EVALUATING BII'S FINANCIAL SERVICES PORTFOLIO

Synthesis Report: Key findings and lessons from phases one and two

Prepared by Genesis Analytics and IPE Global
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CONTACT INFORMATION

IPE Global Limited

IPE Global House, B-84, Defence Colony, New Delhi, 110024, **India**

www.ipeglobal.com

Genesis Analytics (Pty) Ltd

Office 3, 50 Sixth Road, Hyde Park, **Johannesburg**
WeWork, Fox Court, 14 Grays Inn Road, **London**
3rd Floor, Maryland Mall, 350 Ikorodu Road, Maryland, **Lagos**
4th Floor, West Park Suites, Ojijo Road, Parklands, **Nairobi**

www.genesis-analytics.com

AUTHORS

Betty Chiwayu, Tomisin Adeyemi, Dr Michael Fuchs, Souleima Abdennebi, Zsofia Kovacs, Sophia Sifuma

Foreword

This report presents the combined findings of a portfolio-wide evaluation and subsequent in-depth studies on British International Investment's (BII) Financial Services portfolio, published as part of the wider FCDO-BII Evaluation and Learning Programme.

Investment in underserved financial sectors across BII's markets is a key element in delivering the priorities outlined in its 2022-26 strategy: supporting specialised financial-service products that deliver basic needs, unlocking the transformative potential of financial technology, helping financial intermediaries to reach SMEs, developing domestic capital markets, boosting climate finance, and supporting gender and diversity finance.

This multi-year research demonstrates the value of independent evaluations, furthering BII's role as a learning organisation that not only generates and shares knowledge to support long-term positive change in its markets, but that also welcomes support in evidencing impact and in strengthening its approach. On the publication of the sector portfolio evaluation in December 2020, my predecessor – Rachel Glennerster – noted that "longer-term evaluations of [BII's] impact are critical to help FCDO and [BII] better understand how, and in what contexts, [BII's] investments deliver tangible, sustainable development impact". I am pleased that the synthesis report found BII has built on the understanding developed by this work to date, responding to the recommendations of the portfolio evaluation, developing its understanding through the in-depth studies, and shifting its approach in the sector to enable the greatest impact in response to emerging development issues.

Furthermore, I welcome the additional recommendations generated by this report on areas where BII can continue to further strengthen its approach to investment across the Financial Services portfolio, as well as the evaluators' broader observations on technical assistance, and improvements that could be made undertaking future evaluations of this nature.

I wish to thank the independent evaluators at Genesis Analytics and IPE Global for their work, and to my colleagues who sit alongside me on the FCDO-BII Evaluation and Learning Steering Group who have provided valuable guidance on the direction of this work.

Professor Adnan Khan
Chief Economist and Director for
Economics and Evaluation Directorate
(FCDO)

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Acronyms

ADB .... Asian Development Bank
ATF .... Alternative Trade Financier
BII .... British International Investment
BOLD .... Black Ownership and Leadership for Development
CAGR .... Compound Annual Growth Rate
DFI .... Development Finance Institution
DFS .... Digital Financial Services
DI .... Development impact
FCDO .... Foreign, Commonwealth and Development Office
FI .... Financial institution
FS .... Financial services
FSD .... Financial Sector Deepening
FX .... Foreign currency
GhISP .... Ghana Investment Support Programme
GIP .... Growth Investment Partners
GLI .... Gender Lens Investing
IC .... Investment Committee
IFC .... International Financial Corporation
INR .... Indian Rupee
JIM .... Joint Impact Model (JIM)
KPI .... Key Performance Indicators
KYC .... Know your customer
LC .... Letter of credit
LCY .... Local Currency
MFI .... Micro Finance Institution
MIGA .... Multilateral Investment Guarantee Agency
MRPA .... Master Risk Participation Agreement
MSME .... Micro, Small, and Medium-sized Enterprise
NAV .... Net Asset Value
NBFI .... Non-Bank Financial Institution
PCF .... Private Credit Fund
RBI .... Reserve Bank of India
SASD .... Symbiotics Association for Sustainable Development
SCB .... Standard Chartered Bank
SFBs .... Small Finance Banks
SME .... Small and Medium-sized Enterprise
SSA .... Sub Saharan Africa
TA .... Technical Assistance
TSCF .... Trade and Supply Chain Finance
UN Women .... United Nations Entity for Gender Equality and the Empowerment of Women

Executive Summary

Background

In 2019, the Foreign, Commonwealth & Development Office (FCDO) commissioned Genesis Analytics and IPE Global to independently evaluate British International Investment (BII)'s Financial Institutions (renamed Financial Services) portfolio. The purpose of this evaluation is to better understand the development outcomes and impacts associated with BII's investments in the financial services sector. The assignment consisted of two phases, namely an evidence and portfolio-level review (phase one) published in 2021[1] and a subsequent series of in-depth case studies (phase two).

The last deliverable of phase two is a synthesis report, which is a comprehensive compilation of key findings and lessons learnt from phases one and two. The objective of the report is to (1) understand how BII's FS portfolio has progressed over three Strategy periods, namely 2012-2016, 2017-2021, and 2022-2026; (2) understand the evolution of the impact of BII's FS investments in line with BII's strategic objectives and priorities in each period; and (3) assess BII's response to the recommendations of the evidence and portfolio-level reviews on BII's Financial Services portfolio.

This report presents the combined findings of the portfolio and evidence evaluation (phase one) and the five in-depth studies (phase two).

BII's Approach to Development Impact

BII's development impact objectives have evolved over time, reflecting increased efforts to achieve greater impact by responding to protracted and emerging development issues. The 2022-2026 Strategy BII aims to achieve three strategic impact objectives: productive, sustainable and inclusive development.[2] Productive development focuses on improving standards of living for BII's target countries. Sustainable development focuses on investing to transform economies to reduce emissions, protect the environment and adapt to the changing climate, while inclusive development aims to ensure all underserved population groups such as low-income groups, women and Black African-owned and led businesses (BOLD) are reached.

In line with BII's intent to realise impact, BII's investment scoring technique in screening potential commitments has progressed over the years. BII adopted an impact scoring system under the 2022-2026 Strategy that incentivises investment teams to increase investments that contribute to productive, sustainable and inclusive impact objectives. The impact score associated with each investment is based on the expected development impact of the investment (ex-ante) and is updated every two years over the lifetime of the investment, based on the actual key performance indicators (KPIs) (ex-post) of the investment.

Description of BII's Financial Services Portfolio

Since the phase one evaluation, BII's FS portfolio has evolved from predominantly equity investments towards debt investments. As at December 2019, equity investments constituted 48% of BII's portfolio by value, followed by debt investments, making up 34 per cent of the portfolio the remainder were funds (13%) and trade finance master risk sharing agreements (4%). BII's FS portfolio has since pivoted towards debt investments which now constitute 52 per cent of the FS portfolio as at December 2023, while equity investments form 27 per cent of the portfolio. The proportion of investments through funds (14%) and trade finance MRPAs (4%) have remained relatively the same over the two periods. The remaining (3%) are in non-trade finance guarantees.

The shift towards debt investments observed is consistent with the recommendations of the phase one evaluation. The evaluation highlighted that BII's equity investments in large FIs such as commercial banks had limited ability to influence the strategy of the FIs to increase investments to MSMEs and underserved population

1 BII (formerly CDC), 2021, Evaluating CDC's financial institutions portfolio.
2 BII, 2022, Technical Strategy (2022-2026).

segments. Specifically, the phase one evaluation noted that BII's investments enabled large FIs to grow their MSME lending in absolute terms, but this had been flat relative to the banks' loan portfolio. The review also found evidence that directed lending approaches, through specialised debt funds, were more successful in reaching women, youth and MSMEs. Consistent with the recommendations of phase one, (discussed below) BII's recent new commitments/investments are dominated by directed debt investments which mandate FIs to utilise BII's investment to lend to underserved segments as specified by BII. New equity commitments (although fewer than debt investments), are mainly in specialised lenders which already serve underserved population groups such as women and low-income groups.

The Impact of BII's Financial Services Investments

Productive Development Impact

Theme 1: Providing appropriate capital to MSMEs

Since the phase one evaluation, BII's debt investments have shifted towards providing directed debt, moving away from generalised debt to FIs, in line with the recommendations of the phase one evaluation. As at 2023, four out of a total of 13 directed debt investments mandate FIs to use the debt to finance MSMEs, making up 37 per cent of the total value of directed lending investments between January 2021 and December 2023. BII has also made directed debt investments mandated to finance women-owned businesses (five), climate finance (six), alpha/low-income countries (one) and the agriculture sector (one).[3]

BII has also shifted the focus of its equity investments from banks to enhancing financial inclusion through digital financial services, in line with the recommendations of the phase one evaluation. BII has increasingly invested in DFS, making up 38 per cent of BII's FS equity investments by value over the period 2022 and 2023, an increase from 8 per cent in the previous Strategy period (2017-2022).

Complementing DFS investments, **BII has made several equity investments in specialised MSME lenders such as Indifi, that use tech-enabled models and tailored product design to reach credit-starved smaller businesses.**[4] BII also introduced an innovative way to invest in MSMEs by setting-up a small and medium enterprises (SME) financing platform, Growth Investment Partners (GIP) in Ghana in 2023. The platform will provide long-term flexible capital to MSMEs, primarily in local currency. These investments are expected to have a greater impact in improving access to affordable finance to underserved population segments such as MSMEs.

Theme 2: Trade and supply chain finance

The phase one and two evaluations found that BII had a good overall coverage of poorer and fragile countries in providing trade finance support, making up 91 per cent of BII's Master Risk Participation Agreements (MRPAs) as at December 2022. However, within these countries, access to trade finance remains concentrated among large corporations who are often repeat customers of issuing banks and have multiple confirmation lines with several issuing banks in their country of operations. **In 2021, BII introduced an innovative approach to improve access to trade finance for SMEs, through its Trade Access Programme.** The $50 million investment by BII utilises investment managers through technology enabled platforms known as Alternative Trade Financiers (ATFs) to reach SMEs which BII would otherwise not be able to reach.

BII's has diversified its Trade and Supply Chain Finance (TSCF) portfolio and ramped up new MRPAs and supply chain finance partners, with regional and local confirming banks, in line with recommendations from phase one. BII has increased the number of MRPAs from four banks at the time of the phase one evaluation (2019) to a total of 14 signed MRPAs by December 2023.[5]

3 Note: Several investments have two directives which stipulate the population segment or sector the FI will finance through BII's investment. For example, an investment into First Bank Nigeria is directed at financing women and MSMEs.

