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*Lot8: Sustainable Finance and Blended Finance*

## **Study on EFSD and early EFSD + deployment practices**

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# **FINAL REPORT**

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## Table of contents

Executive Summary .....	3
Introduction .....	5
Objective and Scope.....	5
Methodology.....	6
Key Findings of the Study.....	6
Addressing Market Gaps .....	6
Pipeline development: opportunities and challenges .....	7
Additionality of the guarantee .....	7
Role and focus of the TA in supporting deployment of EFSD(+) .....	9
Lessons learned, challenges and areas for improvement.....	10
Conclusions and Recommendations .....	14

## Figures

Figure 1 – Examples of TA and capacity building .....	10
Figure 2 – Top 3 challenges faced when deploying the EFSD(+) guarantee.....	13
Figure 3 – Usefulness of the guarantee (from very useful to not useful) .....	13
Figure 4 – How does the other guarantee differ from EFSD(+)? .....	13
Figure 5 – Key findings from field work (in summary) .....	14

## Tables

Table 1 – Short-listed EFSD(+) guarantees and deployment status .....	5
Table 2 – Key additionality criteria and variables– summary and analysis .....	8
Table 3 – Key lessons learned and challenges across guarantees.....	11
Table 4 – Summary of the additionality of the EFSD(+) guarantees reported during field meetings by direct or indirect beneficiaries.....	14
Table 5 – Final recommendations .....	15



## Executive Summary

The objective of the *Study on European Fund for Sustainable Development (EFSD) and early European Fund for Sustainable Development Plus (EFSD+) deployment practices* is the assessment of additionality and lessons-learned of deployment actions under guarantees underpinned by the EFSD(+). The study focuses on three key areas: 1) analysing case studies of both successful and unsuccessful investment programmes under EFSD and EFSD+, 2) identifying concrete lessons learned and recommendations to enhance the design of these financial instruments, and 3) providing recommendations for refining EFSD+ guarantees in ongoing negotiations.

To achieve this, the team of consultants conducted interviews with Development Finance Institutions (DFIs) managing selected EFSD(+) guarantees. The team also carried out field missions in seven countries (Nigeria, Kenya, Tanzania, South Africa, Senegal, Côte d'Ivoire and Ghana), where they interviewed DFIs, direct beneficiaries of EFSD(+) guarantees, local financial institutions, micro, small, and medium enterprises (MSMEs), and Business Support Organisations (BSOs). In addition, a stakeholder workshop was organised on 17 December 2024 with more than 100 representatives of EU Member States, DFIs, and the European Commission.

The EFSD(+) guarantees have demonstrated clear and significant benefits, particularly in six areas:

- **The first clear benefit from the guarantee is the increasing in risk appetite**, allowing DFIs and Multilateral Development Banks (MDBs) to support higher-risk market segments.
- **The second benefit the guarantee is bringing is about a reduction of the remaining risk** for financial intermediaries, microfinance institutions and local banks.
- **Thirdly, the guarantee also helped in improving access to finance to underserved clients** in Least Developed Countries (LDCs) or niche sectors, thus supporting local economies and jobs.
- **Fourthly, the EFSD(+) guarantees have improved borrowing conditions for MSMEs and final beneficiaries**, for instance by offering lower interest rates, longer tenures, and/or reduced collateral requirements.
- **A fifth key benefit from the guarantee is that it enabled to attract new groups of institutional investors and financial intermediaries** lending into emerging and developing economies (IFU SDG II first close, FMO Ventures, EBRD, several guarantees under launch (DEG GIEF, LPI, etc.)).
- **Lastly, the EFSD(+) guarantee has made local currency financing more widely available** in developing countries.

The study also identified four main challenges. The first concerns administrative complexity and setup delays, as originating, negotiating, and finalizing a guarantee can take from one to three years due to administrative hurdles. The second relates to pipeline development and project timelines, where the time required to approve guarantees often does not always align with the project pipeline, causing delays. The initial project pipeline should be considered as indicative rather than binding. A third challenge lies in the eligibility criteria misalignment. The gap between EU policy objectives and market realities sometimes makes it difficult for projects to meet eligibility criteria. Lastly, capacity constraints in implementation pose an issue, as some DFIs struggle to communicate the benefits of the guarantee to local banks and financial institutions. Reporting requirements were perceived as burdensome and the inclusion period stipulated by the EFSD Regulation was considered too short, particularly for infrastructure projects.

Based on feedback from DFIs, financial intermediaries, and the stakeholder workshop, the study provides the following key recommendations to enhance future EU guarantees:

- **Simplify guarantees:** Develop more standardised terms and conditions for guarantees to ensure smooth adoption by the market - DFIs, financial institutions, and their beneficiaries.
- **Adapt the guarantee to evolving project needs:** The EFSD(+) framework should evolve with market demands, especially for infrastructure projects, which require longer maturities and conditions.
- **Improve affordability and pricing at sovereign and regulatory levels in target countries:** EFSD(+) may consider relaxing restrictive eligibility criteria to allow for lower pricing, making guarantees more concessional.
- **Align infrastructure guarantees with existing market practices:** Ensure better coordination with existing financial instruments, such as MIGA, Export Credit Agencies (ECAs) and other development finance agencies.
- **Simplify fee calculation and reporting:** Establish a better balance between reporting requirements and operational efficiency to reduce administrative burdens.
- **Position and apply the TA early and in a customised way** – by providing tools, segment research, and credit assessment instruments to offer credit to new segments. Also, TA for infrastructure should intervene earlier, upstream, to assess, and improve on the business and regulatory environment.

- **Extend the inclusion period:** Ensure that the duration of guarantee availability is better aligned with the specific needs of different industries and market segments.
- **Improve alignment between the project pipeline and guarantee activation:** Ensure that the timeline for guarantee implementation corresponds more closely to the lifespan of the project pipeline, avoiding delays that can render projects ineligible or unviable.
- **Opportunity to enhance the coordination amongst DFIs and Member States,** including better identification and qualification of projects, sharing the funding load, and better coordinating role for EUDs (Delegations).
- **Enhance focus on mobilisation of private investors** as opposed to DFI balance sheets.

In conclusion, there was a consensus amongst most pillar assessed DFIs that the EFSD(+) guarantee does bring strong additionality and risk mitigation mechanisms, especially in LDCs and segments where the market, sovereign, forex and execution risks are higher. On the other hand, DFIs also pointed out potential areas of improvement for EFSD(+) instruments, mainly in the administrative set up and negotiation of the guarantees terms, making EFSD(+) eligibility criteria more realistic and in line with market conditions. From the perspective of DG INTPA EFSD(+) management, this field evaluation was deemed informative, bringing pertinent feedback on ways to improve future EFSD(+) Proposed Investment Programmes (PIPs) and negotiations.

Many of the challenges identified in EFSD listed above have already been addressed in the roll-out of the EFSD+ programme.

