fsdafrica

Impact Report

What We've Learned & What We've Achieved

November 2020

UKaid from the British people

Foreword

This impact report, FSD Africa's first, was conceived long before the Covid-19 crisis. The pandemic is causing immense anguish at a household level, and the cost for economies around the world is staggering.

From our point of view, Covid-19 is challenging assumptions of how to bring about systemic change in financial markets, and we are being forced to reimagine what success looks like. But we are determined to help Africa recover from the economic trauma that it finds itself in.

To do that, we must draw upon all our experience, and this report documents some of the impact FSD Africa has had since it was created by the UK government in 2012.

Our work has been varied. We have provided technical assistance to capital market regulators. We have helped stimulate local currency bond markets. And we have supported the upskilling of capital market practitioners.

But we have also worked with the private sector to bring financial products to refugees in Rwanda and Uganda, and supported young entrepreneurs in the slums around Nairobi. We brought savings products to hundreds of thousands of female market traders in Nigeria.

Collectively, these case studies make the argument that to be effective in financial sector development, we need to cover the entirety of the financial system. We should appreciate that while 'finance for poverty alleviation' and 'finance for the poor' may be different, both are important and, to a significant extent, interdependent.

What of the future? Covid-19 came along at a time when FSD Africa was already embarking on a massive transformation. With our colleagues in the FSD Network and at the Foreign, Commonwealth & Development Office (FCDO), we spent many months reflecting on past successes and failures, creating a new vision for the kind of financial sector that Africa needs and the kind of FSD Network that would be best placed to make that vision a reality.

What we concluded was that, first, we need to be much clearer about the impact we want to achieve. Addressing the workings of the financial system is not enough. So we will focus more on whether our interventions improve people's access to jobs and basic services, and whether they contribute to a more sustainable future.

Second, we need to root our programmes in a deeper understanding of industry sectors. We need to get much closer to the real economy to understand how finance can be most useful in developmentally important sectors such as affordable housing, health and agriculture.

Third, we see great potential for using a wider range of instruments to achieve our goals. Development capital is now fully integrated into our suite of instruments, alongside grants and technical assistance. This makes our approach more 'activist', but the objective is still the same: financial markets that are more efficient, competitive and innovative, which create choices and reduce costs for the people who use them.

We are proud to have access to concessional capital at a time when liquidity in some parts of the financial system is seriously constrained. For two decades or more, donor-funded agencies have worked hard to develop a more inclusive financial system that has the interests of poorer people at heart. FSD Africa's risk appetite remains high and we hope to use our capital to encourage others to partner with us.

The social and economic consequences of Covid-19 will be felt for many years to come, and we want our resources to play a role in helping people manage them. But we are also determined to contribute to a more sustainable future, in which societies are less unequal, transactions are more transparent and natural capital is protected and nurtured. Greener, cleaner, fairer.

We thank our Board of Directors for the guidance they have given us over the years. We also thank our funders, especially our primary funder, the UK government, for its continued confidence in FSD Africa.

Mark Napier | CEO

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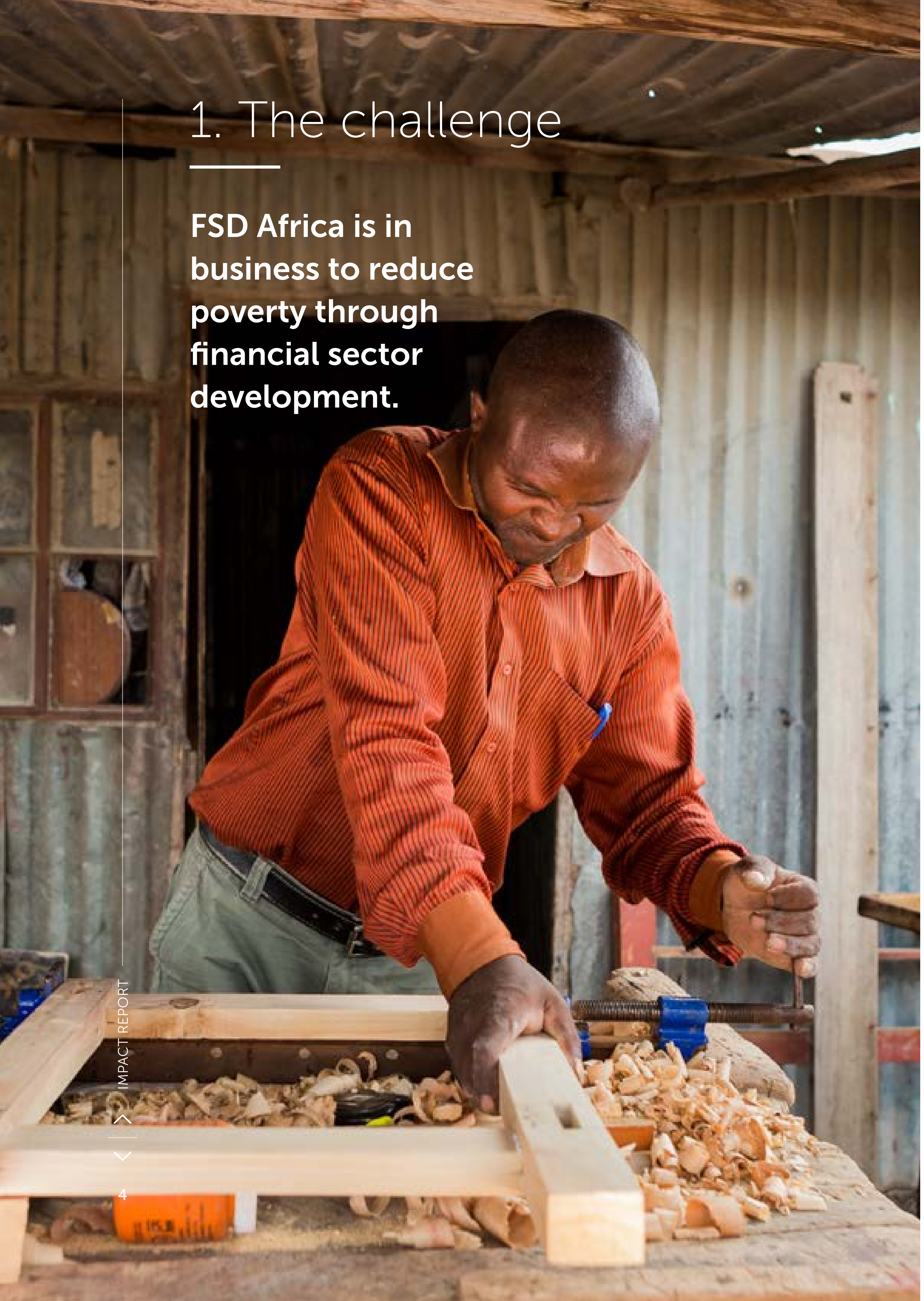


1. The challenge

FSD Africa is in business to reduce poverty through financial sector development.

Created in 2012, by the UK government's Foreign, Commonwealth & Development Office[1], we focused initially on the challenge of strengthening financial services to improve the lives of poor families.

We also wanted to tackle the problem of financial exclusion: in 2014, 64% of adults (350 million people) in sub-Saharan Africa had no access to a bank account, compared to a global average of 39%[2].

Much progress has been made. By 2018, the development of more inclusive financial services meant an additional 69 million adults across the continent had access to accounts[3].

But Africans still remain the most unbanked population on the planet. And financial markets on the continent are fragile and vulnerable to shocks. They are not fulfilling their potential to deliver poverty-reducing effects for millions.

What's more, African firms – which generate jobs, raise incomes and produce goods and services that can help those in poverty – are starved of finance. In 2019, domestic credit to the private sector as a proportion of GDP stood at 45% in sub-Saharan Africa[4] – the lowest such figure in the world.

