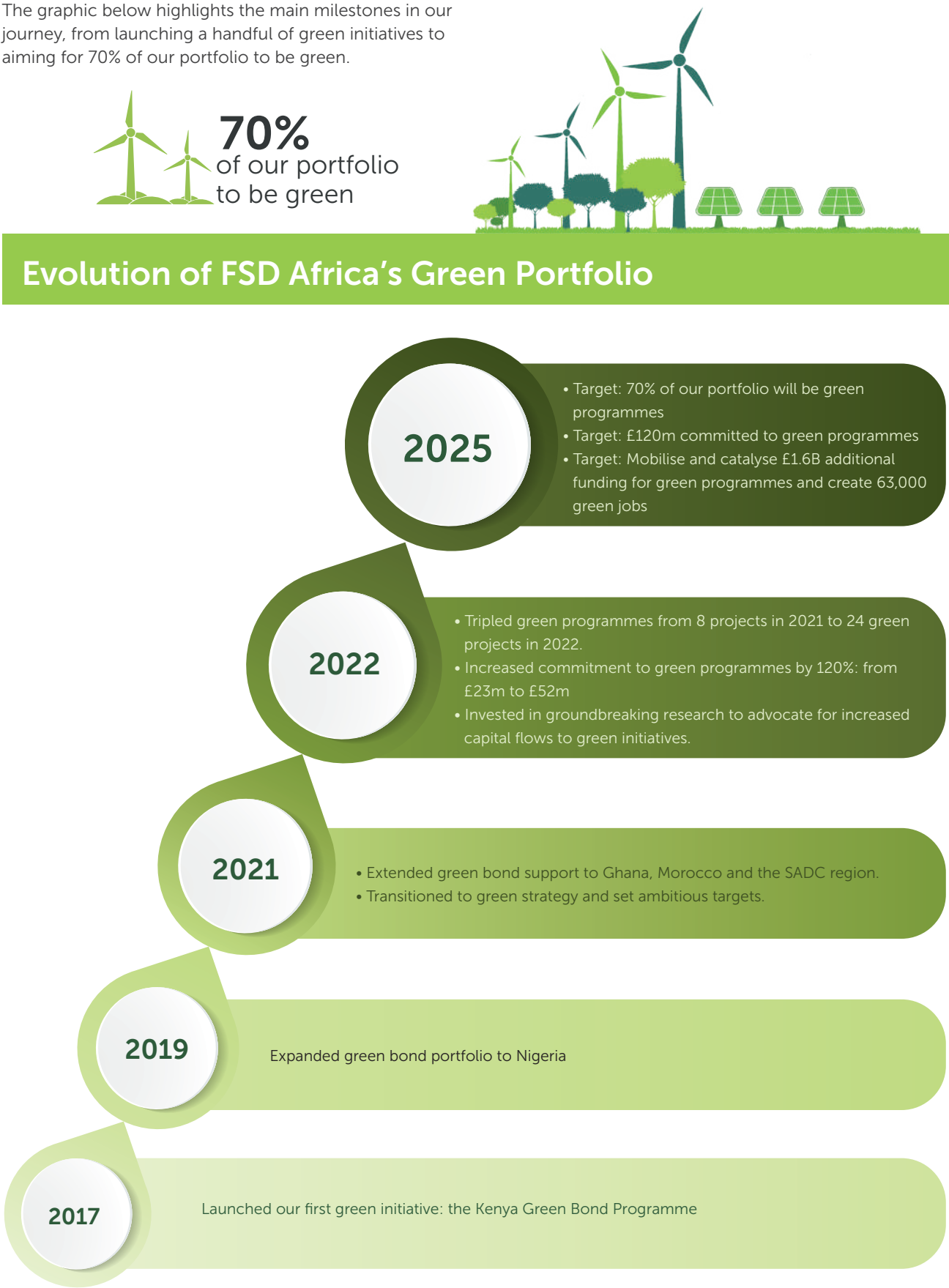

we have committed **£52 million** and expect this to grow to **£122 million** by 2025.



¹ According to the IMF, climate change threatens to impose additional costs on African governments, causing negative impacts on economies and their financial systems. These effects will disproportionately be felt by those in poverty and by women. Despite Africa's environmental vulnerability, it is poorly equipped to manage its climate risks and struggles to mobilise international and national climate finance, especially for adaptation (IMF, 2020; UNECA, 2015).

Milestones in the transition to a green strategy

The graphic below highlights the main milestones in our journey, from launching a handful of green initiatives to aiming for 70% of our portfolio to be green.



Our Theory of Change

Our theory of change (ToC) is titled 'Financing a Sustainable Future'. We believe the financial sector is crucial in tackling real sector challenges such as poverty, climate change and biodiversity loss. Financial service providers in Africa are slowly recognising the need for integrating social and environmental aspects into their business models, but there are challenges:

- **Weak policy and regulatory environment** – especially for green finance, the digital economy and the insurance market, compounding existing challenges in attracting long-term finance.
- **Underdeveloped financial sector** – bank financing to the private sector is too small and ill-tailored to the needs of private firms. Capital markets remain underdeveloped due to the small size of domestic economies, as well as issues with business environments, quality of institutions and financial infrastructures. The insurance industry doesn't adequately serve the needs of vulnerable people, who make up most of Africa's population.
- **Lack of technical and operational competence** – in the public, commercial and civil society sectors on crucial issues, including green finance and risk management. This has hampered innovation in financial products and services.

Considering the above, we're collaborating with partners and using a variety of techniques (figure below) to address financial sector issues. We investigate many pathways towards achieving sustainable outcomes that benefit the environment and economy more broadly.

- We are collaborating with decision-makers to create policies that support green capital flows, equitable economic digitalisation, and the expansion of the insurance sector. This will improve underserved groups' access to financing and help them become more resilient, while preserving the environment.

- As we invest in novel financial products, services, transactions and intermediaries, we expect more capital to be directed towards the real economy in climate and nature-positive ways. Our support for the growth of carbon finance, a relatively new market instrument, is one example.
- We are engaging in market-building initiatives to address financial market failures while increasing channels to crowd in capital from domestic actors. Our support aims to create new conduits and intermediaries (e.g. fund managers and firms) willing to channel new risk transfer and investment capital into sustainable opportunities.
- As we employ capital to reduce the risk associated with creative investments, we anticipate that successful transactions and intermediary models will act as a demonstration, encouraging additional participants to enter the market and adopt comparable transaction models. With a broader and more diverse investor base, we expect better funding opportunities for SMEs, particularly those working on sustainable solutions.



Grants and returnable grants

We provide grants without expectation for a financial return. This generally occurs when a business venture has significant potential but high risk. In some instances, we give grants to non-commercial projects with the potential for system-wide impact.

<p>Data and knowledge management</p> <p>FSD Africa invests in research, analysis and intelligence-gathering initiatives that give financial sector stakeholders access to market data and knowledge. This enables them to make better investment decisions and manage risk more effectively.</p>	<p>Investment capital</p> <p>We finance high-risk businesses and funds operating in the financial sector that have the potential for high impact in financing green initiatives. We are distinct from other investors in that we understand that the dynamism of the financial sector necessitates flexibility and the utilisation of a variety of transaction structures, including loans, guarantees and equity or quasi-equity.</p>	<p>Technical assistance</p> <p>We finance high-risk businesses and funds operating in the financial sector that have the potential for high impact in financing green initiatives. We are distinct from other investors in that we understand that the dynamism of the financial sector necessitates flexibility and the utilisation of a variety of transaction structures, including loans, guarantees and equity or quasi-equity.</p>
<p>Networks and partnerships</p> <p>We have a wide and growing network of national, regional and international stakeholders to crowdfund, pool ideas and share risk, while expanding reach and building sustainability. We take advantage of our connections with the UK's Foreign, Commonwealth & Development Office to direct UK finance industry knowledge and funding into Africa.</p>		

Figure: Vital to achieving our strategy are both financial and non-financial tools:

FSD Africa's Theory of Change



1. Challenges

Real and social sector

Fundamental shortfalls in opportunities for people in Africa to lead lives where their basic needs are met, as outlined in the SDGs. COVID-19 has worsened existing societal vulnerabilities and inequalities, as well as the fragility of public finances. MSMEs, low-income and marginalized groups, and women are particularly vulnerable to these challenges.

Financial sector

Supply-side challenges

- Weak policy and regulatory environment
- Underdeveloped local capital markets, insurance industry and digital infrastructure
- Lack of bankable projects and investors' risk aversion
- Lack of data & capacity in government, private sector & civil society

Demand-side challenges

- MSMEs, low-income and marginalised groups lack knowledge & experience of financial services
- Low-income and marginalised groups have limited access to Internet and IT devices as well as scarce digital skills
- African governments' needs for development financing



2. FSD Africa Pillars & Tools

Pillars

- 1 Capital Markets Pillar
- 2 Risk and Resilience Pillar
- 3 Digital Economy Pillar
- 4 FSD Africa Investments

Collaboration

Tools

- 1 Grants & Returnable grants
- 2 Investment capital
- 3 Technical assistance
- 4 Knowledge management and data
- 5 Partnerships & Networks



3. Outputs



Innovative financial products and services, transactions and new intermediaries



Development of new policies, regulations, investment guidelines and masterplans



Market infrastructure development



Increased capacity of & collaboration between governments, private sector and civil society



5. A Sustainable Future



Environmental benefits delivered



Economic opportunities created



Fragility and vulnerability addressed



4. Outcomes

Intermediate

Deeper and more sophisticated domestic capital markets

Increased financing to green finance, insurance industry, healthcare, digital economy

Reduced currency and refinancing risk

Improved transparency, pricing

More effective policy and regulatory environment



Longterm

Improved climate change adaptation and mitigation and biodiversity loss reduction

Increased employment and income generation opportunities

Increased access to finance for public and private sector

Increased resilience of MSMEs and low-income populations

Improved access to high-quality and affordable services



2 Impact

This section of the report looks at the results we’ve achieved since April 2021, when we began implementing our current strategy. Where applicable, we highlight the past achievements that our current work builds on.