## Introduction

The European Union (EU) has launched the Global Gateway (GG) strategy<sup>1</sup> to strengthen Europe's global presence by promoting smart, clean and secure investments in climate, energy, digital, health, education, research and transport. Between 2021 and 2027, the EU and its partners will mobilise up to EUR 300,000,000,000 to support sustainable and high-quality projects, working with EU Member States, development institutions and the private sector to maximize impact.

One of the key financial tools supporting this strategy is the European Fund for Sustainable Development Plus (EFSD+), which builds on its predecessor EFSD. With a risk-sharing budget close to EUR 40,000,000,000, the EFSD+ aims to attract EUR 135,000,000,000 in public and private investments, to help partner countries achieve the Sustainable Development Goals (SDGs). It works through European and international financial institutions such as the European Financial Architecture of Development (EFAD)<sup>2</sup>, various European Development Banks and multilateral development banks – all together referred to as Development Finance Institutions (DFIs), to support projects that would otherwise struggle to secure funding.

## Objective and Scope

The objective of the study on EFSD and early EFSD+ deployment practices (the study) is the assessment of lessons learned and the additionality of a selection of implemented EFSD(+) guarantees in order to help improve the European Commission's (EC) sustainable financing tools. The study's scope can be described as follows: 1) analyse case studies of successful and unsuccessful EFSD(+) projects, 2) identify concrete lessons learned and recommendations to enhance the design of such instruments, and 3) provide recommendations to refine EFSD+ guarantees in ongoing negotiations.

To achieve this, the team of consultants conducted interviews with DFIs that implement EFSD(+) guarantees that were shortlisted by INTPA E5. The team carried out missions in 7 countries (Nigeria, Kenya, Tanzania, South Africa, Senegal, Côte d'Ivoire and Ghana) including interviews with local banks and Micro, Small and Medium Enterprises (MSMEs) Business Support Organisations (BSOs). The team also organised a stakeholder workshop on 17 December 2024.

The short-listed EFSD(+) guarantees are the following:

**Table 1 – Short-listed EFSD(+) guarantees and deployment status**

DFI	Name	Status
<b>EFSD</b>		
<b>FMO</b>	NASIRA	100% deployed
<b>FMO</b>	Ventures Programme (Ventures)	100% deployed
<b>KfW-MunichRE</b>	African Energy Guarantee Facility (AEGF)	1 transaction
<b>AFD-CDP</b>	European Guarantee for Renewable Energy (EGRE)	AFD: partially deployed CDP: Not deployed
<b>EIB</b>	Access to Finance	Partially deployed in SSA
<b>KfW-TCX</b>	'Market Creation Facility' Pricing Component	~100% deployed
<b>Proparco</b>	Agricultural and Rural Finance Emergency COVID-19 Response (AgreenFi)	~100% deployed
<b>EFSD+</b>		
<b>Finnfund</b>	Africa Connected	Under deployment
<b>EDFI MC</b>	MSME Platform	Under deployment
<b>EIB</b>	Investment Window 1 (IW1)	Under deployment
<b>IFU</b>	Sustainable Development Goals (SDG) Fund II	Under deployment, first close completed
<b>AFD</b>	Accelerate the Energy Transition (AccelerET)	Recently signed
<b>KfW/DEG</b>	Green Energy for Africa & Asia (GEfAA)	Recently signed

Most of the proposed EFSD+ guarantees have not been deployed yet and some of them have just recently been signed. On these guarantees the additionality was measured via the market gap they should be fulfilling and lessons learned from the pipeline development and guarantee negotiations process.

<sup>1</sup> [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/global-gateway\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/global-gateway_en)

<sup>2</sup> The future of the European Financial Architecture for Development by Mikaela GAVAS, Aitor PÉREZ at Policy Department for External Relations Directorate General for External Policies of the Union PE 653.665 - May 2022.

## Methodology

This field study followed a hands-on approach, prioritizing direct engagement with stakeholders over a purely desk-based evaluation. Instead of relying solely on contractual documents, mid-term reviews, remote interviews, and secondary data, the study focused on in-person meetings (where possible) with key players and beneficiaries involved in the EFSD(+) guarantees. The evaluation covered the entire chain of stakeholders: a) the pillar assessed DFIs or Multilateral Development Banks (MDBs) responsible for implementing the guarantees, b) the first layer of direct beneficiaries, primarily financial institutions such as local commercial banks, meso-finance institutions, venture capital (VC) funds, and microfinance institutions (MFIs) and c) some of the final beneficiaries, including MSMEs, entrepreneurs, investment funds, infrastructure operators, etc.

To gather insights, the consultants developed a structured questionnaire, aimed at identifying key lessons learned, challenges, the role of Technical Assistance (TA), and recommendations. Following each interview, the minutes were validated with the respective DFI or beneficiary to ensure accuracy. In addition, a written survey was distributed to all DFIs and financial intermediaries and fund beneficiaries. These surveys combined multiple choice questions (allowing respondents to select predefined answers) with open ended questions to capture qualitative insights. A market intelligence type written survey was sent to potential end beneficiaries, but it did not yield statistical relevance due to the low number of responses received. In addition, the EFSD(+) Workshop of 17 December 2024 yielded a number of additional inputs, remarks and recommendations, which have been incorporated in the final recommendations section.

## Key Findings of the Study

The results of the study can be grouped into **4 key assessment categories** described below.

### Addressing Market Gaps

Across most of the DFIs interviewed, there is a consensus that the EFSD(+) guarantee should address market gaps by extending both financing and TA to segments of beneficiaries that would not typically benefit from it. For instance:

- **MSMEs:** Many small businesses, particularly those owned by women and young entrepreneurs, as well as early-stage businesses which were affected by the COVID-19 pandemic, face a significant financing gap, often referred to as the “missing middle”. Programmes like FMO Ventures and EDFI MC MSME Platform aim at addressing these gaps. For example, FMO NASIRA has fully deployed its EFSD guarantee to support local financial intermediaries (such as Access Bank, Sidian Bank, I&M, etc.), which, in turn, have developed targeted lending products for underserved segments such as women entrepreneurs or the agricultural sector. This applies also to Proparco AgreenFi, and EDFI MC MSME Platform (Swedfund) intermediated lending to local banks and MFIs such as Pamecas, COFINA, and Access Bank in West Africa or EDFI MC MSME Platform (DEG) COOP bank and Apollo (Swedfund) in East Africa.
- **Infrastructure and capital-intensive projects:** Another critical area where the EFSD(+) aims to bridge investment gaps is large-scale infrastructure and energy projects. Several EFSD(+) guarantee agreements such as AFD EGRE, AFD AccelerET, Finnfund Africa Connected and KfW/DEG GEfAA are designed to support debt and equity financing for key infrastructure initiatives. In Sub-Saharan Africa, financing for energy utilities and independent power producers (IPPs) faces multiple barriers, such as: a) country and regulatory risks, b) currency fluctuations (borrowing equipment in EURO whilst the project’s cash flow is in local currency), and c) financial health of public utilities. A major issue is the creditworthiness of the public utility negotiating the power purchase agreement (PPA) or off-take agreement, which determines whether independent IPPs can reliably sell electricity to state-run utilities. Without solid financial guarantees, these projects struggle to attract private investments. Sovereign guarantees have become less common, as they increase national debt burdens. As a result, project developers and DFIs are searching for alternative de-risking mechanisms.