And there are deep regional variations across the continent, with these issues being felt most sharply by fragile communities and states, refugees, slum dwellers and those affected by conflict or environmental pressures.

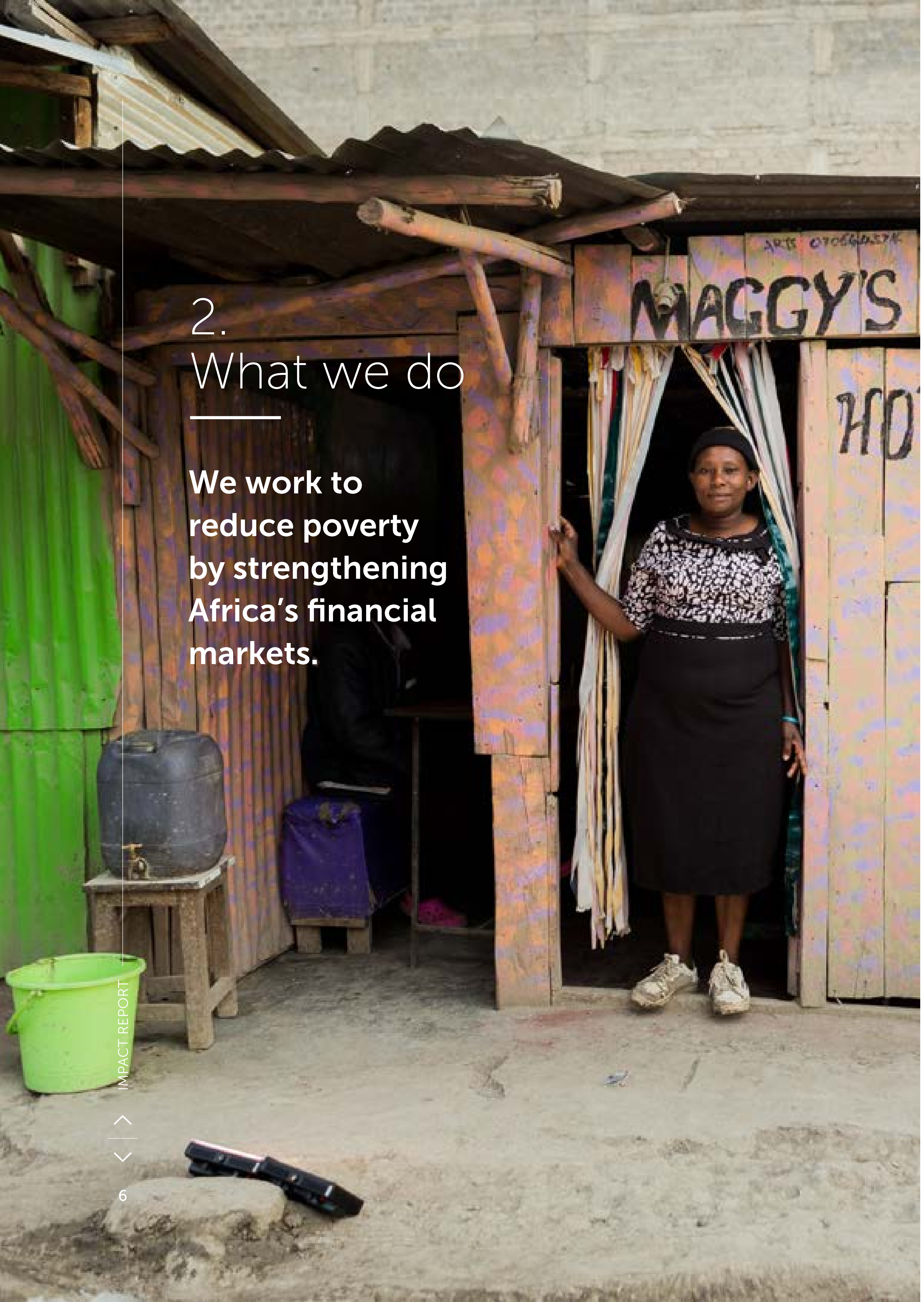
And so we are adapting to these challenges, and embarking on a more ambitious programme of change. Inclusion alone is not enough. It must deliver tangible benefits that improve people's lives.

We will continue to tackle the challenges faced by Africa's financial markets, to enable high-quality services and long-term flows of capital to reach the places they are most needed. Inclusive financial markets depend on well-functioning capital markets.

But to deepen our impact, we will redouble our efforts to make finance work in response to some of Africa's most pressing challenges: healthcare, climate change, agriculture and housing.

The social and economic pain caused by Covid-19 has not altered our approach but stiffened our resolve to make finance worker harder for all.

1. Formerly Department for International Development (DFID)
2. 2014 Global Findex Database
3. 2017 Global Findex Database
4. World Bank Data, 2019



2.
What we do

We work to reduce poverty by strengthening Africa's financial markets.

2. What we do

Our growing team of over 50 financial experts works alongside governments, business leaders, regulators and policymakers to design and build ambitious programmes that help to ensure Africa's financial markets better serve those most in need.

From Ethiopia and Ivory Coast to Uganda and Zambia, this work spans over 30 countries, incorporating a network of partners in Africa and beyond.

We deploy a range of market development tools, both financial and non-financial – from advisory to investment. But we are consistent in our mandate to strengthen underlying fundamentals: policy and regulation, products and services, market intelligence, and capacity and talent. These are central to the health of any market, but can often be scarce in Africa.

It is by addressing these market failures and inefficiencies that we enable the continent's banking and investment sectors to provide high-quality financial services, and capital on a significant and lasting basis.

Our theory of change

Underpinning this approach has been our theory of change, presented below. It describes how our teams operated and how our activities delivered financial changes and enabled outcomes that have a strong link to poverty reduction between 2012 and 2019.

Since January 2020, when FSD Africa and the FSD Network received additional funding from FCDO, we have been working on a new impact narrative narrative and theory of change. This will be focused on three new outcome areas – jobs and incomes, basic goods and services, and sustainable futures.

For more information about our new strategy (FSD 2.0), please see section 8.

Poverty reduction

Social impacts

Inclusive economic growth*

Approximately **27,000** full-time equivalent (FTE) jobs supported

Key financial sector development outcomes

Access to services*

2.6m have saved in a financial institution
1.2m have been insured
1.2m have accessed remittance services

Access to capital*

£1.5bn of green finance and other types of long-term capital catalysed

Key financial market system changes

Improved policy and regulatory environment

Over **130** financial policy and regulatory changes effected across Africa through our support

More responsive financial service providers and financing mechanisms

58 inclusive finance products and solutions developed; high satisfaction levels among end users

New sources of capital invested in market innovations

£5.1m mobilised directly alongside and soon after FSD Africa funding for investees and grantees

New institutions created and existing ones strengthened

At least **38** financial institutions created or strengthened, at least **£4.5m** of donor co-funding crowded in to enable this

Key FSD Africa investments and outputs

Direct capacity building

Strengthened capacity of at least **50** financial service providers

Technical assistance (TA)

Over **20,000** staff working with financial market institutions across **28** countries reached

Research

Insights generated from at least **100** market research initiatives

Development capital (DevCap)

£28.3m invested in **6** DevCap investments

Financial market system challenges

- Weak policy and regulatory environment
- Technical capacity constraints
- Inadequate market information
- Lack of incentives for financial institutions to serve the unbanked
- Coordination failures at government and regional level
- Lack of risk capital

** Inclusivity defined and measured through mainstreaming of gender and fragility, and crowding in of capital.*

3. How we do it

Our approach is targeted at creating sustainable and long-lasting change. It has been developed over seven years of working with policymakers and regulators, financial institutions and communities in sub-Saharan Africa.