Results against five-year targets

The figure below shows our cumulative results against the five-year targets for each of our core indicators.



Results from previous strategies (2012 – 2020)

Targets (2021-2025)

Results achieved under current strategy (as at June 2022)

Our Impact Narrative

The section below gives an overview of our impact narrative, grouped into four areas:

- 1. Transforming Africa’s investment landscape
- 2. Developing sustainable capital markets
- 3. Tackling the effects of climate change
- 4. Mainstreaming natural capital in financial sector development.



Challenges and barriers

The African Development Bank (AfDB) estimated that the continent’s additional financing needs for 2020–2022 alone amounted to £355 billion. Finance is essential in delivering a sustainable future for Africa but insufficient quantity, cost, tenure and liquidity have led to low investment rates that have undermined the achievement of this goal. It is estimated that the continent needs £228 billion (\$ 277 billion) annually to implement its NDCs (National Determined Contributions) and meet 2030 climate goals².

Africa’s investment landscape is constrained by several factors, including:



Weak regulatory and policy frameworks especially for green finance and the digital economy. This creates further long-term finance challenges, slowing down the development of stable and resilient capital markets, undermining investor confidence and restricting financial sector growth.



Limited innovative financial infrastructure and instruments that can adapt to local financing demands.



Inefficient capital flows triggered by expensive financial services, particularly payment services. Access to payment services is a core building block to financial inclusion and economic growth.



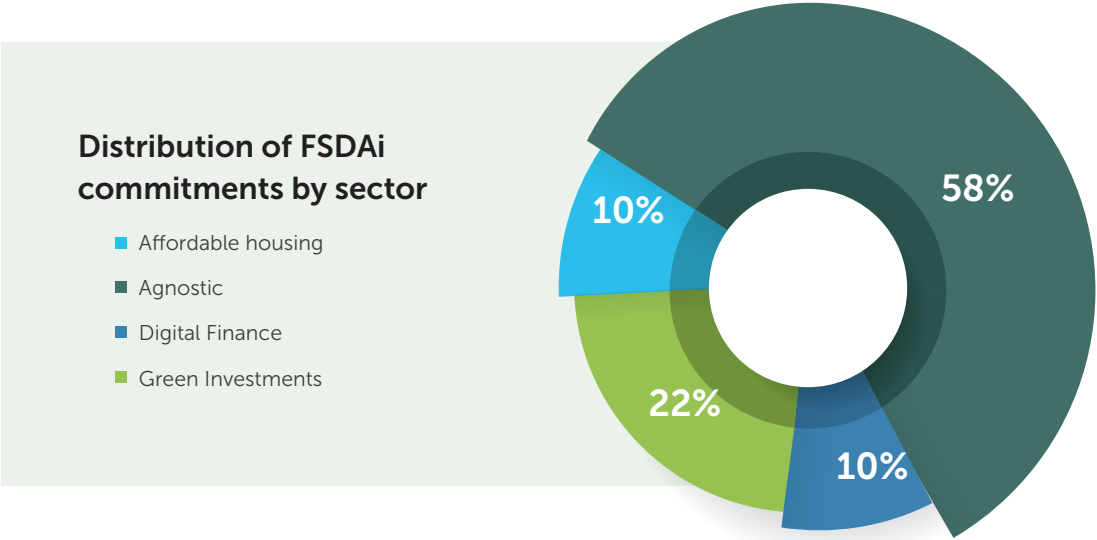
A shortage of bankable projects and asset classes, which reduces incentives for investors to diversify and instead makes them risk averse. There are limited opportunities for capital to be deployed profitably and at scale, especially for green and innovative projects. There are also limited risk transfer solutions that would de-risk climate-related investments at scale.

FSD Africa Investments

FSD Africa combines financing and non-financing tools to navigate financial sector hurdles and catalyse innovative, investable transactions and intermediary structures. Through our investment vehicle FSD Africa Investments (FSDAi), we provide catalytic, risk-bearing capital to early-stage and innovative business models in the financial sector. We do this by engaging as first movers to support both market building and crowding-in of capital for innovative business models.

We ensure that capital mobilised is channelled to priority areas such as green assets, digital transformation, the real economy and basic services – with a focus on delivering positive social and environmental outcomes. Our investment portfolio is managed to deliver both development impact and financial returns.

To date, we have committed £62 million in risk-bearing capital in Africa. These investments are distributed across different sectors, as shown in the graph below.



Investment impact

Our investments in various companies have resulted in significant impact for the financial sector and its intended beneficiaries. Some cumulative results since inception are highlighted below.



12,500 jobs created or protected/sustained



4.7 million individuals supported to access **basic services** (energy, health, housing)



3.2 million businesses that have gained improved **access to financial services**



10 million individuals that have gained improved **access to financial services**

² The Africa Landscape of Climate Finance 2022

Our Programmes: Case Studies

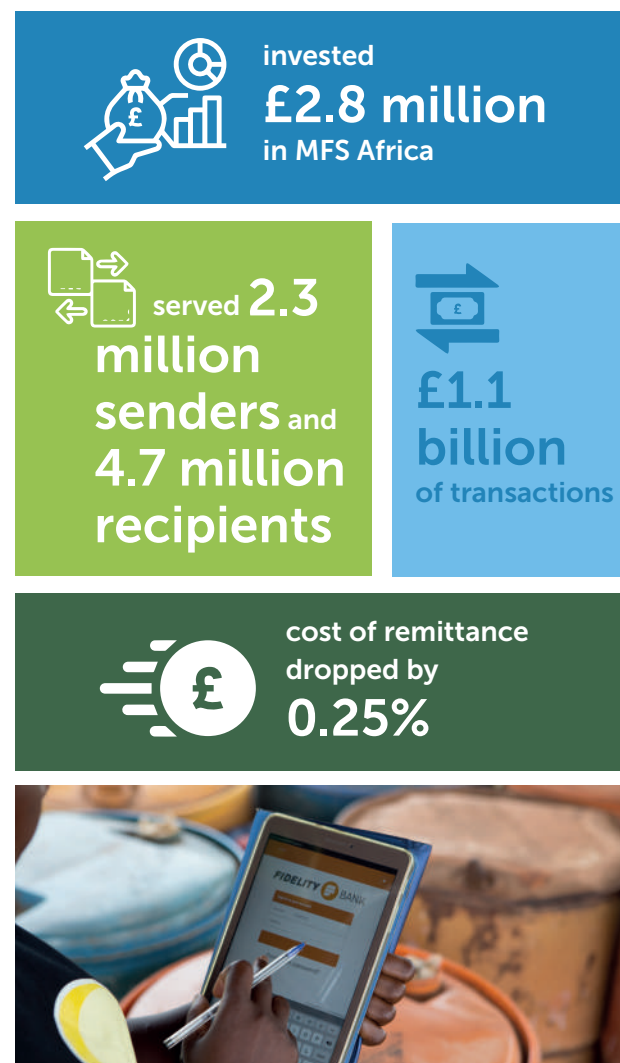
Promoting cross-border payments

Between October 2018 and November 2019, FSD Africa invested £2.8 million in MFS Africa, a digital payments provider. The objective of this investment was to support MFS open new remittance corridors into Africa, expand, diversify its partner base and augment its existing capabilities to offer cross-border merchant payments.

The investment aimed to address several challenges faced by remittances businesses in Africa: the high cost to consumers, a series of regulatory barriers and a lack of growth-stage finance.

Our funding was successful in improving access to payments services: as of June 2021, MFS Africa had cumulatively served 2.3 million senders and 4.7 million recipients. Over the tenor of our investment, the company was also able to grow the number of hubs and corridors³ to serve more people and businesses: from 34 active nodes⁴ and 74 active corridors before investment, to 132 active nodes and 364 active corridors.

Additionally, the project facilitated £1.1 billion of transactions throughout our investment, and the cost of remittance dropped by 0.25%. FSD Africa also enabled MFS Africa to access new and diverse sources of capital. The company's robust growth and impact on remittance sector has seen interest from various family offices, venture capital firms, commercial banks and debt funds.



Anne-Marie Chidzero
Chief Investment Officer
FSD Africa Investments

"MFS Africa's work towards simplifying payments across borders and allowing for easier access to basic services to the most vulnerable is taking shape and at speed. This mission is aligned with the vision of FSD Africa of making finance work for Africa's future. We are very pleased and glad that our investment into MFS Africa has been pivotal, allowing MFS Africa to reach scale and truly become a 'Network of Networks' that provides convergence and interoperability in Africa."

