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Effectively Utilising Repayable Grants to Help Facilitate Market Creation

Key Insights From the International Financial Institution and Development Finance Institution Community

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Primary Author: Defrim Dedej
Contributing Authors: Hannah El Mufti, Oliver Ellis, Carla Habib, Victoria O'Halloran, and Tracey Austin

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About this Report

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Contents and Acronyms

LIST OF ACRONYMS

AGRA	Alliance for Green Revolution
BII	British International Investment (previously CDC Group)
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DFI	Development Finance Institution
DFID	Department for International Development
FMO	Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	International Finance Institution
LIC	Low-Income Countries
KYC	Know Your Customer
MEL	Monitoring, Evaluation and Learning
MIC	Middle-Income Countries
OFID	OPEC Fund for International Development
PMk	Propcom Mai-karfi
SDGs	Sustainable Development Goals

Summary

In many low-income countries (LICs)[1] and emerging market economies, investors are often unwilling to take the uncompensated risk and often do not have the relevant risk-assessment capacity, data, or tools to provide capital and financial services for small and early-stage businesses. Subsequently, there is mounting pressure on International Finance Institutions (IFIs) and Development Finance Institutions (DFIs) to be more ambitious in terms of market additionality and the funding of earlier stage ventures to bring them to 'investability'[2] and contribute to broader market creation.[3]

This pressure creates the need for alternative, deliberate, and structured financial products, such as repayable grants. Such products can help address some of these challenges by fulfilling a transitional role and, in some cases, catalysing wider systemic change to build stronger and more sustainable investment ecosystems, thus enabling wider market creation. When structured in a flexible and fit-for-purpose manner, repayable grants can support market creation while keeping risk at acceptable levels for IFIs and DFIs and their funding partners,[4] increasing investees' 'investability', growth, and development impact potential.

Market creation is increasingly recognised as a priority by IFIs and DFIs. These institutions regard the concept as key to closing the Sustainable Development Goals (SDGs) financing gap. Market creation is critical in catalysing private finance at scale, helping shift the much-needed trillions in capital towards reaching SDG targets.[5] Market creation is also recognised as a challenging endeavour with several key requirements. This means DFIs need to take lessons from traditional donors and philanthropic organisations to expand their purview and further prioritise the public good in addition to commercial outcomes.

This report presents six insights from leading actors in the IFI community on how repayable grants[6] have been effectively utilised and on the opportunities for IFIs and DFIs to capitalise on their potential to facilitate market creation.[7] At the time of writing, the report's subject was highly topical, and the insights build on existing work and knowledge.

Figure 1. Summary of Key Insights.

Introduction

BACKGROUND AND RATIONALE

The purpose of this research is to provide valuable insights for IFIs, DFIs, and other actors in the development finance sector who are:

a) Deploying similar concessional financial products and would benefit from learning what others are doing;

b) Currently delivering or planning to do more 'upstream' or 'market creation' work and would benefit from learning how repayable grants can be deployed to facilitate this.

The research aims to support the development finance industry more generally to help it meet its strategic objectives, better serve its clients, and ultimately generate sustainable impact.

The research confirms that a binding objective point of view of what does and does not work regarding repayable grants and market creation does not yet exist. As such, the findings should be viewed as a thought-piece based on the qualitative insights gathered to inform and stimulate further debate and research from readers.