Vital to our overall strategy are two things: our partners and our tools, both financial and non-financial.

Partnerships

Market players

We proactively seek out opportunities to work alongside government agencies, financial firms, investors and other stakeholders to fix deep-rooted market failures.

Technical partners

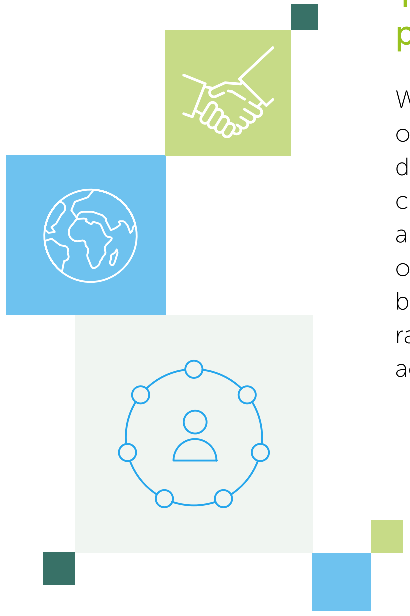
We work closely with our technical partners in delivering our programmes, complementing their skills and experience with those of our own in-house teams by carefully selecting from a range of specialist technical advisors and implementors.

The FSD Network and funders

FSD Africa is part of a family of nine financial sector deepening (or 'FSD') programmes, operating across sub-Saharan Africa. The FSD Network has offices in eight countries and a staff of over 200 financial sector experts. The network invests over £50 million a year in high-potential programmes.

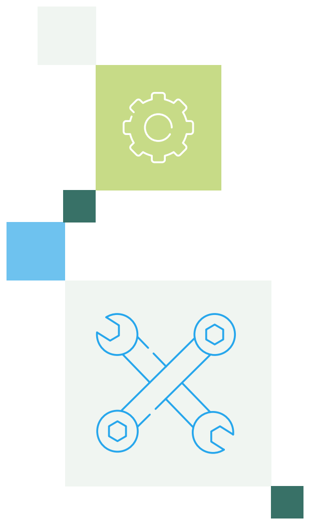
FSD Africa is funded by UK aid from the UK government, and works closely with its other development finance vehicles, such as CDC.

We also partner with multi-laterals such as the World Bank Group, bilaterals such as the Swedish International Development Cooperation Agency, and foundations such as the Mastercard Foundation and the Bill & Melinda Gates Foundation.



Tools

Across Africa, financial ventures often struggle to access the capacities they need to flourish. Many high-potential ideas fail before they have had a chance to fly. To help remedy this, we support our partners by drawing on a range of market development instruments.



Financial

Depending on the nature of the project, we can provide three types of financial support:

Grants

With no expectation of a financial return, grants are our most concessional tool. They are reserved for high-potential, but higher risk, commercial projects, or for non-commercial projects that have the potential for system-wide impact.

Returnable grants

With the expectation that most are repaid in full, we use returnable grants to support high-risk commercial projects. These projects build value for our partners and for FSD Africa. We recycle our share of any return into other projects.

Investment capital

Through FSD Africa Investments, our investment arm, we directly invest in high-risk businesses and funds operating in the financial sector that have the potential to change the way financial markets operate.

Non-financial

Often deployed in combination with our financial tools, we use a range of non-financial methods in our work.

Market insights and advocacy

We invest in analysis by commissioning research that delivers insights to market players, and by funding agencies that generate external market intelligence. We also advocate purposefully with the aim of influencing policy and practice change.

Technical assistance

To tackle challenges that require specific technical solutions, our team of financial sector experts work with and advise a range of our public and private sector partners.

Convening

To overcome the negative effects of market fragmentation, we use our deep networks across the continent to create opportunities for learning transfer and collaboration both within countries and between countries – as well as beyond Africa.

4. Our impact: in summary

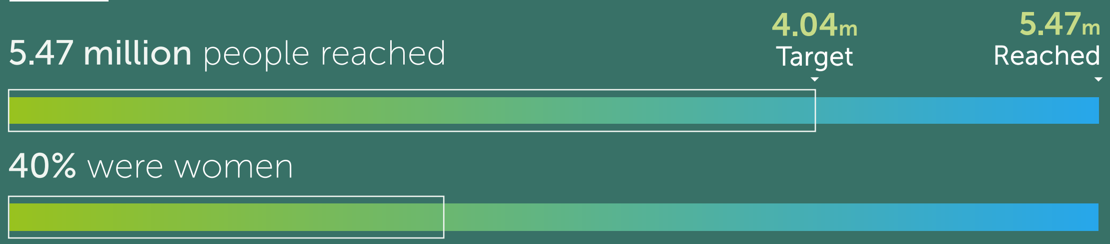
Since 2012, our programmes have had a significant and widespread impact on the strength of financial systems, on financial inclusion and on low-income communities in sub-Saharan Africa. Here is a summary of how our work has made a difference in five key areas:

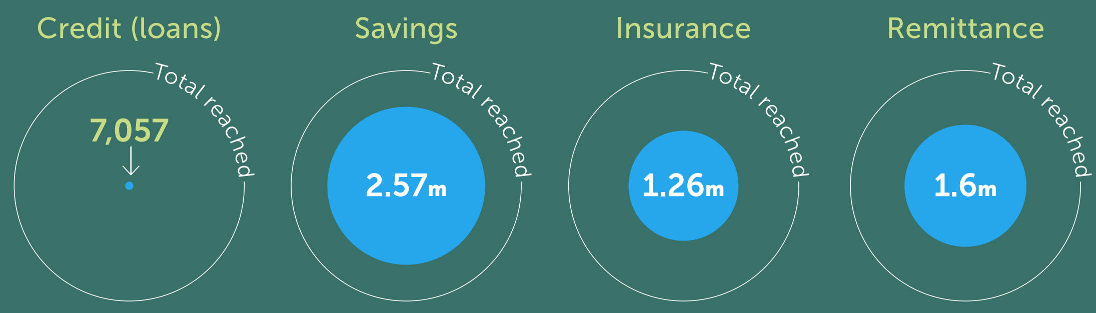
1. Access to financial services.
2. Empowering women.
3. Access to capital.
4. Strengthening institutions.
5. Strengthening market ecosystems.

Access to financial services

Between 2012 and early 2020, FSD Africa reached over 5.47 million people (against a target of 4.05 million) and contributed to at least 3.2 million MSMEs accessing credit to grow and/or sustain their businesses with financial services and products[5].

PEOPLE





BUSINESSES

5. Numbers of MSMEs reached by ALCBF, in which FSD Africa has a 14% investment stake

Fidelity Bank Ghana: agency banking

We worked with Fidelity Bank Ghana to develop new smart accounts and agent networks, in order to reach previously underserved communities. Thanks to the programme, over 900,000 Ghanaians, of whom 47% were women, gained access to mobile-based savings services – and saved over £35.4m.

Nearly 60% of account holders who were previously in debt are now out of debt and saving, and are better equipped to withstand financial shocks. Access to the savings products has also improved food security and digital and financial literacy, and increased asset ownership.

Following Fidelity's pioneering work, five other banks in Ghana also started rolling out banking agents (First Allied Savings and Loans, Ecobank, CAL Bank, First National Bank and Apex Bank).

Reaching the uninsured: ILO Impact Insurance

Insurance has an important role in combatting poverty and advancing development. It improves household and business resilience, increases productivity and helps to develop the demand for and supply of capital.

To meet the risk management needs of MSMEs and low-income households, insurers and distribution channels need to develop innovative products and processes that are cost effective and viable in the long term. To that end, we partnered with the International Labour Organization's Impact Insurance Facility to provide technical assistance to six insurers and distributors across sub-Saharan Africa.