³ 'Corridors' refers to transfers across borders.

⁴ A node is a platform that a remittance company integrates to enable money transfer to another region or country.

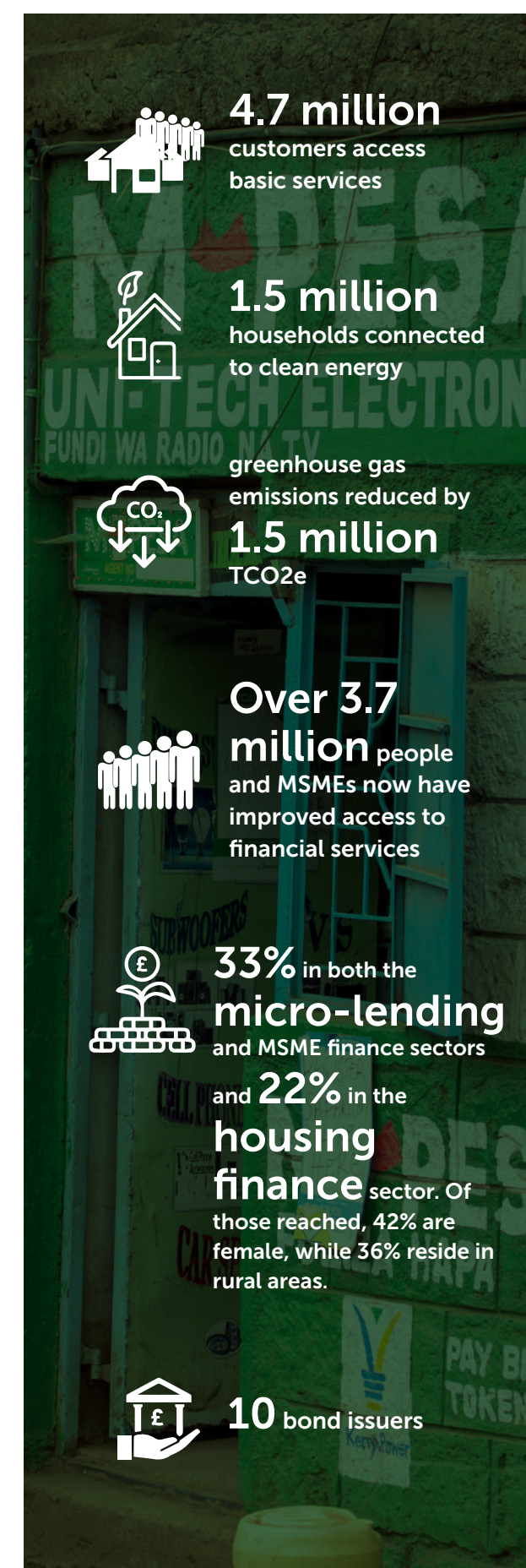
Managing foreign exchange risk exposure through the issuance of local currency bonds

Our support to the **African Local Currency Bond Fund (ALCBF)** combined technical assistance and investment capital to enable the fund manager to participate in local currency bond issuances across a range of sectors. This investment has four major objectives: mobilise domestic sources of capital; improve resilience and access to funding for issuers; improve issuance standards and legal documentation in African debt markets; and channel funding to high-impact sectors like financial inclusion.

As of June 2022, the fund had helped over 4.7 million customers access basic services through its renewable energy investments, including 1.5 million households connected to clean energy distributors. It had also facilitated the reduction of greenhouse gas emissions by 1.5 million TCO_{2e}.

Over 3.7 million people and MSMEs now have improved access to financial services through the fund's investments in the financial services sector. This includes 33% in both the micro-lending and MSME finance sectors and 22% in the housing finance sector. Of those reached, 42% are female, while 36% reside in rural areas.

In addition to the above, the fund has provided technical assistance to approximately 10 bond issuers in order to support bond listing, credit rating and social rating.



Mobilising climate finance through carbon markets

FSD Africa is providing **technical assistance to 4R Digital Ltd**, to develop a digital micro-payments platform called Cavex, which will enable low-income households to participate in the carbon credit market.

This cloud-based platform is potentially scalable across geographies, participants and carbon savings schemes. By using the reach of smartphones, satellite data and edge technologies in the field (including sensors and connected appliances), high volumes of data will be generated from a vast number of disaggregated micro-clean-energy initiatives (such as pay-as-you-go solar home systems). This will allow low-income households to participate in the carbon credit market and encourage more positive actions to reduce greenhouse gas emissions. Cavex is expected to host more than 2.1 million small-scale users.

Investing in sustainable energy solutions

Despite the acceleration of pay-as-you-go off-grid solar offerings, most Africans will still go without electricity by 2030 unless significant scale is achieved in rolling out alternative sources of electricity to the grid.

That's why FSD Africa is investing in alternative energy off-grid solutions. Our £3.7 million investment in Nithio FI is an example of how we bring innovative solutions into the off-grid energy sector by applying geospatial data, advanced analytics and machine learning algorithms to underwrite and finance pay-as-you-go receivables assets. This investment will enable Nithio to demonstrate its model and raise a broader range of capital, including commercial capital. Through our investment, we've catalysed an additional £12.3 million of debt funding into the solar home sub-sector.

The investment uses data and machine learning algorithms to lower the cost of funds and improve efficiency in delivering the underlying assets at a lower cost to the consumer. This will increase the amount of capital deployed in the off-grid sector. To date, our investment has facilitated access to renewable energy for more than 1,500 households in sub-Saharan Africa.



has facilitated access to **renewable energy** for **more than 1,500 households** in sub-Saharan Africa.



Cavex is expected to host **more than 2.1 million small-scale users**.



Our **£3.7 million investment** in Nithio FI



we've catalysed an additional **£12.3 million of debt funding** into the solar home sub-sector.



Providing risk-bearing capital to SMEs

Through our £8 million investment in Nyala Venture, we're increasing access to capital for small and growing businesses (SGBs) in sub-Saharan Africa – particularly women-led businesses.

This investment enables alternative local capital providers (ALCPs) to prove that their structures are investable. Through our eight-year investment, the ALCPs will get access to capital and capacity strengthening, so they can deploy capital to the SGBs in their pipelines. Our funding will play a catalytic role in creating over 5,000 jobs by supporting up to seven ALCPs, who will each provide financing and business development services to over 13 SGBs (women-owned and/or women-managed).

The investment is expected to demonstrate that investing in ALCPs is a viable way of supporting SGBs. This will attract more funders, including development finance institutions, private equity funds and commercial investors, with the aim of crowding in £30 million of additional capital.

"I believe the new investment facility will unlock opportunities in a new class of capital providers that has to date often been disregarded. By treading on uncharted paths, I am confident that we shall demonstrate the appropriateness of these capital providers for channelling funding to small and growing businesses in Africa."

Bart Schaap
Managing Director
Nyala Venture



£8 million investment in Nyala Venture



7 ALCPs, who will each provide **financing and business development services** to over 13 SGBs (women-owned and/or women-managed).



The fund will create **over 5,000 jobs**



The fund aims to crowd in **£30 million of additional capital**.

Promoting micro-pensions for informal workers

We provided **early-stage risk-bearing capital** to **People's Pension Holding (PPH)**.

PPH aims to provide market-responsive micro-pension services, to improve the lives of informal and low-income workers. The initiative has introduced an innovative, scalable and sustainable business model for micro-pension services in SSA and is currently in its nascent stage.

This project will stimulate long-term retail savings for over 500,000 people and expand the role of pension funds mobilised from untapped market segments for long-term finance. At scale, the pension trusts created will contribute to capital markets development by investing in government bonds, infrastructure, housing and other development-oriented sectors.

The investment in PPH was early-stage and strategically risky, since the micro-pensions model remains nascent in SSA and requires significant scale and time to be commercially attractive. To date, 19,800 people have signed up for PPH services.





2. Developing sustainable capital markets

Africa's development aspirations

Africa has a variety of development aspirations, with a defined set of objectives that will bring the continent closer to realising its 2063 vision.

One of the seven aspirations under Agenda 2063 is 'a **prosperous Africa based on inclusive growth and sustainable development**'. This is characterised by a high standard of living, quality of life and well-being for all, transformed economies and jobs, and environmentally sustainable, climate-resilient economies and communities, among other things.

The Agenda 2063 objectives are aligned with the UN Sustainable Development Goals (SDGs). However, **the region's growth over the SDG period was well below the target of 7% per year and also below the historical average⁵.**

Financing in Africa for the SDGs also remains below the required level. Despite an annual total financing mix of £535 billion⁶, the estimated yearly additional funding required is between £411 billion and £987 billion. One in five African countries already does not raise enough revenue to meet its essential state functions. Even worse, in sub-Saharan Africa, that number is one in three.

Africa also relies on bank financing, which is short-term in nature and insufficient to provide the **long-term funding necessary for these aspirations** in the real and social sectors. The continent has a huge infrastructure deficit of £140 billion per year⁷ and a housing financing deficit⁸ too.