BABBAN GONA: A JOURNEY TO INVESTABILITY

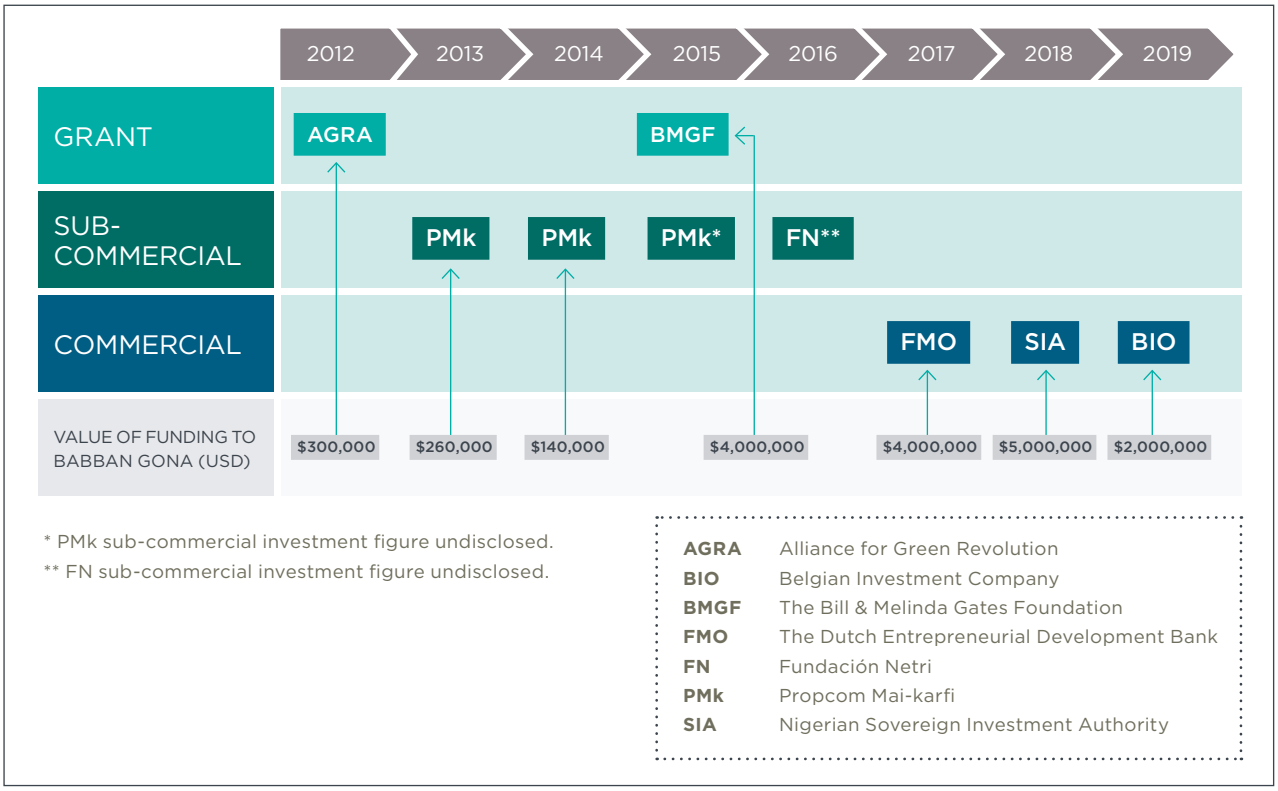
Before moving into the main body of the report, it is important to highlight the potential of concessional finance products, including repayable grants, to help facilitate market creation. The example of Babban Gona serves this purpose and demonstrates how grants and concessional finance over time can lead to commercial investments, contributing to market creation in the process. Based in Kano, northern Nigeria, Babban Gona is an agricultural input provider and output aggregator that supports maize, rice, and soybean growing smallholder farmers to create farmer-owned franchises.[8] As a nascent, newly formed company in 2012, like many early-stage enterprises, Babban Gona had limited assets to offer as collateral for a potential debt investment and no credit history.

As such, Babban Gona could only access grant funding. Alliance for Green Revolution (AGRA) provided a $300,000 (USD) grant (see Figure 2, below). Seeking a more commercial product, Babban Gona turned to the UK government's legacy Department for International Development (DFID)-funded programme Propcom Mai-karfi (PMk). A year later, in 2013, a bond was provided which was below market rates, i.e. concessional, allowing the enterprise more flexibility. An additional bond followed this in 2014, and finally, a third bond in 2015, which was financed from the reinvested capital and accrued interest from the first bond.

After another grant and sub-commercial (concessional) investment by different entities, in 2017, Babban Gona became a commercial client of the Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) – The Dutch Entrepreneurial Development Bank, through a $4 million loan. Another two commercial investments followed in 2018 ($5 million from Nigerian Sovereign Investment Authority) and 2019 ($2 million from the Belgian Investment Company), further developing, or creating, the market.

As a result, Babban Gona supported over 20,000 smallholder farmers to shift from subsistence to commercial farming. Farmers associated with Babban Gona secure crop yields, which are generally twice as high as the national average. Consequently, the income of smallholder farmers collaborating with Babban Gona is typically two and a half times higher than that of the national average.[9]

Figure 2. Journey of Babban Gona from a recipient of grant funding to concessional capital to commercial investment.[10]



Babban Gona provides an example of how concessional finance (including products such as repayable grants) can serve a transitional role for early-stage enterprises to move from grant capital to commercial investment, in turn playing a role in market creation, while also achieving development impact.

