CDC–ODI webinar series on development finance institutions and the Covid-19 crisis

Matthew Gouett and Samantha Attridge

June 2021

Abstract

With a shared goal to support the economic stability and growth of developing countries, development finance institutions (DFIs) are uniquely placed to respond to the Covid-19 crisis and support developing countries who are grappling with a significant decrease in foreign direct investment, severely disrupted trade flows and supply chains and substantial financial shortfalls.

CDC Group, in partnership with ODI and the Association of European Development Finance Institutions (EDFI), held three virtual sessions in 2020 to share their experiences and learning on how the Covid-19 crisis is impacting private investment in developing countries, and how DFIs as institutions have responded. The sessions focused on: (1) supporting job protection; (2) investing in healthcare; and (3) developing financing solutions to address the crushing effect of the crisis on private development finance. This report summarises these discussions and the key takeaways.
Readers are encouraged to reproduce material for their own publications, as long as they are not being sold commercially. ODI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ODI website. The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI or our partners.

This work is licensed under CC BY-NC-ND 4.0.

## Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AKUH</td>
<td>Aga Khan University Hospital</td>
</tr>
<tr>
<td>DFI</td>
<td>development finance institutions</td>
</tr>
<tr>
<td>EDFI</td>
<td>Association of European Development Finance Institutions</td>
</tr>
<tr>
<td>PPE</td>
<td>personal protective equipment</td>
</tr>
<tr>
<td>UNECA</td>
<td>United Nations Economic Commission for Africa</td>
</tr>
</tbody>
</table>
Contents

Acronyms............................................................................................................................................................ 3
Executive summary........................................................................................................................................ 5
  The current response of DFIs ... meeting their mandate ................................................................. 5
  The role of DFIs in the recovery and ‘building back better’.......................................................... 6
Introduction ...................................................................................................................................................... 8
Session 1: Supporting job protection during and after the pandemic ........................................ 9
Session 2: Investing in healthcare to save lives ............................................................................ 13
Session 3: Game-changing finance: solutions to meet the Covid crisis ................................ 19
Appendix: Related ODI webinar blog posts.................................................................................. 23
  The role of development finance institutions in supporting jobs during Covid-19 and beyond................................. 23
  Three ways development finance institutions can enhance investments in healthcare ............................................................... 26
  Game-changing finance: three ways to ‘build back better’ in sub-Saharan Africa................... 29
Executive summary

The global economy faces an unparalleled recession triggered by the Covid-19 pandemic, and developing economies and their people are among the most exposed to the health, social and economic impacts of the crisis. Low- and middle-income countries are grappling with a significant decrease in foreign direct investment, severely disrupted trade flows and supply chains and substantial financial shortfalls. This is a rapidly developing situation affecting millions of people and needs an urgent response from the global development community.

With a shared goal to support the economic stability and growth of developing countries, development finance institutions (DFIs) are uniquely placed to respond to this crisis and support these countries. It is in this context that CDC, in partnership with ODI and the Association of European Development Finance Institutions (EDFI), held three virtual sessions to share their experiences and learning on how the Covid-19 crisis is impacting private investment in developing countries, and how DFIs as institutions have responded. Three sessions were held, which focused on: (1) supporting job protection; (2) investing in healthcare; and (3) developing financing solutions to address the crushing effect of the crisis on private development finance. These sessions focused on the immediate response of DFIs to the crisis and discussed the role for DFIs in the ‘build back better’ agenda.

The current response of DFIs … meeting their mandate

All three sessions highlighted that DFIs were quick to act in response to the crisis and oriented their investments to be countercyclical as economies plunged into sharp recessions. DFIs provided emergency grants to investees so that they could provide personal protective equipment (PPE) to their employees and worked through subsidiaries to provide a guarantee that enabled UNICEF to secure essential products, such as PPE, oxygen systems and diagnostic tests.

Apart from directly supporting the health of investee employees and others in developing countries, DFIs have been working to preserve the jobs that were created by investees due to original DFI investments as well as strengthening investee businesses to address short-term resilience issues. It was noted that DFIs have focused on providing investees with working capital to ensure that they could continue to operate, pay employees, meet tighter payment terms from suppliers and provide extended payment terms for buyers.
Other specific tools used by DFIs that were mentioned during the sessions included more investment capital, renegotiated terms on loan repayments and technical assistance. Of particular note, technical assistance programmes that addressed the benefits of work-share schemes, effective employee retrenchment policies, employee safety if operations have continued and changes to business operations were all highlighted as ways in which DFIs are working with their clients.

Finally, some panellists remarked that they thought that DFIs, through their due diligence requirements and their work with investees on social and governance issues, had added to the resilience of their investees – resilience that was tested during this crisis. These investees were cited as performing better through the crisis as they had more access to finance because of their stronger operational capacity.

The role of DFIs in the recovery and ‘building back better’

A number of lessons were drawn from the crisis period that may enhance the impact of DFI investment going forward and contribute towards ‘building back better’.

A key theme was the need for DFIs to work with investees to diversify and digitalise where possible. Diversification with respect to suppliers, markets and operational capacity were all mentioned as important methods for investee companies to insulate themselves from future shocks. It was suggested that DFIs encourage investees to build vertical linkages in their supply chains, and that these linkages, in some cases, should be more local than they were before the crisis. It was mentioned that investees should be encouraged to carry more inventory to avoid input shortages. With respect to the diversification of markets and operational capacity, digitalisation, logistical diversification and reorganisation of operations were all suggested as ways that investees could ‘build back better’ (as per Session 1). Investee businesses are already moving their work online and changing the way customers receive their products.

