

Development finance institutions: major players in Africa's post-Covid recovery

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For the past two years, Proparco and its European counterparts have been on the front line in tackling the economic crisis caused by the Covid-19 pandemic. Through record financial commitments and a wide range of tools, DFIs have deployed an extensive recovery plan in Africa to support the financial sector and MSMEs. They have been effectively fulfilling their countercyclical role in this difficult economic context.

The pandemic has caused a slowdown in economic activity in most African countries, although it has turned out to be not as bad as initially feared. In 2020, there was a decline of 1.9% in Africa, against 3% estimated in early 2021. However, last year, most African economies – 40 out of the continent's 54 countries – experienced the worst recession they had ever seen. The magnitude of the economic shock caused by the Covid-19 epidemic means that it will take a long time for its consequences to die down. Total production losses attributable to the pandemic could reach up to 12 percentage points of African GDP in 2021, with major repercussions on employment, which had already fallen by 8.5% in 2020.

In this context, per capita income is only expected to return to its pre-crisis levels between 2022 and 2025, depending on the country. This will result in an increase in poverty for 32 million people in Sub-Saharan African countries alone. Africa's MSMEs, which account for up to 80% of jobs in the formal sector, have been the hardest hit. Many of them have had cash flow problems, especially in sectors such as catering, tourism and transport. Workers in the informal sector and the most

vulnerable people have also felt the full brunt.

This tight economic context has also made it even more difficult for African MSMEs to access finance. Despite the progress already achieved, small businesses and microentrepreneurs remain underserved and may no longer have access to financing if the lending activity is slow to recover.

Faced with an unprecedented crisis in terms of its scale, duration and consequences, banks have often taken a cautious approach in order to maintain the best possible control over the deterioration of their loan portfolios. They have consequently limited loans to MSMEs and shifted their activity towards the least risky assets, such as Treasury bills. Before the crisis, only 20% of MSMEs benefited from bank financing and this proportion has since fallen sharply.

RECORD COMMITMENTS TO SUPPORT THE FINANCIAL SECTOR

From the outset of the health crisis, regulators took strong measures to ensure financial stability, which has reduced the risks of a systemic failure of the banking sector. The strategic measures adopted include reducing the base rate - which has a positive effect on overall demand and the ability of households to repay their debts - , lowering the ratios of banks' liquidity reserves, setting up programs for government bond purchases, and establishing a moratorium on the loans allocated by banks.

In addition, Proparco, like its European counterparts, very quickly sought to meet the demands of financial institutions facing cash flow problems due to the difficulties encountered by their clients, in particular non-banking financial institutions. The latter, like certain microfinance institutions, do not collect deposits from their clients and are therefore heavily reliant on bank financing. It is for this reason that Proparco accepted repayment deferrals, on a case-by-case basis, to allow them to overcome temporary difficulties. It has also played a countercyclical role by maintaining its commitments for financial players focused on MSMEs, such as microfinance institutions, leasing companies and banks.

Supporting the pan-African Ecobank Group and its subsidiary in Liberia

In October 2021, a consortium of European Development Finance Institutions led by Proparco signed a \$60 million (€53 million) senior loan to support the liquidity program of the pan-African banking group Ecobank for its subsidiaries. Under the French Choose Africa Resilience initiative, this facility is supporting the operations of the pan-African Group's clients and helping them cope with the impacts of the pandemic.

Ecobank Transnational Incorporated (ETI) is based in Lomé, Togo, and is the parent company of Ecobank Group, which has 33 subsidiaries in Africa. The Group has developed into a key player in Africa's banking sector, especially in fragile countries and for the MSME sector. Over the years, Proparco and Ecobank Group have continued to strengthen their partnership via a number of loans, bond subscriptions and trade finance guarantees for ETI and its subsidiaries.

"Proparco has been a close and longstanding partner of Ecobank together with Norfund (Norway) and DEG (Germany). This \$60 million loan will help in our commitment to the economic development of the continent, particularly for the growth of the SME segment which is recovering from the impact of the Covid-19 pandemic", says Ade Ayeyemi, Chief Executive Officer of Ecobank Group.

A few months earlier, in June 2021, Proparco had already signed a \$10 million Trade Finance guarantee program with Ecobank Group's subsidiary in Liberia. This program aims to support this institution – the leading commercial bank in Liberia – on international markets. It also aims to encourage foreign banks to get involved in trade finance operations with Ecobank Liberia and its local clients. This will promote the development of international trade through the import and export of essential goods.