Linking Repayable Grants and Market Creation

REPAYABLE GRANTS

Research findings from interviews with IFIs, DFIs, and foundations, as well as the literature review of IFI material, point to some consensus on the definition of repayable grants. The standard definition of the financial product is: "grants which *may*[11] lead to a financial return through either partial repayment or full repayment."[12]

MARKET CREATION

The concept of market creation discussed in the report is akin to the International Finance Corporation's (IFC) concept of 'upstream'.[13,14] Market creation is defined in this report as "a proactive approach to generate development impact through building markets in higher risk geographies and sectors, while at the same time transforming sustainable opportunities into bankable projects, thus developing the investment pipeline".[15]

The importance of market creation is increasingly recognised as a priority by IFIs and DFIs, particularly in closing the SDGs financing gap.[16] This emphasis stems from how critical market creation is in catalysing private finance at scale;[17] shifting from much-needed billions to trillions of capital toward reaching SDG targets. Market creation generates incentives for performance and can create healthy competition, fostering self-reinforcing innovation with a societal benefit, giving rise, for example, to lower prices.[18] At the same time, the lack of buy-in and competition due to weak and underdeveloped markets can critically hinder development impact.

Achieving market creation is a challenging endeavour with key requirements, i.e. medium to long-term timeframes (five or more years), a higher initial-risk appetite (which includes potentially not recovering original capital), and variable financing structures.[19] It requires DFIs[20] working in this space to shift away from being 'market takers' (opportunistic and influenced by independent deals) toward being 'market makers'[21] and laying the foundations for development impact and graduation[22] through coordinated investment approaches. The challenge of achieving market creation also creates a need to redefine how DFIs assess the effectiveness of repayable grants in the context of market creation by taking lessons from traditional donors and philanthropic organisations. Market creation requires DFIs to expand their purview and further prioritise the public good in addition to commercial outcomes.

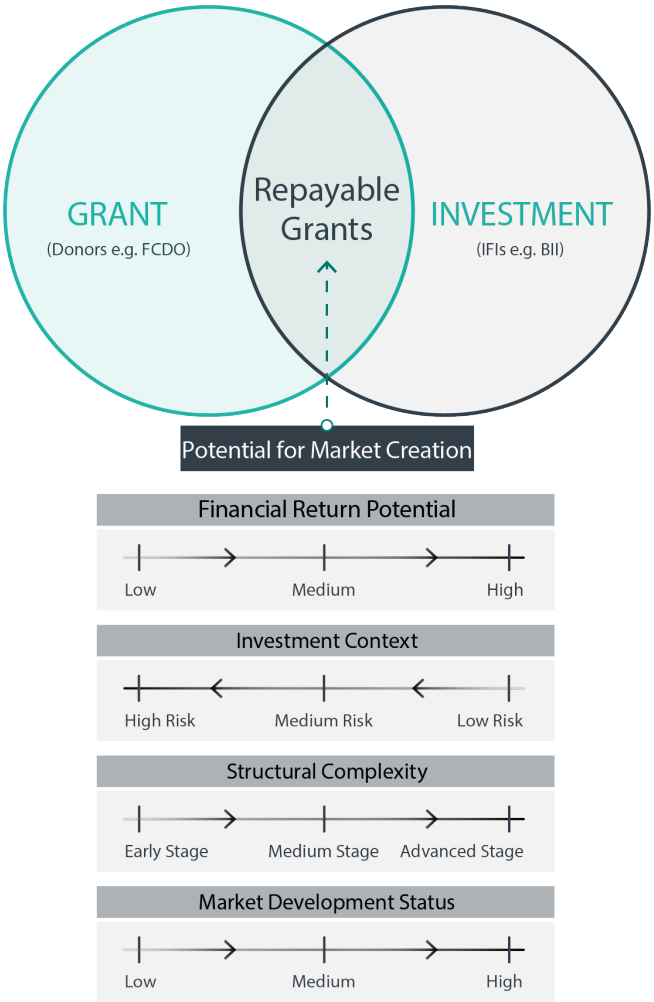
Key Insights and Opportunities

INTENDED PURPOSE OF REPAYABLE GRANTS AND THE POTENTIAL TO FACILITATE MARKET CREATION

Insight 1: Unique Added Value to Facilitate Market Creation

In general, there is a consensus amongst IFIs and DFIs that the intended purpose of repayable grants is to address the gap between traditional grants and larger commercial investments (see Figure 3), to support early-stage enterprises in emerging and frontier markets to attract sustainable investment and realise development opportunities. It is commonplace for IFIs and DFIs to deploy repayable grants to enterprises whom they plan to commercially invest in at a later date. As such, repayable grants contribute to IFI's and DFI's investment pipeline. Whilst market creation is not usually stated explicitly as the intended purpose of repayable grants, the overlap between the terminology used to describe the purpose of repayable grants and the definition of market creation means that arguably, they share the same intended purpose.[24]

Figure 3. Niche in the market for repayable grants.