The programme reached 1.2 million clients in four years, 30% of whom were women. We supported the design of 32 new insurance solutions, of which five are already being scaled up.

Empowering women

Across the continent, women are key economic actors. But their access to employment is limited, they are disproportionately affected by poverty, and they are often excluded from formal financial services.

Our programmes have helped to increase access to savings products among women, to boost female digital financial inclusion, and to extend crucial financial services to female business owners. And through our investments, a total of 27,000 jobs have been created across the continent – of which 50% are held by women.

Women's World Banking

Between 2014 and 2018, FSD Africa partnered with Women's World Banking to support two major banks in providing low-income populations – and especially women – with financial services.

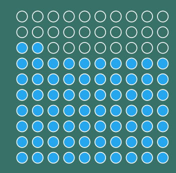
The programme provided savings accounts to 660,000 women. Access to these accounts encouraged households to save more, allowing them to better plan for significant expenses like school fees, the purchase of business assets or medical costs.

See the case study on page 21 for more detail about this programme.

27,000 jobs supported, of which **50%** are held by women.

Women's World Banking

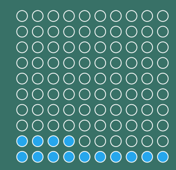
17,400 jobs supported



72% are held by women

African Local Currency Bond Fund

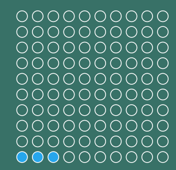
7,620 jobs supported



14% are held by women

Green Bonds Programme – Kenya and Nigeria

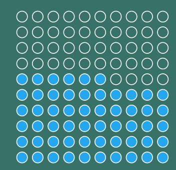
1,560 jobs supported



3% are held by women

Forcibly displaced people

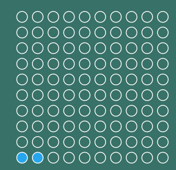
27 jobs supported



56% are held by women

Sofala

420 jobs supported



2% are held by women

**Further details on all these programmes can be found in sections 5 and 6.*

4. Our impact:
in summary

Access to capital

Since the early 2000s, the FSD Network has often specialised in enabling access to financial services for households. But in recent years, there has been an increasing appreciation of the broader poverty-reducing role the financial sector can play, especially through inclusive capital market development.

Access to capital of high quality – in terms of volumes, timelines and structures – is critical to the survival and growth of firms and the delivery of infrastructure projects. In turn, these firms and projects play a key role in reducing poverty, by creating jobs, improving productivity, providing basic goods and services and generating tax.

But Africa's corporate finance system is not reaching its potential to deliver these developmental effects. As a result, FSD Africa's teams – in particular our capital markets team and FSD Africa Investments – have worked hard to tackle bottlenecks in the continent's capital and credit markets. We've partnered across the public and private sectors to create the products, platforms, policies and capacities for capital to flow to where it's needed most.

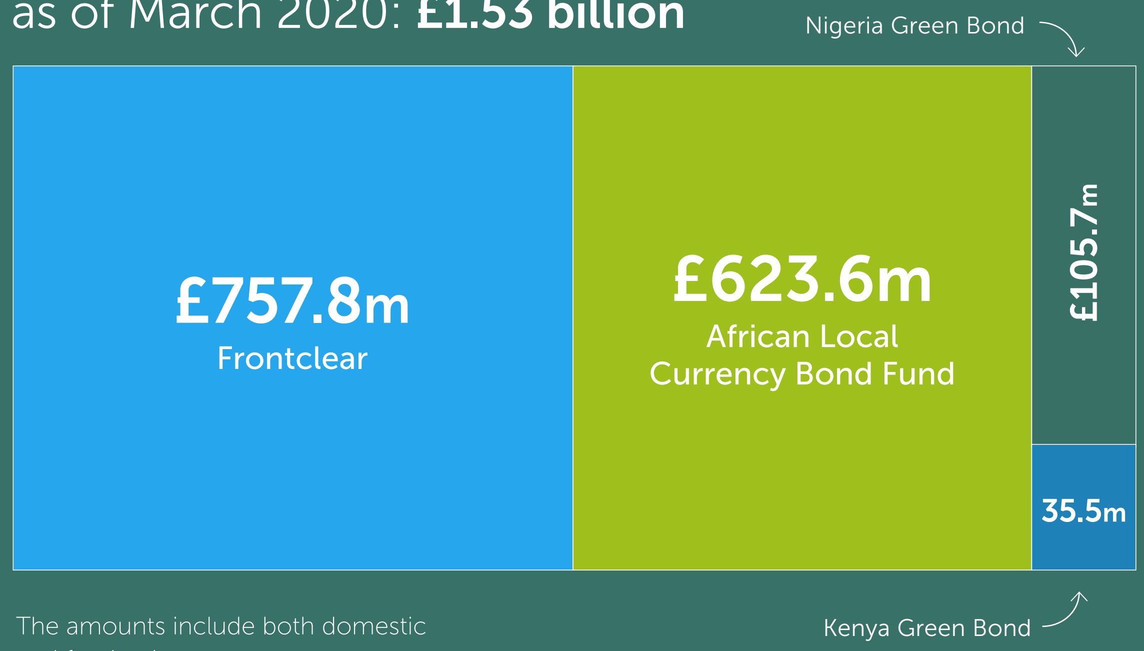
What are the benefits of a healthy capital market?

- Mobilises long-term savings
- Facilitates financing of priority sectors (real and social sectors, public and private)
- Improves risk management – by reducing foreign currency and refinancing risks
- Encourages efficient allocation of capital in the economy (enhances productivity)
- Improves corporate governance
- Democratises ownership of assets in an economy
- Reduces transaction costs
- Has a signalling effect on the economy

How can healthy capital markets reduce poverty?

- Long-term financing supports growth (productivity, infrastructure, financing for corporates), creating jobs and improving incomes
- Long-term financing improves access to services (health, education, markets), improving livelihoods
- Provide savings instruments for the underserved – e.g. through mobile-enabled platforms and for pension funds
- Finance intermediaries in debt and equity (banks and MFIs) – focused on inclusive finance

Long-term capital catalysed as of March 2020: **£1.53 billion**



The amounts include both domestic and foreign investments.

Frontclear

Frontclear helps banks across the continent to access liquidity and makes capital more accessible, thereby driving growth for entrepreneurs.

Established in 2015 with initial support from FSD Africa, Frontclear offers US dollar guarantees to enhance the value of local currency assets. Local banks use these guarantees to access the interbank market, a network where banks exchange funds and risk. If interbank markets function well, banks can get access to capital instantaneously, and on more flexible terms than in the wholesale markets. This otherwise 'dead capital' can be channeled into productive investments in the real economy, such as lending to African small and medium enterprises.

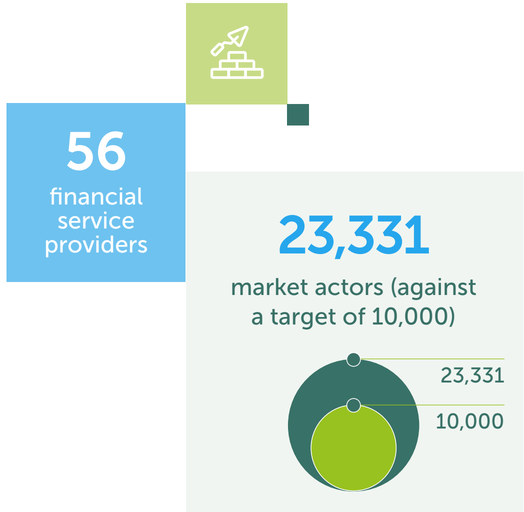
As of January 2020, Frontclear had mobilised $1 billion in interbank credit through the issuance of $590 million in guarantees. While active in emerging markets and developing countries around the world, 61% of Frontclear's portfolio is in Africa, in countries including Ghana, Kenya, Nigeria, Tanzania, Zambia and Egypt. Frontclear plays an important role in building inclusive money markets that promote competition, improve the allocation of capital and reduce transaction costs.