In principle the additionality of guarantees for such infrastructure projects is strong, covering identifiable market needs. Based on the team of consultant’s comprehensive set of structured interviews with DFIs and field review of the EGRE energy guarantee, the results of this group of guarantees is at best mixed. Apart from the recent use of an EFSD+ guarantee by Finnfund in South Sudan (digital sector), few of the other infrastructure guarantees have been successfully deployed or are just in the process of being deployed as they were recently signed (AFD AccelerET, KfW/DEG GEfAA). Some of the earlier infrastructure guarantees, such as AFD/ CDP EGRE and KfW AEGF, which were complex to implement and not fitting market demands and conditions, did not end up being used and/ or were hardly deployed.

- **Financing gap in investment in early-stage Venture Capital funds and Climate funds focused on emerging markets and LMIC.** The guarantee enabled to attract new groups of (private) institutional investors in making equity and debt investment into emerging and developing economies (IFU SDG II first close, FMO Ventures, EBRD). In particular FMO Venture leveraged the EFSD guarantee, to make Fund of Fund investment in riskier, early-stage startup companies. Also, IFU SDG Fund II managed to attract Danish pension funds and private investors in investing into SDG related companies in a wide range of sectors – from climate and energy, sustainable food systems and agri-business, healthcare.
- **The EFSD/ EFSD+ KfW-TCX pricing component has made local currency financing more widely available and more affordable in developing countries.** The guarantee reduces the spreads on TCX-provided cross-currency swaps.

### Pipeline development: opportunities and challenges

Most of the DFIs interviewed in this study highlighted that developing a pipeline of “EFSD(+) compliant” projects has been at times a significant challenge. The eligibility criteria and policy discount rules required for EFSD(+) projects were perceived as rigid and difficult to reconcile with real market conditions. These criteria come on top of the DFIs’ own environmental, social and governance (ESG) standards, which are already more stringent than those applied by commercial banks.

Another major challenge is the mismatch between the timing of the EFSD(+) approval process and the realities of project financing. The original portfolio submitted as part of the Proposed Investment Programme (PIP) application often no longer aligns with market conditions when the guarantee is finally signed and available.

For large-scale private sector infrastructure and utility projects, securing financing typically takes 6 to 9 months, whereas the deployment of the guarantee can take 2 to 3 years. As a result, by the time the guarantee is finalized, many of the initial projects in the pipeline may no longer be relevant. In contrast, projects led by State-Owned Enterprises (SOEs) often require several years to develop due to tendering and procurement regulations. This justifies the need for a longer inclusion period which refers to the timeframe during which the guarantee is available for investments.

However, this issue varies depending on the type of guarantees. In sectors such as MSMEs, VC funds, and intermediary lending to banks, building a pipeline of projects has been less of a challenge than in infrastructure. For example, in initiatives like FMO NASIRA and EIB Access to Finance, where local banks (e.g., Access Bank, Sidian, I&M, NMB, Ecobank) play a key role, the deployment of guarantees has been smoother. Many of these banks already have extensive branch networks, particularly in secondary cities, and well-established relationships with DFIs. This also applies to other financial intermediaries benefitting from an EFSD(+) guarantee such as MFIs.

For some local or regional banks, EFSD(+) guarantees and DFI-backed lending have facilitated the development of new and specific financial products and/or credit lines, reaching previously underserved market segments. In particular, targeted lending programmes have enabled banks to expand access to finance for women, young entrepreneurs, and early-stage businesses, demonstrating a clear additionality.

By contrast, in non-MSMEs or “non-liquid” segments, such as infrastructure, building a pipeline of eligible projects has been more complex. For instance, in the case of KfW AEGF guarantee programme, it took three years (2020-2023) to negotiate the guarantee before it could be deployed – so far, it has only been used once for a 40MW IPP project in Kenya. Key challenges included the long setup time for the guarantee, high audit and reporting costs, and the requirement for EFSD(+) management approval on every proposed deal before applying the guarantee.

Similarly, in the case of the AFD EGRE, the inclusion period and guarantee terms did not fully account for the extended financial closure period and the institutional constraints faced by key stakeholders, such as regulators and public utilities. The four-year inclusion period proved too short to finalise all necessary contractual and transaction agreements between the IPP and the public off taker.

### Additionality of the guarantee

Through field evaluations in 7 countries of a total of 12 short-listed guarantee programmes<sup>3</sup>, the team of consultants has witnessed significant cases of successful additionality.

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<sup>3</sup> Other guarantees’ beneficiaries (that were not part of the short-listed guarantees) were met on an opportunistic basis such as for example banks benefitting from EIB W4



These include the projects implemented by FMO Ventures on their Fund of Fund investment and also direct, private equity investment in a well selected number of Series A and Series B companies. A good track record of intermediary lending has been achieved by FMO NASIRA, Proparco AgreeFi, and EDFI MC MSME Platform (Swedfund, DEG). This lending, targeting earlier stage companies, women and youth entrepreneur segments, has helped increase access to finance to segments normally not benefitting from such lending. EIB Investment Window 1 (IW1) also plays a key role to fill in the need for sovereign lending as this guarantee acts as a sort of last resort of financing when a government would not have had access to credit otherwise or only with very unfavourable terms. In the case of Ghana for example, the country faced difficulties to raise money as it is categorised as a country in 'default payment', meaning that the risk the EIB is taking is higher than for operations with a country without this status.

The additionality criteria used are listed below:

**Table 2 – Key additionality criteria and variables– summary and analysis**

Additionality Criteria	Guarantee Example	Counter Example
Additional risk appetite and capacity to target riskier segments of the market	<ul style="list-style-type: none"> <li>▪ <b>FMO Ventures:</b> investment in E3 early-stage VC fund, SolarX early-stage energy company.</li> <li>▪ <b>EDFI MC MSME Platform guarantee (Swedfund),</b> both investments in Apollo or COFINA, MFIs providing lending to smallholder farmers and/or cooperatives</li> <li>▪ <b>Proparco AgreeFi:</b> credit line to Pamecas, an MFI dedicated to rural development and agriculture</li> <li>▪ <b>FMO NASIRA:</b> Access bank, Sidian bank and I&amp;M bank willing to go for the MSMEs segment</li> <li>▪ <b>KfW/TCX Market Creation Facility Pricing Component (currency risk management)</b> can eliminate or mitigate the risk of exchange rate fluctuations in investment in 100+ countries. EFSD funds increase TCX's hedging capacity for interest rate risks related to interest rate risks related to local currency loans to financial intermediaries and utilities and makes them more affordable.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>AFD EGRE:</b> It was applied as off take counter-guarantee to the PROLER open tender process in Mozambique. However, the guarantee was never signed and met with lots of resistance from main off taker EDM (Electricidade de Mozambique) and the Ministry of Finance (MoF). Inclusion period of 4 years is now over.</li> </ul>
Reduction of the remaining risk for the financial institution or bank	<ul style="list-style-type: none"> <li>▪ <b>FMO NASIRA:</b> intermediary lending to Sidian Bank, providing credit to rural, green and women segments. Increased the reach and coverage of new segments and sub-regions, mostly rural.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>EIB Access to finance</b> lending to Ecobank: The administrative set up of this Intermediary lending with the 9 subsidiaries of Ecobank took a long time and did not conclude.</li> </ul>
Improved access to finance to Least Developed Countries (LDCs), riskier or niche sectors Increased participation of private sector investors	<ul style="list-style-type: none"> <li>▪ <b>Finnfund Africa Connected:</b> has a clear investment thesis of providing equity, mezzanine and debt financing to digital connectivity, network operators, data centers and Tower Companies in LDCs.</li> <li>▪ <b>EIB IW1:</b> has a real strategy targeting sovereign lending offering credit lines to countries that would not have access to capital otherwise as it is the case with Ghana.</li> <li>▪ <b>Proparco AgreeFi:</b> focuses on non-addressed segments of financing such as social and affordable housing solution in</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>FMO NASIRA:</b> Originally designed to address migrant and displaced persons in conflict areas but very hard to address this segment.</li> </ul>



	<p>South Africa through TUFH accelerator of “social” developers.</p> <ul style="list-style-type: none"> <li>▪ <b>EDFI MC MSME Platform:</b> focuses on investing on banking players that are still developing their MSMEs lending, especially in fragile states.</li> <li>▪ <b>FMO Ventures:</b> MoniePoint, credit and cross border payment solutions FinTech, which achieved 10M customer in the challenging Nigerian market and is extending in all West African markets and beyond.</li> <li>▪ <b>IFU SDG Fund II:</b> equity investments in MSMEs that meet Green Economy and Inclusive Economy criteria and contribute to financial services, green energy and infrastructure, healthcare, and sustainable food systems through commercial private sector investments in LMIC, supporting strategic sectors in these countries. Importantly, 60% of their pool of investors comes from the private institutional investors.</li> </ul>	
Providing better conditions for borrowing (interest, collateral), etc.	<ul style="list-style-type: none"> <li>▪ <b>FMO NASIRA</b> intermediary lending for Access Bank, I&amp;M and also Sidian Bank have led these banks to develop: a) dedicated departments dealing with MSMEs and women, and b) new credit lines.</li> <li>▪ <b>Proparco AgreenFi:</b> intermediary lending to Pamecas with interesting terms and conditions and capacity building</li> <li>▪ <b>EIB IW1:</b> offering interesting terms and conditions with grace period, longer terms and lower interest rate being more adapted to the reality of the field.</li> </ul>	

### Role and focus of the TA in supporting deployment of EFSD(+)

For most DFIs interviewed in this evaluation, TA played a key role in supporting the deployment of EFSD(+) guarantees. It proved particularly useful in three main areas:

- TA helped DFIs structure and develop their own portfolios, providing internal support to improve their operations
- TA assisted local banks (and other financial institutions such as MFIs) in designing new financial products, setting up dedicated MSMEs-focused departments, and also develop risk management systems or digital CRM platforms for their customers. This TA was also extended to early-stage VC Funds who benefited from TA to build up their portfolio of companies and also on impact reporting
- TA contributed to market research and better definition of target segments (such as women entrepreneurs and their specific needs for FMO NASIRA with Access Bank).

**Figure 1 – Examples of TA and capacity building**

TA to strengthen financial intermediaries to deal with MSMEs risks and develop new products, capacity building	<ul style="list-style-type: none"> <li>•FMO NASIRA</li> <li>•KfW/TCX Market Creation Facility Pricing Component</li> <li>•Proparco AgreenFi</li> <li>•EDFI MC MSME Platform</li> </ul>
TA to build up pipeline, provide technical (feasibility studies, reporting) and financial (due diligence) support	<ul style="list-style-type: none"> <li>•FMO Ventures</li> <li>•FMO NASIRA</li> <li>•KfW/DEG GEfAA</li> <li>•AFD AccelerET</li> <li>•Finnfund Africa Connected</li> </ul>
TA to equip the MSMEs and end beneficiaries with right financial literacy, entrepreneurial skills,...	<ul style="list-style-type: none"> <li>•EDFI MC MSME Platform</li> <li>•Finnfund Africa Connected</li> <li>•Proparco AgreenFi</li> <li>•FMO Ventures</li> <li>•FMO NASIRA</li> </ul>
TA to advise and accompany open tender, regulatory aspects, financial close and negotiations of infrastructure tenders.	<ul style="list-style-type: none"> <li>•AFD EGRE NS</li> <li>•KfW/DEG GEfAA</li> <li>•AFD AccelerET</li> </ul>

Interestingly, some DFIs, such as EIB, chose not to benefit from any TA which, retrospectively, they regret as TA would have facilitated considerably due diligence (DD) and preparation of lending with some of the local banks (such as Ecobank, where 9 separate DD trajectories and contracts had to be set up at the expenses of the EIB for a very small lending amount).

In the context of infrastructure related guarantees, such as Finnfund Africa Connected, the TA provided was instrumental in developing the pipeline of deals and particularly in supporting the digital companies with financial, technical and impact related DD as well as improving financial and operational planning. This in turn helped to strengthen the skills and competencies of Finnfund in relation to operating in LDCs and fragile states.

TA has also been widely used in other guarantee programmes. One of the most extensive uses was within FMO NASIRA, where TA supported local banks on two levels:

- **From a process perspective:** improve or optimize the bank's processes to mitigate risk (financial, cybersecurity, etc.) to create a better portfolio (and reach the end beneficiaries)
- **From a product development perspective:** understanding better MSMEs (study on women financing needs, benchmarking, niches of MSMEs, value chains opportunities, non-financial services i.e. most banks offer non-financial services to their clients such as networking).

In summary, the TA across all DFIs has been used for the following main purposes: addressing and strengthening of DFI competencies (internal level) and strengthening the skills and capacity of financial institutions and end beneficiaries (external level).

## Lessons learned, challenges and areas for improvement

The lessons learned of the 12 EFSD(+) guarantees are presented below in a summary form.

The lessons learned fall into four main categories of challenges:

- administrative hurdles and set up challenges
- pipeline development and time to market
- guarantee eligibility criteria and gap between EU policy fitting 'discount' and non-discount terms and conditions
- learning curve regarding the absorption capacity and implementation challenges (of the guarantee) of the beneficiaries

The table below provides a synthesis of the key lessons learned and challenges.