Not only does it appear as though many IFIs and DFIs are, in one way or another, aiming to achieve market creation through repayable grants, but it is also evident that these financial products offer a unique added value in facilitating market creation (or 'market making'). In particular, value is added to underdeveloped sectors and LICs with high-impact potential.

As a financial product, repayable grants are viewed by IFIs and DFIs as addressing a niche in the market. In the context of LICs, the traditional aid development organisations, IFIs and DFIs in this space all work towards development outcomes. Still, traditional aid development organisations often approach the challenges from a non-financial perspective, while IFIs and DFIs adopt a more financial lens. Repayable grants have the potential to connect the various disparate efforts of different actors by working towards common outcomes, while providing recyclability of capital and a potential return on investment in the process. As a result, these products offer a potentially more sustainable funding source than non-repayable grants. At the same time, they help to unlock new markets and limit the potential for distorting markets and investments that may already be in development.

In addition to the external pressures[26] to invest in higher-risk opportunities and contribute to market creation, IFIs and DFIs face the same internal commercial pressures as private investors and banks, such as maintaining a healthy return and balance sheet. Repayable grants help offset risk and facilitate market creation by:

- Promoting recycled capital or disbursing it as required;
- Providing greater latitude for recycling, as they are often funded by third party donors, which may not have set financial return requirements;[27]
- Fostering new and/or improved relationships with stakeholders working in the ecosystem, therefore attracting new investors, whilst also sharing learning to improve future deployment — i.e., a 'demonstration effect';[28]
- Complying with an IFI and DFI mandate specifically looking to provide systematic support to improve the ecosystem alongside financial returns;
- Not usually being recognised as a financial asset on an IFI's or DFI's balance sheet until repayment has been triggered or converted into a debt or equity investment.[29]

Opportunity:

Dependent on their organisational objectives, IFIs and DFIs can group their intended use for repayable grants under the umbrella of facilitating market creation, allowing certain risks to be offset and capitalising on the financial product's unique added value to achieve the market creation objective.

APPROACHES TO USE REPAYABLE GRANTS TO FACILITATE MARKET CREATION

Insight 2: Oversight and Strategic Approaches that Capitalise on Geographic and Sectoral Expertise Allow For More Effective Deployment of Repayable Grants.

Investment Stage

Generally, repayable grants are deployed pre-investment,[30] for the purpose of *'unlocking capital'* and *'de-risking for the broader market'*.[31] As typical examples, both the Inter-American Development Bank (IBD) and the OPEC Fund for International Development (OFID) use repayable grants pre-investment to create local markets. IBD supports enterprises at the 'start-up' or 'expansion' stage where risk capital is scarce and the potential social or environmental benefits can be so great that they merit high levels of support and subsidisation before market traction.[32] Similarly, OFID tends to provide repayable grants to enterprises developing or increasing access to simple technologies or services, such as affordable modern energy services.[33] Overall, these DFIs found that the value of repayable grants lay in supporting the early piloting stage of an investment project when the solution or enterprise is at the pre-revenue stage and, thus, unable to repay debt or raise equity.

Strategic Approaches

Two strategic approaches tend to be utilised amongst IFIs and DFIs deploying repayable grants.[34] These approaches typically align with individual organisation's remit and priorities.

The first approach, *the opportunistic approach*, is more responsive, where repayable grants are deployed as and when opportunities arise, alongside the core business of deploying debt, equity, and (non-repayable) grant products. This approach is employed by IFIs and DFIs, such as the FMO, amongst others, and allows for significant flexibility. However, this approach limits the ability to holistically measure the progress and impact of repayable grants.

The second approach utilised, *the programmatic approach*,[35] is more structured and allows for greater oversight. This approach has been adopted by Deutsche Investitions und Entwicklungsgesellschaft (DEG) (see box below) and incorporated into the design of British International Investment's (BII) Kinetic Programme.[36] These organisations create specific programmes designed to solicit, manage, and process repayable grants effectively.[37] This approach's advantages include the ability to capitalise on sector expertise and knowledge as well as geographies with familiar contexts and established access. Further, it presents the opportunity to strategically test and pilot the financial product in new countries and sectors. Critically, the approach creates an established and potentially sustainable source of funding. On the other hand, the programmatic approach is more resource intensive than the first approach.

PROGRAMMATIC APPROACH CASE STUDY:

DEG's 'Up-Scaling' Programme

The programme, co-financed by German Federal Ministry for Economic Cooperation and Development and DEG through their own balance sheet, finances new investments at an early stage of their business development seeking to scale innovative business models with high development impact.

