



FSD Africa Investments (FSDAi): Building Africa's financial markets

Forewords



Anne-Marie Chidzero
Chief Investment Officer, FSDAi

FSD Africa Investments (FSDAi) was established six years ago to make investments that enable capital to flow to activities that drive sustainable prosperity in Africa. The need for an investment arm that could test and accelerate practical solutions to the barriers in the financial markets had become apparent. At that time, FSD Africa relied on Technical Assistance and other non-financial tools to facilitate structural changes needed in Africa's financial markets to enable them become more inclusive and spur the continent's growth.

FSDAi's mandate is to take on risk that enables financial firms and intermediaries address a financing gap, test innovative solutions, grow these business models, and attract more capital. We are proud of what we have achieved in six years. Our earliest investment in the African Local Currency Bond Fund (ALCBF) has enabled local currency to flow to companies. Since our investment, ALCBF and its underlying companies have catalysed approximately US\$2.4 billion of private investment, resulting in over 9,000 new jobs, and access to clean energy for over 3.4 million households¹. We also participated in early investment rounds in MFS Africa, enabling the company to expand and connect more than 320 million mobile money wallets, which aided cross-border payments for remittance companies, financial service providers and global merchants. MFS Africa was also able to raise further expansion capital. We completed a financially successful exit having fulfilled our market-building role. Crucially, our role in these transactions enabled the intermediaries to address a financial market gap.

FSDAi's ambition continues to grow, and it's increasingly becoming a driver for sustainability. We aim to back the next generation of African financial entrepreneurs, identifying and implementing African-led financial sector-focused solutions. This will include financial innovations to support the urgently needed private financing for business innovations in nature, climate adaptation, green infrastructure, water, and agriculture sectors. Equally, our investments will align with the Paris Agreement on Climate Change. We will continue to find ways to be catalytic with our funding, making each dollar we deploy work as hard as possible, and meaningfully contribute to the growth of Africa's financial markets. We will also ensure that our investment decisions are informed by the experience we have gained in our first six years.

We hope you enjoy this summary of FSDAi's activities and impact and look forward to mutual engagements as we drive changes in the financial markets, an engine for prosperity in Africa.



Claire Innes
Head of Private Sector and Capital Markets Department, FCDO

Africa needs approximately US\$250 billion financing per year till 2030 to meet its climate goals, and additional capital to create economic opportunities for people and protect the environment. This investment will only be achieved with shifts in the way the finance system works. This is where FSDAi's work, enabling capital to flow to new instruments, local intermediaries, business models, and innovating towards a market shift in the allocation of finance, is so important. FSDAi's investments have been catalytic in nature, yielding wider effects demonstrated by additional co-investment and follow-on finance to traditionally under-financed sectors or groups such as women and SMEs. FSDAi is playing a major role in supporting and showcasing African entrepreneurs and the opportunities on the continent.

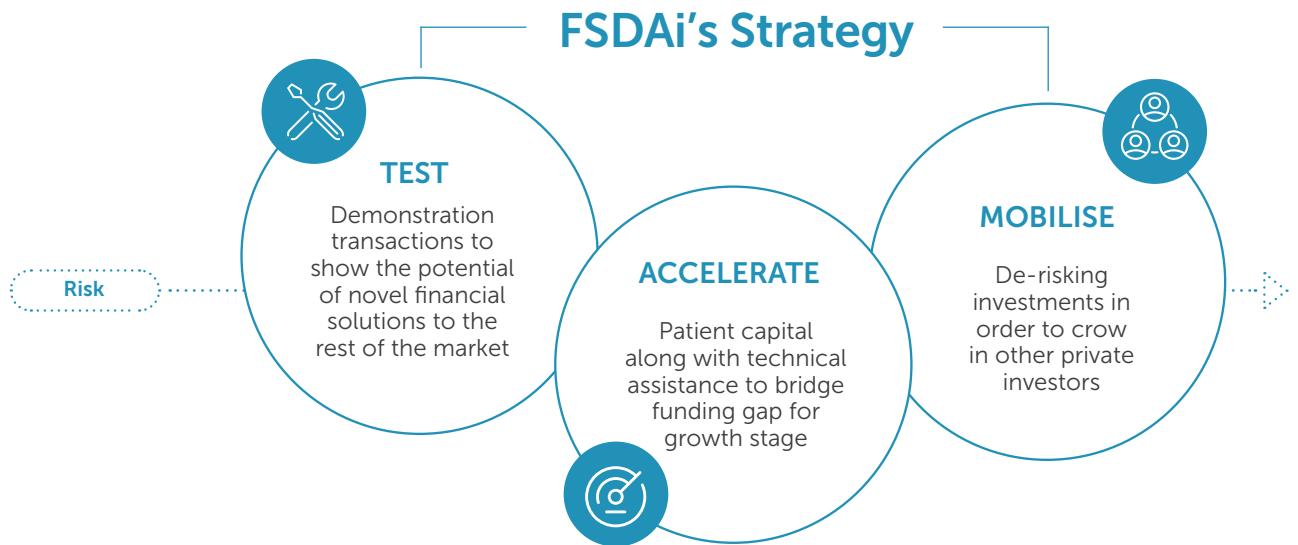
FCDO supported the emergence of FSDAi because we saw the importance of an investment vehicle that builds on the work of FSD Africa to address failures in the market. We saw that viable investments could be made to pilot new approaches, spotlight promising innovations, and bring in new investors, especially from within Africa. In its first six years, this initial thesis has played out across FSDAi's portfolio, through backing local currency bonds, housing finance, remittances, early-stage finance for renewables, finance for women entrepreneurs and more. FSDAi has also shown itself to be responsive to needs, particularly through its support for a COVID-19 fund during the pandemic, and now increasing its climate and nature finance. We see this flexibility as a core strength, alongside its local insights, focus on improvements to the financial system, and appetite for well-informed risk-taking.