4 BII, 2023, Evaluating our financial institutions portfolio: management response update. | Note: Specialised lenders are defined as FIs with a directed directive to lend to a specific segment of the market, for example providing housing finance or strictly financing MSMEs or women

5 As at December 2023, BII had signed trade finance agreements (including trade loans) with 17 FIs and MRPA agreements with 14 FIs.

The phase two trade finance in-depth study noted that **risk-sharing agreements under BII's TSCF programme provided financial support to confirming banks, allowing them to expand their trade finance offerings in BII's focus countries.**[6] However, the evaluation noted that the benefits (i.e. access to affordable trade finance and longer-term tenors) derived by importers and exporters, are compromised by the relatively long value chain associated with providing trade finance through MRPAs.[7]

A key barrier to accessing trade finance identified in the in-depth study of BIIs trade finance support is shortage of foreign exchange (FX). The evaluation found that limited availability of FX is a pervasive issue across BII's focus countries, constraining the ability of issuing banks to confirm transactions. While addressing FX challenges is key to enabling trade growth, the responsibility for resolving this dilemma lies predominantly with the authorities of the target countries.

Theme 3: Financial market liquidity for emerging markets

The phase one evaluation noted that some dollar-denominated debt facilities in Africa have been unsuccessful. Due to low appetite/demand for dollar-denominated debt by borrowers, some of BII's investments across the African direct debt portfolio were repaid early. Similarly, the phase two in-depth study of NMB also highlighted the challenges associated with the provision of dollar-denominated debt to FIs in markets where hedging facilities are largely unavailable.

Since the phase one recommendation, BII has experimented with several local currency (LCY)-denominated investments. BII put in place an unhedged local currency allowance to provide the option of offering local currency financing to impactful projects in certain qualifying currencies in 2022.[8] Under the 2022-2026 Strategy, the FS team made a LCY investment equivalent to $7.5 million into M-Kopa, an asset financing provider in Kenya under the catalyst portfolio. In addition, the FS team has made several other investments (under the growth portfolio) to support LCY lending such as the GIP Ghana platform.

Theme 4: Developing capital markets

The phase one evaluation also noted that BII needed to do more to have impact in the capital markets space. The review highlighted that investments in the broader financial system and capital market were lacking across the portfolio as almost all of BII direct investments in 2019 were in MFIs or banks. BII's investments in the capital markets space included supporting initial public offerings (IPOs) and listing of FIs.

In its most recent Strategy for 2022 to 2026, the FS team continues to prioritise developing domestic capital markets to unlock funding for investments in Africa and South Asia. BII is in the process of working to develop the market for private credit funds (PCFs) in Africa, which aim to address the credit market dislocation and mid-market financing gap on the continent.[9] BII (alongside IFC) also made an anchor investment into NMB Bank Tanzania's sustainable bond issuance through an investment of $15 million equivalent in Tanzania Shillings in 2023.[10] This investment in Tanzania's capital market will help catalyse a highly successful bond issuance with participation of local investors. Similarly, in February 2024, BII launched a gender bond toolkit to advance the issuance of bonds supportive of gender equality and climate action in Africa. This toolkit is expected to have positive spillover effects on Africa's capital markets.

6 BII stipulates the countries confirming banks are allowed to reach through each MRPA with BII. The evaluation found that the confirming banks did indeed support BII's focus countries.

7 Note: The structure of MRPAs is such that BII partners with confirming banks to take risk on issuing banks, and therefore issuing banks do not directly engage with BII. They request confirmations on trade finance products such as letters of credit on behalf of their clients from confirming banks. This limits BII's ability to influence the risk appetite of issuing banks (in terms of financing SMEs, providing longer tenors and lower fees to their clients). It is important to note that BII is not in a position to directly provide confirmation lines to issuing banks, which would reduce the long value chain associated with providing trade finance through MRPAs. This is because BII does not operate as a confirming bank operating on SWIFT, and therefore cannot provide confirmation lines directly to issuing banks.

8 BII, 2023, Evaluating our financial institutions portfolio: management response update.

9 BII, 2023, Evaluating our financial institutions portfolio: management response update.

10 BII, 2023, British International Investment makes $15 million anchor commitment to NMB Bank's sustainability bond.

Recommendations: productive development

Productivity recommendation (1) : Continue to invest in specialised lenders

The evaluation recommends that BII should continue to prioritise investments made through NBFIs such as DFS, and specialised lenders that provide credit lines to excluded and underserved segment such as MSMEs. These lenders often possess the requisite know-your-customer (KYC) strategies and risk mitigation tools necessary to expand outreach while safeguarding against potential risks inherent in dealing with smaller, less financially robust entities.

Productivity recommendation (2) : Continue to explore innovative solutions to enhance access to trade finance for SMEs

While risk-sharing agreements play a crucial role in enabling confirming banks to serve issuing banks that operate in challenging environments, and trade loans provide FX liquidity to issuing banks, BII could consider increasing support to trade finance in local currency. An alternative approach already being successfully tested by BII is the Trade Access programme which uses digital assessment/scoring methodologies to facilitate SME access to short-term working capital or trade loans. This approach has been successful in alleviating constraints to trade finance for SMEs.

Productivity recommendation (3): BII should increase its investments in local currencies

BII should offer local currency financing options to impactful projects in qualifying currencies in order to overcome the challenges in financial market liquidity and capitalise on opportunities for development. The evaluation also recommends BII should consider issuing securities in local currency and make use of guarantees, among possible methods to limit the foreign currency risk associated with FCY investments especially in target countries with an underdeveloped hedging market.

Productivity recommendation (4): BII should consider exploring using guarantees to promote the development of local capital markets in BII's target countries

Given the small size of local capital markets across most countries in Africa, one option worth considering is whether BII could invest in domestic wholesale development banks whose mandate it is to encourage lending to SMEs by providing private banks with risk-coverage in the form of partial credit guarantees. BII could also explore synergies by partnering with entities such as GuarantCo to finance risk-coverage to promote development of local capital markets. Finally, as direct conduits of long-term finance to small businesses, BII could consider enhancing the role of specialised SME debt and equity funds (e.g. BII's investment in the African Rivers Fund) and platforms (e.g. BII's investment in GIP Ghana) across its portfolio.

Sustainable Development Impact

In 2020, BII published its climate change Strategy stipulating how it intends to align its investment activities with the goals of the Paris Agreement.[11] Following the introduction of the climate change Strategy, BII introduced the fossil fuel policy at the end of 2020 which stipulates exclusions for new commitments into the vast majority of the fossil fuel value chain in line with its commitment to net zero emissions by 2050.

Evidence from the phase two trade finance in-depth study highlights the exclusion of coal and petroleum products from BII's trade finance transactions, following the introduction of BII's climate change Strategy. Historically, a large part (41 per cent) of BII's contribution within the manufacturing sector was to finance trade in petroleum and coal products. However, in line with its commitment to net zero emissions by 2050, BII strategically worked

11 BII, 2020, Climate Change Strategy.

with its confirming banks to gradually eliminate all coal, oil and gas (including refined petroleum products) from its trade finance portfolio. This brought BII's trade finance exposures to fossil fuels to zero by July 2022.[12]

BII's portfolio has seen a rise in investments that qualify as climate finance under the 2022-2026 Strategy. Since the introduction of the climate change Strategy, BII's climate finance investments increased from zero in 2020 to five new investments in 2022, the year in which the 2022-2026 Strategy which places emphasis on sustainable development came into effect.

Provision of technical assistance to FIs is at the core of BII's efforts to transform its FS portfolio in line with its commitment to the Paris Agreement. BII is providing technical assistance to FIs to quantify the emissions financed through their portfolio using the Joint Impact Model (JIM) and establish realistic tailored steps that will help FIs reduce their exposure to high emitting sectors and/or provide financing to help the emitting sectors to transform.

Recommendations: sustainable development

Sustainability recommendation (5) : Technical assistance should be prioritised for climate finance investments

The evaluation recommends that BII should continue to provide technical assistance to support climate finance investments to ensure FIs are adequately equipped to provide the market with sufficient climate finance products. More importantly, TA should be directed at assisting FIs to integrate climate considerations into their operations and investments, develop a transition plan and climate risk management systems, as well as climate related reporting requirements ensuring they meet the required standards for transparency and accountability.

Inclusive Development Impact

Theme 5: Reaching low-income populations

The phase one and two evaluations highlighted that, in India, MFIs have been key in ensuring BII's investments reach low-income populations. BII's investments in the MFI space have been effective in reaching groups that are traditionally underserved by formal financial services. The in-depth study of Arohan in phase two noted that the success in the Indian space was a result of a conducive regulatory environment which inter alia established maximum allowable interest rates, and therefore, ensured financing was affordable despite the high-touch model of serving customers common in India. The phase two in-depth study of Arohan also highlighted the role DFIs can play to digitise India's MFI industry to facilitate the 'graduation' of current users of MFIs to access a broader array of services provided by other financial intermediaries.

Since the phase one evaluation, BII has diversified its support to a range of FS providers, including those in India.[13] Under the 2022-2026 Strategy, BII has made several investments in NBFIs in India that use digital solutions to serve their customers. For instance, BII's investment in Indifi, a digital lender providing loans to MSMEs in India and Kinara Capital - a tech-enabled provider of unsecured small business loans to MSMEs in India.

Theme 6: Poorer and fragile markets

Since the phase one evaluation, coverage of Alpha and Beta countries has increased from 10 per cent during the 2017-2021 Strategy period, to 29 per cent in the early stages (2022-2023) of implementation of the 2022-2026 Strategy period. While coverage of countries that have less difficulty in attracting investments (Gamma and Delta) remains relatively high (44 per cent of the total value of FS new commitments between 2022 and 2023), in these countries, BII investments have focused on underserved segments of the population such as women and low-income populations.

12 Following the implementation of the Fossil Fuel Policy, BII allowed for a transition period of 18 months (from when it was introduced in December 2020 until 30 June 2022) for confirming banks to comply.

13 BII, 2023, Evaluating our financial institutions portfolio: management response update.

Theme 7: Gender and diversity

BII has increasingly made investments that meet the 2X criteria, in line with its renewed commitment to women's economic empowerment. BII took part in the development of the 2X Challenge criteria, a guide to investors on which investments will improve women's participation as workers, consumers, entrepreneurs, and leaders.[14] This guide has been incorporated into BII's impact score system. In addition, BII introduced the promotion of Black Ownership and Leadership for Development (BOLD) to improve access to affordable capital for black-African owned and led businesses.[15]

Overall, in line with BII's efforts to improve access to finance for women, FS investments that qualify as gender finance have increased, reaching a peak on nine investments (amounting to a total of $241 million) in 2022 with the introduction of the 2022-2026 Technical Strategy, compared to only one investment in 2018 ($15 million).