- Geography: Preference for investments in Africa.
- Sector: FinTech, green tech and other sectors with embedded finance components.
- Structure: A dedicated team of five to six people.

Up-Scaling deploys funds between €500,000 to €749,000 (EUR) with repayment triggers such as revenue or profit defined on a case-by-case basis. The programme established clear funding conditions by supporting outreach and engagement activities to generate an investment pipeline. DEG committed at least $6.5 million in 2021 to help nine SMEs meet their target criteria, with all but two in Africa.

Opportunity:

Adopting a structured and strategic approach to deploy repayable grants, i.e. the programmatic approach, can provide IFIs and DFIs with greater oversight through the ability to draw on geographic and sector expertise, strategically pilot the product, and potentially capitalise on a sustainable source of funding. This structure, in turn, allows for more effective deployment, thereby increasing the potential to facilitate market creation, particularly when using repayable grants pre-investment. With IFIs and DFIs being well-placed and resourced to adapt to deploy these products, there is little need to build new intermediaries to do this, and as such, execution is much faster too.

Insight 3: Diversifying Approaches to Solicitation and Pipeline Creation Can Uncover Unmet Demand

IFIs and DFIs typically follow three different approaches to identify potential investees and maintain a sustainable pipeline:

- Existing portfolio and network;
- Public procruement; or
- A blend of both.

From **existing portfolio and networks**, IFIs and DFIs can opt to internally screen and identify potential repayable grant opportunities in their existing pipeline, portfolio, or networks. Sourcing these opportunities is likely linked to market barriers to ensure investment success or via a thematic-focused mechanism. Investees are then identified by how they can create pathways for private capital in a specific sector and if these opportunities fit into categories that would inform and improve internal understanding of which projects within their existing pipeline qualify for a repayable grant. This process, however, can be the subject of some bias.[38] Internal checks and balances should be put in place to mitigate against bias risks.

Conversely, **public procurement** calls for a competitive public request for applications from interested parties and uses more open calls for repayable grants. Competitive public procurement processes are sometimes initiated to receive a diversity of responses, whilst, in parallel, relying on an information-sharing network with other grant funders to obtain referrals. Programmes, such as DEG's Up-Scaling, use an outreach model which includes:

- Participation in relevant conferences;
- Outreach to local offices;
- Harnessing staffs' in-country connections;
- Signing up to online matchmaking platforms for IFIs, DFIs and investees; and
- Requesting internal referrals.

This combination of internal and external referral options diversifies pipeline opportunities, balancing bias and iterating inputs from both referral options.[39]

CASE STUDY

Convergence

Convergence[40] deploys repayable grants on a case-by-case basis, depending on donor funding and preference, to support early-stage pre-investment initiatives. They use a competitive public procurement process (request for proposals) through which they receive proposals from new entities. In parallel, they rely on informal information-sharing networks with other grant funders like the IKEA Foundation or the Rockefeller Foundation to obtain referrals.

Opportunity:

IFIs and DFIs have the opportunity to combine sourcing opportunities from their existing portfolio with public procurement activities. This blend can help reveal unmet demand and balance unintended bias, facilitating a more balanced pipeline creation process. IFIs and DFIs can increase the potential for market creation by using public procurement, which considers repayable grant demand. On the other hand, using an existing portfolio can mitigate the risks associated with new investments. By integrating these two sourcing approaches, it can further support market creation. Moreover, balancing both models' outcomes and intended objectives helps create a portfolio approach to designing and deploying repayable grants.

Insight 4: Building Relationships and Engaging Regularly with Investees Could Improve Repayment Rates

From deployment to repayment, proactively and meaningfully engaging with investee recipients of repayable grants has been shown to increase the potential likelihood of repayment. Key approaches to this include:

1) Aligning understandings of how the instrument works, expectations, and goals up-front;
2) Embedding timelines into agreements;[41] and
3) Maintaining strong relationships with investees.

A strong relationship with the investee is more likely to occur if a repayable grant provider is visible and perceived to be present, providing support and engagement. This type of support and engagement can include helping to identify risks earlier, which can ultimately create efficiencies.[42] To formalise these approaches into the overall deployment of repayable grants, some IFIs and DFIs have developed investee engagement plans.

EXAMPLE

Structured stakeholder engagement

BII and DEG highlighted the importance of structured stakeholder engagement using an engagement plan to improve the rate of repayment and to manage expectations through clearly explaining to recipients how a repayable grant works. Although this requires significant levels of effort within the deal teams, in terms of engaging with investees, it has had a positive effect.