Long-term capital is also necessary to finance climate change investments, through instruments such as green and carbon market-linked bonds.

Capital market potential in Africa

We believe that capital markets can narrow the financing gap in Africa and help the continent towards its vision.



Over the past 20 years, sub-Saharan Africa's capital markets have seen a measure of development. But their potential remains untapped compared with other frontier markets. This is partly explained by non-financial constraints, most significantly the requirement for scale and growth in the real economy as a pre-condition for capital market development. If these markets are to mobilise and distribute capital at the levels and quality required, they must develop and become more effective.

Most African nations also lack stable political and macroeconomic environments, which are prerequisites for effective capital markets. This can further be explained by the lack of a strong pipeline of bankable projects, orderly markets with sound regulatory environments and competent intermediaries. Human resource deficiencies have contributed to outdated regulatory and supervision technologies and frameworks, market manipulation, corruption, processing delays, inconsistent rulemaking and limited

systems to foster innovation. These things have led to mistrust among regulators and important market actors, like investors and innovators.

A fresh approach

FSD Africa is dedicated to developing capital markets to tackle some of Africa's most pressing development issues and guarantee that the continent's people have a sustainable future. But to develop deeper, more inclusive and more sophisticated markets, we believe a fresh approach is required.

Our approach focuses on policy and transactions. We've supported novel transactions in several markets, focusing on green bonds, the emerging field of nature-based financing, and gender. We've also created market infrastructure and new financing instruments, and provided market information while addressing data challenges.

Our impact

We've catalysed £230 million of capital and built capacity at 71 different institutions, among other impacts.



⁵ The Brookings Institution, Africa and the Sustainable Development Goals, 2019.

⁶ £411 billion in domestic revenue, £41 billion from official development assistance, slightly less than £41 billion in foreign direct investment, and £49 billion in remittances.

⁷ Africa Development Bank.

⁸ World Bank Group, Stocktaking of the Housing Sector in Sub-Saharan Africa, 2015. It is estimated that Africa will have 1.2 billion urban residents by 2050, with 4.5 million new residents in informal settlements each year.

Our Programmes: Case Studies

The Africa Regulatory Support Programme

To create strong capital markets, institutions like ministries of finance, central banks and capital market authorities must be able to develop, monitor and enforce financial policies and regulations.

To address this, we're implementing the Africa Regulator Support Programme (ARSP), in Nigeria, Kenya, Ghana, Rwanda, Zambia, Zimbabwe and the West African Economic and Monetary Union (WAEMU).

The project helps each regulator address their market's challenges in attracting investors by improving regulatory systems, processes and activities to internationally recognised standards.

Our capacity building support includes:

- institutional capacity assessments and strengthening
- Islamic capital market regulatory framework development
- capital markets development master plans and strategy development.

Regulators have indicated that our support has resulted in higher investor confidence, leading to market development.

Gender bonds: Tanzania and Morocco

We supported NMB Bank – a leading bank in Tanzania – in developing a Social Bond Framework and securing a second party opinion for issuing a gender bond.

This led to **the issuance of NMB's gender bond, the first gender bond to list on an exchange in Sub-Saharan Africa**. Approximately £25.2m was raised – an oversubscription of 297% – in March 2022.

In Morocco, FSD Africa provided technical assistance to the Moroccan Capital Markets Authority (AMMC) to help it develop gender bond guidelines.

Our support culminated in Banque Centrale Populaire (BCP) issuing **the first gender bond in Africa**, raising £15.9m in 2021.



The gender bond by NMB raised **£25.2m** – an oversubscription of 297%



Banque Centrale Populaire (BCP) issuing the first gender bond in Africa, raising **£15.9m in 2021**



SEC Nigeria

"A direct causal relationship does exist. When you strengthen the regulator, they do a better job of regulating the market. When investor confidence increases, you attract more players to the market, leading to market growth."



Ruth Zaipuna,
CEO, NMB

"Women make important contributions to sustainable growth and play critical roles in all aspects of public and private life. Through the Jasiri Bond, we want to highlight the challenges women entrepreneurs face in Tanzania while creating a new asset class for investors who want to help create sustainable solutions to women's economic empowerment."





Nezha Hayat,
Chairperson & CEO,
AMMC

“The guidelines are a meaningful addition to sustainable finance frameworks, as gender equality and women’s empowerment cut across all the sustainable development goals. They also provide useful guidance for the issuances of this type of instrument on the Moroccan capital market, the first of which was successfully realized in December 2021.”

In the long term, the funds raised from the gender bonds in both Tanzania and Morocco will be dedicated to financing women entrepreneurs whose incomes are low and who are excluded from the traditional financial system. NMB’s Jasiri Bond Disbursement Report (First Quarter Performance), published in March 2022, showed that £10.7 billion (41% of £26 billion) has already been disbursed to women MSMEs and businesses whose products and services directly impact women.

Nigeria Green Bond Programme

Green bonds are gaining momentum in Nigeria, particularly with the government’s Sovereign Green Bond initiative, which aims to diversify local and foreign investments into non-oil, low-carbon, sustainable opportunities.

The government included green bonds as an option to finance programmes and projects identified in the country’s nationally determined contributions (NDCs) on climate change, estimated at £117 billion by 2030. However, it needs to urgently develop ambitious green investment pipelines that meet the target. With the banks increasingly restricting lending capabilities, private sector sources of capital need to be mobilised. To help support this, FSD Africa partnered with Climate

Bonds Initiative (CBI) and FMDQ OTC Securities Exchange to **implement a project that has accelerated the uptake of green bonds**. This has enabled Nigeria to tap into domestic and international capital markets, to finance green projects and assets.

As part of the project, we helped to develop listing guidelines for green bonds and a pipeline of potential issuers. Our work has helped create a pool of Nigerian-based licensed verifiers and has supported broader debt capital markets reforms.

To date, the programme has supported six issuers (sovereign and financial institutions and energy corporations) with green bond verification, catalysing a total of £122 million of capital for climate change purposes. This financing has gone to renewable energy, afforestation, agriculture irrigation projects, clean energy for education, and hydro and solar power infrastructure, creating over 5,000 green jobs. Cumulatively, over 3 million people have sustainable livelihoods through agroforestry and have better access to clean energy and clean water.



6 issuers supported
with green bond verification



over 3 million
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£122 million
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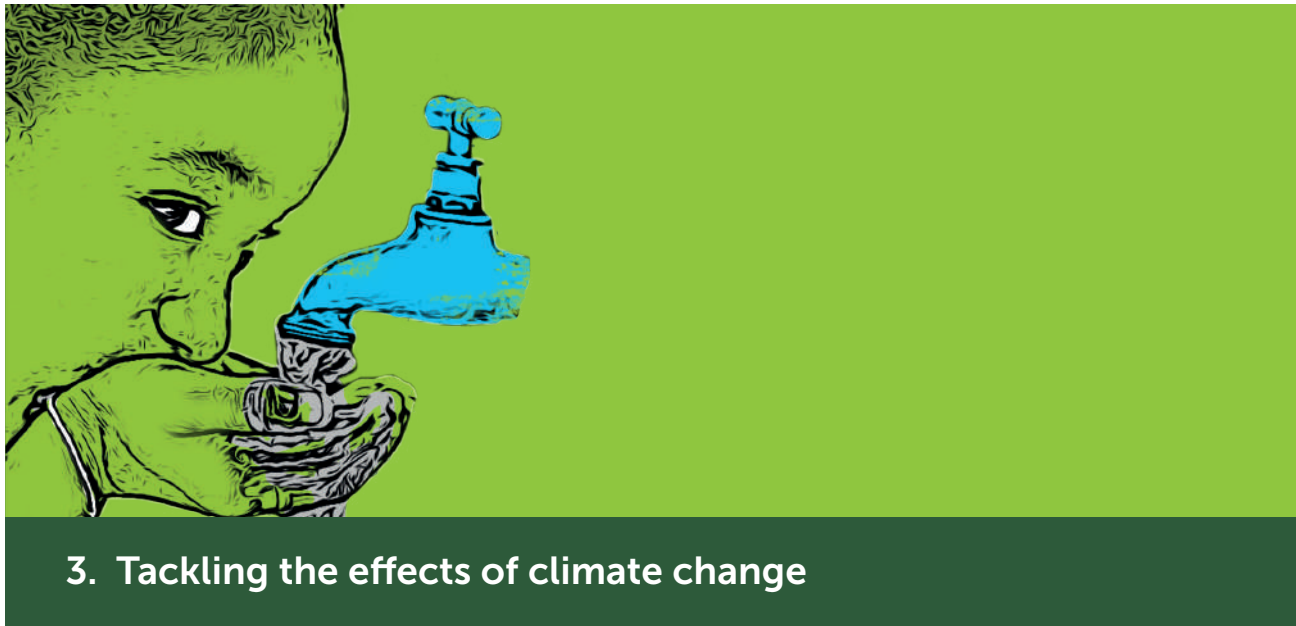
over 5,000
green jobs
created



“FSD Africa was that catalytic partner OneWatt Solar needed to accelerate quickly into the market and interact with everybody. Our partnership with FSD Africa also enabled us to get the rating and certification of our green bond, making it the first corporate green bond in Africa.”