Strengthening institutions

A key aim of our work has been to build the capacity of financial institutions in Africa. The institutions we work with have included financial service providers and market regulators.

Our capacity-building initiatives are wide-ranging in scope, and include executive coaching, change management, classroom-based training and online courses for employees and leadership teams.

SINCE 2012, WE HAVE REACHED



INCLUDING

- 16 institutions reached through the Kenya Green Bonds Programme.
- Technical support on the use of data for financial service providers in Zambia and Sierra Leone.
- 12 potential issuers represented at an investment forum organised by the Nigeria Green Bond Programme.

In 2018, we performed an evaluation of our capacity-building approach. It showed that productivity had improved at the organisations we worked with, and programme participants had frequently implemented new solutions and ideas on return to their roles – most notably following the Women's World Banking programme.

We also saw significant impact in the professionalisation of capital markets, where we worked with the Chartered Institute for Securities & Investment a UK-based organisation to establish an official certification system through a combination of training and professional exams. This has increased demand for training courses, while also increasing the availability of courses. To date, well over 4,000 people have been trained through the programme, including more than 400, in French, in the West African Economic and Monetary Union (WAEMU) region.

And our programmes have also had a beneficial secondary impact: they have helped to bolster the market for capacity-building services in general, including in areas such as executive coaching and digital training.

FSD Africa was a founding funder of the Digital Frontiers Institute, which provides interactive digitised training and certification, and facilitates country-based communities of practice for professionals in the world of digital finance. To date, DFI has trained over 5700 professionals from more than 2,000 organisations in over 160 countries.

Strengthening market ecosystems

A vital step in strengthening Africa's financial markets is to improve how they are governed. We work with regulators across numerous sectors, helping them to adopt world-class standards.

This work has contributed to the creation or strengthening of approximately 130 regulations in sub-Saharan Africa between 2012 and early 2020. In markets with weak regulatory frameworks, where critical regulations have sometimes been entirely absent, these reforms have introduced soft infrastructure into financial markets, allowing markets to function more efficiently and building investor confidence by creating regulatory certainty.

Monitoring credit data in Zambia

Through our Credit Market Development Programme, we helped develop diagnostics in Tanzania, Ghana and Zambia, to provide regulators with the credit market data and processes they need to design inclusive credit market policies.

In Zambia, the programme is now housed at the Bank of Zambia. The data collected is already being used for analysis by policymakers, credit providers and investors, as well as by the central bank itself. This project is being implemented in partnership with FSD Zambia.

See the case study on page 24 for more detail about this programme.

Risk, Remittances and Integrity (RRI)

In collaboration with think tank Cenfri, the RRI programme aims to strengthen the integrity of the financial system, improve risk management and facilitate remittance flows to improve welfare and boost investment growth in sub-Saharan Africa.

RRI has supported nearly 700 regulators, supervisors and policymakers. Under this programme, we have provided direct input to insurance regulations in a number of countries as well as to innovation guidelines in the remittances space.

GHANA

National Insurance Commission (NIC)

As a result of our research, the NIC is pursuing several new lines of work, including a focus on annuities and cell captives.

UGANDA

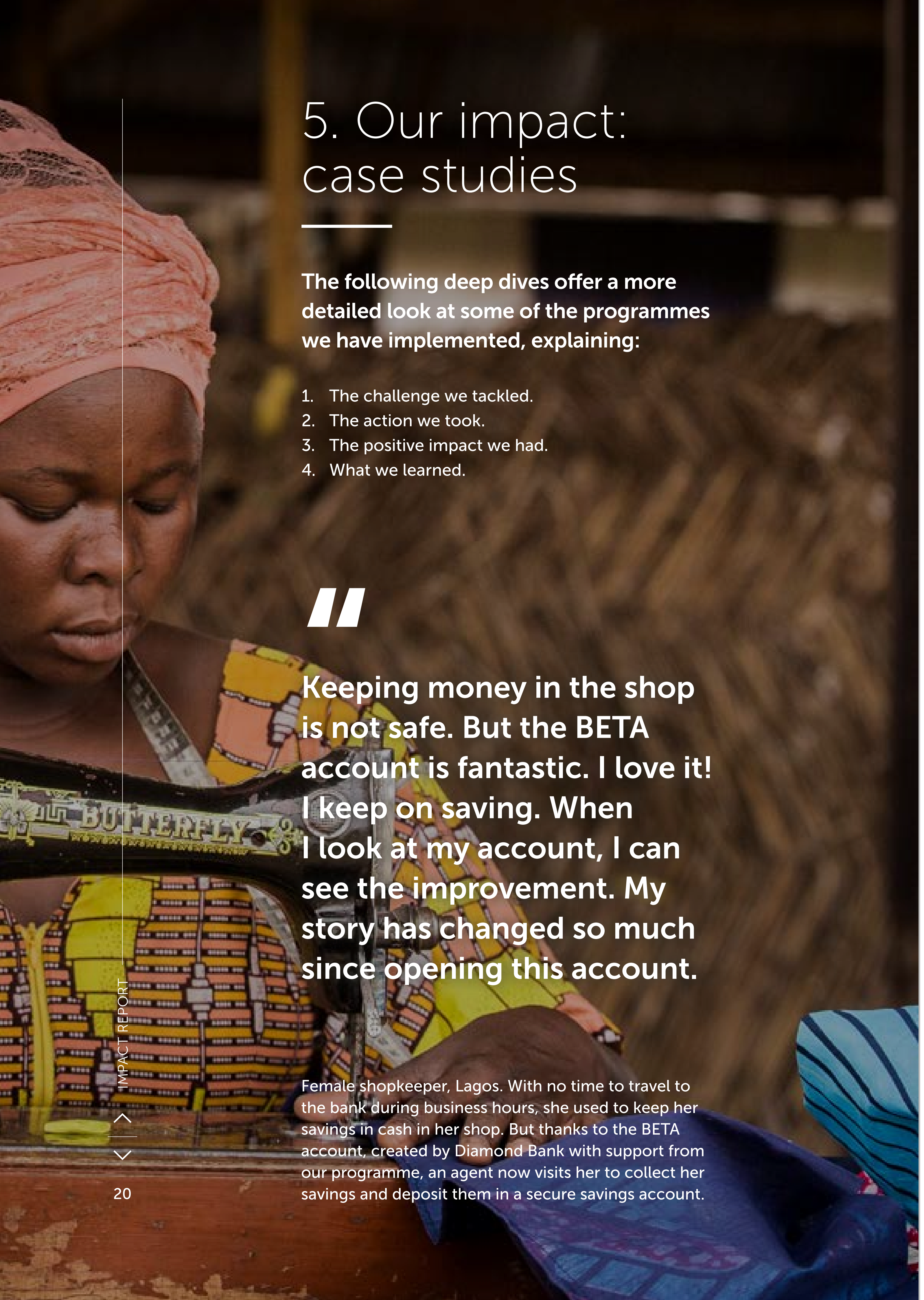
Insurance Regulatory Authority (IRA)

We developed an Innovation Action Plan, now adopted as a framework by the IRA, to encourage innovation in the Ugandan insurance market.

GLOBAL

International Telecommunication Union (ITU)

We contributed to the global guidelines for Digital Fiat Currency, which is influencing the ITU's consideration of standards around central bank digital currencies.