Opportunity:

Implementing bespoke investee engagement plans has the potential to improve repayable grants' repayment rates. This, in turn, can help to facilitate market creation, as recycled funds can be redeployed through new grants and investments.

Moreover, to mitigate potential resourcing limitations in developing each plan, creating a template with a degree of standardisation, while remaining adaptable to the nuances of each investee may be prudent. Strategic standardisation can help to reduce the time and bandwidth required to develop each plan.

Insight 5: The Additionality-Resource Trade-Off of IFI's and DFI's Due Diligence and Investment Processes

IFIs and DFIs take different approaches to structuring investment processes and conducting due diligence to deploy repayable grants. These approaches balance resource intensity with additionality for DFIs and IFIs. The key factors driving the approach are:

1) The organisational risk appetite is aligned to the source of funding;
2) The associated costs; and
3) The organisational remit[43] for using repayable grants, e.g. preferences for the stage of investment, ticket size restrictions, etc.

The value addition of IFIs and DFIs is the robust mechanism of the investment process for prioritising greater impact alongside viable business opportunities. It considers the balance between cost, risk, and returns over the short- to medium-term and informs standard investment decisionmaking. There is a concerted effort to reduce the costliness of repayable grants, leading to the dilution of the investment processes for opportunity cost concerns in the short term, i.e. the cost of 'Know Your Customer' (KYC),[44] due diligence, time, and resources vs. potential returns. For example, establishing thresholds to avoid investment committee review, while cost-reducing, dilutes the additionality offered by IFIs and DFIs and not by other sector actors, such as more traditional development actors. This dynamic presents a trade-off between the additionality offered by these organisations and the resource intensity of the due diligence and investment process. Aside from IFIs and DFIs, there does not appear to be other actors working in this space with the same level of additionality in facilitating market creation.

Opportunity:

While the due diligence process is crucial to demonstrate the additionality and added value of IFIs and DFIs in promoting market creation, there should also be greater consideration for leaner, more flexible, and streamlined processes for repayable grants. Streamlined processes offset the cost of implementation and increase internal incentives to find new opportunities for small repayable grants, which could offer greater significant market creation impact. The size of the repayable grant cannot be the sole consideration. In other words, the cost of repayable grants, in terms of due diligence and other factors, should be calculated against the market value they are looking to create rather than the pure cost of each repayable grant deal. The market value is not always immediately known and requires time and adapted measures to help quantify. Donors' expectations must also be factored in when adjusting due diligence processes.

Insight 6: Monitoring and Evaluating Financial Returns and Developmental Impact

Increasingly, robust monitoring, evaluation, and learning (MEL) is required within the sustainable finance sector; no matter the number of investors in a single transaction.[45] Yet, IFIs and DFIs experience significant measuring and reporting challenges. A prominent issue they face, similarly to their investees, is reporting effectively whilst keeping costs manageable. Investees' often nascent or 'early-stage' state coupled with the relatively modest size of grants pronounces efficiency and cost management issues.

Developing monitoring and reporting systems has been shown to better capture and measure development impact and track financial performance and returns. Yet, adequate MEL processes are lacking amongst IFIs and DFIs. Reasons for this dearth range from the lack of dedicated human resources to insufficient funding for MEL and challenges surrounding where the 'monitoring burden' falls.

The lack of consideration of MEL from the outset of implementation, particularly the absence of a definition of 'what success looks like', hinders the ability of IFIs and DFIs to measure and evaluate progress and outcomes effectively. Furthermore, the absence of robust measurement approaches presents challenges for deployment teams to identify 'what's working' and 'what's not working', reducing the opportunities for IFIs and DFIs to use learning to inform decision-making and future implementation.

CASE STUDY

The Monitoring Burden

On IFIs and DFIs: Due to the additional costs of monitoring, DEG's Up-Scaling programme charges investees a one-time monitoring fee of €20,000 to €30,000 (EUR). Repayable grants are monitored to track progress against financial and impact indicators, with investees reporting against these indicators every six months. These indicators as well as auditing of financial statements are used by DEG to check if repayment thresholds have been reached.

On investees: An investment from the Mastercard Foundation, which predominantly focuses on youth, presented challenges for WIC Capital, an investment fund which focuses on women-led businesses. WIC Capital was required to disaggregate data by age to account for reporting requests despite the lack of relevance for the investee. This required additional data collection, with the associated time and resources at WIC's expense.