Femi Oye,
Co-Founder & CEO,
OneWatt Solar Limited.



Africa's climate vulnerability

Despite contributing only 2–3% of global greenhouse gas emissions, **Africa is the continent most affected by climate change**. The climate crisis threatens Africa's economies, infrastructure investments, water and food systems, public health, agriculture, and livelihoods, eroding development gains and leading to extreme poverty.

Africa's climate change vulnerability is due to several factors:

- High rates of poverty and financial and technological constraints lead to a low adaptive capacity.
- Africa relies heavily on rain-fed agriculture, which is subject to climate variability.
- An expanding population has strained food production systems.
- In SSA, hydro-meteorological disasters are common, especially droughts and floods – which represent 80% of the loss of human life and 70% of economic losses related to natural hazards⁹.

The role of finance

Progress in strengthening the resilience of the most vulnerable communities remains underwhelming. Direct indicators of resilience, like food security, suggest people may be sacrificing well-being and nutrition in the face of current challenges. Other measures show that many people have depleted their savings, lost income and revenue (mainly women), and still lack insurance, suggesting that financial tools are

failing to help people manage shocks.

Innovators have a significant role to play in developing solutions for the needs of the most vulnerable. But **innovators in emerging economies are limited by a lack of capital** and support, particularly in their initial pre-funded stage.

UN Environment Programme Africa is helping countries set up structures for implementing their climate action commitments, known as nationally determined contributions (NDCs). The objective is to ensure NDCs meet socioeconomic priorities: food security, creation of income and enterprise opportunities for young people, and economic expansion. Despite this effort, Africa is grappling with the challenges of mobilising green finance. **Current levels of climate finance in the continent fall far short of needs.**

The total cost of implementing NDCs in Africa is estimated at \$28 trillion (£2.3 trillion) between 2020 and 2030. National governments have committed to providing \$264 billion (£217 billion), with the remaining \$25 trillion (£21 trillion) identified as 'climate finance needs'¹⁰. Afribarometer observes that more than half of African countries have problems mobilising climate finance, and less than a quarter have a financing strategy. These countries may not be able to provide as much domestic public finance as initially estimated, given high debt levels amid unanticipated budgetary pressures like Covid-19. This is partly explained by capacity gaps on climate financing¹¹ among leaders and financial sector professionals.

Our approach

To address these challenges, FSD Africa has partnered with several key players in the African markets to **mobilise and catalyse green finance** that will be directed to climate change initiatives.

Capacity-building initiatives on climate finance form part of our portfolio to bridge gaps and encourage the flow of capital into green projects. Specific projects have been designed to address the issue of resilience

Our impact

The figure below shows cumulative results in our efforts to tackle the effects of the climate crisis.



Our programmes: case studies

Geothermal risk transfer

We're implementing a programme to leverage local insurance capital to **de-risk commercial investment in geothermal energy development** and catalyse private funding for green energy projects in Africa (specifically East Africa).

and create a more robust innovation ecosystem.

We've also supported research into climate finance needs in developing economies to identify financing gaps and opportunities, which will help stakeholders to allocate and mobilise climate finance. The capital mobilised can then be invested into sectors and projects that aim at cutting emissions, creating green jobs and improving access to clean energy for the low-income population.

The figure below shows cumulative results in our efforts to tackle the effects of the climate crisis.

⁹ Statista, 'Largest natural disasters in Africa between 1970 and 2019'.

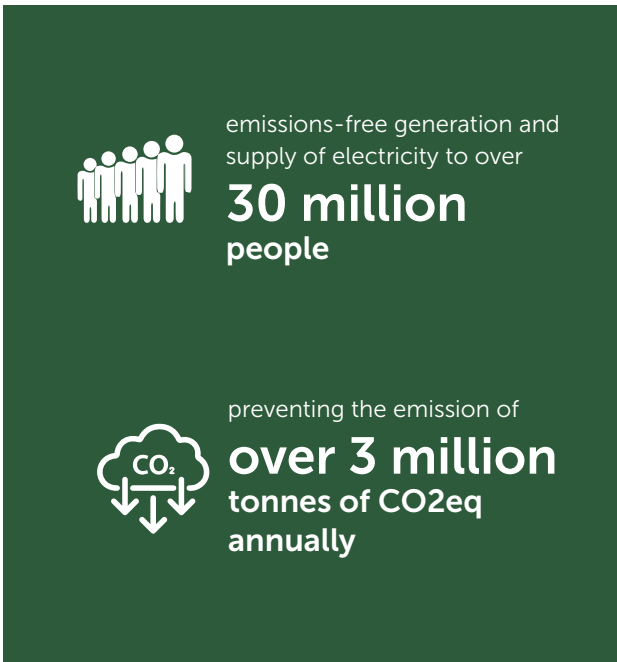
¹⁰ Sandra Guzman et al, The State of Climate Finance in Africa: Climate Finance Needs of African Countries, CIP/CIFF/FSD Africa, 2022.

¹¹ Climate finance capacity gaps include knowledge and skills necessary to redirect capital flow in a way that reduces the harmful effects of a changing climate on the economy, society and the environment.

geothermal projects. Five insurance companies in Kenya (ICEA Lion, APA, GA, Sanlam and Mayfair) have committed to the facility.

The programme, which is in its early stages, is expected to enable the emissions-free generation and supply of electricity to over 30 million people, while preventing the emission of over 3 million tonnes of CO2eq annually in Kenya and Ethiopia.

Five insurance companies in Kenya have committed to the facility



“
Darrell Boyd,
Global Head of
Geothermal,
Parhelion
Underwriting Ltd

“Geothermal plays a significant role in Kenya’s commitment to net zero by 2050. Despite its high front-end capital costs and risks assessed over the life per kilowatt hour, it’s cheaper than fossil fuel, solar, and nuclear. It really is green, clean, renewable and sustainable, and has lots of social benefits, so it stands pretty much head and shoulders above all the other sources of generation. That’s why Kenya, Ethiopia and other countries are so focused on it.”

Capacity building for climate financing and ESG

We’ve partnered with the University of Cambridge, the International Institute for Environment and Development (IIED) and the East and Southern Africa Management Institute (ESAMI) to implement a **Climate Finance Training Programme**.

To date, the project has trained eight institutions (regulators and policymakers) in Ghana, Ethiopia, Kenya and Namibia. These include ministries of finance in Ghana and Ethiopia, the National Bank of Ethiopia,

NamibRe in Namibia, and the National Drought Management Authority and Retirement Benefits Authority in Kenya.



8 institutions
trained
(regulators and
policymakers)

In addition, we’ve facilitated an **environmental, social and governance (ESG) capacity building programme and advocacy targeting the insurance industry**. This initiative aims to create competencies and practices among African insurance professionals to address ESG challenges in operations and strategy. The project also aims to build an enabling supervisory environment for ESG regulation and disclosure through formulating proportional and fit-for-purpose supervisory instruments in Ghana, Nigeria and Kenya.

Our work will strengthen the insurance sector’s focus on ESG benefits, mobilising more resources for climate change adaptation and mitigation. This will also strengthen social and environmental risk protection, benefiting the socioeconomically disadvantaged population and the environment.

Catalysing Climate Resilience

To help build a stronger innovation ecosystem for climate resilience, we’ve partnered with BFA Global to implement the **Catalysing Climate Resilience programme** (CCR).

The programme combines grant and investment capital

to anchor an initiative that will be delivered via a set of integrated components:

- Venture launcher (Triggering Exponential Climate Action) to seed new climate resilience solutions
- Catalyst Fund to accelerate the growth of existing climate resilience solutions
- Ecosystem building strategies to contribute to the overall growth of the sector.

The programme seeks to launch approximately 100 ventures and accelerate over 80 start-ups within four years. Our investment of £2.7 million will crowd in 10–20x investment from other donors and investors, for further scale-up in Africa and expansion to other regions.

Although the programme is in its early stages, we’re confident that successful execution will increase resilience and improve economic opportunities for innovators and businesses in the climate resilience space. Also, by increasing business survival rates and ability to reach scale, we expect to address the vulnerability of over 200,000 low-income individuals and small businesses to the harmful effects of climate change.





4. Mainstreaming natural capital in financial sector development

The value of natural capital

Africa has enormous natural capital, on which its economies depend heavily for rural livelihoods, water, energy and food security. But this **natural capital is threatened** by expanding populations, overexploitation and the destruction of habitats, **posing significant risks to economic prosperity and financial stability**.

These risks extend to the finance sector. Almost a quarter of Africa's GDP is dependent on natural capital and the goods and services it provides¹². Nature loss, therefore, threatens the bedrock of economic activity.

The impact of nature-related risks on companies – ranging from value chain disruption to stranded assets – results in credit, market liquidity and business risk, ultimately threatening systemic macro-financial stability¹³. **A sustainable economy depends on our ability to conserve natural capital** by using it responsibly, and our ability to shift global financial flows away from nature-negative outcomes and towards nature-positive ones.^{14,15}

Leveraging finance to save Africa's natural resources

To protect natural capital, **financial flows must be allocated to maintain and increase the stock of natural assets**. This requires both nature-specific funding and investment while also mainstreaming private portfolios and public funds.