FSDAi plays a vital role in identifying, supporting and enabling the fundamental shifts required for finance to flow into and within Africa. By providing financing in ways that other investors cannot due to their risk mandate, FSDAi has helped unlock opportunities for commercial investments. We look forward to the next phase of FSDAi's transformative efforts.

¹ ALCB Fund Annual Development Impact and E&S Performance Report (2022)

Introduction

FSD Africa Investments (FSDAi) was set up in 2017 as the investment arm of FSD Africa, to deploy innovative, catalytic capital. Significant additional funding was provided in 2019. Since its inception, FSDAi's strategy has been to contribute to the development of the financial markets in Africa by playing a patient and catalytic role, using three investment approaches: test, accelerate and mobilise finance as illustrated below:



FSDAi provides capital to meet the needs of the investee through a range of financial instruments, including equity, loans and guarantees. It leverages other teams at FSD Africa, who complement the investments with market building technical assistance. We look for financial returns on investments that support the development of market-based solutions. Our key mandate is to accept higher risk and earlier stage than others, on projects with a high potential for development impact through testing new models, accelerating promising models in the market, and mobilising co-investment.

FSDAi's work is complementary to the work of the rest of FSD Africa, and in our first phase (2017-2023) we have seen that this combination of financial tools from FSDAi and non-financial tools from FSD Africa yield impactful interventions.



Our high appetite for risk distinguishes FSDAi from commercial investors in the market and most development finance institutions. We use this approach to design appropriate financing structures, enabling investment from other players, either as co-investors or follow-on investors. FSDAi's strength is its ability to manage risk through its strong financial acumen, deep knowledge of markets, and ability to take-on appropriate investment risks linked with our vision of "making finance work for Africa's future".

"Grants take risk away from projects. Investment capital shares the risk and is a more efficient way to drive impact because everyone has skin in the game."

Mark Napier
CEO, FSD Africa

FSDAi's first exit – MFS Africa

In 2018, FSDAi invested in MFS Africa, a financial technology company offering mobile financial solutions across Africa by enabling digital inter-operability. Its purpose is to make mobile money transfer more efficient. At that time, MFS Africa was struggling to attract commercial investors to achieve scale prior to profitability.

FSDAi's investment had a signalling effect that triggered further investments and FSDAi's Technical Assistance grant drove a wider market-building effort, including with regulators. FSDAi concluded a financially successful exit of its investment in MFS Africa in 2021, having achieved its market-building mission.

By June 2021, MFS Africa had served a cumulative total of 2.3 million senders and 4.7 million recipients.

During FSDAi's investment, MFS Africa more than quadrupled the number of hubs and corridors it had in place to serve these people and SMEs. Importantly, MFS Africa is filling the gap in the market for effective vehicles for remittances that FSD Africa and FSDAi identified.

In response to specific needs and opportunities, FSDAi's focus areas have evolved over time. Its earlier focus on financial inclusion has now shifted towards addressing the gaps in finance for Africa's green and sustainable growth. The emphasis has constantly been on investments that not only have a direct impact on people and the planet, but also contribute to financial market development.

Investment for a low-carbon future

In line with the broader strategy of FSD Africa, FSDAi is focused increasingly on investments that support a low-carbon economy, and that value and protect nature. The risks arising from climate change and depletion of nature necessitate action, and FSDAi also sees emerging opportunities for many African countries to benefit from a green growth path. FSDAi's investments in Nithio and Persistent Energy, and most recently in Africa Climate Ventures, are examples of this.