It was also highlighted that there remains an infrastructure deficit in some of the world’s poorest regions, making it more difficult for people to take advantage of new innovations or new trade agreements. As infrastructure requires large amounts of capital, it was recognised that DFIs need to be extremely strategic in their operations, possibly through securitising infrastructure assets to free up their own capital or by looking to the green bond market to support sustainable infrastructure.

With regard to increased investment in social sectors (e.g. health and education), panellists across the sessions differed and acknowledged the challenging optics of these investments. It was noted that investments in these sectors are often viewed as the preserve of the
public sector and tend to be controversial as benefits are seen to accrue to wealthier individuals in developing countries, making increasing DFI support to this sector difficult. That said, examples of DFI health investment discussed in the second session pointed to ways in which DFI investment in the health sector has directly increased access to healthcare for low-income individuals, spread medical knowledge within developing countries and driven down prices of medical diagnostics. A broader systems approach to DFI investment that has a public health mindset and deploys innovative financing mechanisms was viewed as one way to overcome the nervousness associated with investments in social sectors.

The final cross-cutting theme across the sessions was the need for multi-level DFI engagement. Growing small firms into large firms and taking advantage of opportunities requires not only DFI capital, but also a conducive environment for private sector growth. Not all governments work to create that environment. Working with different levels of government across the public sector to make the investment environment more amenable is a public good and is likely to support other businesses in the ecosystem in which the DFI investee operates. Changing the investment environment is part of an ambitious goal of DFIs to create markets and will be an important pillar to building back better.
Introduction

The Covid-19 pandemic has left no country untouched by its direct and indirect effects on health systems, societies and economies. While the world is still in the midst of the crisis, it is clear that these effects will not be felt equally. Advanced economies are much better placed to weather the health and economic storm than developing countries, where the economic, social and health effects will be most profound and long-lasting. Developing countries are dealing with a significant decrease in foreign direct investment, severely disrupted trade flows and supply chains and substantial financial shortfalls. Lower flows of official development assistance are expected in the future. This is a rapidly evolving situation which will impact billions of people and therefore needs an urgent response from the global development community.

With a shared goal to support the economic stability and growth of developing countries, DFIs are uniquely placed to respond to this crisis and support these countries. However, the challenge facing all actors is immense and requires global collaboration on an unprecedented scale. Cognisant of this challenge, CDC, in partnership with ODI and members of the EDFI, convened an open dialogue series to reflect on the immediate social and economic impact of the global pandemic, the role of DFIs in supporting investee companies through the crisis and in supporting longer-term recovery.

The series consisted of three virtual webinars on: (1) job protection; (2) investment in healthcare; and (3) financial responses and solutions. The series focused on bringing together academics, policymakers and practitioners to share their experiences and learning around how the Covid-19 crisis is impacting private investment in developing countries.

This report highlights the main discussion points from the three events.
Session 1: Supporting job protection during and after the pandemic

24 September 2020

Session background

In 2018, the International Labour Organization estimated that approximately 42% of the global workforce, 1.4 billion people, were in vulnerable employment; in developing countries, this proportion was 76%. The Covid-19 crisis has significantly reduced the number of people in jobs and proportionally increased the number in vulnerable employment. As market demand comes to a sudden halt, developing country firms that are linked into and supply global value chains face major challenges. Looking forward, lead firms are also likely to shorten their supply chains, potentially cutting high-productivity and high-income jobs in manufacturing in poorer countries.

This presents an opportunity for DFIs to strengthen firms in their target markets, through strategic, practical and financial means. In the short term, finance and specialist guidance could be provided to more productive firms at risk of closure to ensure that higher productivity jobs are maintained, as these will act as the engine driving economic recovery. In the medium term, investments could target diversification opportunities that play into regional supply chains, making markets and jobs more resilient to international shocks. Finally, longer-term investments could target economic transformation opportunities driving high-value employment and economic growth. This involves transitioning workers from the informal sector to the formal sector and making the most of a digital economy.

However, some key issues need to be investigated. How will DFIs balance the need to preserve jobs with increased investment risk? Can they play a role in identifying and developing sectors that will drive the diversification and transformation process? What can DFIs do to develop the technical capabilities that would be required to sustain such processes?
Session participants

Chair
Dr Dirk Willem te Velde – Head of the International Economic Development Group and Principal Research Fellow, ODI

Speakers
Dr Stephen Karingi – Director, Regional Integration, Infrastructure and Trade Division, UN Economic Commission for Africa
Prof. Carlos Oya – Professor of Political Economy of Development, SOAS
Dr Sam Lacey – Job Quality Lead, CDC
Dr Julian Frede – Senior Manager, Development Policy and Evaluation, DEG

Synopsis/key takeaways

Current issues
The most pressing issues facing DFIs are how to assist their investee companies in the short term, as the Covid-19 crisis continues to disrupt the global economy, and how to prepare themselves to support companies once the crisis is behind them. The difficulties faced by firms have been manifold. The Covid-19 crisis has been a demand shock that has undermined the ability of firms to generate revenue, and a supply shock in which firms that are highly integrated into global value chains have faced difficulties obtaining inputs due to movement restrictions. These dual shocks have meant firms have faced cash flow challenges and solvency issues.

In many countries, governments and/or donors have created schemes to cushion the impact of the crisis on these firms. However, the preliminary evidence suggests that these schemes have not reached all firms equally. A forthcoming World Bank report highlights that only 4.5% of firms in low-income countries have been able to access recovery support measures. This is particularly troubling for countries that already had significant labour issues (e.g. large informal sectors and high youth unemployment) prior to the crisis. These issues are all the more pressing in the current crisis as it is those working in the informal sector or those who are already unemployed who may not reap the benefits of programmes for formal sector firms.