Mainstreaming requires frameworks for nature-related risk management while highlighting commercial

opportunities to invest in nature-positive sectors. But the lack of tools and frameworks to internalise nature-related risk – both up and downwards – hinders investment in natural capital.

Nature-related activity is limited by a lack of consistent data, metrics and targets, which would allow financial institutions to make informed decisions on whether to loan, insure or invest. Without effective natural capital accounting, incentives, frameworks and market instruments, the financial sector will not be an effective steward of key ecosystem services. Public actors also do not incorporate nature into long-term economic or micro-prudential planning and assessment.

All the above challenges are significant. But they should not prevent early piloting of emerging frameworks, tools or policy approaches. Nature should not be seen as secondary to climate or other ESG topics.

Increasing financial flows towards nature-positive activity will require private finance to be reallocated, with nature-related risk effectively captured.

Our Programmes: Case Study

Taskforce for Nature-related Financial Disclosures

FSD Africa, through the UK government's Department for Environment, Food & Rural Affairs, is supporting the first pilots of the Taskforce for Nature-related Financial Disclosures (TNFD) framework.

TNFD is a new market-led global initiative that aims to

provide financial institutions with a complete picture of nature-related risks and opportunities. The framework will support the transition towards a nature-positive economy and sustainable livelihoods, building on growing evidence and calls for action like those articulated in the Dasgupta Review.

We are ensuring that the final release of the TNFD framework (due September 2023) will be fit for purpose in the African context¹⁶. We're doing this through assessment demonstration, piloting the TNFD frameworks, development of national nature strategies and the creation of the African Natural Capital Alliance (ANCA) – a collaborative forum. In June 2022, we came together with a group of nine leading financial institutions from across Africa, with Ghana's Ministry of Environment, Science, Technology & Innovation

(MESTI), as founding members of ANCA.

We're also raising awareness that public finance must continue to provide a significant portion of the financing for natural capital, especially in developing optimal blending structures. Our research with the Climate Policy Initiative and the Overseas Development Institute (ODI) reflect this.^{17,18}

Through the Rabo Foundation/ACORN, our coalition-building with CIFAR, and our transaction/investment projects with Catalyst Fund, we seek to demonstrate that nature-based solutions and mainstreaming nature-related assessment into both public and private financing is commercially viable, builds economic resilience and brings environmental benefit.



Rachael Antwi,
Group Head of
ESG at Ecobank

"The value of Ecobank joining forces with the African Natural Capital Alliance (ANCA) is clear. We look forward to contributing to this platform of knowledge on nature-related risks and opportunities, steering institutional agendas towards nature-positive outcomes, and representing the African voice in global discussions on nature."



¹² World Economic Forum, Nature Risk Rising, 2020.

¹³ Cambridge Institute for Sustainable Leadership, Handbook for Nature-related Financial Risks, 2021.

¹⁴ FSD Africa, A quarter of Africa's GDP is dependent on nature, 2022.

¹⁵ Green Policy Platform, Measuring Nature's Contribution to Economic Development, 2020.

¹⁶ TNFD, 2022.

¹⁷ Kyle Blocher et al, Climate Finance Innovation for Africa, CPI/FSD Africa, 2022; Guzman et al, State of Climate Finance.

¹⁸ Financing for Natural Capital in Africa, 2022



3 Responding to Covid-19

The impact of the pandemic

The Covid-19 pandemic was one of the largest shocks to the African continent in recent times. In 2020, GDP contracted by 2.1% across Africa, costing the region at least £95 billion¹⁹. The effect of the Covid-19 outbreak on unemployment seems to have outweighed the resulting morbidity and fatality. For instance, about 21 million were reported as unemployed in Nigeria – this figure outstrips the population of over 30 African states²⁰.

The pandemic amplified the need for development finance to support the resilience of businesses and individuals. UNCTAD reports that the mobilisation of external financial resources for development suffered a heavy blow in the wake of the Covid-19 crisis. Net capital flows to low-income countries also fell sharply from their pre-pandemic peak of £6.8 billion to £987 million in the second quarter of 2021²¹.

While the Covid-19 pandemic has affected all segments, **the impact on SMEs has been particularly pronounced.**

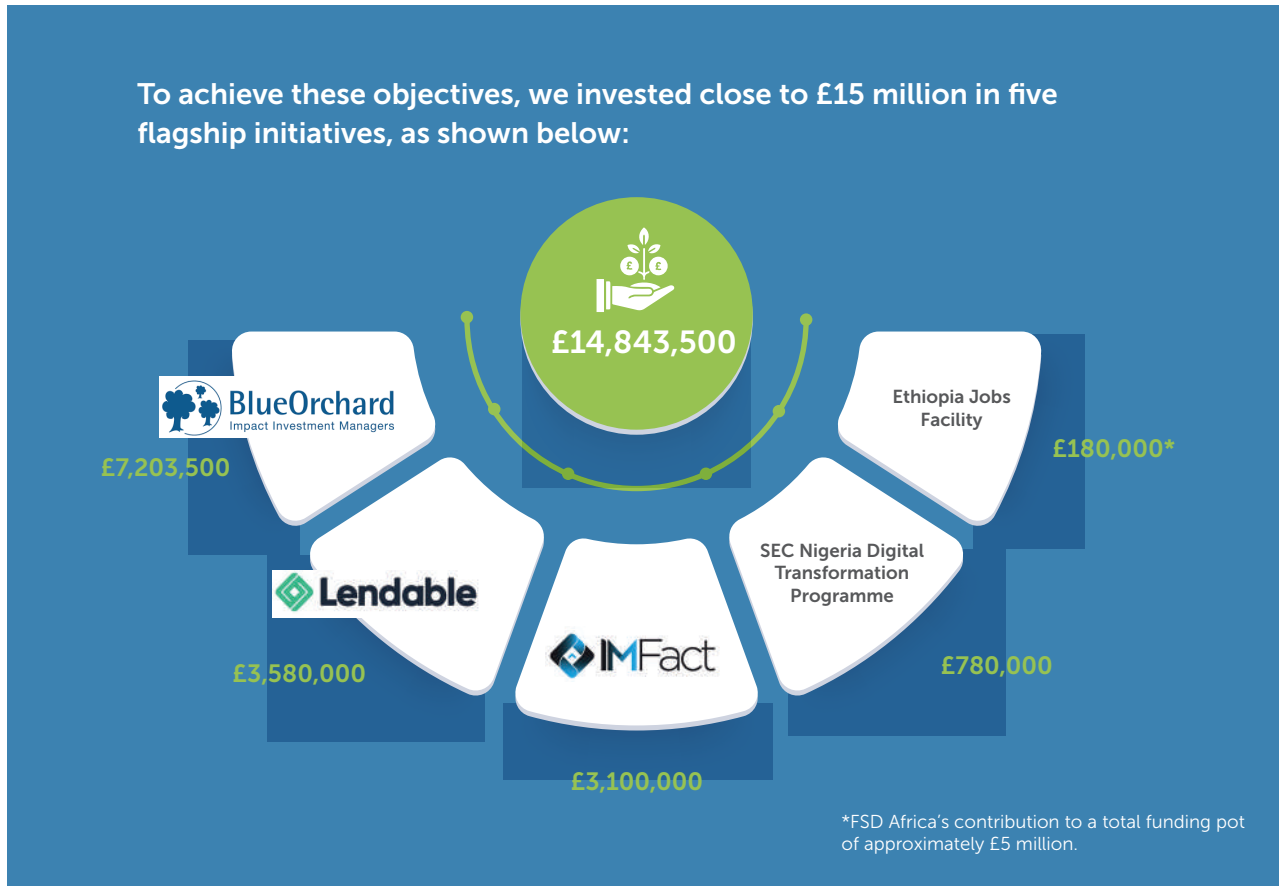
The decline of global trade flows has impacted SMEs with significant trade exposures. According to the World Bank’s Enterprise Survey, 60% of manufacturing firms in Africa use material inputs and/or supplies of foreign origin. With such reliance on global supply chains, which were disrupted by lockdowns, most SMEs were forced to cut jobs.

Our response

FSD Africa’s response to the pandemic has been wide-ranging. We’ve helped to digitalise company operations, availed capital to lenders, and supported manufacturers in retaining jobs, among other approaches.

Our Covid-19 response had two main objectives:

1. To mitigate the impact on financial institutions, businesses and households
2. To ensure the business continuity of our investments.



¹⁹ Africa Development Bank Group, African Economic Outlook 2021, 2021.
²⁰ Fisayo Fagbemi et al, COVID-19 and Unemployment: Showcasing Sub-Saharan Experience, 2022.
²¹ UNCTAD, Financing for development: Mobilizing sustainable development finance beyond COVID-19, March 2022.

The pandemic changed how we work, learn and offer services. Over the years, we've proactively supported digitalisation of government systems, and the pandemic presented an opportunity to accelerate this. Our work included helping the Securities and Exchange Commission in Nigeria to modernise its IT systems, demonstrating that technology has a role to play even for regulatory agencies in making them more accessible, efficient and resilient.