FSDAi provided the early equity and leadership support to Persistent Energy and Nithio, scaling their innovative financing platforms for climate adaptation and last mile renewable energy access, and to mobilising further funding. These investments are demonstrations of alternative climate finance for businesses that are tapping into Africa's energy and adaption opportunities. More information on the impact of our investments is [here](#).

Africa Climate Ventures (ACV), FSDAi's most recent investment in climate finance, identifies opportunities to build climate smart businesses in Africa by backing the establishment of low carbon technologies, particularly removals, in Africa; scaling up successful carbon businesses; and adding carbon revenues to existing business models. FSDAi's convertible loan supports ACV with its formalisation and creating the investment case to further mobilise private capital into Africa's carbon opportunities. More information [here](#).

"FSDAi is focused on additionality and is pushing for genuine financial sector outcomes. That means it is playing a pretty unique role."

Mark Napier
CEO, FSD Africa

FSDAi's investments have revealed huge additionality for investees, specifically in unlocking additional investments by providing catalytic funding and strategic guidance, increasing access to potential investors and supporting fundraising efforts for investees. Our investment in Persistent is a good demonstration of additionality with 'catalytic' support from FSDAi, including US\$3 million in investments to date. Persistent has gained exposure to diverse investors and platforms, broadening its network, and magnifying its impact. In 2022, Persistent raised US\$10 million in equity in its Series C round with the support of Kyuden International Corporation, FSDAi and high net-worth individuals.

"Our journey with FSD Africa started in July 2022, when FSDAi invested in our Series C round. Since then we've seen FSDAi's significant impact. FSDAi is active on our Board, and has supported us in launching our ESG Management System. In our investments, we've been able to deploy more capital in climate focused areas of e-mobility, off-grid solar, climate technology, energy efficiency and other climate areas."

Wairimu Karanja,
Partner and Chief Legal Officer at Persistent.

FSDAi's portfolio distribution

"We need to take time and make the effort to find and support African-led solutions and back local leadership, with a flexible and adaptable range of financial instruments."

Anne-Marie Chidzero,
CIO, FSDAi

To date, FSDAi has committed US\$114 million (£92m)² in catalytic capital in Africa.

We use several financial instruments including debt and equity, among others, as illustrated in the graph below:



FSDAi makes sure that the capital it raises is directed towards important areas such as green assets, digital transformation, the real economy, and fundamental services, with an emphasis on producing advantageous social and environmental consequences. Its portfolio of investments is managed to produce financial gains and development benefits.

² 22-09-23 FSDAi CIO Board report September 2023

Key milestones



2017

FSDAi set up with US\$36m (£29m) capital
First investment in ALCBF



2019

Capital increased by an additional US\$99m (£80m)



2021

First exit, from MFS, with 6 million people accessing low-cost remittance services



2023

19 transactions totalling US\$114m (£92m) committed by June 2023



2018

Investments made in MFS Africa and Sofala



2020

Targeted investments made in response to COVID-19



2022

Increased focus on green finance as momentum on climate finance grew

Summary of FSDAI's investments

since inception



TEST

Innovation and proof-of-concept:

FSDAI's risk tolerance allows it to pursue new and innovative business models with transformative potential, driving the enhancement of capital markets through demonstration



ACCELERATE

Expansion:

FSDAI's risk tolerance allows it to pursue early-stage funds and enterprises with market transformation potential, to build and expand immature capital markets



MOBILISE

Risk-sharing, catalysing and showcasing:

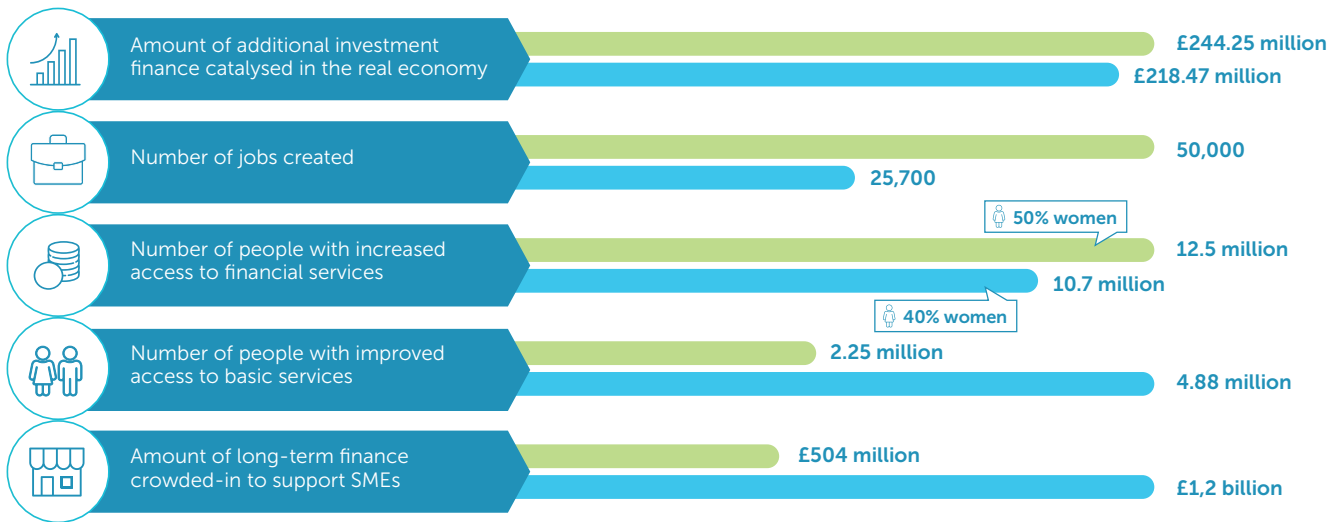
FSDAI's risk tolerance enables it to take on risk in a capital stack that others cannot take, catalysing others by its ability to commit to first closes and share due diligence and showcasing investability to other investors



Impact narrative

Results against targets

FSDAI's investments in a variety of financial firms have had a significant effect on the financial sector and its intended beneficiaries. As our portfolio has evolved from one investment in 2017 to 19 investments today, so has the impact of our work. Our investments have enabled 10.7 million people (40% women) access finance, and 4.88 million others access basic services. We have crowded-in £1.2 billion worth of long-term capital to support SMEs because we believe they are the backbone of Africa's economy. Additional impact results represented against FSDAI's 2030 targets are captured in the figure below:



● Target (2017-2030) ● Cumulative Results, as of March 2023

Enhancing impact through gender lens investing

Sub-Saharan Africa is the only region in the world where more women than men become entrepreneurs. But an estimated US\$42 billion financing gap for women in Africa today, constrains their opportunities to support and expand their businesses.



[Click for more information](#)

"A value of our data-driven platform is efforts to get gender disaggregated impacts. That has been helpful,"

Grace Fenton
Chief of Staff, Nithio

FSDAi applies a 'gender lens' across all of its investments. It aims to close the gender gap in leadership by continuing to emphasise the importance of women in senior positions and has taken steps to invest in companies with women founders or women in senior leadership positions. Examples of such companies include, Persistent, Nithio, Transform Health, and the Nyala Facility, which back alternative asset allocators financing small and growing businesses that are often women backed, or apply a gender lens.

FSDAi also expects its investees to explore how their activities can empower women as customers. For example, Nithio is improving women's and girls' livelihoods through solar home systems, leading to cleaner home and work environments, financial inclusion, and saving time on daily activities.



What we've learnt in the last six years



Combining and balancing financial return, risk and impact at investment and portfolio level

FSDAI's mandate requires it to consider the current and potential future financial return from its investment, the direct and market development impact, and the risks that may affect the success of an investment in financial or impact terms. These three elements are closely interwoven but not always plainly optimisable. For example, an investment in a very challenging market may be likely to deliver a higher impact than an investment in a more established and mature market, because the beneficiaries' need (and the need for market development) may be greater.

However, there would be no impact if the investment does not succeed. The higher risks must therefore be calibrated carefully against the potential to deliver outsized impact. In a challenging market, FSDAI may have to nurture and cultivate the investment for a long time before other more commercial investors come in. This ties up precious investment that could have been deployed to other investments yielding scale and impact more quickly.

FSDAI's experience has confirmed that by selecting investments that test, accelerate and mobilise finance in different ways, it can balance the three dimensions of risk, return and impact across the portfolio.



Benefiting from the complementarity with FSD Africa

The combination of FSD Africa's deep knowledge of African capital markets, risk, digital innovation, and green finance, with FSDAI's expertise on investment is powerful. Several examples of FSDAI and FSD Africa reinforcing each other's mandates have emerged in FSDAI's six years of operation. In some cases, FSD Africa has originated investments for FSDAI, for example, Catalyst Fund received grant funding from FSD Africa to support incubation of climate tech start-ups before moving into FSDAI's portfolio.