In addition, many low-income and lower-middle-income countries do not have social insurance systems so even some formal sector employees will not have a government-sponsored safety net if their firm temporarily lays them off or reduces their working hours.
Current DFI responses

With clients confronting the current crisis and an uncertain recovery, DFIs are at the forefront of organisations that can help their investees. From more theoretical positions, ideas put forward to aid these firms included a moratorium on debt repayments, directly engaging with clients to create unique support packages dependent on whether the issue faced by the client is cash flow or solvency, and creating a ‘bouncing back better’ facility to support companies during this difficult period. It has become apparent that the impacts of the Covid-19 crisis are touching all aspects of the global economy, and that developing country banks and financial institutions may be unable to inject the liquidity necessary to play a countercyclical role. DFIs can address some of these issues. One suggestion was for DFIs to coordinate multi-country responses to share best practices, both across their portfolio of clients and among DFIs themselves.

In direct response to the crisis, the discussion focused on how DFIs have been working to preserve the jobs created by investees due to original DFI investments, as well as strengthening their investee businesses to address short-term resilience issues. Specific tools available to DFIs that were mentioned included investment capital, renegotiated terms on loan repayments and technical assistance. Of particular note, technical assistance programmes that address the benefits of work-sharing schemes,¹ effective employee retrenchment policies, employee safety if operations have continued and changing business operations were all highlighted.

Building future resilience

Although the shape of the recovery is uncertain, speakers provided numerous insights regarding the ways in which DFIs can help their clients once the worst of the pandemic has passed. One main theme that came through during the discussion was the need for DFIs to help their investees to diversify. Diversification with respect to suppliers, markets and operational capacity were all mentioned as important methods for investee companies to insulate themselves from future shocks.

On the diversification of suppliers, evidence from the crisis has highlighted the extent to which global value chains have become integrated, and how modern business practices have made production vulnerable to disruption in the movement of goods and services. It was suggested that DFIs encourage investees to build vertical linkages in their supply chains, and that these linkages, in some cases, should be more local than they were before the crisis. It was also suggested that investees should be encouraged to carry more inventory, to avoid input shortages.

¹ Work-sharing schemes are where employers temporarily reduce employees' working hours rather than make employees redundant during economic recession.
With respect to the diversification of markets and operational capacity, digitalisation, logistical diversification and reorganisation of operations to manufacture health products were all suggested as ways that investees could ‘build back better’. Already, DFIs have noted examples of investee businesses moving their work online and changing the way customers receive their products. These are innovations that should continue and expand to reduce investees’ vulnerability to future demand shocks. For DFIs, new platforms that can facilitate these types of business interactions were viewed as a significant investment opportunity and a way to transform markets for a more resilient future. These new platforms may also provide an opportunity for DFIs to reach those working in the informal sector. It was also suggested that DFIs work with existing manufacturing clients or make new manufacturing investments that address demand for health-related goods.

Another way for DFIs to build resilience in their own portfolios is by increasing their efforts to work with investees on the social and governance issues they face. Putting in the right systems to ensure that investees remain compliant with social and governance agreements throughout the lifecycle of an investment is important for DFIs to ensure that investees are providing safe, properly renumerated jobs to their employees. Digitalising the reporting of these outcomes and making employee management an element of the financial performance evaluation framework were suggested as ways to tackle this issue. It was also stated that, when possible, DFIs should work with lead firms to implement global framework agreements to ensure that employees throughout a value chain can access their rights, which are aligned with international labour standards.

One last theme mentioned was the need for DFIs to ensure that their engagement in markets is multi-level. While there is no doubt that micro, small and medium-sized firms are important actors in any economy, scale is important, and there is a real need to build country and continental champion companies in low- and lower-middle-income countries. Africa, with the implementation of a new free trade agreement, will present opportunities for firms to grow, so it is incumbent on DFIs to work with clients to develop their business so that they may be that future country champion in a particular sector. Coordinating with local governments will be important to facilitate this process, but above all it was agreed that the best route to long-term resilience was for DFIs to support more formal jobs and, possibly, move more employees from the informal to the formal sector. This continued push may require DFIs to take on more risk in the short and medium terms to reach these long-term resilience goals, but there was agreement that DFIs were among the best-placed institutions to do so.
Session 2: Investing in healthcare to save lives

22 October 2020

Session background
Recent analysis by ODI found that only a small share of development finance investment is explicitly directed towards the health sector. However, new health sector initiatives from the United States International Development Finance Corporation and the UK’s CDC following the onset of the Covid-19 crisis indicate that this may be changing. In response to the crisis, DFIs have supported clients that have traditionally been outside the health sector to refocus their operations in support of the global crisis response.

Our research also highlights risk-taking by DFIs and innovative approaches in the health sector, demonstrating the ability of DFIs to mobilise investment in health. Pooled investment vehicles, volume guarantees, first loss guarantees and development impact bonds all exemplify how DFI investment can act as a catalyst for market development in health supply chains.

This session explored how DFI investment can support and complement public sector investment in the health sector, both in the short term and with a view to building long-term resilience. Participants also discussed innovative financing approaches for different-sized DFIs, and how these entities could partner to maximise their impact.