BII also provides technical assistance to FIs to enhance their ability to collect disaggregated data on women. Currently, BII is supporting FirstBank Nigeria with a technical assistance programme to assist the bank in building its knowledge base of the women-led/owned businesses in its portfolio.

Key findings and recommendations: inclusive development

Inclusivity recommendation (6) : Invest in tailored solutions to reach low-income households

The evaluation recommends BII should continue prioritising investments in DFS and specialised lenders across Africa and South Asia, as such NBFIs are able to leverage their technology-based low-cost business model to offer affordable financial services to underserved segments of the population. Similarly, local-based specialised lenders providing financing to underserved segments of the population are key in ensuring BII's investments achieve inclusive development. Such lenders have a greater understanding of local markets and are therefore, better suited to meet the demands of underserved individuals.

Inclusivity recommendation (7) : BII should continue to increase investments in Alpha countries

The evaluation recommends that BII should increase its focus on investing in poorer countries, particularly Alpha countries. It is recommended that BII continues to employ a combination of risk management strategies such as due diligence processes, partnerships and syndications, to manage and share the risks associated with investing in these countries.

Inclusivity recommendation (8) : Support FIs to develop and/or strengthen robust data collection and monitoring tools for 2X investments

The evaluation recommends that BII should continue to assist FIs to ensure they develop and implement robust gender-disaggregated data collection mechanisms. With the gender focus under BII's 2022-2026 Strategy, BII should work with FIs to enhance their tools (where applicable) to capture gender metrics and data management systems to track and manage this data. This is beneficial for future comprehensive evaluations of the impact of gender inclusion initiatives and investments on female borrowers, to inform future investment strategies effectively.

14 Note: The 2X Challenge is a global standard for gender finance launched at the G7 Summit 2018 as a bold commitment to inspire DFIs/IFIs and the broader private sector to invest in the world's women.

15 BII, 2022, Gender and Diversity Finance Position Statement.

General Observations and Data Limitations

Technical assistance

BII introduced Financial Services Group Plus (FSG Plus) in 2021, a TA facility for FIs that is enabling a systematic approach to the delivery of TA. The facility supports FIs to adapt their processes and systems (including data collection), to develop and adapt their products and reach new customer segments.

Impact score

An observation of the evaluation is that it is possible that **the focus on several parallel objectives encompassed under the umbrella of productive, sustainable and inclusive development may divert attention from the objective of making investments targeted at developing the financial sector of target countries.** Given that the impact scoring system attaches a higher impact score to investments that meet the productivity, sustainability and inclusivity criteria, investments in specific areas, such as those aimed at developing domestic capital markets to unlock more funding, may not necessarily score highly on the sustainability and inclusivity criteria. And as a result, it is possible BII may forgo such opportunities.

Evaluating impact of investments

Data collection at the FI level remains a key challenge in understanding the extent to which investments are impactful. There was a general lack of information on underlying households and firms being reached, as well as the impact of BII's investments on these groups. The evaluation does note that BII is implementing a more robust data collection process for investments made under the 2022-2026 Strategy.[16]

To improve the quality of the evaluation(s) conducted, BII should gain the commitment of the investee to the design and process of the evaluation at the time of approval of the investment. The selection process of FIs for the in-depth studies carried out in phase two proved difficult as several FIs regarded participation as optional, as a consequence assembling data at the FI level was a significant challenge in assessing the impact of BII's investments. In addition, investees working with BII's investment officers are the most qualified to pull together the best-suited evaluation process for the investments.

General observation recommendation (9) : BII should gain investee buy-in on the evaluation process at the time of approval of the investment by BII's investment committee

The quality of evaluations would benefit from gaining the commitment of the investee to the design and process of the evaluation process at the time of approval of the investment by BII's investment committee (IC). In designing the evaluation process in preparation for IC project approval BII should define the information requirements for the evaluation process and make it mandatory for FIs to assemble information, including a commitment to enable BII to survey client's ex-post, in line with BII's impact objectives through that investment.

16 Investments assessed under the phase two evaluation were made before the 2022-2026 Strategy period, with the exception of the investment in Inoks and often suffered from a lack of adequate data on the impact of BII's investments on underlying households and firms that were being reached by BII 's investees.

1. Introduction

1.1 Background and Rationale of the Study

In 2019, the Foreign, Commonwealth & Development Office (FCDO) commissioned Genesis Analytics and IPE Global to independently evaluate British International Investment (BII)'s Financial Institutions (renamed Financial Services) portfolio. The purpose of this evaluation is to better understand the development outcomes and impacts associated with BII's investments in the financial services sector. The assignment consists of two phases, namely an evidence and portfolio-level review (phase one) published in 2021[17] and a subsequent series of in-depth case studies (phase two).

An outcome of the evidence and portfolio-level review was to highlight several areas for deeper analysis through primary case study research. The areas identified included microfinance, micro, small and medium-sized enterprise (MSME) finance, digital financial services (DFS), and trade finance. As such, five in-depth studies evaluating seven of BII's investments have been completed under phase two, namely:

1. **A review of BII's impact in the microfinance landscape: A case study of Arohan.**[18]
2. **A review of BII's impact in the DFS landscape: A case study of Direct Pay Online (DPO).**[19]
3. **A review of BII's impact in the MSME and business financing landscape: A case study of Nepal Merchant Bank (NMB) Limited.**[20]
4. **An evaluation of BII's trade and supply chain finance (TSCF) programme: A case study of two MRPAs.**
5. **An evaluation of BII's impact in the MSME landscape: Case studies of Indifi and Inoks.**

The last deliverable of phase two is this synthesis report, which is a comprehensive compilation of key findings and lessons learnt from phases one and two. This report builds on the combined findings of the portfolio and evidence evaluation conducted over the period of January 2020 to December 2020 (phase one), as well as the findings of the five in-depth studies conducted over the period of June 2021 to March 2024 (phase two).

This report has the following objectives:

1. **To understand how BII's lending to Financial Services providers has progressed over three Strategy periods, namely 2012-2016, 2017-2021, and 2022-2026.**
2. **To understand the evolution of the impact of BII's Financial Services investments in line with BII's strategic objectives and priorities over the same three Strategy periods.**
3. **To assess BII's response to the recommendations of the evidence and portfolio-level reviews on BII's Financial Services portfolio.**

1.2 Methodology of the Study

In order to achieve the above objectives, a combination of quantitative and qualitative research methods were used:

1. **Desktop research and document review** of the portfolio and evidence reviews, BII's Strategy documents and other documents shared by BII to get a better understanding of BII's investment Strategy, investment portfolio, and BII's impact management farmwork.[21]

17 BII, (formerly CDC) 2021, Evaluating CDC's financial institutions portfolio.

18 BII, 2023, Evaluating BII's financial services portfolio: Reviewing the impact of microfinance in India: A case study of Arohan financial services.

19 BII, 2023, Evaluating BII's financial services portfolio: Evaluating the impact of investments in digital financial services: A case study of DPO.

20 BII, 2023, Evaluating BII's financial services portfolio: Reviewing the impact of MSME and business financing in Nepal: A case study of NMB.

21 Note: The published document is a summary of two reviews conducted by the evaluation in 2019. The evidence review provides a unique perspective on the literature tailored to substantiate and augment BII's impact vision for its FI portfolio. The portfolio evaluation utilises a logical methodology for measuring performance. This involves identifying key indicators that measure the achievement of an investment's development impact thesis.

2. **Analysis of BII's new commitment and disbursement data** to identify trends within the FS portfolio over time. New commitments data details the amounts that BII approves to invest in (commit to) each financial service provider either directly or through partners e.g. funds. Disbursements data depicts the investment amounts and companies into which capital is actually deployed.
3. **Key informant interviews** with various teams at BII

This report examines BII's FS portfolio from 2012 to 2023, therefore covering three periods of BII's strategies: 2012-2016, 2017-2021, and 2022-2026 (a high-level description of these strategies is presented below). While the description of BII's FS portfolio covers three Strategy periods, the analysis focuses on the changes to the FS portfolio over 2021-2023 following the publication of the phase one evaluation report and recommendations in 2020.

New commitments and disbursements data across BII's FS investments in Africa and South Asia was analysed. The data covers current and realised (partially and fully realised) FS investments across BII's FS equity team, FS debt team, FS intermediated financial services team (previously known as the FS funds and intermediated credit teams) and the trade and supply-chain finance team. The data analysed excludes generalist funds.

It is important to note that some of the key changes across BII's three strategies (2012-2016, 2017-2021, 2022-2026) influence the terminology used in this report. Under BII's 2022-2026 Strategy, the terminology has shifted from 'financial institutions' to 'financial services', reflecting a wider scope of institutions (such as asset financing providers) that BII intends to work with to provide financing.[22] This report uses financial services (FS) providers and financial institutions (FIs) interchangeably. Similarly, BII's approach to managing development impact by geography shifted from a categorisation of 'A' - 'D' countries, with 'A' being of highest priority as they were the most difficult to invest in and thus BII's additionality was considered greatest. Under the 2022-2026 Strategy, BII has introduced an updated methodology for inclusivity and classified target countries into four groups, namely: 'Alpha', Beta, Gamma and Delta.[23] Alpha countries are considered to be the most fragile, therefore investments in these countries are expected to make a higher financial and value contribution, and lead to higher inclusive impact.[24] This report classifies the countries based on their respective Strategy period categories.[25]

1.3 BII's Approach to Development Impact

During the period of analysis (2012-2023), BII published three strategic frameworks, describing BII's investment priorities over five years to achieve development outcomes. The 2012-2016 Strategy focused on supporting job creation in Africa and South Asia.[26] This was succeeded by the 2017-2021 Strategy which built on BII's progress since 2012, and focused on investing to transform economies, businesses and lives in Africa and South Asia. The 2022-2026 Strategy is BII's most recent strategic framework, which is being currently used to guide BII's current investment decisions. The Strategy highlights three strategic impact objectives, namely: productive development, sustainable development, and inclusive development.[27] Figure 1 highlights the evolution of BII's strategic objectives, across the three Strategy periods: 2012-2016, 2017-2021, and 2022-2026.