Table 3 – Key lessons learned and challenges across guarantees

Type / Categories of lessons learned	Lessons learned and challenges (and recommendations)
<b>A. POSITIVE ADDITIONALITY FOR SPECIFIC SEGMENTS/SECTORS</b>	
<ul style="list-style-type: none"> <li>▪ Additionality for intermediary entities and beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>EFSD(+) guarantees deployed</b> have yielded significant and tangible additionality both for the intermediary entities and to final beneficiaries.</li> <li>▪ For example, a) FMO Ventures and Africinvest equity investment in Gomycode in Kenya, extending risk and investment in EdTech beneficiaries, b) FMO NASIRA with Sidian bank encouraging rural products or EDFI MC MSME Platform (Swedfund) enabling MFIs such as Apollo and COFINA to offer better lending condition to smallholder farmers and/or cooperatives, and c) Proparco AgreenFi innovation regarding bridging the gap in the South African real-estate sector with TUHF.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Additional risk in specific segments and regions/countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>'Game changer' aspect of the EFSD(+) guarantee:</b> ability for the DFI and/ or covered (private) co-investors to take additional risk for underserved segments of beneficiaries, or countries with which they would not have done business under normal business circumstances.</li> <li>▪ KfW/TCX hedging capacity for interest rate risks linked to local currency loans to financial intermediaries, covering 100+ countries coverage.</li> <li>▪ For example, the Finnfund funding in Tower (digital) companies in South Sudan.</li> <li>▪ Another example can be found with the sovereign risk that is covered by EIB IW1, offering the possibility for countries to benefit from a loan with favourable terms and conditions.</li> <li>▪ IFU SDG Fund II is an example of a guarantee enabling private institutional investors to enter markets that would otherwise be considered as too risky.</li> </ul>
<b>B. ADMINISTRATIVE, SET UP AND REPORTING CHALLENGES</b>	
<ul style="list-style-type: none"> <li>▪ Set up and negotiation process</li> </ul>	<ul style="list-style-type: none"> <li>▪ Most DFIs mentioned that the long (from 1 to 3 years) set up, negotiation and administrative process involved in reaching a signed guarantee is detrimental to the implementation of the guarantee itself and at times pre-empts the benefits expected from the guarantee.</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Reporting demands</b> from EU (on the guarantee) – both for DFIs and for intermediaries</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Reporting requirements:</b> quite heavy and at times impossible to impose on smaller or even larger local banks or intermediaries. Some financial institutions had to hire dedicated personnel to meet reporting requirements from the guarantee, adding to the transaction cost.</li> <li>▪ Need to balance between reporting requirements and operational efficiency (simplified fee calculation and reporting frequency).</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Inclusion period</b> (period of time during which the guarantee is available for investments)</li> </ul>	<ul style="list-style-type: none"> <li>▪ The inclusion period needs in general to be extended and/or adapted to the type of industry or segment (e.g. shorter inclusion period for bank MSMEs programmes and longer for infrastructure projects).</li> </ul>
<b>C. PIPELINE DEVELOPMENT AND TIME TO MARKET</b>	
<ul style="list-style-type: none"> <li>▪ Pipeline development vs portfolio deployment</li> </ul>	<ul style="list-style-type: none"> <li>▪ Pipeline development and maintenance over time has been a key challenge for most respondents as it is costly and requires extensive origination, deal analysis and DD costs.</li> <li>▪ Most private sector deals and transactions have a 'shelf life' of 4 to 6 months, and DFIs can lose transactions and credibility vis a vis clients.</li> </ul>

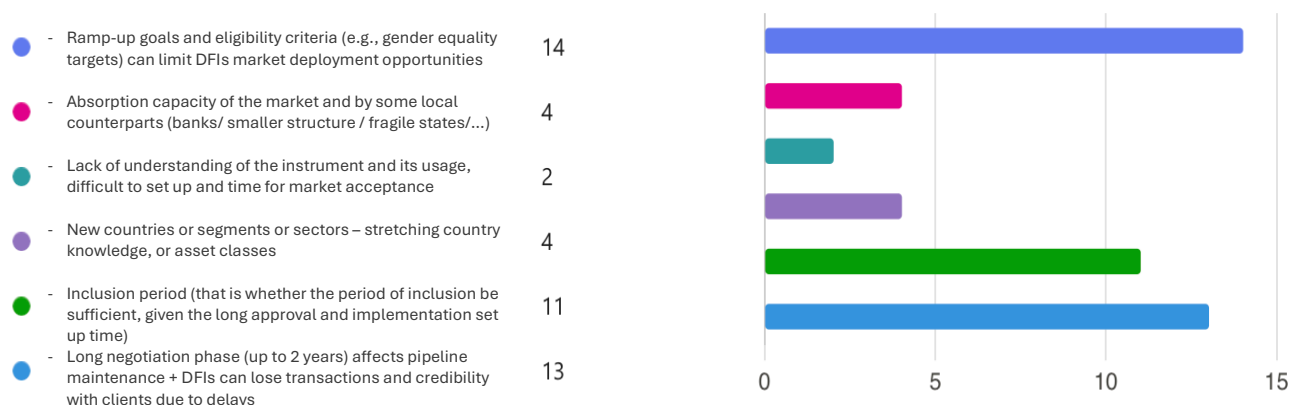
Type / Categories of lessons learned	Lessons learned and challenges (and recommendations)
	<ul style="list-style-type: none"> <li>Now that the EFSD(+) management has accumulated significant experience on legal and contractual negotiations, terms and conditions should be standardised and streamlined.</li> <li>Either the initial pipeline is seen as indicative and there is acceptance of potential, significant alteration, or the time to market of the guarantee should be brought closer to market standards and needs (6 to 9 months).</li> </ul>
<b>D. ELIGIBILITY CRITERIA, RISK SHARING TERMS AND PRICING</b>	
<ul style="list-style-type: none"> <li>Eligibility criteria perceived to be too restrictive, inflexible (these should be customised to the conditions of each market)</li> </ul>	<ul style="list-style-type: none"> <li>EU aligned eligibility criteria, such as clear benefits to young and/or women entrepreneurs, policy alignment, priority countries, ESG additionality or gender equality targets can be hard to apply or comply with.</li> <li>Guarantee that demonstrates strong fit with these criteria can benefit from a 'discount' on the fees and terms. Guarantee that does not meet these criteria could lead to much higher fee prices, pricing at times the EFSD+ guarantee out of the market.</li> </ul>
<ul style="list-style-type: none"> <li>Allocation rate and risk sharing</li> </ul>	<ul style="list-style-type: none"> <li>The allocation rate of the guarantee should be adapted to the market context and the need of the underlying segments/ beneficiaries.</li> <li>Usually EFSD(+) guarantee do not assume the First loss or if yes, Pari Pasu with the DFI or implementing agent.</li> </ul>
<ul style="list-style-type: none"> <li>Pricing</li> </ul>	<ul style="list-style-type: none"> <li><b>Pricing and affordability</b> can be an issue, due to high risk and weak institution (at sovereign and regulatory levels) in target countries. Nominal interest rates are very high when you hedge the currency against the US Dollar and affordability then becomes a key hurdle. Some financial institutions and local banks refused the guarantee based on both the transaction costs and high fee pricing.</li> </ul>
<b>E. ABSORPTION CAPACITY BY THE MARKET AND CAPACITY BUILDING FOR THE END BENEFICIARIES AND IMPLEMENTATION CHALLENGES</b>	
<ul style="list-style-type: none"> <li>Challenge to explain and convey the benefit of the guarantee to local banks and end beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>Challenge to convince local banks to work with these new segments (migrant, youth, women entrepreneurs) and manage the additional risk of these customers. Added to that, market absorption can be an issue.</li> <li>Challenge to convince local banks to adopt the guarantee and its complicated structure, as well as reporting requirements.</li> </ul>
<ul style="list-style-type: none"> <li>Challenges related to increased risk taking or new segment</li> </ul>	<ul style="list-style-type: none"> <li>Some beneficiaries received dedicated capacity building, tailored to their need to address riskier or new, underserved segments. The creation of specific departments or risk assessment trainings have addressed this challenge.</li> </ul>
<ul style="list-style-type: none"> <li>On Public sector or guarantee for public or PPP infrastructure projects addressing the hurdles <b>to fulfil the key administrative conditions</b> of the guarantee</li> </ul>	<ul style="list-style-type: none"> <li>When engaging in public procurement with both public and private sector actors in higher-risk countries, it was found that:             <ol style="list-style-type: none"> <li>the right institutional arrangement needs to be set out or outright developed (requiring often TA and capacity building)</li> <li>a minimum number of checks and balances need to be put in place to ensure that the government assumes some oversight responsibilities for their public utilities and their off-take contracts</li> <li>the appropriate preparation work has been done on projects (such as Environmental and Social Impact Assessment (ESIA) and resettlement issues, or interconnections with grid in the case of renewable energy projects).</li> </ol> </li> </ul>