Session participants
Chair
Samantha Attridge – Senior Research Fellow, ODI

Speakers
Michael Anderson CB – Chief Executive Officer and Board Member, MedAccess

Al-Karim Haji – Vice President and Chief Financial Officer, Aga Khan University

Claudia Martinez Ochoa – Senior Investment Officer, Manufacturing, Agribusiness and Services, Proparco
Synopsis/key takeaways

Tackling health challenges pre-crisis

The three panellists represented three different modes of DFI intervention in healthcare markets. For Proparco, their investments have focused on Africa and have mostly involved debt investments. Given that Proparco prefers to invest using debt instruments, its investments have been in health infrastructure and pharmaceutical manufacturing facilities, so that there are physical assets against which the debt investment is collateralised. A significant challenge facing Proparco has been the lack of bankable deals in health in their target market of Africa. The main reason cited was the requirement for Proparco to make investments in healthcare manufacturing facilities that meet the World Health Organization’s Good Manufacturing Practices. As most pharmaceuticals in Africa are imported (around 95%), there is little existing manufacturing infrastructure, and what infrastructure there is does not meet these standards. Thus, in many cases, the cost to retrofit manufacturing facilities to meet these standards makes some investments prohibitive. Nevertheless, Proparco has had some success working with clients through technical assistance facilities to overcome these challenges.

MedAccess, a CDC-funded social impact firm with $200 million of paid-in capital, works to be profit-neutral and deploys volume and procurement guarantees. Essentially, MedAccess works to de-risk the market for medical manufacturers, enabling them to sell medical supplies at affordable prices for patients in the world’s poorest countries. MedAccess does this by providing manufacturers with a guaranteed level of sales in a country or region; in return, the manufacturer sets a price ceiling. As an example, MedAccess worked with Hologic to provide affordable HIV viral load testing in Africa. The agreement led to a 30% price reduction in the cost of testing. MedAccess’ epidemiologists estimate that 182,000 people living with HIV have benefitted from the intervention.

A third intervention by DFIs in healthcare is via the Aga Khan University Hospital (AKUH) in Karachi. The AKUH provides access to medical services using a cross-subsidisation model, whereby clients who can afford to pay full price for medical services do so and subsidise the provision of services to clients who cannot afford to pay. The hospital has been supported by a $30 million investment by the United States International Development Finance Corporation. This increased the number of beds at the hospital and enabled the hospital to increase the provision of profitable services to offset the cost of providing subsidised services. Moreover, given its leading role in Pakistan, the AKUH has raised the standard of healthcare and has had many of its trained nurses leave AKUH for other leadership positions in hospitals in Pakistan, thereby spreading best healthcare practices across the country.
The response of DFIs and their healthcare clients to the Covid-19 crisis

In response to the Covid-19 crisis, MedAccess provided a guarantee of up to $50 million to enable UNICEF to secure essential products, including PPE, oxygen systems and diagnostic tests. MedAccess completed the investment in a shorter time frame than usual, took on more risk than usual and did not charge a fee.

Proparco’s healthcare investees faced two main problems: first, liquidity issues, and second, insufficient PPE. With regard to liquidity, Proparco investees that were healthcare facilities and hospitals had their non-urgent operations cancelled and, in many cases, had government-imposed quotas on the number of intensive care beds they had to keep free, and for which they were not remunerated.

Other Proparco investees in the pharmaceutical industry faced significant supply chain disruptions. As 80% of raw materials in pharmaceuticals are sourced from China, China’s lockdown in early 2020 tightened supplies. Once the lockdown in China eased, Proparco investees required working capital from Proparco as their buyers required longer payment terms and raw material suppliers in China sought shorter payment terms.

Proparco’s response centred on two main actions: providing emergency grants to investees and providing working capital lines. With respect to the grants, Proparco has had clients use this grant to provide employees with PPE that allowed these firms to continue to operate. The working capital lines allowed investees to stay open while production and revenue was disrupted due to supply issues. It also allowed investees to retain employees who would otherwise have been let go. Proparco was especially effective in shortening their investment times, in some cases from six months to 20 days.

The role of private providers of healthcare

Although a controversial topic, there was agreement among the panellists that there is a role for the private sector in the provision of healthcare. An important distinction was drawn between profit-driven healthcare providers and not-for-profit providers, such as AKUH. In the case of the latter, revenue generated above costs is reinvested in healthcare facilities and surrounding communities; moreover, it is the not-for-profit mandate that allows AKUH to offer cross-subsidised services.

Fundamentally, the presence of private providers of health services can have two main benefits to a country and its citizens. First, in most cases, it increases access to healthcare. Private providers of health services do not crowd out public providers; they are additional in providing services to a population that did not have access before. This increased access can alleviate pressures on the public health system. Colombia, which provides 100% coverage of services and
had almost 100% universal access, was cited as an example in this regard. Despite these impressive statistics, the Covid-19 crisis highlighted that Colombia’s healthcare system only has 1.4 intensive care beds per million citizens, compared with the European Union average of 5 per million. In this regard, universal health coverage and even high access numbers do not speak to the breadth or quality of access. This is a gap that can be filled by private sector investment.

Second, private providers tend to increase the quality of healthcare. As mentioned above, AKUH has been beneficial in developing the healthcare ecosystem in Pakistan because of the investments that it makes in the education and training of its professionals. These professionals, over their career, leave AKUH and spread these practices to healthcare providers that have not had the capacity to make these types of human resource investments.

Future DFI investment in healthcare

Proparco intends to continue to invest in healthcare and is looking at different investment modalities. While its investments will likely continue to be mostly debt instruments, the Covid-19 crisis has highlighted the efficacy of shorter-term (5–7 years) working capital instruments, as well as employing grants (likely with Agence Francaise de Développement, Proparco’s parent organisation). Proparco may also increase its equity healthcare portfolio to enhance its efforts to improve healthcare equipment manufacturing capacity in its target countries. Moreover, as increased access to healthcare remains a priority, Proparco is working on investment opportunities to engage in public–private partnerships in Africa, as it has done in Turkey.