22 BII, 2023, Evaluating our financial institutions portfolio: management response update.

23 Under the 2022-2026 Impact score, the country classifications are based on three rankings: 1) Poverty Gap at $5.50, 2) GDP per capita (current PPP), and 3) OECD fragile list. With the new categorisation, fragile countries (as per the OECD definition and categorisation in 2020) have been categorised as Beta, and some of these countries were classified as C or D between 2012-2021. Extremely fragile countries have been categorised as Alpha.

24 Note: At BII, the term "contribution" refers to the difference that BII's additional inputs (i.e. financial and non-financial inputs private investors would not provide) make to development outcomes. Source: BII, 2022, Our approach to investor contribution 2022 – 26 Strategy Period.

25 For example, before between 2012 and 2021, Kenya was categorised as a C country, whereas under the 2022-2026 Strategy, Kenya is classified as a Beta country.

26 BII, 2012, BII Annual Review 2012.

27 Under the 2022-2026 Strategy, BII defines productive development as raising the productivity of an economy so that it can support a decent standard of living for all; sustainable development as helping transform the economy to reduce emissions, protect the environment and adapt to the changing climate; and inclusive development as sharing the benefits of higher productivity and greater sustainability with poor and marginalised sections of society.

Figure 1: Evolution of BII's investment Strategy, FS sector Strategy and development impact framework

2012-2016	2017-2021	2022-2026
Investing to create jobs and make a difference to people's lives in some of the world's poorest places	**Investing to transform economies, businesses and lives in Africa and South Asia**	**Investing to achieve productive, sustainable and inclusive development**
Strategic objective(s): BII (at the time CDC) will focus on investing to support the building of businesses in order to create jobs in Africa and South Asia, using different instruments (debt and direct equity) as well as continuing investments in funds.	**Strategic objective(s):** BII (at the time CDC) will focus on investing to **(1)** support the business growth and economic stability that enables countries to leave poverty behind, and **(2)** to make a financial return, and reinvest to improve the lives of millions of people in Africa and South Asia.	**Strategic objective(s):** BII will focus on investing to **(1)** raise the productivity of an economy so that it can support a decent standard of living for all, **(2)** help transform the economy to reduce emissions, protect the environment and adapt to the changing climate; and **(3)** share the benefits of higher productivity and greater sustainability with poor and marginalised sections of society.
Financial Institutions Strategy	**Financial Institutions Strategy**	**Financial Services Sector Strategy**
BII did not have a sector-specific Strategy	**Strategic priorities:** **(1)** support the critical financial infrastructure **(2)** support banks in challenging places **(3)** provide supply-chain finance for SMEs and affordable housing financing, and **(4)** explore investments in insurance and FinTech	**Strategic priorities:** **(1)** support specialised FS products that deliver basic needs to individuals, **(2)** invest in DFS to reach a wider range of customers, **(3)** work with financial intermediaries to reach SMEs, **(4)** develop domestic capital markets to unlock more funding, **(5)** boost climate finance, and **(6)** support gender and diversity finance.
Impact framework: DI grid	**Impact framework: DI grid**	**Impact framework: Impact score**

Source(s): BII Annual Review 2012 | BII 2017-2022 Strategic Framework | BII 2022-2026 Technical Strategy

The evolution of BII's objectives across the three strategic frameworks highlights BII's efforts towards achieving more targeted impact by responding to protracted and emerging development issues. With the intent of increasing the development impact of its investments, BII pivoted its investment Strategy in 2012 to target poorer and fragile economies of Africa and South Asia where the world's poorest people live.[28] Building off the foundation of the 2012-2016 Strategy, the 2017-2021 Strategy continued to target Africa and South Asia, as well as the focus on job creation.[29] To improve on the previous Strategy in achieving impact, in 2017, BII introduced sector-specific strategies to intensify its approach in investing in sectors that have a high propensity to create jobs (see discussion below). BII also introduced women's economic empowerment and climate change as target areas of investments, in line with Sustainable Development Goals (SDGs) 4 and 13, respectively, in the 2017-2021 Strategy. In its 2022-2026 Strategy, BII aligned its investments to achieve three strategic impact objectives: productive, sustainable, and inclusive development.[30]

Investing to achieve productive development remains fundamental to economic development and outcomes. Under the 2022-2026 Strategy, BII intends to promote the rational and effective allocation of scarce capital to improve the ability of FS providers to extend credit lines to individuals and businesses that need it. The overall objective is to ensure investment decisions result in improved standards of living for BII's target countries.

28 BII, 2012, BII Annual Review 2012.
29 BII, 2017, Strategic Framework (2017-2021).
30 BII, 2022, Technical Strategy (2022-2026).

Sustainable development impact is now at the core of BII's investment decisions. Under the 2022-2026 Strategy, BII intends to grow its investments in climate finance to at least 30 per cent of total new commitments by value. BII published a Climate Change Strategy (discussed later) which highlights how BII will combat climate change through its investments.

Through the 2022-2026 Strategy, BII intends to achieve inclusive development impact by prioritising investments that reach low-income groups, women and Black African-owned and led businesses (BOLD).[31] Gender finance has been one of BII's priorities influencing investment decisions since the 2017-2021 Strategy. The 2022-2026 Strategy re-emphasises the importance of investing to empower women economically, and unlike in the previous Strategy, sets a target of 25 per cent of total new commitments to be directed towards gender finance.[32] More importantly, the 2022-2026 Strategy includes a new priority area for investment: systematically under-served groups such as black-owned and led businesses in sub-Saharan Africa (SSA).

In addition to being guided by BII's five-year Strategy, FS investments are categorised into two portfolios: Growth and Catalyst. Within the growth portfolio, BII's investment teams inject long-term capital into businesses that have the potential to achieve sustainable growth while making a positive environmental, social and economic impact.[33] Within the catalyst portfolio, BII invests to support nascent markets in fragile economies and build more inclusive and sustainable economies.[34] Catalyst investments take on higher risk (with BII setting a loss tolerance of 30 per cent) to enhance the development impact of fragile economies and communities. These investments make up 10 per cent of BII's portfolio, while growth investments make up 90 per cent.[35] Under the 2022-2026 Strategy, BII committed to increasing its catalyst portfolio to 10-15 per cent of its total portfolio by value, by 2026.[36]

Financial Services (FS) Sector Strategy

The 2017-2021 FI sector Strategy outlines BII's approach to maximising impact through its investments in financial service providers. Investment priorities of the FS sector team are based on key development needs in BII's target markets, and under the 2017-2021 FS sector Strategy were: (1) invest in financial infrastructure to support economic development, (2) invest in banks operating in challenging places (i.e. countries with poor credit rating) to increase their lending to local businesses and provide routes to channel foreign capital into domestic markets, (3) provide supply-chain finance for MSMEs and affordable housing financing, and (4) potentially invest in insurance and FinTech. BII also provides trade finance through risk-sharing agreements with regional and international banks, which aims to improve international trade for target markets.

Building on the foundation of the 2017-2021 FS sector Strategy, and lessons learnt from several evaluations, including from the phase one evaluation, **the 2022-2026 FS sector Strategy adopts a more targeted approach to investing by the FS sector team.** A key shift is the move away from providing general support through global banks towards directed financial and technical support through a broad range of local FIs. These include DFS, specialised lenders, MFIs and banks with regional and local presence in target countries, aimed at supporting specific customer groups and achieving particular impact objectives.

Compared with previous strategies, the priorities of the 2022-2026 FS sector Strategy are more specific in terms of the investment product and the target population group. These priorities have evolved during the Strategy period requiring agility on the part of the Financial Services teams. Key investment priorities include: **(1)** utilising specialised lenders and insurers, banks and other traditional lenders in local markets to provide affordable housing finance, agri-finance, education finance and health insurance; **(2)** increasing equity investments in DFS to improve digital financial inclusion, as well as leverage digital lending platforms to deliver funding to underserved segments; **(3)** continuing to target MSMEs, by focusing on investing in MSME-focused lenders, sharing risk with partner financial services (FS) providers to support growth of their MSME lending in underserved markets, investing in credit funds targeting MSME lending; and supporting local-currency lending to MSMEs; **(4)** investing

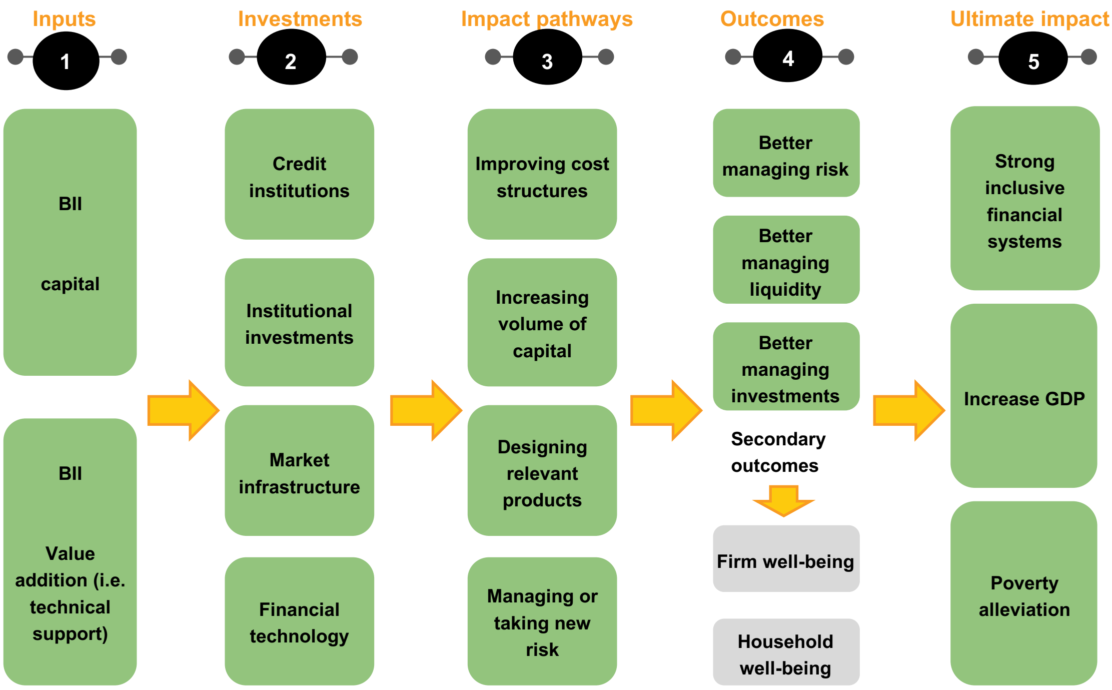
31 BII, 2022, Gender and Diversity Finance Position Statement.
32 BII, 2022, Technical Strategy (2022-2026).
33 BII, 2024, Growth: Accelerating private sector development at scale.
34 BII, 2024, Catalyst: Our approach to innovating with catalytic capital.
35 BII, 2024, Growth: Accelerating private sector development at scale.
36 BII, 2022, Technical Strategy (2022-2026).

in market infrastructure in target countries with the intent of supporting the development of their capital markets; and increasing investments in **(5)** climate finance and **(6)** gender and diversity finance.