5. Our impact: case studies

The following deep dives offer a more detailed look at some of the programmes we have implemented, explaining:

1. The challenge we tackled.
2. The action we took.
3. The positive impact we had.
4. What we learned.

> **"Keeping money in the shop is not safe. But the BETA account is fantastic. I love it! I keep on saving. When I look at my account, I can see the improvement. My story has changed so much since opening this account.**

Female shopkeeper, Lagos. With no time to travel to the bank during business hours, she used to keep her savings in cash in her shop. But thanks to the BETA account, created by Diamond Bank with support from our programme, an agent now visits her to collect her savings and deposit them in a secure savings account.

Women's World Banking

May 2014 – Nov 2018

Challenge

Due to a range of barriers, financial inclusion rates for women in Africa lag far behind those in developed countries: in sub-Saharan Africa, only 36% of women have a bank account, compared with a global average of 64%[6]. Young Africans face financial challenges too, not least high youth unemployment.

Action

We partnered with non-profit organisation Women's World Banking to improve access to financial services for women and young people, and for low-income populations in general.

To deliver change at scale, we worked directly with two major banks in sub-Saharan Africa, Diamond Bank Nigeria and NMB Bank Tanzania, to:

- Develop new financial products aimed specifically at women and young people (BETA Savings, MSME Credit).
- Promote diversity and women in leadership at financial institutions.
- Disseminate knowledge to support the case for the financial inclusion of women.

Insight

WE LEARNED

- Though designed for women, the Diamond Bank savings and credit products still proved more popular with men (52%:48% split, compared to FSD Africa's average 59%:41% product gender split). We understood that many of the products' features also appealed to men and that important gender power structures continue to play an important role across the financial inclusion landscape in Nigeria.
- By the end of the project, the Diamond Bank savings product broke even, and non-performing loans made up less than 1% of the credit product's total portfolio value – both strong signals of commercial viability. However, though one other bank is interested in similar products, we have not yet seen any replication. With the benefit of hindsight, we think that we could have proactively kick-started replication processes if we had done more to capture and share lessons to influence other banks, and done so earlier in the project. These replications do not always happen naturally.
- Macroeconomic forces play a key role in project success. Inflation in Nigeria disincentivised medium-term saving among clients, which threatened to compromise the success of the savings product.

Impact

17,400 jobs supported

72% of which held by women

OVER **30,000** people reached with research publications, blogs, conferences and more

OVER **1.5m** new savings customers reached

11 new banking products for women and young people launched

MORE THAN **150** banking employees participated in leadership programme

6. 2017 Global Findex Database; Account ownership is defined as having an individual or jointly owned account either at a financial institution or through a mobile money provider.

African Local Currency Bond Fund

Apr 2017 – Mar 2020

Challenge

Capital markets are important for channelling long-term savings into productive investments in the real economy. But in most African countries, local markets are not playing a significant enough role. With local currency finance unavailable, companies rely on foreign currency borrowing. This creates risks for the financial system, which disproportionately affect low-income households and MSMEs.

Action

In 2017, we completed an investment of £15.8 million into the African Local Currency Bond Fund, (ALCBF) representing 18% of its total equity. The fund supports the development of African capital markets through local currency bond issues – including in fragile states.

The ALCBF's support of local currency bond markets has three main benefits:

- Private sector entities can access capital that is more flexible in the short term and more sustainable in the long term than external borrowing.
- Issuers are able to reduce maturity, currency, refinancing and interest rate risks.
- For investors, bonds offer a recognised and transparent way to allocate capital to the private economy.

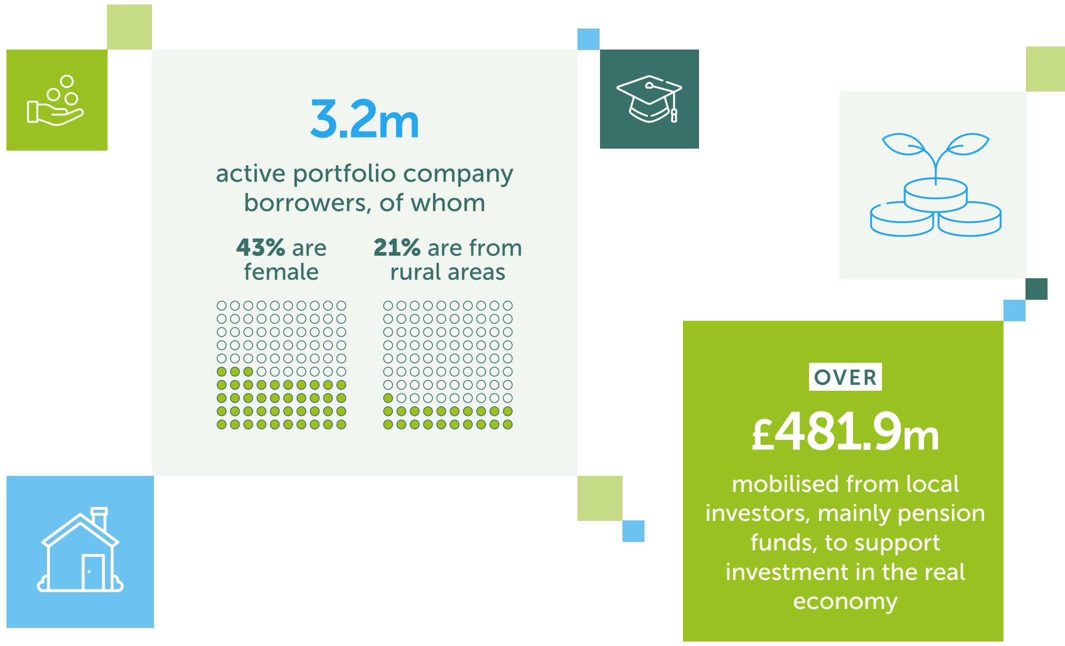
Together, these benefits lead to greater economic security and opportunity for the ultimate beneficiaries of the ALCBF: low-income households and MSMEs.

In Senegal, the ALCBF supported Baobab Group – a digital financial service provider – in the issuance of their second bond. As a result, over 68,000 microentrepreneurs – like Fatou, a tailor – were able to access easy-to-use digital financial services.

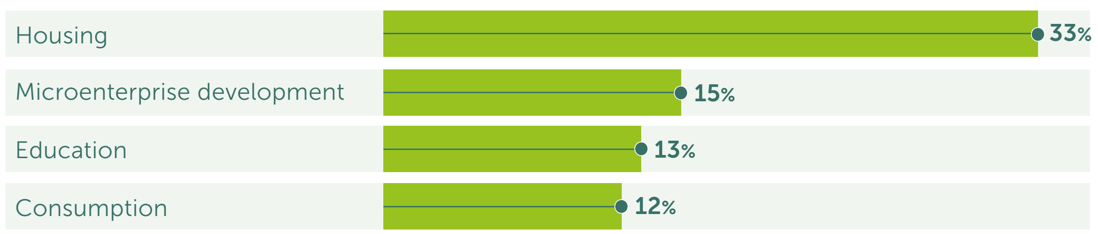
Impact

- Around one in five issuers in whose bonds the ALCBF has invested have gone on to issue bonds themselves – indicating either increased market acceptance of corporate bonds as an asset class, or that issuers have greater confidence in being able to issue.
- There have been no write-offs, and only two of the 43 bonds in the portfolio are on the ALCBF's own watchlist.
- The ALCBF has achieved a number of 'firsts', including the first securitisation in the WAEMU region.
- The fund has so far deployed $170 million across 17 countries and 59 investments. Despite ongoing macroeconomic issues in many of the countries in which the fund operates, not least the ongoing Covid-19 pandemic, the fund has a co-investment multiple of 9.1x.
- The ALCBF's participation has enabled its portfolio companies to avoid significant volatility in most African currencies, as well as crowding in more than $9 for each $1 deployed into capital market instruments.