On the question of vaccine production and roll-out, panellists agreed that governments and donor agencies would be best placed to ensure equitable distribution of the vaccine. As DFIs tend to focus their investments on the private sector, the role for DFIs in the public provision of a vaccine is unclear. Grants will be an important tool for developed countries to assist distribution efforts in developing countries, but these tend to be the purview of donor agencies. One way in which DFIs may play a role is to support the expansion of pharmaceutical supply chains, so they are not concentrated in a few countries, and to ensure that the logistics infrastructure is in place to enable effective distribution.

Moving forward, the panel discussed ways in which DFIs can continue to make an impact on healthcare by: targeting low-income clients; partnering with governments to think about broader systems; taking a public health mindset; being transparent about impact and measurement; and embracing innovative financing mechanisms.

To the first point, targeting low-income clients, it was noted that DFIs need to have different desired outcomes for different investments and need to match these different outcomes with the instruments they are
willing to use. For the poorest countries, private financial investment in healthcare will need to be subsidised by DFIs, donor agencies and governments, so as to provide subsidised care. For other countries, DFIs should pursue some commercial return on their investments, but this needs to be done with an eye to impact. As the income level of a country increases, it is likely that domestic public institutions will be stronger, so DFI and private investment in healthcare in these countries may deliver higher returns, but may also provide less relative impact.

Important in addressing the efficacy of investment is the second point, on thinking about broader systems. It was mentioned that (re-)investment is fungible and that DFIs should work with investees to assess the proper balance of investing in equipment and supplies and investing in capital infrastructure, with an eye to the appropriate tenure of the total investment. These assessments should be based on areas where DFI investment can fill gaps and complement public sector healthcare. DFIs also need to be mindful that some clients are multinational, facing different challenges and costs of capital across their operations, so investment solutions need to be tailored to meet these issues. One such challenge that was mentioned was disparate procurement processes, which make the cost of supplies and equipment higher for private healthcare providers. If these providers can work with governments, across their networks, and among other private providers, they are likely to drive these prices down, lowering the cost of care and improving access.

The points concerning taking a public health mindset and transparency about impact and measurement dovetailed nicely. Health investments can be measured using morbidity rates, lives affected and years of potential life lost, among a host of other metrics. To this point, DFIs do not release these measurements regarding their healthcare investments. Greater transparency around these investments will likely only garner more support for them, as stakeholders will have a better understanding of the ways in which DFI investments can save lives.

Finally, as MedAccess and other DFI investments have shown, the enormity of the global health challenge means that there is plenty of opportunity for DFIs to find their own niche in healthcare using innovative financing mechanisms. While debt will remain important, grants, technical assistance and equity all have a place in tackling healthcare challenges. Some will require more concessional capital and some will require capital that is more patient; to be transformative in healthcare, DFIs need to break from their project finance mindset and continue to investigate ways to complement private investment, donor capital and governments. DFIs must broaden their investment space in healthcare across markets and instruments.
The Covid-19 crisis has reframed global health as an issue and has already prompted intriguing innovations. There has been better recognition of healthcare as a basic human right and as a necessary precondition to social and economic development; it is important to finance it as such. This presents substantial opportunities for DFIs to work in a complementary manner with private and public investors by recognising the new needs for finance and innovative financial tools. To deliver on these opportunities, DFIs and other stakeholders must continue, and in some cases initiate, open and transparent discussions between capital providers and healthcare professionals.
Session 3: Game-changing finance: solutions to meet the Covid crisis

14 December 2020

Session background

The Covid-19 pandemic is having a crushing effect on private finance for development. This is resulting in a ‘doubling-down’ on the recessionary pressures in Africa, and domestic banks are experiencing a classic ‘credit crunch’.

With international finance sharply reduced, these acute problems add to existing barriers to mobilising private finance for development. These barriers include a lack of bankable projects, political and macroeconomic risk and products that are mismatched to institutional investors’ needs.

This session explored innovations in liquidity provision, infrastructure financing and climate investment. Participants examined what investment is needed to create a more resilient and sustainable private sector, the prospects for blended finance and co-financing strategies, and the impacts of the rise in foreign currency assets and debt restructuring.

The session drew from high-level leaders and their experiences of leading financial institutions, exploring key insights and lessons learnt. The expert panel shared forward-looking innovative solutions for middle- and low-income countries, as well as approaches that can ‘change the game’ on mobilising finance from a range of actors, including multilateral development banks, development and international finance institutions and the private sector.

Session participants

Chair
Judith Tyson – Senior Research Fellow, ODI

Speakers
Vera Songwe – Executive Secretary, UN Economic Commission for Africa (UNECA)
Limited fiscal space to respond to the Covid-19 crisis and debt sustainability concerns in Africa

African governments have been at the forefront of the response to the crisis on the continent. This includes allocating $46 billion of national fiscal budgets for direct crisis response, led by $26 billion in South Africa and $6 billion in Egypt. Smaller countries with less fiscal space (such as Benin and Togo) have also extended tax holidays, and there have been examples of governments paying the health insurance premiums of frontline workers. However, it is also fair to acknowledge that, given the size of the informal economy in many African countries, it can be difficult for governments to ensure that interventions reach all citizens.

Debt service is also squeezing governments’ fiscal response. At the international level, debt relief has been forthcoming. The International Monetary Fund has provided grant-based debt service relief to 19 countries to the tune of $228 million through the fast-disbursing Catastrophe Containment and Relief Trust. They have also disbursed over $20 billion in emergency financing to African countries. The G20 Debt Service Suspension Initiative will suspend $4.9 billion of debt service due from the continent until June 2021; an extension of the Initiative to December 2021 is under discussion. African countries are asking for $100 billion in special drawing rights per year for the next 3 years to respond to the crisis and spur recovery. Special drawing rights are seen as a better alternative to other hard currencies as there is currently a shortage of foreign currency on the continent.