Measuring and monitoring development impact of FS sector investments

Over the years BII has increasingly focused on ensuring its investments create impact in target countries and ultimately households.[37] After the introduction of sector-specific strategies in 2017, BII began the development of sector-specific impact frameworks, outlining how BII aims to achieve impact in each sector. The financial services impact framework is built on the rationale that impact is achieved through four main pathways through the provision of capital and value addition (i.e. support provided by BII in addition to capital such as technical assistance) to financial sector investees and intermediaries (see column 3 in **Figure 2**). Through these pathways, BII envisions that its FS sector investments will lead to improved firm and household well-being, which will lead to inclusive financial systems, economic growth, and a reduction in poverty.

Figure 2: **BII's FS development impact framework**



Source: BII

The FS impact framework (commonly referred to as a theory of change) is at the centre of the FS sector team's approach to impact. Since the introduction of the framework between 2017 and 2020, BII uses the framework to articulate the expected impact of an investment and monitor it over time. This tool is used across the two Strategy periods: 2017-2021 and 2022-2026, in conjunction with the tools discussed below.

The phase one evaluation, as well as the phase two in-depth studies assessed BII's investments against the FS impact framework. The two stages of the evaluation examined the extent to which BII's investments achieved the intended outcomes on businesses and households in line with the impact pathways depicted in the FS impact framework. The key findings and lessons learnt from phase one and phase two of the evaluation are presented in Section 3 of this report.

In 2020, BII introduced the impact dashboard, which is a transparent and evidence-based method that applies each dimension of BII's overall impact framework to assess the expected impact of a specific investment.[38] The impact dashboard summarises the core impact (i.e. what BII intends to achieve through the investment) and route to impact (i.e. how the impact will be achieved) for whom (the primary and secondary stakeholder impacted by the investment).

37 BII, 2021, Investing to transform lives five years on.
38 BII, 2023, What impact means to us.

The dashboard also outlines the key risks associated with the investment and provides a contribution assessment of BII's additionality through the investment.[39] An overall impact score (discussed below) for the investment is included on the dashboard. The impact dashboard for approved investments is publicly available on BII's website, to provide stakeholders with an understanding of how the specific investment decision was reached.

BII's investment scoring technique in screening potential commitments has progressed over the years. Across the 2012-2016, and 2017-2021 strategies, BII's investments were scored on its DI grid - an investment screening tool, which scores investments based on two factors: the difficulty of investing in the country where the investment is to be made and the propensity of investments in the relevant business sector to generate employment.[40] Under the 2022-2026 Strategy, BII has adopted a new scoring system (impact score), replacing the DI grid. BII's impact score provides a quantitative measure to assess each investment against expected impact.[41] The impact score associated with each investment is based on the expected development impact of the investment (ex-ante). It seeks to recognise the contribution of investments to achieving BII's strategic objectives by scoring each investment on three dimensions:

1. **Productivity** (score varies from 0 to 4): reflects how efficiently an investment addresses the core developmental needs.
2. **Sustainability** (score varies from -1 to 4): reflects the extent to which an investment will contribute to the transition to net zero and climate-resiliency.
3. **Inclusivity** (score varies from 0 to 4): reflects the extent to which investments are reaching (1) low-income populations, or poor and fragile economies;[42] and (2) are contributing to gender and diversity.[43]

The sum of the three scores (productivity, sustainability, and inclusivity) results in a total impact score, which ranges from -1 to 10.

BII's monitoring process entails mapping each investment against its impact thesis as outlined in the impact dashboard and monitoring plan. Under the impact monitoring plan, the impact score for each investment is updated every two years over the lifetime of the investment, based on the achievement of actual key performance indicators (KPIs) (ex-post) of the investment. Each investment is then monitored comparing the initial impact score at the time of the investment against the updated impact score to track how the investment is performing against its original thesis.

From a methodological perspective BII's 2022-2026 approach to measuring and monitoring impact meets the international standard for impact management, the Operating Principles for Impact Management, widely referred to as the Impact Principles.[44] The impact score enables BII to manage strategic impact on a portfolio basis, thereby meeting the second principle of the Impact Principles. Under the 2022-2026 impact scoring system, individual scores are aggregated at the portfolio level into an 'Aggregate Impact Score' (a weighted average of individual impact scores for all investments committed since 2022). BII utilises the aggregated quantitative metric to actively monitor and ensure the portfolio aligns to BII's strategic impact objectives. This dynamic approach to impact management aligns with the sixth principle of the impact principles. BII intends to achieve an aggregate impact score ranging between four and eight during the 2022-26 period.[45]

39 Note: To BII, additionality means supplying inputs (financial and non-financial) that private investors would not. Contribution refers to the difference that additional inputs make to development outcomes. Source: BII, 2023, What impact means to us.

40 BII, 2018, The Development Impact Grid.

41 BII, 2022, British International Investment Impact Score 2022-26.

42 The default country rating is used when micro data about the poverty level of key stakeholders is not available

43 The 2X Challenge is a global standard for gender finance launched at the G7 Summit 2018 as a bold commitment to inspire DFIs/IFIs and the broader private sector to invest in the world's women.

44 BII has been assessed against the Impact Principles and found to rate as 'advanced' across all impact principal dimensions, which is the highest score one can receive on the impact principles scoring system. The Impact Principles is a globally recognised framework that BII uses to underpin the design and implementation of its impact management systems, ensuring that impact considerations are integrated throughout the investment life cycle. BII is a founding signatory of the Impact Principles. Source: Bluemark, 2023, Introducing Bluemark's Practice Leaderboard.

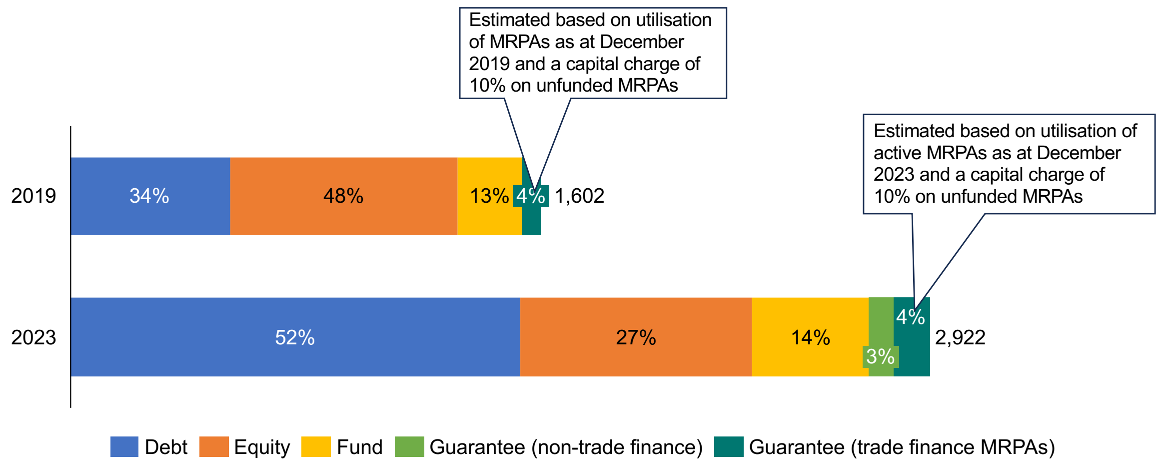
45 BII, 2022, Impact Score 2022-26.

2. Description of BII's Financial Services portfolio

This section provides an overview of BII's FS sector portfolio, and outlines some of the key trends observed across the portfolio, taking into account the FS sector strategic priorities as stated in the 2022-2026 Strategy.

Since the phase one evaluation, BII's FS portfolio has evolved from predominantly equity investments towards debt investments (see Figure 3 below). As at end December 2019, equity investments made up 48 per cent of BII's FS portfolio, followed by debt investments constituting 34 per cent of the portfolio.[46] BII's FS portfolio has since pivoted towards debt investments which now constitute 52 per cent of the FS portfolio as at December 2023, while equity investments form 27 per cent of the portfolio.

Figure 3: BII's FS portfolio split by investment instrument (USD million, 2019 & 2023)[47]



Source: BII Database | Notes: Based on original cost data and excludes exited investments as at December 2019, and as at December 2023. | The 2019 figure differs from the calculation in the published phase one report as the data in the figure excludes exited investments and Generalist Funds. | The total value of the trade finance portfolio has been adjusted to the Net Asset Value (NAV) of MRPAs to reflect the amount of capital set aside by BII with respect to funded and unfunded trade finance guarantees. This is calculated as follows: Funded MRPAs based on their utilisation + Unfunded MRPAs based on their utilisation and a capital charge of 10 per cent (i.e. the facility size was multiplied by the utilisation and capital charge). The 2023 trade finance guarantees NAV is calculated for six MRPAs. Non-trade finance guarantees have not been adjusted for NAV as the data is not available.

The pivot from predominantly equity investments coincides with the recommendations of the phase one evaluation. Equity investments are generally used to gain an equity stake in a business and a board seat so as to influence the strategy of a FI. However, the phase one evaluation highlighted that BII's equity investments in large FIs such as commercial banks had limited ability to influence the strategy of the FIs to increase investments to MSMEs and underserved population segments. Specifically, the phase one evaluation noted that BII's investments enabled large FIs to grow their MSME lending in absolute terms, but the relative size of MSME lending as part of the banks' loan portfolios remained unchanged. The phase one evaluation also found evidence that directed lending approaches through specialised debt funds were more successful in reaching underserved groups, such as women, youth and MSMEs.

46 The phase one evaluation states that equity investments made up 44 per cent of BII's FS portfolio by value, while debt investments (including debt funds) made up 31 per cent. The phase one report figure is different from the 2019 FS portfolio value noted in the report as the examination of BII's FS portfolio in the phase one evaluation was done across 180 unique investments, including generalised funds and exited investments, which have not been included in this report. Generalised funds made up 16 per cent of the FS portfolio in 2019 by value.