FSD Africa's contribution to the ALCBF has helped it to achieve impressive figures:



Use of proceeds



FSD Africa's investment in the ALCBF has created an estimated **7,621 jobs** of which **14%** are held by women

Credit Market Development Programme

Apr 2016 – Mar 2020

Challenge

Most countries in sub-Saharan Africa lack regular and consolidated data on credit markets. Even basic statistics, such as total number of mortgages or credit cards, are often lacking. Without access to this data, the work of regulators, policymakers and businesses to develop credit markets is undermined.

Action

We worked directly with central banks to improve their access to data on credit markets. The programme focused on three main areas: the collection, dissemination and use of credit market data. We published regular reports, conducted research, and held forums and training sessions to help disseminate knowledge. In partnership with FSD Zambia, we also supported the Bank of Zambia in the design and launch of its pioneering Credit Market Monitoring Programme.

Impact

17
knowledge products including reports, datasets and blogs produced

445
market actors reached with these products

The Bank of Zambia's monitoring programme provides a rich repository of credit market data that the bank employs in its day-to-day market monitoring, research and policy making. This data enhances the bank's financial policy and supervision functions, as well as supporting broader economic and monetary policy decision making.

The data produced is also valuable to other credit market stakeholders. It allows lenders to perform peer analysis, update risk models, and design new products that meet the needs of the market. And some credit market players are already using the data to inform their strategic planning.

In total, 97 financial institutions, representing all regulated credit providers in Zambia, have contributed data to the programme.

> "Until recently, there has been very little supply-side data on the availability of formal credit in Africa, but that is starting to change. FSD Africa has been working with regulators over the past few years to start shining a light on how credit markets are evolving in the region – first in Zambia, with Tanzania and Ghana to follow. And what they have found is eye opening.
>
> Greta Bull,
> **CEO of CGAP**

Insight

WE LEARNED

- Embedding a project manager in a programme can have a remarkable impact on progress. In this case, it proved critical to timely execution and the transfer of knowledge to the Bank of Zambia.
- Encouraging joint responsibility for the programme across departments can help to build broad support for it.
- Lenders and market stakeholders need support if they are to adopt and embed new datasets into their own analysis.

Green Bond Programmes: Kenya and Nigeria

Apr 2017 – Mar 2020

Challenge

Millions of vulnerable people in Africa, and around the world, are falling into poverty as a direct consequence of climate change. Extreme climate conditions affect livelihoods – through loss of property, income, access to clean water and a safe environment to live in.

To meet commitments made in the Paris Agreement, and to ensure the development of green initiatives and infrastructure, rapid and far-reaching transitions are necessary in many African countries.

The green bond market is a vital tool in tackling these issues. Green bonds allow issuers to raise money to fund environmentally friendly projects that benefit the poor, such as renewable energy, green construction or clean transport.

Action

We provided support to programmes in Nigeria and Kenya, two of Africa's largest economies, with the aim of bolstering the continent's green bond market and catalysing investment in a greener future for Africa.

In providing this support, we partnered with a number of high-profile institutions, including the Climate Bonds Initiative, the Kenyan and Nigerian securities exchanges, the World Wildlife Fund and the London Stock Exchange. Working collaboratively with these partners, we developed a wide range of tools to promote the take-up of green bonds:

- Technical support for bond issuers.
- Training sessions and an e-learning platform.
- Market research on green financing and investment.
- Advisory work with policymakers and regulators.

Impact

IN KENYA:

Thanks to the programme, Kenya's first green bond issuance took place in June 2019. It raised £35.3 million, and a further £5 million was listed on the Nairobi Securities Exchange in January 2020. It will fund the construction of environmentally friendly housing in Nairobi – accommodating 5,000 students.

It's estimated that a total of 295 jobs are being supported as result of our work and investment.

IN NIGERIA:

The Nigerian Securities and Exchange Commission adopted the newly developed Nigerian green bond issuance regulations in November 2018. Since then, a total of £55.2 million has been raised by the issuance of a sovereign green bond, and £50.5 million by bonds issued by private sector organisations. These funds will finance solar energy projects in the country, and interventions to protect Eko Atlantic City from rising sea levels.

It's estimated that a total of 1,267 jobs are being supported as result of our work and investment.

1,267
jobs supported in Nigeria

£35.3m
raised by Kenya's first green bond issuance

Insight

WE LEARNED

- Weekly meetings with project partners help to manage expectations and ensure everyone remains focused on project objectives – especially when the project takes place over a long period of time.
- Green bonds are not widely understood in Africa and in Nigeria especially. There is therefore a need for a climate finance expert 'on the ground', either as a resident advisor to the government or working with the local partner.

Sofala: housing finance innovation

Jan 2018 – Jul 2023

Challenge

As a result of population growth and urbanisation, among other factors, there is an urgent and unmet need for more affordable housing across sub-Saharan Africa.

Beyond providing shelter, privacy and security, housing plays a critical role in economic development. Affordable housing has a long-lasting effect on the prosperity of local communities and regional economies. Yet many households in Africa struggle to access housing finance.

Action

We provided investment to Sofala Capital, a housing finance catalyst that works to address the affordable housing issue by investing in innovative models that offer secured housing finance products. Through these models, Sofala provides:

- Mortgages.
- Funding for building projects.
- Technical services for house building.

FSD Africa Investments provided debt, equity and a returnable grant to Sofala. This investment provides much-needed support for the organisation as it seeks to grow its holdings in Zambia (Zambian Home Loans) and South Africa (iBuild Homeloans), as well as to develop a new pan-African vehicle, iBuild Africa.

Insight

WE LEARNED

While Zambia Home Loans has shown consistent growth in 2020, iBuild in South Africa has been hit hard by the Covid-19 pandemic. New business has slowed but there are signs of improvement. The company was quick in adapting new online sales platforms and a franchise sales model to counteract the impact of the strict lockdown in the country.

Impact

Through FSD Africa's support, Sofala has so far been able to:

- Strengthen both Zambian Home Loans and iBuild Homeloans to attract new investors.
- Significantly increase the loan portfolios of its holdings in both companies.
- Allow iBuild Homeloans to extend its branch network in some of the poorest neighbourhoods in South Africa.

48% of new borrowers are women

"FSD Africa's investment has enabled more than 600 financially excluded South African and Zambian families to build their own homes. In so doing, these families are creating their own long-term, upward economic trajectory."

MICHAEL WALLER, CEO OF SOFALA CAPITAL

"When I joined iBuild I was really struggling, but now things are different. Ever since I joined, I am able to provide for my kids."

IBUILD CLIENT

6. Fragile communities and states

Working where the need is greatest.

We aim to make financial services and products work for, and be accessible to, the most vulnerable and marginalised communities in Africa, including groups who are often excluded from the benefits of mainstream development initiatives.

And to ensure that this agenda becomes the rule rather than the exception, we need to support transformation of deeply rooted economic and political systems, governance structures and business models at all levels, from local to regional and global.

FSD Africa's Fragile Communities and States (FCAS) unit focuses on developing:

- Thematic initiatives that have the potential to positively impact marginalised populations, including the urban poor, nomadic pastoralists, slum dwellers and the highly vulnerable.
- Refugee/internally displaced persons and community-focused programmes to improve financial inclusion to services currently unavailable to them.
- Advocacy to motivate fragility stakeholders to support activities that focus on the 'leave no one behind' agenda.