This discussion naturally highlighted the issue of African debt sustainability. Prior to the Covid-19 crisis, five African countries were in debt distress (Eritrea, South Sudan, Zimbabwe, Gabon and Mozambique), with another 12 facing high risk of distress (according to IMF ratings). This has been compounded by the reduction in commodity prices in resource-dependent economies. Currency denominations and who holds African debt are crucial inputs to the debt sustainability discussion.

That said, many other African countries showed stronger macro fundamentals and do not have an issue with debt sustainability; instead, their greater concern is fiscal and banking sector liquidity. The ability of the Côte d’Ivoire government to raise a €1 billion Eurobond in November highlights that, for the better-rated issuances, credit markets are open.
Enhancing the efficacy of the Covid-19 crisis response and recovery in Africa

Three important issues must be addressed to ensure that those working in the informal sector or those who are jobless are adequately targeted by response interventions. First, it is important to identify who to target. The United Nations Economic Commission for Africa (UNECA) has partnered with seven major telecoms companies across Africa and gained access to 710 million cell phone numbers in order to communicate with these clients regarding their job status or need for support. Currently, 36 countries are covered by this initiative (the Africa Communication and Information Platform).

Second, it was highlighted that identifying which sectors to target is also crucial to informing the recovery. With the African free trade agreement taking effect, there is an important need for improved logistics, transportation, energy and agriculture infrastructure across the continent to take full advantage of this opportunity. Expanding this infrastructure will be labour-intensive and will likely create formal sector jobs, but UNECA is mindful of the impacts this may have on inflation, specifically food prices.

Third, UNECA is focused on leveraging technology going forward and has sponsored innovations in artificial intelligence and the 'internet of things'. It has also championed a girls’ coding initiative, working with 3,000 young girls to encourage the next generation of female entrepreneurs.

The prospects for the Covid-19 recovery in Africa

It was highlighted, and a main focus for much of the discussion, that the issues that face investors post-Covid-19 will be the same ones that faced these same investors prior to the crisis. Specifically, the development of robust domestic capital markets has been uneven across Africa despite efforts by the International Finance Corporation and FSD Africa to build an intermediary layer of financial actors. Experience suggests that traditional banks and private equity firms are not directly supporting these developments. Investor perceptions of risk in Africa is that it remains high. Stronger African financial institutions have performed well during the crisis, with lower levels of non-performing loans – although these are rising as the effects of the pandemic become more chronic.

Technology and financial innovations hold some promise to enable entrepreneurs and small businesses to access finance. This is especially true as the pandemic has restricted social contact and has accelerated development of the adoption of digital platforms.

There is significant interest in expanding local currency lending to avoid hard currency risks. Lending rates in local currency also remain high. This discourages investment, with knock-on suppression of economic growth.
The role of DFIs in the recovery and beyond

It was noted that many crises follow a similar pattern, whereby investors become risk-averse, with sharp retractions of capital inflows to the region. DFIs could act as countercyclical investors. Members of the panel indicated that they felt DFIs had been successful at playing a countercyclical role during the crisis – and better than they had during the 2007–2008 global financial crisis – and that it was evident that DFI investees that had cleared the due diligence requirements for DFI investment performed better than others.

Following on this sentiment, it was suggested that DFIs should be more open to working with governments to strengthen financially inclusive services to accelerate economic transformation and tackle climate change. While it was acknowledged that DFI balance sheets are limited, sectors such as renewable energy contribute to climate adaptation, create jobs and encourage economic development. This is an example of how DFIs as investors can work with governments to achieve higher levels of impact.

When asked how DFIs should and will reorient their allocations to meet the needs of the recovery, it was noted that EDFI members had recently announced that, by 2022, they would align all new financing decisions with the objectives of the Paris Agreement, and ensure that their portfolios achieve net zero greenhouse gas emissions by 2050 at the latest. As part of this push, it was mentioned that DFIs may look to securitise renewable infrastructure assets to free up their own capital, or look to the green bond market to support these ambitions. With regard to increased investment in social sectors (e.g. health and education), it was suggested that investments in these sectors are the preserve of the public sector, and that they tend to be controversial as benefits are seen as accruing to wealthier individuals in developing countries. It was deemed more likely that any expansion into these sectors would come in the form of health and education technologies that have a better chance of impacting poorer communities.

Final thoughts

It was agreed that investment in Africa should take a barbell approach, through which there is, on one side, more equity investment dedicated to the venture space and frontier economies and, on the other side, larger, substantial investments in infrastructure. For an expedited recovery, investors will need to be bold, dedicate significant risk capital, develop a substantial pipeline for projects in sustainable sectors and work with local actors to enable policy reform.
The role of development finance institutions in supporting jobs during Covid-19 and beyond

28 October 2020

Dirk Willem te Velde and Matthew Gouett


The Covid-19 pandemic has led to dire global economic consequences, including a significant loss of jobs across the world, worsening an already precarious situation for the world’s workers. Policy-makers face major challenges in protecting jobs. Although development finance institutions (DFIs) are actively supporting the creation of a large number of jobs and improving their quality, they could do more to ensure that recent progress towards economic development is not completely wiped out.