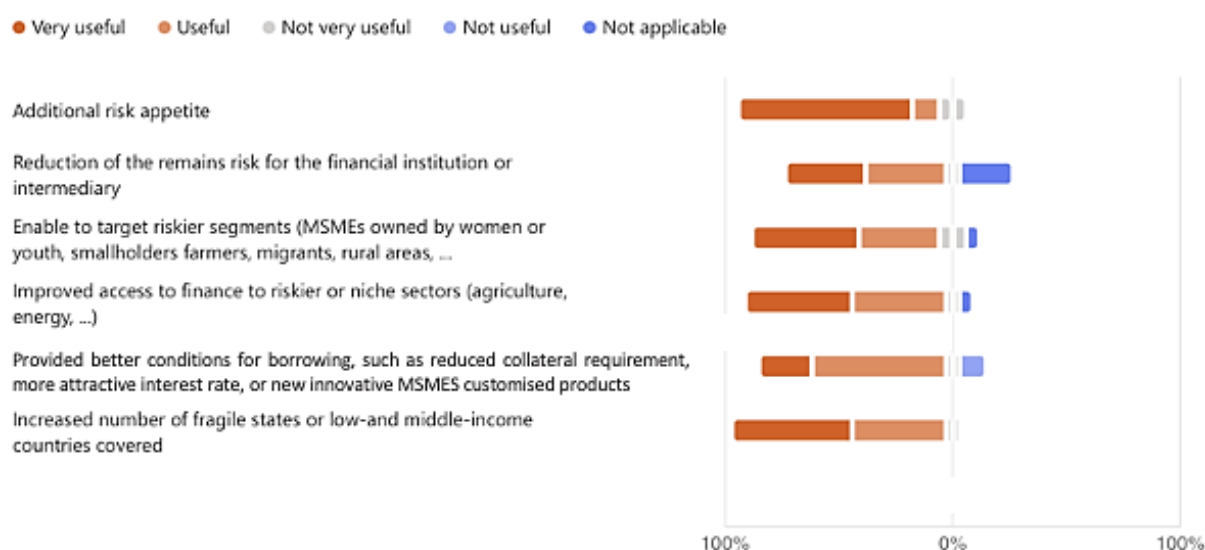
The EFSD(+) study also undertook a written survey complementing the field interviews. The written survey was submitted to all DFIs as well as financial intermediaries, with the goal of collecting more standard, multiple choice questions and a few qualitative, open-ended questions. A third survey (market intelligence) focused on potential end beneficiaries was undertaken but, with too few responses, it did not yield statistical relevance.

The written survey of DFIs has yielded quite a lot of new comments and a revealing bar charts from the survey referred to the top challenges when deploying the EFSD(+) guarantee, the usefulness of the guarantee and a competitive view on EFSD(+) guarantee, as illustrated below:

**Figure 2 – Top 3 challenges faced when deploying the EFSD(+) guarantee**

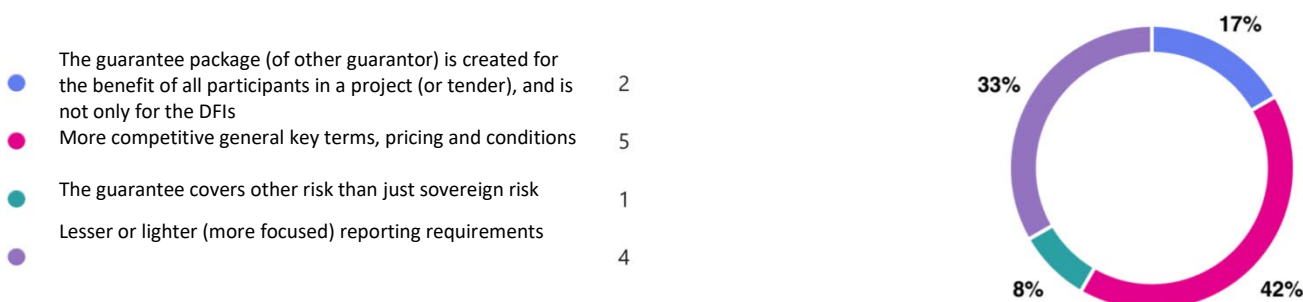


**Figure 3 – Usefulness of the guarantee (from very useful to not useful)**



In the pie chart below, a revealing comment is that 42% of the respondents benefitting from other guarantees (ECA, IFC, others) had more competitive general key terms, pricing and conditions, and had lighter reporting requirements.

**Figure 4 – How does the other guarantee differ from EFSD(+)?**



Lastly, the survey results indicate that there is a positive sentiment overall regarding the guarantee as the majority of the respondents are satisfied with the guarantee additionality and/or contribution to the project implementation.