Sierra Leone Fintech Challenge

In 2016, financial sector development in Sierra Leone faced major political and macroeconomic challenges: weak market infrastructures, low levels of innovation, and a relative lack of donor support. But, similar to other fragile states in which FSD Africa works, we also identified a number of pockets of high capacity and talent, especially in the private sector, together with Governor-level buy-in for high-potential reforms at the Central Bank.

To leverage this potential, we partnered with the Bank of Sierra Leone (BSL), the Sierra Leone Fintech Association and the UN Capital Development Fund (UNCDF) to launch the Sierra Leone Fintech Challenge in June 2017. The award of small grants to winning fintechs was complemented by the design of a new 'regulatory sandbox' at BSL to create a framework to nurture any resulting innovations for the protection and benefit of the wider financial sector.

In May 2018, thanks to the remarkable commitment of a new, full-time sandbox team at BSL, an inaugural cohort of fintechs entered the BSL sandbox for testing: InvestEd (an education and lending platform for entrepreneurs), MyPay (an interoperable e-money platform), iCommit (a future harvest savings platform for farmers), and Noory (an open payments API).

In May 2019, UNCDF launched a second iteration of the Sierra Leone Fintech Challenge without FSD Africa support. This replication demonstrates the continued need for donor support to the growing fintech ecosystem in the country, but also that FSD Africa can exit and leave behind useful market development processes.

The sandbox created a change of mindset at BSL towards an openness to technological innovation and triggered the update of key policies and regulations, especially related to digital financial services.

Forcibly displaced people

A quarter of the world's 65 million forcibly displaced people live in sub-Saharan Africa. Displaced populations are becoming more stable, connected and economically active, but they remain among the most financially excluded in Africa.

Financial service providers have typically ignored displaced people, who are not seen as desirable customers. As a result, most refugees only have access to rudimentary or informal financial services.

FSD Africa, together with selected financial service providers, are tackling this status quo. We believe it is possible, with the right incentives, for the market to deliver services to forcibly displaced people efficiently, at scale and on a long-term basis.

Through a combination of grants and technical assistance, we are working to help financial service providers develop and scale new products specifically designed for displaced people. We are partnering with providers in Uganda, Rwanda and DRC to drive savings, loans to entrepreneurs, farmers and businesses to create jobs, remittances and insurance services.

Impact so far:

- Innovation competitions run in Rwanda, Uganda and DRC.
- Six new savings and loan products aimed at serving refugees and internally displaced persons.
- At least 14,000 households are receiving digital cash transfers.
- 4,700 households have access to loans, amounting to £136,000.

7. Learning and improving

An important step towards our goal of reducing poverty in sub-Saharan Africa is to learn from each programme we implement.

Our results measurement and senior management teams take a detailed look at each project we're involved in: what worked well, and what worked less well. This helps us to build even more effective programmes as we move forward.

Below is a review of the lessons we've learned from our work in recent years – and what we'll do more (and less) of as we move into the next phase of our growth, which we outline in section 8.

What we've learned	What we'll do
A focus on financial market systems remains necessary, but alone it is not sufficient to drive rapid and measurable impact.	• Focus more proactively on the areas in which finance meets real and social sector needs. • Balance slow-burn, higher-risk financial market building with more tangible private sector partnerships and transactions.
Financial market development through an institution-by-institution approach produces tangible outcomes, but progress can be slow – with no guarantee of system-wide impact.	• Prioritise these relationships only as they apply to specific intractable financial market challenges and/or target the real and social sectors.
Our delivery instruments are effective, and the addition of investment capital and a stronger advocacy function will strengthen our toolkit.	• Deploy the FSD Africa Investments team in support of our objectives. • Develop a stronger advocacy function to support our influencing agenda.
To be sure of achieving systemically significant outcomes through research, it is important to be rigorous and develop credible theories for how impact is going to be achieved.	• Assign clearer outcome targets to research and market intelligence projects, to ensure they lead to concrete policy and practice change.

8. The next step: FSD 2.0

FSD 1.0 – a focus on the fundamentals

First created and funded by the UK government in 2002, the FSD Network has been at the leading edge of poverty-reducing financial development work for well over a decade.

During this first phase, the Network has helped to create and reinforce the underlying market fundamentals that allow financial products and investment capital to reach where they're most needed: poor households, marginalised communities and growing businesses. Through this collective FSD effort, over 40 million more people now have access to formal financial services.

FSD 2.0 – towards a fresh approach

Financial sector development in Africa now faces new challenges and opportunities. And as Covid-19 has shown with particular brutality, finance continues to play a direct role in peoples' lives – and so well-functioning markets will play a vital role in rebuilding and improving them.

That's why, at the UK-Africa Investment Summit in January 2020, FCDO announced a £320 million package of UK aid to support a new phase of financial sector development in Africa. Delivered through a more tightly orchestrated FSD Network platform, this new approach will be known as FSD 2.0.

So what will change? First, the Network will expand, with FSD Africa incubating five new FSD programmes. These will be created in Ethiopia, Ghana, Sierra Leone, the WAEMU region and Zimbabwe, and will initially focus on Covid-19 recovery and green finance opportunities. Options for new programmes in North Africa and Malawi will also be explored.

Second, the Network's impact narrative will shift. FSD 2.0 will move beyond 'finance for the poor' to focus on finance that benefits the poor. Three new outcome areas – jobs and incomes, basic goods and services, and sustainable futures – will be encoded into a new, single theory of change for the entire FSD Network.

This, together with a more intensive effort to work in key sectors and value chains – for example through green finance and agriculture finance – will enable a tighter link between financial market development processes, new and persistent African challenges and the Sustainable Development Goals.

Operationally, FSDs will form a tighter coalition to manage this next stage in our journey. A new FSD Network Council has been established, and an FSD Network Charter and Code of Conduct have been endorsed by all FSD programmes. And in addition, investment capital will be made more seamlessly available to all FSD Network members via the FSD Africa Investment team.

Together, these changes represent an important evolution in our journey. And as we focus on Covid-19 recovery and beyond, we are more determined than ever to continue our transformative work in developing Africa's financial markets for the benefit of those most in need.

Closing remarks

First and foremost, this review of FSD Africa's impact reminds me just how proud I am of our achievements to date. In pursuing our mission, we have listened to our stakeholders, learned from our experiences and constantly refined our approach – all to ensure we continue to increase the positive impact we have upon the lives of Africans.

There is, of course, more to do, and we are looking to the future. The next phase in our development is well underway, with the evolution of the FSD Network and our expansion into new countries and regions. We have invested substantially in our operational platform and have put in place a robust governance framework that will, we believe, act as a real springboard for future growth.

The confirmation of our next round of funding from the UK government, which will last for a further five years, was a significant moment for these plans. It acted as a validation of the ideas our people have created and worked so hard upon, all of which have been based on the type of learning contained in this report – the vital experiences we have been through since FSD Africa began.

So where will our focus lie as we continue to grow? Despite progress, there remains significant inequality across Africa; and we know, from experience, that fairer, more robust financial markets can play an important role in closing those gaps.

Green finance is a particularly pressing need – and represents an opportunity, too, with COP26, the UN's climate change conference, just over a year away. Notwithstanding the effects of Covid-19, the shift in investment patterns towards sustainable investing is clear and permanent. And so, working with our partners, FSD Africa has a vital role to play in building awareness and capacity across the continent to encourage and channel green investment.

Speaking of our partners, a final point: partnerships are a vital tool in our mission. The scale and complexity of the challenges that face us are such that we can only reach our goals by working together with others. I would therefore like to thank all of our partners – including our funders, those who provide us with technical support, and our colleagues in the FSD Network – for their hard work and collaboration.

We look forward to deepening these relationships, and engaging with new partners (especially in Africa) in the year ahead, as we work to bring our new strategy to life.

Vincent Rague | CHAIRMAN

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