The opportunities for DFIs to support businesses

The pandemic has brought about two types of economic shocks. The first is a demand shock that has undermined the ability of firms to sell products and services. The second is a supply shock for firms which are highly integrated into global value chains and have faced difficulties obtaining the inputs they require due to movement restrictions. This dual shock has created cash flow and solvency issues for firms and undermined their ability to create quality jobs. The United Nations Economic Commission for Africa has emphasised that addressing liquidity shortages, including through a Liquidity and Sustainability Facility, is crucial to the economic resilience of low- and middle-income countries (LICs and MICs), especially for small and medium-sized businesses (ECA, 2020).

In many countries, domestic governments and/or donors have created schemes to cushion the impact of the crisis on these firms. However, the preliminary evidence suggests that these schemes have not reached all firms equally. A forthcoming World Bank report highlights that only 4.5% of firms in LICs have been able to access recovery support measures.

Many LICs and lower-middle-income countries (LMICs) do not have social insurance systems. This means that many employees in the formal sector, where DFI investments tend to create jobs, will not have a government-sponsored safety net available if they are temporarily laid off or working reduced hours. Moreover, current social protection systems are unable to adequately protect jobs in the informal sector. Labour markets in the poorest countries in particular will face major challenges, including the move towards digitalisation and need for formalisation.

DFIs are already building back better…

DFIs are working to maintain the jobs previously created by investee companies while also strengthening investees’ businesses to address short-term resilience issues. Specifically, DFIs are providing more investment capital (Griffith-Jones and te Velde, 2020), renegotiating terms on loan repayments and providing technical assistance. DFIs are using innovative technical assistance programmes to support their clients to implement work-sharing schemes, effective employee retrenchment policies, improved employee safety and adapted business operations.

As the Covid-19 crisis continues, DFIs should also consider extending the moratorium on debt repayments in extreme cases (Welham and Miller, 2020), and instead engage directly with clients to create bespoke support packages and create a ‘bouncing back better’ facility (Bilal et al., 2020) to support companies through these difficult times.

…but DFIs could do more to build resilience for high-quality job creation

Although the shape of the global economic recovery remains uncertain, DFIs must consider how they will support their clients after the worst of the pandemic has passed. It is clear that DFIs need to help investees to diversify their suppliers, markets and operational capacity to insulate themselves from future shocks.

This crisis has highlighted just how integrated global value chains have become, but also how vulnerable modern business practices are to the barriers of the movement of goods and services. DFIs should encourage investees to build vertical linkages in their supply chains and, in some cases, to focus more on local linkages than before the pandemic. They should also support investees to carry more inventory to avoid input shortages.

Digitalisation and adapting operations to manufacture health products have also been identified as other avenues for investees to ‘build back better.’ DFIs have shared examples of investee businesses moving their work online and changing the way customers receive their product (ODI, 2020). These are innovations that should continue as they decrease investees’ vulnerabilities to future demand shocks.
For DFIs, new platforms that can facilitate these types of business interactions could be a significant investment opportunity and a way to build more resilient markets and may also provide an opportunity for DFIs to reach those working in the informal sector.

Lastly, DFIs should also work to repurpose existing manufacturing clients – or invest in new ones – to address the high demand for health-related goods needed to respond to the Covid-19 pandemic and other crises that will no doubt arrive in the future.

References


Three ways development finance institutions can enhance investments in healthcare

29 October 2020

Samantha Attridge and Matthew Gouett


In response to the Covid-19 crisis, it is reasonable to expect development finance institutions (DFIs) to reorient more of their investment toward healthcare. Our recent analysis found that only a small share of DFI investment has been made in the health sector (Attridge and Gouett, 2020). DFIs have responded quickly and flexibly to support existing healthcare investees via debt repayment moratoriums, working capital injections and the provision of grants to procure personal protective equipment (PPE).

This focus on existing clients is exactly what we would expect in the early days of a crisis. But in our opinion, DFI investment should be pushed to do much more in healthcare, in recognition of the fact that the pandemic has reframed global health as an issue already spawning intriguing innovations.

There has been a growing recognition of healthcare as a basic human right and as a necessary precondition to social and economic development, and it is important to finance it as such. This acknowledgment poses great opportunities for DFIs to work in a complementary manner with private and public investors in innovative ways.

Here are three ways DFIs can enhance investments in healthcare.

1. Target investment toward low-income countries

Among the health investments that we were able to track in our previous research, low-income countries (LICs) accounted for less than 1% of DFI health commitments (Attridge and Gouett, 2020). DFIs need to identify clear outcomes for investments and match these outcomes with the most effective instruments they are willing to use. For the poorest countries, private financial investment will need to be subsidised by DFIs, donor agencies, and domestic governments.

For other countries, DFIs should pursue some commercial return on their investment, but it needs to be done with an eye on impact. DFI portfolios must remain balanced, but given most DFI healthcare investments take the form of infrastructure loans to middle-income countries (MICs) it is evident that these investments are more tilted toward financial return than transformative impact.
In some cases, DFIs can look to their own investment portfolio to see if current investments in MICs can be adapted to LICs. DFI investments in the Aga Khan University Hospital of Karachi (AKUH) (AKU, 2013) and Narayana Health in India (CDC, n.d.) are just two examples through which DFI investment has increased access to healthcare among people in poverty and has insured them against catastrophic healthcare costs. These are crucial interventions that should be adapted and replicated, especially as we know that a large percentage of health expenditures in LICs are out of pocket (Mills, 2014).

2. Partner with governments to think about broader systems

To enhance the impact of their health investments, DFIs must think about the broader health system. Money is fungible, and DFIs should work with investees to assess the balance investing in equipment and supplies and investing in capital infrastructure while considering the appropriate tenure of the total investment. These assessments should be based on areas where DFI investment can fill existing funding gaps and complement public sector healthcare.