In addition, we commissioned studies to shed light on the effects of the pandemic on the financial sector. One of the studies commissioned in partnership with Cenfri and the Organisation of Eastern and Southern African Insurers (OESAI) reported that the pandemic affected insurers' operations, both positively and negatively. On a positive note, it resulted in rapid digitalisation of the insurance value chain, which could mean more clients are reached. On the other hand, most insurers faced challenges in launching new products, concluding new sales and collecting premiums²².

We also made **strategic investments in financial firms and funds that channel credit to MSMEs**. For example, we invested in Blue Orchard's Covid-19 Support Fund, and Lendable. These firms have enabled capital flows to businesses to preserve incomes and jobs. Also, to safeguard a growing manufacturing sector in Ethiopia, we helped to support business continuity for 24 textile and garment factories, while enabling them to sustain/protect jobs.

Spotlight on Covid response programmes

Ethiopia: Emergency Job Protection Facility

Over the past decade, the Government of Ethiopia has

pursued a strategy of labour-intensive industrialisation through export-oriented light manufacturing. As part of this, they set up a number of industrial parks across the country to promote exports and job creation.

But Covid-19 posed a challenge to this industrialisation agenda. The pandemic severely impacted firms' ability to produce and sell their output²³. The availability and affordability of foreign inputs and labour were widely reported as constraints to production. Government support measures did not reach the majority of firms.

After these initial demand and supply-side shocks, firms in industrial parks entered a new phase of uncertainty. A World Bank report²⁴ predicted that orders would fall by an average of 20% and employment by 17% by the end of 2020, compared with the previous year.

To mitigate these negative impacts and secure jobs for factory workers, the Emergency Jobs Protection Facility was set up. FSD Africa managed the Facility following a funding commitment of £5.3 million from the UK Government's Foreign, Commonwealth & Development Office and KfW Development Bank's Investing for Employment facility (on behalf of Germany's BMZ).

- The main objectives of the Facility were:
- sustaining the livelihoods and productivity of factory workers through the Covid-19 crisis, protecting jobs for at least six months
 - ensuring textile and garment manufacturing capacity in Ethiopia was preserved and positioned well to contribute to the recovery of the economy post-Covid.

The Facility supported 24 factories in four industrial parks (Hawassa, Bole Lemi, Eastern, and Debre Birhan).

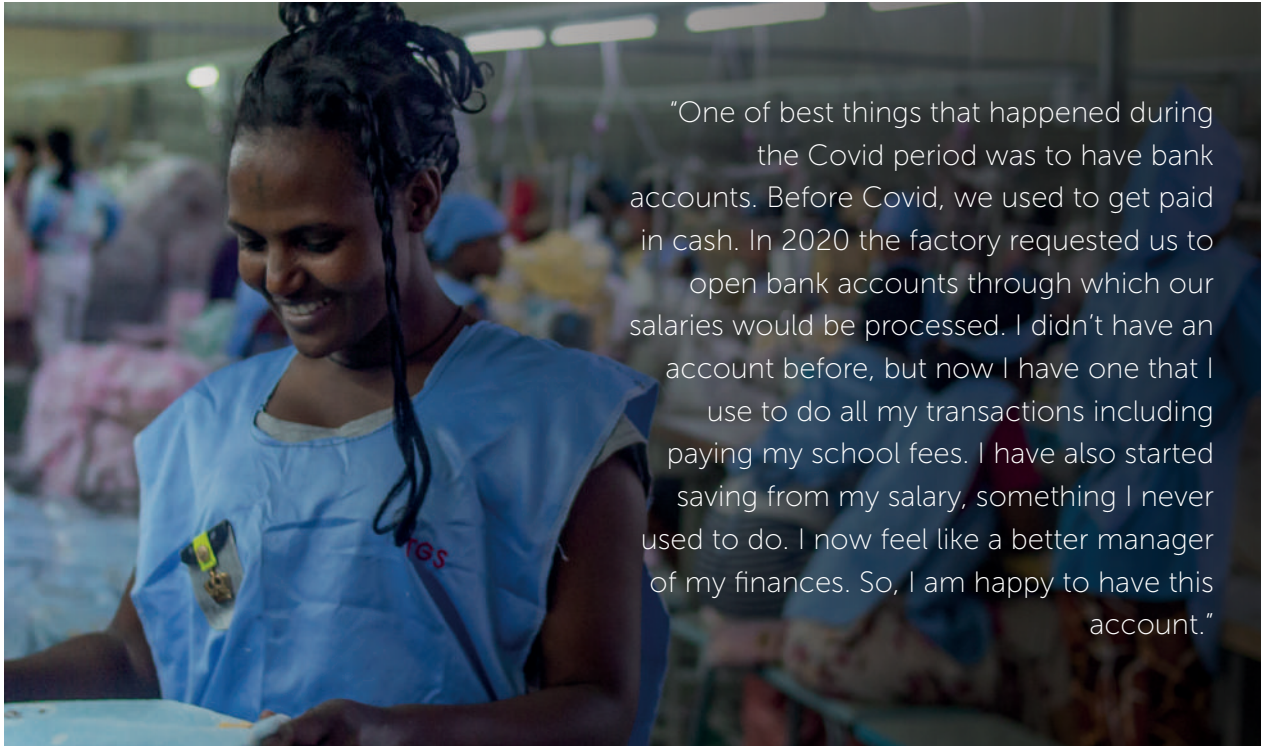


Tehun Tegege, 25-year-old employee at the factory of TGS Textile and Garment

"When Covid-19 started, we all thought we were going to lose our jobs. Most of my friends and relatives lost their jobs and I thought I would too. I was so scared, but our manager called us for a meeting and assured us that none of us was going to be laid off or get salary cuts. That was the best news any employee could have received then. The manager went on to say that half of the staff were getting fully paid leave for four months. We all wondered how the company would sustain all of us without production and with the reduced sales it was making, but they kept their word. I am here, one and a half years later, and enjoying my work and full salary"

While the loss of jobs during the pandemic affected young people's education, Tehun continued to pursue a part-time degree in accounting, using part of her salary to pay for tuition.

The Facility also had an unintended positive impact by facilitating access to financial services. Employees were required to open bank accounts in order for the factory to qualify for the subsidy. Tehun discussed the benefits of having a bank account:



"One of best things that happened during the Covid period was to have bank accounts. Before Covid, we used to get paid in cash. In 2020 the factory requested us to open bank accounts through which our salaries would be processed. I didn't have an account before, but now I have one that I use to do all my transactions including paying my school fees. I have also started saving from my salary, something I never used to do. I now feel like a better manager of my finances. So, I am happy to have this account."



²² For more information, refer to our Covid-19 publications.
²³ Ethiopia Jobs Protection Facility Evaluation Report.
²⁴ Andualem Mengitsu et al, Firms in Ethiopia's industrial parks: Covid-19 impacts, challenges, and government response, World Bank, 2020.

Tegene Getaneh, the CFO and Group Consultant at TGS Textile and Garment, confirms that the Facility was vital to keeping the company operational during the pandemic:



Tegene Getaneh,
CFO and Group Consultant
TGS Textile and Garment

"The support from the Facility came in at the time we needed it the most. We were on the verge of closing shop as we couldn't keep up with the accrued costs and limited production."

Given the requirement for social distancing and the size of the TGS facility, the company mandated four months of paid leave for over 50% of their staff. With a total of 435 staff, the remaining staff (around 210 employees who were mostly young, unmarried and without children) were accommodated at the factory premises to ensure operations continued at a reduced scale. "This couldn't have been achieved without the salary subsidy from the FSD Africa Facility," says Tegene.

Tegene adds that the Facility enabled them to improve the efficiency of their operation, especially around salary processing.

Covid-19 Support Fund – providing working capital for SMEs

MSMEs account for 80% of Kenya's labour force, 40% of its GDP and 92% of new jobs created each year. But most of these jobs lack security as they are vulnerable to economic shocks.

Covid-19 was one such shock. Falling commodity prices and disruptions in SME supply chains and informal sector activities caused economic challenges, fiscal constraints and job losses.



"Before the Facility, we used to pay all our workers in cash. But one of the requirements for this subsidy was that all employees had bank accounts. This transformed our entire payroll system. Even after the Facility we have adopted this model, as it is less risky and reduces the inconveniences of handling cash. All our workers are happy."

MSMEs' incomes were put at risk due to the economic slowdown. This affected their capacity to honour commitments to credit providers. It also impacted the portfolios of micro finance institutions (MFIs) and their ability to extend further finance to support MSMEs.

In 2020, FSD Africa invested £7.2 million in the Blue Orchard Covid-19 Emerging & Frontier Markets MSME Support Fund, operating in African countries such as Kenya, Tanzania, Botswana, and Burkina Faso. This enabled Tier II and III banks to access immediate liquidity to manage their deteriorating portfolios, and long-term finance to prevent insolvency. In turn, this investment supported continued access to finance for MSMEs, poor households and informal businesses – preserving revenues, incomes and jobs. Key results are highlighted in the box below:



Supporting farmers

Blue Orchard's core business includes financing micro-credit lenders, who support small and medium enterprises. Recognising that farmers were hit hard and that many have difficulty accessing credit, Blue Orchard financed MFIs such as Juhudi Kilimo in Kenya, who have built relationships throughout the agriculture value chain. Juhudi Kilimo identified farmers and others who would benefit from credit facilities, to keep food production at required levels, and provide employment.