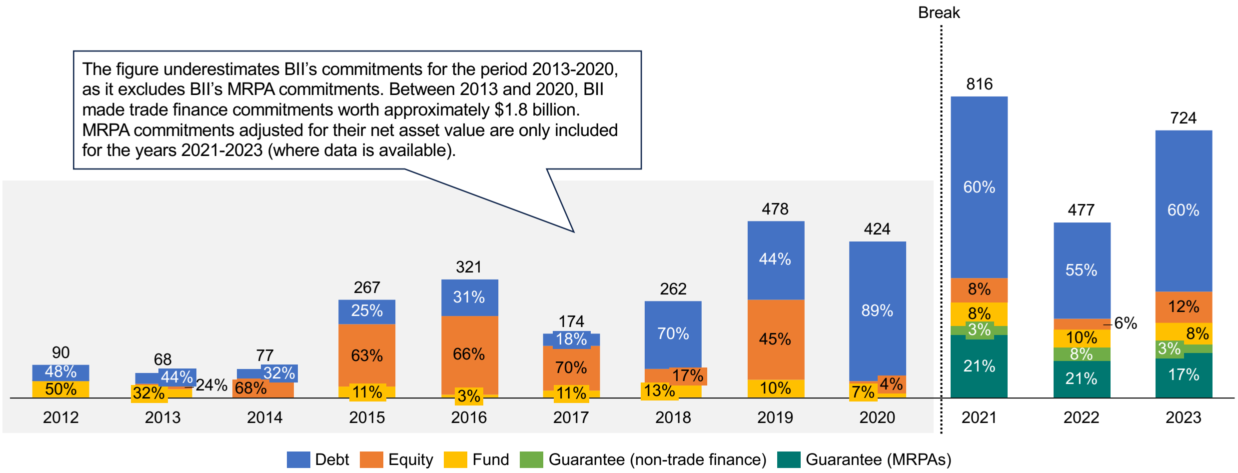
47 BII, 2024, New Commitments Data.

Therefore, the phase one evaluation recommended that BII should consider a more directed or targeted approach to investing. In line with this recommendation, BII's recent investments are dominated by directed debt investments. New equity commitments (although fewer than debt investments), are mainly in specialised lenders which already serve underserved population groups such as women and low-income groups.[48]

The proportion of fund investments in BII's FS portfolio has remained almost unchanged between 2019 (13 per cent of the total value of the FS portfolio) and 2023 (14 per cent of the total value of the FS portfolio). Similarly, the proportion of trade finance guarantees has remained the same over the two periods, constituting 4 per cent of BII's portfolio by value in both 2019 and 2023.[49] Non-trade finance guarantees did not form part of BII's FS portfolio in 2019, but, as at December 2023, made up 3 per cent of the FS portfolio.

As noted above, the resulting shift in BII's portfolio as at December 2023 is in part explained by a change in strategy influencing the type of new investment commitments made following the phase one evaluation. Figure 4 below showcases the total value of new commitments made per annum between 2012 and 2023. The figure highlights that's since January 2020, BII's new commitments have mainly been in the form of debt investments, while new commitments in the form of equity investments have decreased. While new equity commitments made up 45 per cent of the total value of new investments in 2019, equity commitments fell to only 4 per cent of new commitments in 2020.

Figure 4: BII's FS commitments split by investment instrument (USD million, 2012 - 2023)[50]



Source: BII Database | Notes: Based on original cost data and includes exited investments. | The total value of MRPA commitments have been adjusted to their Net Asset Value (NAV) as of 31 December (each year) to reflect the amount of capital set aside by BII with respect to funded and unfunded trade finance guarantees. This is calculated as follows: Funded MRPAs based on their utilisation + Unfunded MRPAs based on their utilisation and a capital charge of 10 per cent (i.e. the facility size was multiplied by the utilisation and capital charge). Non-trade finance guarantees have not been adjusted for NAV as the data is not available.

Guarantees consist of trade finance guarantees (e.g. trade finance MRPAs) made by the Trade and Supply Chain Finance (TSCF) team and **non-trade finance guarantee investments** (e.g. non-trade finance MRPAs) made by the FS intermediated finance team. Between 2021 and 2023, trade finance MRPAs made up 70 per cent of BII's FS guarantee commitments by value, while non-trade finance guarantees made up 30 per cent. In addition to increasing the number of trade finance guarantees, BII has diversified its guarantee investments beyond trade and supply chain finance. BII made it first non-trade finance guarantee commitment in 2021, a $25 million risk sharing

48 Under the 2022-2026 Strategy BII's new commitments in the equity space have increasingly been with investee companies which are specialised. These require continuous operational and strategic guidance, and BII is able to provide this through its board position and continuous engagement.

49 BII's MRPA support is underestimated due to unavailable utilisation rates for seven MRPAs. BII signed four MRPAs in 2023, and these have not been included in the calculation of NAV as their utilisation rates are not available – MRPAs yet to be utilised. Data for the utilisation rates for three active MRPAs is also not available, as such these MRPAs are not included in the calculation of BII's MRPA support.

50 BII, 2024, New Commitments Data.

agreement with Absa Bank Limited to support lending to MFIs and NBFIs (through credit risk mitigation), and in turn allow these FIs to better serve households and MSMEs across Africa.[51]

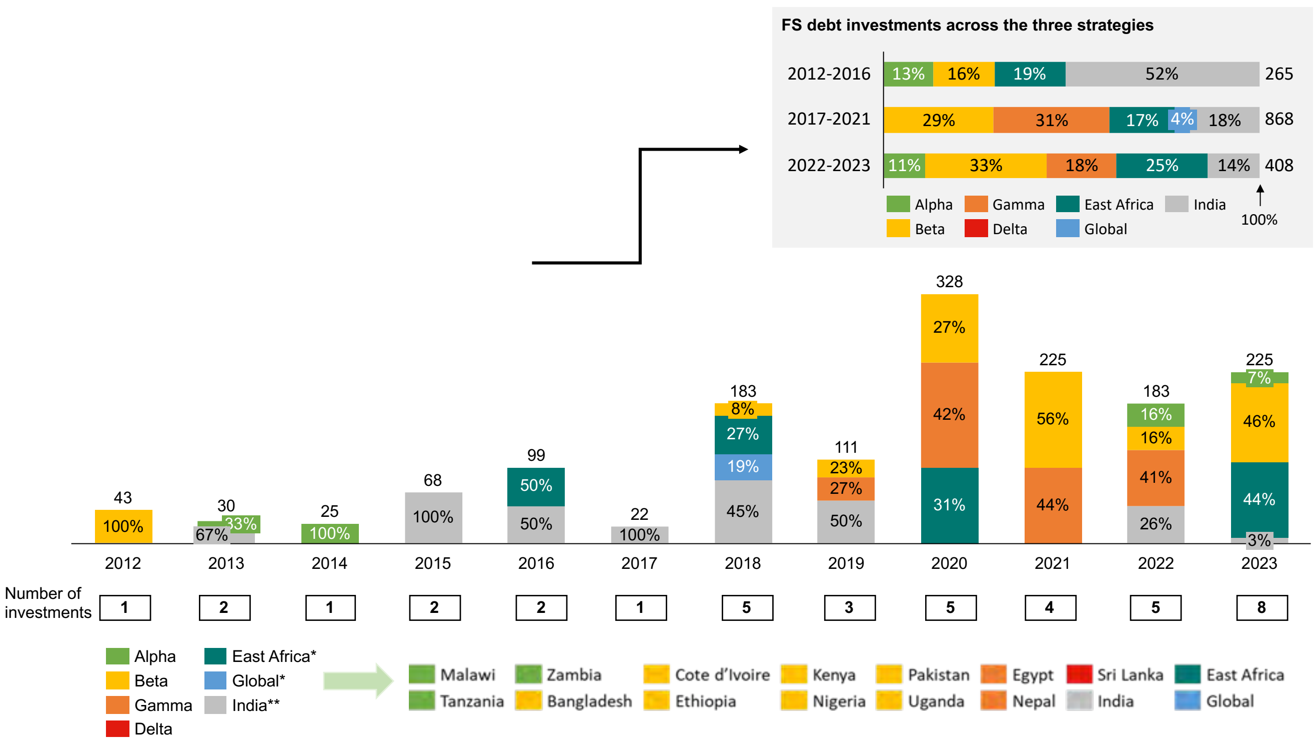
In the following sections a detailed breakdown is provided of new investment commitments with the four FS product groups, namely: FS Debt (i.e. direct debt investments), FS Equity (i.e. direct equity investments), FS Intermediated Finance (i.e. intermediated debt and equity investments) and the Trade and Supply Chain Finance, which have resulted in the portfolio shift noted above.

2.1 FS Debt

In 2023, BII made total new direct debt commitments of $225 million approximately 31 per cent of total new commitments (2022: $183 million, approximately 38 per cent of total new commitments) through eight direct investments in Africa and South Asia, an increase from five new commitments in 2022.[52] The average size of a new commitment in 2023 is $28 million, a decrease from $37 million in 2022. The purpose of these investments is largely to provide liquidity to FS providers in emerging markets at competitive rates and tenures (i.e. longer tenure periods) and to expand lending to certain segments within the market.

Since 2012, BII's new direct debt commitments have shown positive growth, although this has slowed since the COVID-19 pandemic (see Figure 4). Between 2012 and 2020, the total value of new commitments increased by 29 per cent Compounded Average Growth Rate (CAGR), thereafter, between 2020 and 2023, there has been a 12 per cent CAGR decline in the total value of new commitments. Nevertheless, the average annual total value of new commitments is higher over the 2022-2023 period at $204 million, compared to the previous Strategy period: $174 million (2017-2021) and $53 million (2012-2016).[53]

Figure 5: BII's FS debt commitments split by investment instrument (USD million, 2012 - 2023)[54]



*Source: BII Database | Notes: *East Africa, and Global indicate investments that were made in more than one country across the East Africa region and different continents, respectively. **Under the DI grid, investments in India were*

51 BII, 2023, ABSA Bank Ltd – Investment 05. | In addition, BII has two other non-trade finance guarantee investments with the African Guarantee Fund ($37.5 million) and Standard Chartered Bank Pakistan Limited ($20 million).

52 Note: This figure represents direct debt investments made by the FS debt team, which excludes trade loans (covered by the TSCF team). Indirect debt investments are covered in the section on intermediated finance.

53 Note: Prior to 2017, BII did not have a dedicated FS Debt team. The ramp up in investment activity observed is likely a reflection of the impact of having a dedicated product team.

54 BII, 2024, New Commitments Data.

categorised by each State (e.g. Uttar Pradesh is Alpha, while Punjab is Gamma). Data to such granularity is not available for further analysis. Under the 2022-2026 impact score, India (all states included) are classified as Gamma. In the figure India has been excluded from the Gamma categorisation for comparative analysis between 2012 and 2023. The list of countries has been shaded as per their categorisation under the impact score, with the exception of India.