In this uncertain environment, Proparco has also mobilized various risk-sharing tools from France and the European Union (EU) to step up its support for its clients.

Proparco's operations in the financial sector increased in 2020 and even more so in 2021, with a record level for both credit lines and risk-sharing facilities. Last year, Africa benefited from almost €1 billion of credit lines and risk sharing, mainly under the Choose Africa initiative and its Resilience component, which has been topped up with an additional €1 billion to support the recovery in Africa. In this uncertain environment, Proparco has also mobilized various risk-sharing tools from France and the European Union (EU) to step up its support for its clients.

In addition, Proparco has used its wide range of tools to support financial institutions, in particular short-term credit lines, resources to strengthen the equity of its clients and, especially, risk-sharing facilities, for which there was strong demand in 2021, to both cover medium and long-term SME loans and help maintain trade finance lines for African banks. Finally, with Digital Africa, it has supported African start-ups which have had difficulties raising funds due to the crisis. €4 million of bridging loans have been allocated to ten start-ups via the Bridge Fund by Digital Africa. This has put these companies in a more comfortable position to face the crisis.

Senegal: supporting microentrepreneurs affected by the crisis

PAMECAS is one of the main microfinance institutions in Senegal. Through its commitment to microentrepreneurs and MSMEs, particularly in the trade, agriculture and livestock sectors, it plays a major role in social development in Senegal. It offers credit and savings products to its 800,000 members and currently has over 90,000 borrowers.

In mid-2021, Proparco and its Italian counterpart Cassa Depositi e Prestiti (CDP) allocated loans totaling €8 million to PAMECAS to allow it to develop its microcredit portfolio for Senegalese entrepreneurs. It is also Proparco and CDP's first joint operation in the microfinance sector.

This project is part of Proparco and CDP's response plans to the crisis caused by the Covid-19 pandemic. As such, it benefits from guarantees from the European Union's External Investment Plan (EFSD) designed to support small businesses affected by the crisis and encourage local banks to finance them more.

Over 3,800 microentrepreneurs, most of them women, will benefit from this operation. It will thereby contribute to the 2X Challenge, the initiative led by some 20 Development Finance Institutions since 2018 to strengthen the economic role of women in developing countries.

MAIN LESSONS LEARNED FROM THE MANAGEMENT OF AN UNPRECEDENTED CRISIS

While remaining humble and cautious due to the still uncertain health situation, it is nevertheless possible to note that this crisis has demonstrated the ability of States to take action to support their financial sector, which is essential for the development of the economy. Banks, leasing companies and the other financial institutions play a key role in MSME financing, which is especially necessary in times of crisis. However, the quality of banks' portfolios is still under pressure and, due to the provisions required, they may need to restore their solvency in a second stage.

Another lesson we have already learned from the crisis is that having a network close to clients is a real advantage when it comes to providing a swift response. Through its network of a dozen or so offices across Africa, Proparco has been able to monitor the macroeconomic developments and rapidly identify its clients' needs. Similarly, it seems essential to be backed up by a wide range of tools with varied risk profiles in order to meet multiple needs: senior credit lines to support the allocation of new loans, strengthening of the equity and quasi-equity of financial intermediaries whose clients are affected, risk-sharing with banks for its most affected client segments, Trade Finance guarantees when international banks are reluctant to make commitments in Africa, and grants to finance expertise for bank clients seeking to make progress in certain thematic areas (the climate and financial inclusion, for example) or emergency measures.

Finally, the important role played by France and the EU, which have allocated risk-sharing facilities to Proparco, has increased Proparco's capacity to take action in deteriorated situations. It would appear crucial to have this type of tool, with the greatest possible flexibility to adapt to the many situations encountered, in order to play the countercyclical role expected of Development Finance Institutions.

South Africa: minibus taxi drivers have benefited from emergency assistance

From the very outset of the health crisis, in March 2020, Proparco adapted its technical assistance (TA) services to meet the needs of its partners. SA Taxi, a South African company which finances microentrepreneurs operating minibus taxis, the main means of transport in South Africa, benefited from €100,000 of financing to implement protective measures for minibus taxi drivers. This support has allowed them to continue working safely for passengers who use this means of transport every day.