Moreover, how DFI investment opportunities are assessed should be tailored to meet this thinking on complementarity. Traditional impact metrics of jobs created will not capture the impact of a healthcare provider having better equipment to serve its patients. DFIs must assess how their investments in healthcare contribute to the wellbeing of the employees and customers of private sector businesses in LICs and MICs. The Covid-19 crisis has reinforced the symbiotic relationship between global health and economic development; DFI investment allocations should also recognise this relationship.

3. Embrace innovative financing mechanisms

Finally, as MedAccess and other DFI investments have proven, the enormity of the global health challenge means that there is plenty of opportunity for DFIs to find their own niche in healthcare using innovative financing mechanisms. While debt will remain important, grants, guarantees, technical assistance, and equity all have a place in tackling healthcare challenges. Some challenges will require more concessional capital while some will require capital that is more patient. To be transformative in healthcare, DFIs need to break from their project finance mindset and investigate ways to complement private investment, donor capital, and domestic governments.

Our own research found that when DFIs invested via pooled investment vehicles, volume guarantees, first loss guarantees and development impact bonds (DIBs), this investment acted as a catalyst for market development; especially in health supply chains (Attridge and Gouett, 2020). Our research also found that the popularity of these types of investments among DFIs was limited. To
seize on the opportunity to make a meaningful contribution to the Covid-19 crisis recovery, DFIs must broaden their investment space in healthcare across markets and across instruments.

References
Game-changing finance: three ways to ‘build back better’ in sub-Saharan Africa

8 February 2021

Judith Tyson


Nearly one year into the global Covid-19 pandemic, the health crisis in sub-Saharan Africa is better than it was envisaged to be. However, the pandemic is having a crushing effect on the economy. This is particularly acute in the informal economy, where many citizens live ‘hand to mouth’ and so have been immediately adversely affected by ‘lockdowns’ and by deterioration in the economy.

The response and recovery to these economic effects is heavily dependent on finance. It is a key enabler of governments’ ability to provide healthcare, support the economic recovery and for the private sector to resume their businesses.

Positive responses

On the plus side, African governments have been at the forefront in responding to the crisis. They rapidly accessed finance – including from domestic sources – to enable them to address their countries’ health needs and to provide fiscal support more broadly within the economy.

However, this positive response was dominated by the larger and stronger economies in the region, such as South Africa and Egypt. Smaller and weaker economies responded, but, given fiscal constraints, were restricted to less effective – although still welcome – measures such as tax holidays and providing health insurance. The overall fiscal response in Africa has been just 10% of middle- and high-income countries' response, even relative to GDP.

It is also promising that international financial institutions have learnt lessons from the financial crisis of 2007. Funds from shock facilities to governments were quickly dispersed back in 2007, and there was also a rapid agreement on debt relief. This included the International Monetary Fund writing off $228 million in debt from 19 countries and using the fast-dispersing Poverty Reduction Growth Trust (PRGT) to disperse over $20 billion to African countries. The G20 also worked with bilaterals to deliver substantial debt relief to the continent.

Turning towards long-term recovery

Now, there is a need to turn to longer-term recovery. A key hangover from these positive responses is concerns about debt sustainability. Prior to the Covid-19 crisis, five African countries were in debt
distress (Eritrea, South Sudan, Zimbabwe, Gabon and Mozambique) with another 12 countries facing high risk of distress. These countries are also where extreme poverty is concentrated. Further debt restructuring is needed to ensure that poverty in such countries is not compounded over the long term.

Stronger economies simply need to access further private financing to support their economic recovery. On a positive note, some African governments have already returned to the international market, with a $1 billion Eurobond issuance in November for the Ivory Coast.

Three ways to build back better

Assuming such finance can be accessed, it is critical that it is applied to ‘build back better.’ This should include addressing the livelihood of low-income households in the informal sector and the increasingly urgent problems of climate change.

In the informal sector, it is essential that finance for small and microbusinesses is retained. Development finance institutions can do this by continuing and increasing financing through banks and microfinance institutions ring-fenced for this sector.

But building back better demands more. Here are three ways to do this.

1. **Digitalisation**
   The global pandemic has highlighted and accelerated the digitalisation of the economy. In sub-Saharan Africa, it has been rapidly evolving as a key enabler of pro-poor economic growth. A digitalised economy enables business opportunities and services to be delivered to low-income households at a very low marginal cost, including those in remote locations. It has leveraged the existing telecommunications and mobile banking networks which had been established over the last decade into new opportunities for businesses. It has also seen a boost of innovation among entrepreneurs across the continent. Further support and promotion of this trend and the opportunity it offers should be a key focus for development institutions, national governments and private sector investors.

2. **Investment**
   There needs to be continued and greater investment in key enablers of economic growth, including logistics, transportation and energy – and all of it climate friendly. This will require public investment in infrastructure supported by development finance institutions (DFIs) and finance for private sector firms engaged in these activities.

3. **Private finance**
   Private financial development needs to continue. This means more robust access to international and domestic capital markets as well as strengthening the banking sector, including supporting its stability
and return to growth in lending. DFIs such as the UK’s CDC and FSD Africa have already actively been involved in this.

This must not only continue but accelerate. Ways to accelerate include further capital market development in local currencies, supporting African issuances in green bonds and co-investing with non-banking investors such as socially responsible investors, private equity and specialist funds for the region.

The pandemic has been a tragic event globally and an economic calamity in sub-Saharan Africa. But, as vaccines are being delivered and the pandemic slowly fades, Africa needs to seize the opportunity to return to the strong growth of the last decade and secure the finance needed to deliver it. Working with its development partners and private investors, this is both possible and essential for the future prosperity and stability of the region.