FSD Africa and FSDAI can also combine forces on some investments, with FSDAI providing the commercial funding and FSD Africa providing support for the wider ecosystem in terms of training for people in financial institutions and support for regulators. This model has worked very effectively with Frontclear. The African Natural Capital Alliance, which FSD Africa helped to establish, creates a platform for FSDAI to have discussions with financial institutions about what investments to support natural capital might look like.

FSD Africa and FSDAI will continue to benefit from, and be informed by, each other's activities.



Investing directly and through intermediaries

FSDAI's portfolio is a combination of direct investments and investments through funds or intermediaries. FSDAI has learned over time that this approach works well. It achieves exposure to some promising individual business models and ideas, while enabling FSDAI to support a range of activities within a theme, and avoid portfolio concentration. For example, Persistent and Lendable are aligned with FSDAI's access to renewable energy theme. By channelling funds through intermediaries, and spreading execution risk across more enterprises, FSDAI can also be more confident of meeting its targets for impact.



Aiming for market development not transformation in individual projects

FSDAi has aligned its transactions along the goal of finding ways to shift the financial markets in Africa to enable capital flow to the people and places that need it. By assessing the market failures and deliberately targeting investments that seek to address them, FSDAi can and does help to test and accelerate solutions and achieve incremental change. But FSDAi has learned over its first phase that very often individual transactions don't create market transformation.

As part of the ex-ante assessment of potential investments, FSDAi considers the current and potential future state of the market, to determine the changes that could be expected as a result of the investment. FSDAi also considers the strength of the mechanisms in place to enable and reinforce wider market change. For example, an investment enabling carbon finance to flow to new areas is more likely to be replicated if investors and companies in the market are expected to disclose and set targets.



Defining roles and expectations, while supporting innovation

FSDAi works with financial companies and funds at a relatively early stage in their development. At this stage, the organisation's strategy and roles tend to be fluid. There may be no proven track record. There may be times when the organisation wants to be opportunistic and pivot its strategy to take advantage of a change in the context.

FSDAi's presence on the ground enables close communication with sponsors, meaning that it can be nimble in its approach, while ensuring that the implications of any proposed changes are carefully considered. Where restructuring is required for investments, FSDAi plays an active part in finding appropriate solutions. This flexibility and hands-on support are a hall-mark of FSDAi's approach to investment.

FSDAi investee Persistent supports **SolarTaxi**, an electric vehicle manufacturer in Ghana





The next phase

"FSDAi will grow and flex its muscles further, exploring different types of transactions, additional roles and new instruments to support market development."

Mark Napier
CEO, FSD Africa

Over the next Phase, FSDAi will build on its successes and learn from its experiences. It still has to build up its track record through demonstrating successful exits, but the signs from the portfolio are encouraging. It is very clear that there is an enormous need in the market for investors with commercial instincts who can take well-informed risk to drive capital towards critical sectors and solutions.

FSDAi is well-positioned to continue to test new business models, accelerate existing financing activities, and catalyse new funders to scale up solutions for underserved groups of people and the environment.

FSDAi will continue to use its range of financial instruments to play different roles in transactions, whether equity, mezzanine finance or guarantees. It will develop relationships with new funders to explore additional ways of catalysing capital, for example, sidecar funds.

FSDAi will continue to increase its focus on investing in, and driving additional capital to climate change mitigation, adaptation, resilience and the protection and enhancement of nature. Its investments will be made with the conviction that scaling up the global response to climate change and loss of nature in an inclusive and just way is critical for the well-being of all, and that Africa has a vital role to play. It will continue to benefit from the expertise of FSD Africa in these specialist areas as well as building its own capacity.

"We want to move fast to back ambitious but solid business models from the next generation of thinkers and doers that can really unlock capital at scale to solve key challenges."

Anne-Marie Chidzero
CIO FSDAi

"We can talk all day about Africa's business opportunities and challenges: 700 million people still don't have electricity; transportation is growing but so is the pollution that comes with it. Nothing will change without funding to take on the opportunities and challenges. Funding remains key. FSD Africa Investments is helping fill the gap, enabling folks like Persistent to back very early stage companies in ways others don't, and so de-risking the startup market for other investors. That said, you could have all the money in the world, but it will fall short of enabling startup success if policies in target markets are unfriendly. So there's good work to do there too."

Toukam Ngoufanké
Senior Principal & Venture Builder at Persistent

The challenge is large, and so is FSDAi's ambition. FSDAi sees an enormous opportunity to meet the needs in the market if funding is available. The generous support of FCDO and FSD Africa has enabled FSDAi to have a strong impact, and ready to welcome new capital contributions to enable it go further and faster in its journey over the next five years.



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