BII's debt investments have spread across an increasing number of African countries, and other Asian countries outside of India. The phase one evaluation highlighted that as at end-2019 approximately 58 per cent of direct debt investments were in India, 27 per cent in African countries and the rest (15 per cent) in other South Asian countries, namely Bangladesh and Nepal. Since then, BII's new debt investments have increasingly supported its African markets, accounting for 75 per cent of the new debt commitments by value between 2020 and 2023. New debt investments in India have fallen to 3 per cent of the total value of new debt investments in 2023, while other South Asian countries make up 16 per cent. Although the total value of investments in South Asia has declined, new commitments have been made in other countries, such as Pakistan and Sri Lanka, which appear on the FS debt balance sheet for the first time.

Since 2022, BII's debt investments have increasingly supported businesses in poorer and fragile (Alpha and Beta) countries. Considering that 12 out of 13 countries in East Africa are classified as Alpha or Beta countries, BII's support into Alpha and Beta countries increased from 47 per cent of the total value of new debt commitments over the period 2017-2021, to 69 per cent between 2022 and 2023.[55] On average, BII's support to Alpha countries increased to 11 per cent over the period 2022-2023, compared to zero per cent in the previous Strategy period (2017-2022).

The increase in BII's support to Alpha countries coincides with adoption of the 2022-2026 Strategy, evidencing enhanced efforts by BII to achieve inclusive development. In 2023, BII introduced a directed lending facility strictly targeting Alpha countries. This is a $100 million loan to Eastern and Southern African Trade & Development Bank to provide funding to businesses in BII's Alpha countries. BII also introduced directed lending facilities to finance SMEs and climate finance in Alpha countries during 2022 and 2023, thus driving the trend observed.

Since 2021, BII has pivoted towards providing directed credit lines as opposed to generalised debt, in line with the recommendations of the phase one evaluation. The FS debt team launched the pilot for BII's FS sector directed lending approach in October 2020, in part as a response to the recommendations of the phase one evaluation. Since the successful pilot, BII's new debt commitments amounting to $508 million (with 13 FIs) have been directed at financing women businesses (five investments, amounting to $178 million), climate finance (six investments amounting to $220 million), SMEs (four investments, amounting to $188 million) alpha/low-income countries (one investment, amounting to $100 million), and the agriculture sector (one investment, amounting to $10 million).[56] During the 2022-2026 Strategy period, only two out of 12 new direct debt investments were general debt facilities, this is BII's investment in Banque du Caire (due to regulations by the Egyptian central bank that do not permit the form of debt investment to be directed) and Stanbic IBTC Bank Plc (agreed before the introduction of the directed lending approach) The trend towards directed lending reflects a more targeted approach to investments, as recommended in the phase one evaluation (discussed in detail later).

55 Seychelles is the only country in East Africa that falls outside the Alpha and Beta category and is classified as Delta. Given that the FS Debt team has not made investments targeting Seychelles, the evaluation assumes that all the investment made into the East Africa region supported Alpha or Beta countries.

56 Note: Several investments have two directives stipulating what the investment would be used for. For example, an investment into First Bank Nigeria is directed at financing women and MSMEs.

Figure 6: BII's FS debt commitments split by type of debt instrument (USD million, 2012-2023)[57]

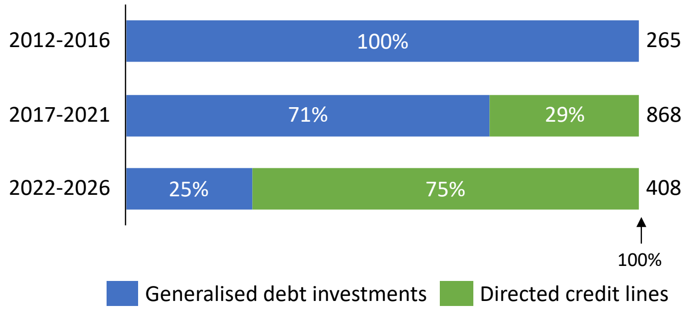
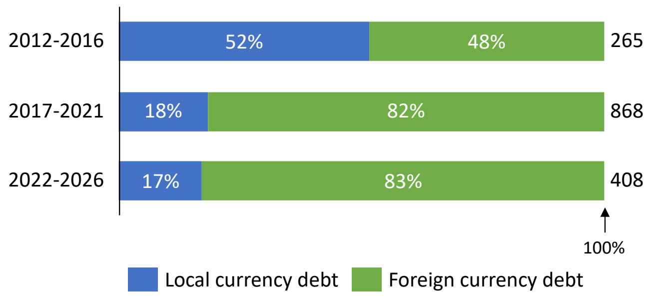


Figure 7: BII's FS debt commitments split by currency of investment (USD million, 2012-2023)[58]



Source: BII Database

BII's FS debt commitments remain predominantly in the form of foreign currency investments. This mainly passes on the foreign currency risk to those investees that have limited dollar-based export earnings. In 2023, six (out of eight) of the investments were in 'hard' foreign currency (USD loans, with one exception where the investment was in Euros). BII provided an Indian Rupee (INR) loan to SEWA Grih Rin Ltd in 2023. INR debt investments were a more common occurrence during the 2012-2016 Strategy period, 52 per cent of the debt investments were in local currency (LCY), and these were all INR denominated. Similarly, all the LCY loans over the 2017-2021 Strategy period were also INR denominated. All of BII's direct debt investments in India are in LCY, therefore the decline in LCY lending also reflects a fall in direct debt investments to Indian FIs, as BII diversifies its portfolio to other countries. In 2023 BII made a LCY debt investment in Africa equivalent to $15 million in Tanzanian Shillings in NMB Bank plc to support the bank's sustainability bond.[59]

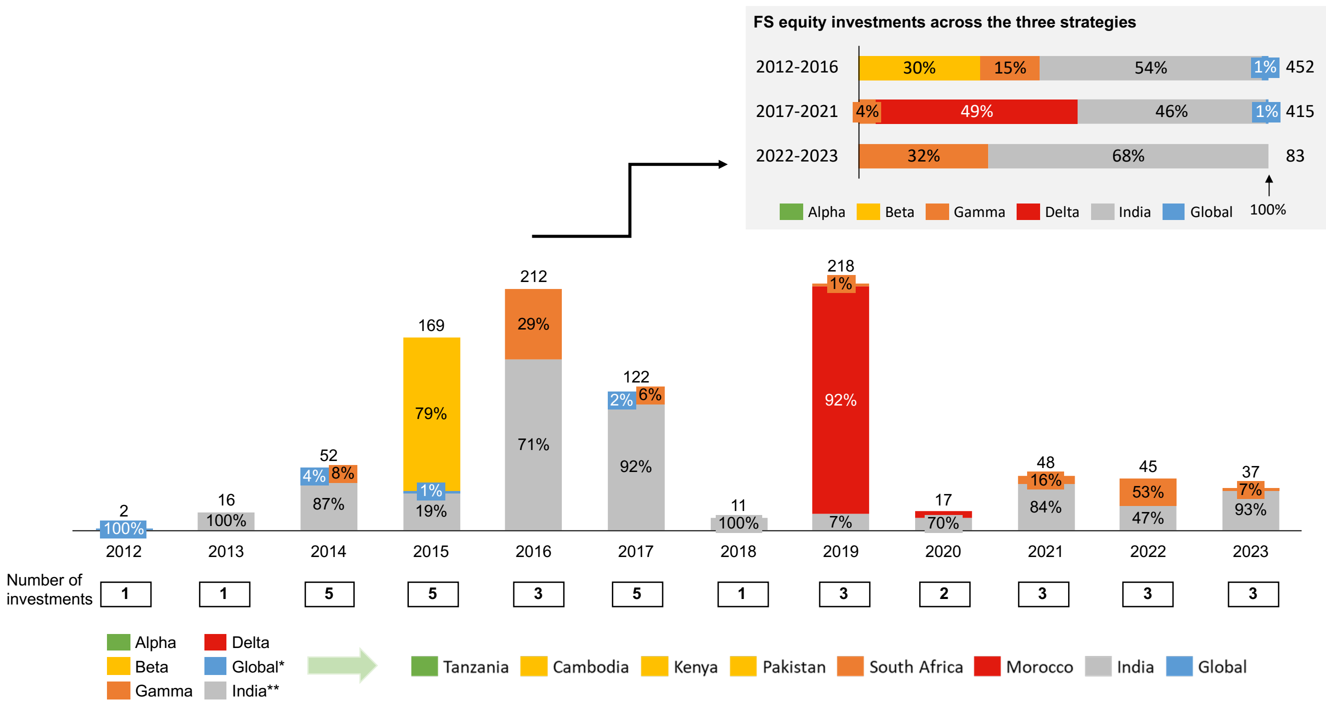
Overall, while local currency debt investments remain a small part of BII's new debt commitments, BII's takes on local currency risk through its direct equity and intermediated investments, as by their nature these take place in local currency. Alternatively, BII could raise debt in local currency. However, were BII to issue debt on emerging country capital market, the liquidity of the debt instrument and its issuance costs would benefit from a large issuance. If BII were to issue debt in larger denominations, BII would need to have well-established pipeline projects to absorb the proceeds of such an issuance. Thus, issuance of securities denominated in local currency is likely to create market risk for BII, which could prove challenging to manage in less developed capital markets.

57 BII, 2024, New Commitments Data.
58 BII, 2024, New Commitments Data.
59 BII, 2023, British International Investment makes a $15 million anchor commitment to NMB Bank's sustainability bond.

2.2 FS Equity

In 2023, BII made total new direct equity commitments of $37 million approximately 5 percent of total new commitments (2022: $45 million, approximately 9 per cent of total new commitments) through three investments in India and South Africa.[60] The average size of a new commitment in 2023 is $12 million, slightly less than $15 million in 2022.