Movement restrictions put in place by governments during Covid-19 affected the transportation of farm produce within the country, and to international markets. The disruption in supply chains left farmers with no market for their produce and unable to repay their loans. Through the fund, farmers were able to get additional financing as a coping mechanism for the shocks caused by the pandemic. Some farmers utilised this capital to diversify to new ventures, while others adopted new crops.

Steven Musila Maingi was one of the beneficiaries. He used to make around £350 (Ksh 50,000) per tonne of French beans, which he sold to the export market.



Steven Musila Maingi,
Farmer Beneficiary

"In one season harvest, the French beans would be harvested twice a week and each harvest is Ksh 50,000 and by the end of three weeks, I would get Ksh 300,000. But after Covid we stopped because the demand was low, so we started farming regular maize when there was rain. But there was low rainfall, so we didn't have water."

With the assistance of Juhudi Kilimo, Steven secured an emergency loan that allowed him to open a small kiosk, buy more land, and diversify to other crops that had a readily available local market. He was also able to buy irrigation equipment to support his new venture. Steven is now farming tomatoes and bananas, and has already planted 80 avocado trees as part of his long-term plan to safeguard against economic shocks.

He also used another portion of the loan to purchase three water storage tanks, to guard against low rainfall and save on future expenses.

With the loan I got from Juhudi Kilimo, I started a kiosk in the market. This kiosk generated enough money for me to meet the monthly repayments for the loan. I also combined a portion of the loan funds with my own funds from my maize and beans harvest, to look at other farming opportunities."



The Blue Orchard Fund has allowed Steven and more than 42,900 other small farming businesses to diversify into new crops, keeping their daily revenue and avoiding loan defaults.



4 Becoming gender intentional

In 2021, FSD Africa embarked on its new five-year strategy. As part of this, we've increased our focus on gender. Our experience has taught us that to truly increase our impact around gender imbalances, we need to deliberately design and execute interventions that identify and address challenges around gender inclusivity.

This includes supporting the financial independence and professional integration of all individuals by targeting gender inequalities, gender-based constraints and inequitable standards.

To ensure greater effectiveness and impact, FSD Africa's approach to gender inclusivity aligns to a large extent with international best practices, including the 2X Challenge Collaborative, the Sustainable Development Goals, GIIN IRIS Navigating Impact: Gender Lens Platform, and the UN Women's Empowerment Principles.

Gender-focused projects

Our work has included supporting Banque Centrale Populaire in Morocco with the issuance of a gender bond in 2021, and NMB Bank in Tanzania with the public listing of a **gender bond** in April 2022.

We've also invested in Nyala Venture, which is expected to **provide capital** to mainly women-owned or managed small and growing businesses; the PharmAccess programme, which is working on building **better data for maternal health** in Ghana with the National Health Insurance Scheme; and a new project **supporting women entrepreneurs** in the shea value chain, also in Ghana.

To better support and design interventions like the ones above, **FSD Africa has also put in place firm-wide initiatives** that are expected to drive greater gender inclusivity. To achieve this, we're working on the development and review of several tools:

- A Gender Lens Investing Framework
- A more gender-inclusive strategy with a corresponding theory of change
- A Gender Assessment Framework
- Gender-inclusive performance measurement frameworks and indicators.

These initiatives aim to ensure that gender is incorporated into projects at all stages. This will be

done by ensuring that the teams ask the right questions and are equipped with the necessary tools to carry out targeted assessments. Our teams will also be equipped to develop well-defined gender-inclusive targets, as well as measure results. Attaching targets to gender-inclusive indicators will ensure that gender-inclusive 'promises' made during project design are kept.

Adopting **gender lens investing** will help us explore how we can introduce and encourage gender inclusivity in our investee companies as well as our partners. This can be done by championing gender-balanced boards and management teams and working with investee companies to incorporate gender-inclusive standards in their day-to-day operations.

FSD Africa also continues to support the **FSD Network's Gender Programme**, which is funded by the Bill & Melinda Gates Foundation. The FSD Network Gender Programme engages FSDs to build their capacity on gendered analysis and effective design and delivery of gender inclusive projects. Additionally, FSDs work together and co-fund gender programmes that aim to benefit women. FSD Africa provides thought leadership on gender and learning from the experiences of other countries in order to maximise the effect of gender initiatives.



5 Learning and adapting

We operate in a dynamic sector. It requires constant learning and adaptation.

At the start of each strategy, we set learning questions and appropriate mechanisms to gather data and insights that can inform us and other market actors. Here are six key lessons that we've learnt over the past year, and how these can shape future action by us and others.



Africa remains the continent that is most vulnerable to climate change. It is also endowed with large amounts of natural capital, which offers it an opportunity to be part of the solution, rather than a victim. Finding ways to preserve natural capital is necessary and requires creating and scaling up natural capital asset classes that enable the crowding in of innovative finance – such as carbon finance – into the continent.



The worsening climate crisis has implications on how businesses in Africa assess and price their risks. There is a heightened need for increased investment in designing methodologies that companies operating on the continent can use to price their exposures to climate and nature-related risks. We can borrow from the methodologies developed for more advanced economies, tailoring them to fit the continent's needs.



Getting innovative transactions going, especially climate-related transactions where there are few, requires intensive handholding, and very often, engagement with regulatory agencies. The coordination required on these transactions takes a lot of time: the private sector, mindful of the time value of money, will rarely be willing to incur this sort of cost or risk. There is therefore a clear role for a donor-funded agency like FSD Africa that may not have a financial interest in a transaction but does want the transaction to succeed because it is important for the development of the market.



Deploying risk capital can drive enterprise-level impact within a short period of time. However, on its own, it is incapable of delivering systemic market-wide impact. Identifying and leveraging opportunities where other market-building instruments (e.g. technical assistance and advocacy) can be deployed alongside risk capital is necessary, and can help enhance the development impact return of the latter.



Emergency grant funding, such as that given to businesses to manage a crisis – as seen during the Covid-19 pandemic – should be deployed in ways that do not crowd out alternative sources of more sustainable financing, such as debt finance. Strategies for weaning businesses off grants should be put in place at the early stages of the grant funding.



Market development impacts can be subtle and are in most cases variegated by market conditions. For this reason, they can be hard to pick up using the typical evaluation methodologies. While mixed-method evaluation approaches remain relevant, qualitative storytelling techniques are more promising and can help bring out the nuances of the changes happening in the different markets being reached by a market-building initiative.

Word from the Board Chair



I am proud to be able to add my support to FSD Africa’s 2022 Development Impact Report, my first as Chair of FSD Africa.

At the recent COP27 in Sharm-el-Sheikh, which focused on

implementation, the message could not have come through more clearly that in order to solve the climate crisis, we have first to solve the climate financing crisis. As we all know, Africa receives a very small share of global climate finance – this, despite contributing the least to global emissions and suffering the brunt of climate risks. That has to change for our precious continent to be able to deliver sustainable economic opportunities for its people - soon to be a quarter of the world’s population - and to protect and nurture its natural assets which play such a crucial role in decarbonising the planet.

FSD Africa demonstrates that, through patient innovation and strategic partnerships, it is possible to overcome the challenges that undoubtedly exist in African financial markets and convert the continent’s need for finance into an incredible opportunity for development.

Since becoming FSD Africa Chair, I have been hugely impressed by FSD Africa’s energy, creativity, collaborative culture and track record of achievements. But I also welcome its fiercely rigorous commitment to understanding what really works to deliver impact in financial market development. I am delighted that through this report we are able to share insights with the market and especially with our partners, including those who we look forward to working with in the future.

Finally, on behalf of all at FSD Africa, I would like to express our immense gratitude to the UK Government for its commitment and steadfast support for FSD Africa over the years.

Dr. Frannie Leautier
Chair, FSD Africa Board

Word from FCDO



Throughout our partnership over the past decade, FSD Africa has continued to use its talented people, innovative approach and convening power to bring African-led solutions to develop and deepen financial

services and capital markets across the continent. Sustainable, viable financial markets are critical if the continent is to contend with the profound and interrelated humanitarian, climate and economic crises faced by so many.

As FSD Africa demonstrated at COP27 through its partnerships with government and private investors, local capital markets have an important role to play in leveraging more private finance, including for adaptation and nature. The innovative interventions and transactions described in this report – from the gender bonds in Tanzania and Morocco, to the investment in catalysing climate resilience – clearly demonstrate the possibility and potential of African financial markets to bring more finance, more efficiently to where it is most needed.

Under its new green strategy, FSD Africa is playing a unique role as a catalyst for change in financial markets – to unlock climate finance at scale, to support economies and individuals to build resilience to shocks, and to ensure that financial flows reach the areas of greatest need. The UK is proud of our longstanding partnership with FSD Africa and its mission to address systemic challenges within Africa’s financial markets, with the aim of sparking large-scale and long-term change. The Board, the leadership and the FSD Africa staff do just that.

Louise Walker
Head of Private Sector and Capital Markets,
FCDO





Riverside Green Suites (Palm Suite)
Riverside Drive, Nairobi
P.O. Box 5980, 00100 Nairobi
+25420 402 4000 | +254 729 729 111
www.fsdafrica.org