For those that expressed the contrary (not meeting expectations), their reasons were quite revealing:

- Complexity of the instrument at times inhibits deployment
- Restrictive eligibility criteria and limited availability period
- Lack of alignment with project needs i.e. not well aligned with the specific needs and objectives of projects – and not effectively mitigating the risks associated with the project
- The process of obtaining and using the guarantee may be at times too complex and bureaucratic, leading to delays or inefficiencies in project implementation
- Impact of external factors – such as changes in the economic, regulatory and political environments, sector challenges – which may impact the nature of the project / financial intermediary risks.

## Conclusions and Recommendations

The following are the recommendations based on 100% of the field work done and with the benefit of the results of the written survey from DFIs, but short of the survey of the financial intermediaries beneficiaries and end beneficiaries which has not yet yielded statistical significance.

**Figure 5 – Key findings from field work (in summary)**

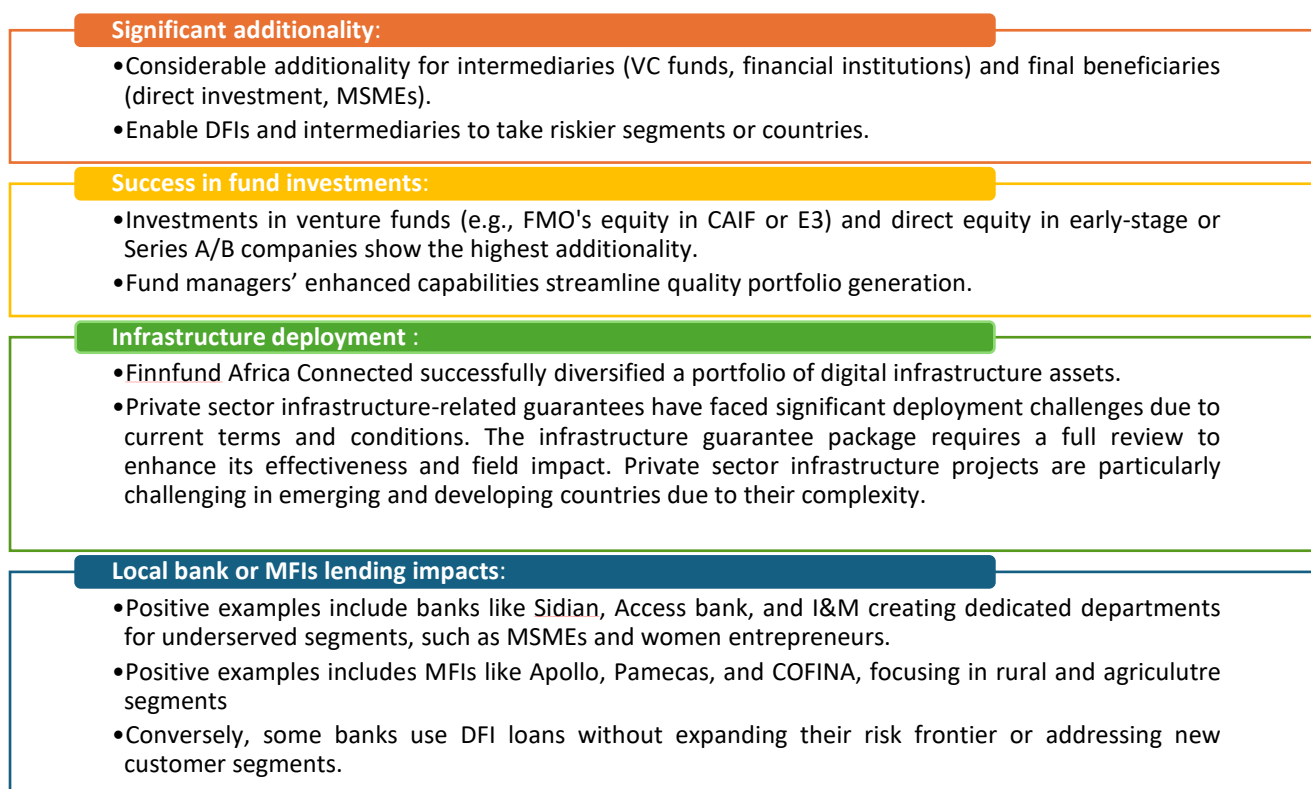


Table 4 below gathers and summarises the main additionality reported during field meetings by direct or indirect beneficiaries. This table provides a comprehensive overview of the key benefits and positive impacts observed and reported, highlighting the different types of EFSD(+) the different stakeholders involved (direct/indirect beneficiaries) are benefitting.

**Table 4 – Summary of the additionality of the EFSD(+) guarantees reported during field meetings by direct or indirect beneficiaries**

Type of EFSD(+) guarantee	Summary of the main additionality reported
Direct investment, fund investment Equity investment (I.e. Fund of Fund) guarantee	<ul style="list-style-type: none"> <li>- Niche sector and early-stage companies' investments</li> <li>- Flexibility and sector agnostic approach</li> <li>- Transformative role in unlocking high-potential opportunities in challenging contexts</li> <li>- Catalytic role in providing patient capital and VC funding (equity), enabled expansion, reaching out to innovative sectors</li> </ul>

Type of EFSD(+) guarantee	Summary of the main additionality reported
	<ul style="list-style-type: none"> <li>- Investments facilitated in sectors and businesses that would otherwise lack access to such resources</li> <li>- Corner investor role enabling to attract other (private) investors</li> <li>- Reaching riskier countries</li> </ul>
Intermediated lending / loan	<ul style="list-style-type: none"> <li>- Positive impact on financial inclusion</li> <li>- Enabled to reach out to new segments (underserved segments, rural and agriculture, women and youth led businesses, ...) and take more risk</li> <li>- Addressed the lack of collateral issue and creation of new dedicated products</li> <li>- Creating social and financial positive impacts for the financial institutions</li> <li>- Improved service offer (digitalisation, risk assessment, scale up of dedicated teams, etc.)</li> <li>- Better terms and conditions with more attractive interest rates and longer tenor</li> </ul>
Sovereign loan	<ul style="list-style-type: none"> <li>- Enabled access to sovereign credit</li> <li>- Better terms and conditions with more attractive interest rates and longer tenor</li> </ul>
Partial portfolio guarantee	<ul style="list-style-type: none"> <li>- Part of the de-risking package for the open tender of energy projects</li> <li>- Reduction of risk related to PPA/ offtake agreement with public utility</li> <li>- (Potential) reduction of cost of debt related to de-risking the offtake</li> </ul>

Based on the above key lessons learned and the feedback received from DFIs and beneficiaries, the following 10 recommendations can be made.