Opportunity:

Embedding a more proactive MEL approach to repayable grants, including defining repayable grant-specific targets and metrics at the outset, coupled with TA provisions, could support improvements in the repayment rate and eventually contribute to both a return on investment and, as a result of recycled funds, the creation of new markets. Further, more robust means of monitoring, measuring, and evaluating data, will help inform future implementation and strategic decision-making. Contributing to and building this evidence base will help actors to better understand, measure, and report on development impact, which ultimately will help spur progress towards meeting the SDGs.

Gaps to Explore Further

This chapter of the report serves as a call to arms for the IFI and DFI community to address the gaps in evidence and knowledge that are identified below[46] and explore how to realise repayable grants' potential for market creation.

DEDICATED REPAYABLE GRANTS MEL

- In the sector, there is a knowledge gap surrounding how to effectively monitor and evaluate the financial performance and development impact of repayable grants' deployment and outcomes. Filling this gap requires adequate resourcing and capacity building and establishing standardised processes for data collection and utilisation.

- Another knowledge gap exists in how to research and monitor the effectiveness of repayable grants properly.

- Greater transparency and proactivity in sharing lessons learned amongst IFIs and DFIs using repayable grants is critical to sharing knowledge and identifying successful approaches.

- The IFI community should consider reviewing suitable approaches, utilising evidence not only from the investment sector (including permanent capital vehicles, which provide some flexibility on how to accommodate repayable grants) but use learnings from the broader development and philanthropy sectors.

ASSESSMENT OF REPAYABLE GRANT DEMAND

- Research suggests that historic repayable grant deployment has been primarily supply-centric. In other words, DFIs and IFIs have deployed repayable grants in geographies and sectors based on their respective preferences, geopolitical trends, and emerging asset classes determined by mainstream commercial investors, e.g. the emergence of the Natural Capital asset class is driving this for the forestry sector.

- Further research should explore how to better follow a demand-led approach to repayable grant deployment, which considers how location and sector influence where grants could be most impactful or make significant additions to the market. While there is emerging evidence of LICs' demand, there is a gap in understanding of the role repayable grants could play in Medium-Income Countries (MICs). Similarly, there are opportunities to assess the effectiveness of repayable grants in what could be considered riskier sectors, such as agriculture or forestry, due to the long lead time and ramp-up phase. Evidence of where and how repayable grants have been most effectively utilised would help improve the selection and deployment of the instrument in the future.

Appendix

APPENDIX 1: NON-EXHAUSTIVE LIST OF THE BROAD TAXONOMY OF GRANTS WITH RETURNABILITY[47]

Organisation	Terminology
British International Investment (BII)	Returnable grant
Convergence	Repayable grant
Deutsche Investitions- und Entwicklungsgesellschaft (DEG)	Repayable grant
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden (FMO)	Repayable Development Contribution
Foreign, Commonwealth and Development Office (FCDO)	Repayable grant
The Jacobs Foundation	Repayable grant
Norfund	Repayable grant
The Rockefeller Foundation	Recoverable grant
The Shell Foundation	Recoverable grant
Vanguard Charitable	Recoverable grant

APPENDIX 2: LIST OF ORGANISATIONS RESEARCHED IN RELATION TO REPAYABLE GRANTS

- BII*
- Convergence*
- DEG*
- European Bank of Reconstruction and Development
- FMO*
- The Green Climate Fund
- IDB
- The Jacobs Foundation
- Norfund*
- OFID
- The Rockefeller Foundation
- Shell Foundation*
- Vanguard Charitable
- WIC Capital*

** = organisations interviewed*

Endnotes

[1] As per the World Bank definition: Low-Income Countries' are countries with GNI per capita of $1,045 USD or less in the year 2014.

[2] 'Investability' occurs when an organisation's risk-return profile meets investors' criteria, thus enabling it to secure financing.

[3] See definition in Section 3.

[4] A partner is defined as a repayable grant provider that is working in tandem with another repayable grant provider investing in a development-focused enterprise.

[5] Reference: Tran, L., Faye, I., Promoting Impact By Creating Markets: Management And Measurement, EM Compass, (Washington D.C., 2021), accessed 15 July, 2022.

[6] A repayable grant is defined as "grants which *may* lead to a financial return through either partial repayment or full repayment." Please note that this definition was coined internally after consulting various DFI and IFI documentation on repayable grants.

[7] Market creation is defined by Chemonics for the purpose of this report as "a proactive approach to generate development impact through building markets in higher risk geographies and sectors, while at the same time transforming sustainable opportunities into bankable projects, thus developing the investment pipeline."

[8] Amaya, L. et al, Bending the Arc: How the Full Spectrum of Capital Can Enable Inclusive Growth in Agriculture (Boston MA, 2020), accessed 15 August, 2022.