**Table 5 – Final recommendations**

Recommendation	Implications for EFSD+
<b>Simplify guarantees: if a similar investor class is targeted with a less complex guarantee structure it shows better results than complex and ambitious guarantees.</b>	<ul style="list-style-type: none"> <li>▪ Guarantees seem to have additionality impact when it is not too complex.</li> <li>▪ Set out simpler, more market aligned terms and conditions for the guarantee, therefore yielding easier implementation and adoption (by the DFI intermediary and the market).</li> </ul>
<b>Simplify fee calculation and reporting: need for a balance between reporting requirements and operational efficiency.</b>	<ul style="list-style-type: none"> <li>▪ Reporting requirements (mostly quarterly and semi-annual reports or annual progress reports for impact and outcome levels) should be made more practical and within the range of data and capacity of the FI or end beneficiary.</li> <li>▪ Some progress and longer reporting period have already been adopted in EFSD+ (semi-annual instead of quarterly).</li> </ul>
<b>TA needs to contribute early and in a customised way, by giving tools, segment research, and tailor-made credit assessment to create credit services to new segments, such as agri-entrepreneurs, women entrepreneurs, etc.</b>	<ul style="list-style-type: none"> <li>▪ FMO NASIRA, Proparco AgreenFi, EDFI MC MSME Platform and other MSMEs focused schemes have developed and deployed some novel and innovative credit assessment tools. It can be recommended that in the Team Europe approach, some of these credit assessment and risk assessment tools may be shared and applied systematically to all intermediary lending and financial intermediaries related guarantees</li> </ul>
<b>Extend the inclusion period: which needs in general to be better adapted to the type of industry or segment.</b>	<ul style="list-style-type: none"> <li>▪ Adapting and extending the inclusion period, to avoid that guarantee comes to an end before the contractual process and negotiations with end</li> </ul>

Recommendation	Implications for EFSD+
	beneficiary. This applies particularly for infrastructure and public procurement projects.
<b>Improve alignment between the project pipeline and guarantee activation.</b>	<ul style="list-style-type: none"> <li>Accept that the initial portfolio of projects submitted by the DFI is indicative and will most likely suffer some changes.</li> </ul>
<p><b>Adapt the guarantee to project's needs (not well aligned with the specific needs and objectives of projects – and not effectively mitigating the risks associated with the project).</b></p> <p><b>Risk mitigation needs to be commensurate to the extra risks financial intermediaries are taking on Non-Performing Loans (NPL).</b></p>	<ul style="list-style-type: none"> <li>It should be the EFSD(+) that adapts and evolves with market and project needs, not the reverse. This applies especially for infrastructure projects who have longer maturities, and a perimeter of risk that are different from MSMEs or lending to financial intermediaries.</li> <li>Financial institutions in reaching out to newer, earlier stage and minority customers and MSME segments are taking extra risks. The EFSD+ guarantee should be adapted and extended to cover these NPL and extra risks.</li> </ul>
<p><b>Improve affordability and pricing (at sovereign and regulatory levels) in target countries.</b></p> <p><b>Policy discount may need to be applied to most and/or all intermediary lending as there is a potential difference of up to 100 basis point in the cost.</b></p>	<ul style="list-style-type: none"> <li>Pricing is complex as it needs to include the transaction cost of EFSD+/ DFI.</li> <li>This question of affordability also applies to beneficiaries (Forex, transaction costs, etc.).</li> <li>EFSD(+) may consider relaxing the tight and restrictive eligibility criteria to obtain the discount - as the lower pricing is key for its implementation and market acceptance.</li> <li>EFSD(+) guarantee should not price itself out of the market. When a decision is taken to apply it, for instance in financial institution and intermediary lending, the discount should be systematically applied.</li> </ul>
<p><b>Align infrastructure guarantees with existing market practice.</b></p> <p><b>The TA on infrastructure should intervene earlier to assess, set up and improve on the ecosystem and key stakeholders' roles (regulator, public utilities and government, counterparties, banks, etc).</b></p>	<ul style="list-style-type: none"> <li>For infrastructure projects, guarantees are available from different sources (such as from MIGA or from export credit agencies - ECAs) and a detailed comparative analysis will help governments understand which guarantees to accept by whom and when.</li> <li>Similar for EFSD+ guarantees that target specific risks whereas the risk might have been covered through an EFSD+ guarantee on the obligations of an off taker where non-payment might include shortfall of hard currency.</li> <li>A very strong de-risking strategy among DFIs is sharing of risks through club deals because individual private sector oriented DFIs have country ceilings and borrower exposure limits of say 25% per project. Sharing risks through club deals or with the private sector through syndication (and pass-on of the cover of the guarantee to the private sector) would be an area for further investigation in order to increase mobilisation of funding at scale. In short, the EFSD+ management and DFIs should increase the sharing of risk with the private sector sponsors to decrease the potential losses at EFSD+ or DFI level.</li> </ul>



Recommendation	Implications for EFSD+
<p><b>There is an opportunity to enhance coordination amongst DFIs. This includes better mapping of projects, sharing the funding load, and increasing the role of the EUDs as potential intelligence “hub” for market and sector needs.</b></p>	<ul style="list-style-type: none"> <li>As it has been seen in quite a few African countries, at times different DFIs pursue or finance similar segments of infrastructure (water, energy, transport, road, digital, etc) and there is an evidenced lack of coordination between them. A better coordination in a Team Europe approach would benefit both the public and private sector, and the DFIs themselves, adding opportunities for “club deal” for financing and guaranteeing projects.</li> </ul>
<p><b>EFSD(+) guarantees should be used and leveraged more to attract private and institutional investors (such as pension funds, banks and insurance companies, private foundations, etc.) by de-risking what is perceived to be high risk LMIC markets and industrial segments. In doing so, SDG Fund II addresses the bottlenecks to private investments and leverages private sector financing with key focus on MSMEs.</b></p>	<ul style="list-style-type: none"> <li>IFU SDG Fund II managed to attract up to 60% of private sector and institutional (such as Danish Pension Funds) as well as Danish government funds and their own balance sheet money<sup>4</sup>.</li> <li>Other DFIs, (such as FMO through their Climate Investor One (not covered by the guarantee) and the Dutch Fund for Climate and Development (DFCD)<sup>5</sup> (covered by a 105M EFSD+ Guarantee) also managed to attract a sizeable proportion of private and/ or institutional investors.</li> <li>This can be reproduced for other funds and infrastructure and climate/ energy related investments.</li> </ul>

In conclusion, there was a consensus amongst most pillar assessed DFIs that the EFSD(+) guarantee does bring strong additionality and risk mitigation mechanisms, especially in LDCs and segments where the market, sovereign, forex and execution risks are higher. On the other hand, DFIs also pointed out potential areas of improvement for the EFSD(+) instruments, mainly in the administrative set up and negotiation of the guarantees terms, making the EFSD(+) eligibility criteria more realistic and in line with market conditions. From the perspective of DG INTPA EFSD(+) management, this field evaluation was deemed informative, bringing pertinent feedback on ways to improve future EFSD(+) Proposed Investment Programmes (PIPs) and negotiations.

<sup>4</sup> <https://www.ifu.dk/en/danish-sdg-investment-fund-2/>

<sup>5</sup> <https://www.fmo.nl/news-detail/d753d259-c2a0-4bce-a377-59d5151d1699/ec-fmo-boost-climate-adaptation-mitigation-investments-with-new-eur-105-million-guarantee-agreement>