[9] Ibid.

[10] Please note that this figure has been adapted and condensed from Amaya et al (2020). Please consult report for a more comprehensive view of investments and grants provided to Babban Gona.

[11] Meaning that in some cases, repayable grants are not repaid and remain a pure grant.

[12] This definition was formulated internally after review of the aforementioned resources. Some definitions, such as FMO's, also includes the possibility of financial return through full repayment plus a premium.

[13] IFC, IFC 3.0: A Strategy For Creating Markets (Washington D.C., 2020), accessed 15 August, 2022.

[14] Important to note that 'market creation' has different meanings across different actors. The definition employed across this report is DFI-centric.

[15] IFC, IFC 3.0: A Strategy For Creating Markets (Washington D.C., 2020), accessed 15 August, 2022.

[16] Tran, L., Faye, I., Promoting Impact By Creating Markets: Management And Measurement, EM Compass, (Washington D.C., 2021), accessed 15 July, 2022.

[17] World Bank Group, From Billions to Trillions: Transforming Development Finance (Washington D.C., 2015), accessed 12 June, 2022.

[18] Ibid.

[19] Variable finance is phased and can be larger than traditional grants.

[20] While the focus of this report is on both DFIs and IFIs, only DFIs are relevant to this point because IFIs will often have fewer financial targets and incentives than DFIs, meaning they can more easily prioritise development impact.

[21] Alberto Lemma, "Four views on how development finance institutions must invest better," ODI, 8 April 2021, accessed 15 August, 2022.

[22] Graduation refers to an enterprise initially receiving concessional finance (and achieving agreed terms/meeting KPIs) to then receiving commercial finance i.e., the journey from receiving a grant to then being eligible for larger debt/equity investments.

[23] The exception being FMO, who do explicitly mention repayable grants being intended to facilitate market creation.

[24] Noting that DFIs tended to focus more on the investment pipeline development aspects of market creation (as per their mandate), while other IFIs, such as non-profits and philanthropic institutions focused more on the development impact side of market creation.

[25] To a certain extent, traditional aid organisations do also approach these challenges from a financial perspective, however financial aspects are weighted less heavily in their funding criteria, conversely to DFIs.

[26] To invest in riskier and higher impact sectors that require more concessionary and Risk Capital.

[27] Although arguably a DFI will still bear a reputational responsibility for non-performing financial products.

[28] Lessons on what works, and in what context, to create markets that act as a catalyst for others looking to achieve similar outcomes.

[29] This can sometimes be influenced by how a DFI defines a financial asset e.g., FMO do not recognise repayable grants on their balance sheet as long as the repayment trigger is outside of their control. Regardless of the treatment, it is important this is clear before advancing repayable grants.

[30] Repayable grants can also be used post-Investment. For example, BII have indicated their intent to do this as part of their Kinetic Programme.

[31] 'Unlocking the capital above' and 'de-risking for the broader market' are expressions extracted from interviews with IFIs and from the research team's literature review.

[32] Paraphrased from Andrea Armeni and Miguel Ferreyra De Bone, Innovations in Financing Structures For Impact Enterprises: Spotlight on Latin America (Washington D.C., 2017), accessed 12 June, 2022.

[33] Highly topical and well-understood sector compared to forestry.

[34] Both of these applications may well change over time relative to organisational strategy.

[35] Under a programmatic approach, repayable grants are selected and deployed as part of a pool of funds or specific programme in partnership with a single donor stream.

[36] Note in BII's case, repayable grants are capitalised as part of their balance sheet, so sub-mandates are clarified under strategic objectives rather than single arm's lengths agreements.

[37] A prerequisite to implementing the programmatic approach is to first ensure that repayable grant deployment is focused in terms of sector and geography and aligned to strategic priorities.

[38] Investing is done by humans and the checks-and-balances are also human-centric in design e.g., investment committees.

[39] However, arguably this may take longer.

[40] Convergence is a global network for blended finance, aiming to increase private sector investment in developing countries through high quality blended finance data and intelligence.

[41] Paraphrased from Giin, Using Grants to Support Frontier Finance (New York, 2020), accessed 15 July, 2022.

[42] It is acknowledged that the distance between IFI/DFI locations and their investees' locations may be substantial, which can prove challenging.

[43] Or regulatory parameters.

[44] Know Your Customer (KYC) is a standard client due diligence process adopted by IFIs and DFIs.

[45] Addressed largely by alignment amongst investors who acknowledge undue reporting pressure distracts an investee from core business.

[46] And discussed throughout the report.

[47] Terminology data gathered from desk review and interviews.

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