Figure 8: BII's FS equity commitments split by investment instrument (USD million, 2012 - 2023)[61]



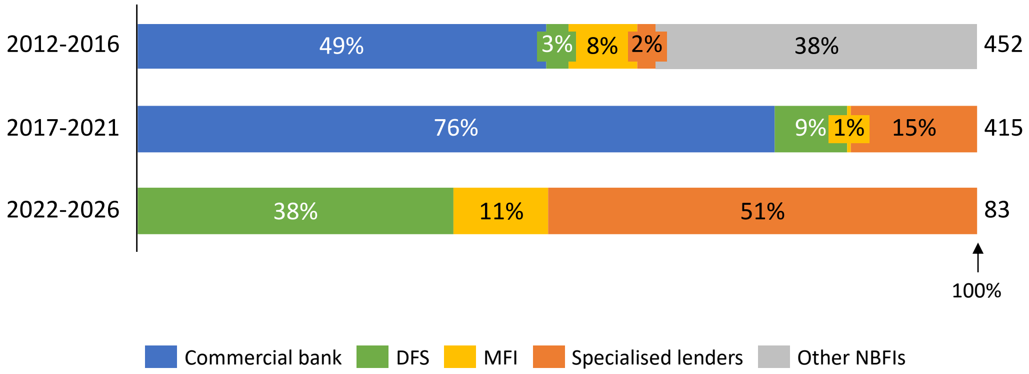
*Source: BII Database | Notes: *Global indicates investments that were made in more than one country across the different continents. **Under the DI grid, investments in India were categorised by each State (e.g. Uttar Pradesh is Alpha, while Punjab is Gamma). Data to such granularity is not available for further analysis. Under the 2022-2026 impact score, India (all states included) are classified as Gamma. In the figure above, India has been excluded from the Gamma categorisation for comparative analysis between 2012 and 2023. The list of countries has been shaded as per their categorisation under the impact score, with the exception of India.*

FS equity investments remain concentrated among relatively developed (Gamma and Delta) countries in Africa and South Asia when compared to the profile of BII's target markets. The majority of equity investments are in India, although efforts to diversify into the African equity market are observed. In 2022 and 2023, equity investments in India make up 68 per cent of the total value of new commitments, an increase from 46 per cent in the previous Strategy period. Although the total value of new commitments in Africa has declined, from 54 per cent (2016-2021) to 32 per cent (2022-2023), BII made new investments in new African countries (i.e. countries not recipients of FS equity in the past). South Africa appears on the FS Equity balance sheet for the first time - an investment into Tyme bank. Within these relatively more mature markets, BII targets investments in low-income communities where its funding makes a sufficiently meaningful contribution.

Since 2019, there has been a downward trend in new direct equity commitments, driven by a decline in equity investment in commercial banks. The peak in commitments in 2019, is driven by a $200 million equity investment into BMCE Bank in Morocco. Since then, equity investment into commercial banks have decreased, and as of 2021, BII had not made any equity investments into commercial banks (see discussion below).

60 Note: This figure represents direct equity investments. Indirect equity investments are covered in the section on intermediated finance.
61 BII, 2024, New Commitments Data.

Figure 9: BII's FS equity commitments split by type of FI (USD million, 2012-2023)[62]



Source: BII Database

BII FS equity investments have pivoted away from investments in commercial banks to specialised lenders and DFS. This Strategy shift was in part influenced by the findings and recommendations of the phase one evaluation that highlighted equity investments in commercial banks did not influence the bank to increase the proportion of their lending to small businesses (absolute amounts grew in line with overall bank growth). Between 2022 and 2023, in line with the objectives of the 2022-2026 Strategy, BII did not make any new equity commitments into commercial banks, this is a significant change, considering that in the previous Strategy period, these FIs made up 76 per cent of the total value of new commitments. Instead, equity investments have been made in specialised lenders (51 per cent of the total value of new commitments), DFS (38 per cent of the total value of new commitments) and MFIs (11 per cent of the total value of new commitments). Specialised lenders are defined as FIs with a focus on lending to specific segments of the market, for example providing housing finance or strictly financing SMEs or women-owned enterprises. An example of an investment through a specialised lender is BII's equity investment of $12 million in 2022 into Kinara Capital, a tech-enabled provider of unsecured small business loans in India.

The shift in the FS equity investments from providing general equity support to large banks to primarily working with local NBFIs coincides with strategic objectives of the 2022-2026 Strategy. Under the 2022-2026 Strategy BII plans to invest equity in business models that improve digital financial inclusion (i.e. DFS) such as fintechs. These NBFIs are able to reach a diversified range of customers at reduced operating costs and with lower risk compared to traditional FIs with physical branches. Similarly, MFIs and specialised lenders generally provide financing to segments of the population that find it difficult to access affordable financial services. Therefore, the increase in investments into these FIs is expected to drive inclusive development.

The changes to the FS equity investments portfolio highlight increased efforts by BII to recycle capital into other impact-generating opportunities, in line with the recommendations of phase one. The phase one evaluation highlighted that there were many MFI investments in the Indian direct and FIF funds' portfolio, and therefore recommended BII to consider refocusing its support to other types of FIs and sub-sectors. Since the phase one evaluation BII has exited three equity investments, two of which were in Indian MFIs. Although several MFI investments in India have been exited, in 2022 BII made a $9 million investment into Light Microfinance Private Limited, an MFI that provides finance to individuals in rural and peri-urban areas, with a specific focus on women. This investment underlines how BII is recycling capital from exits into other investments that are likely to generate greater impact by serving population segments that do not have access to financial services. The third equity investment exited by BII, is a $12 million commitment in commercial bank in Tanzania. This exit aligns with BII's shift away from providing general equity support through large banks.

BII's decision to exit an investment depends on the nature of the investment. In the case of debt investments, exit occurs when the FI repays its loan.[63] For equity investments, BII assesses whether it's continued presence as an investor will make a positive contribution to the future impact of the business.

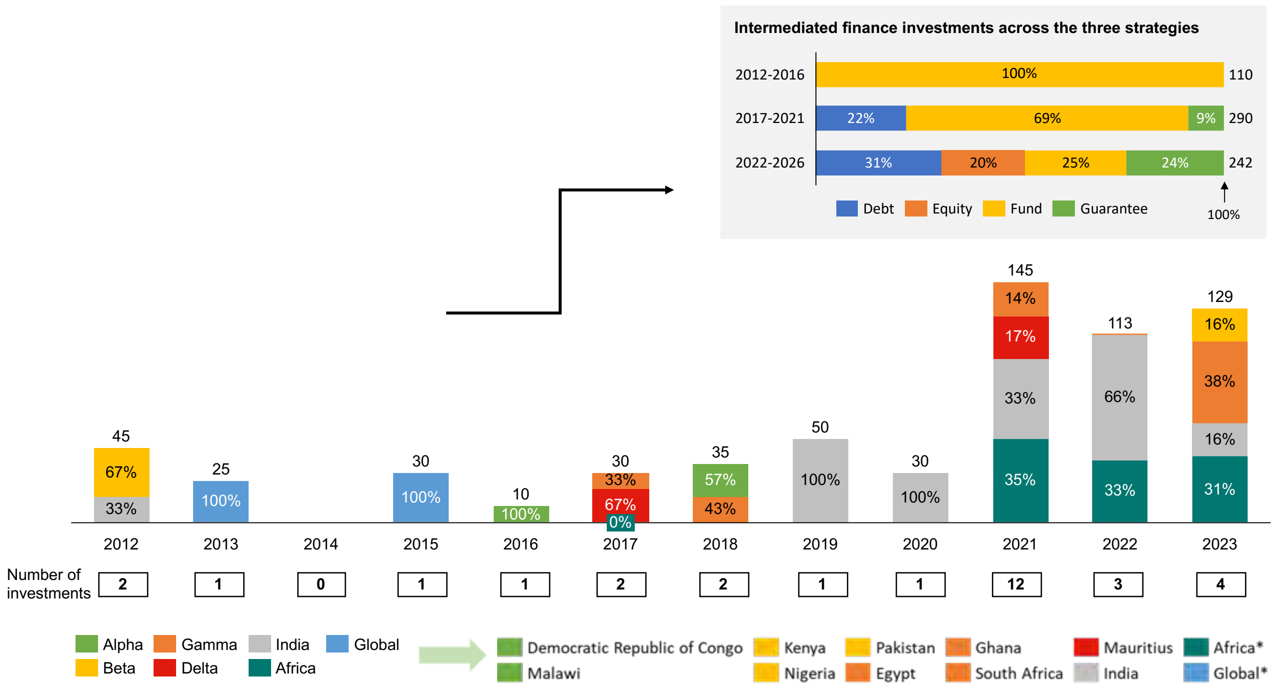
62 BII, 2024, New Commitments Data.
63 BII, n.d., How we decide when to exit from an investment.

While BII takes other considerations into account when determining the appropriate investment instrument, **FS equity is the primary tool by which BII takes on local currency risk.** BII's equity investments are by nature denominated in LCY, and through equity investments, BII is able to avoid introducing foreign currency risk exposure to the investees when making LCY investments in FIs.

2.3 FS Intermediated Finance

In 2023, BII made total new FS intermediated finance commitments of $129 million, approximately 18 per cent of total new commitments (2022: $113 million, approximately 24 percent of total new commitments) through four investments in Africa and South Asia. The term intermediated finance refers to indirect investments made by BII through banks, funds and specialist platforms. The team mainly deploys investments through three main channels, namely **(1)** equity and debt investments through funds and co-investments, **(2)** guarantees through structured credit and risk sharing agreements, and **(3)** platforms and alternative vehicles to lend to underserved market segments.

Figure 10: BII's intermediated finance commitments split by geography and investment instrument (USD million, 2012 - 2023)[64]



*Source: BII Database | Notes: *Africa, and *Global indicate investments that are directed at more than one country across the African region and different continents (Africa and South Asia), respectively. | Under the DI grid, investments in India were categorised by each State (e.g. Uttar Pradesh is Alpha, while Punjab is Gamma). Data to such granularity is not available for further analysis. Under the 2022-2026 impact score, India (all states included) are classified as Gamma. In the figure above, India has been excluded from the Gamma categorisation for comparative analysis between 2012 and 2023. The list of countries has been shaded as per their categorisation under the impact score, with the exception of India. | Guarantee investments reflect the amount committed by BII, and not the NAV of the investment (data not available).*

After re-classification of investments that qualify as intermediated finance in 2021, the total value of new intermediated finance commitments has remained relatively stable between 2022 and 2023 (see Figure 10). The number of new commitments increased to four in 2023, from three investments the previous year. During the current Strategy period, BII made an average of four new commitments per annum. During 2022-2023, new intermediated finance commitments are split relatively evenly between investments in debt (31 per cent), equity

64 BII, 2024, New Commitments Data.

(20 per cent), funds (25 per cent) and guarantees (24 per cent).[65] The rise in new commitments in 2021 was due to a transfer of investments within the FS portfolio as a result of a re-classification of investments that fall under the intermediated finance team.[66]

In recent years, the intermediated finance team has focused on financial market building by providing innovative solutions that have potential to change financial markets, while improving access to financial services for underserved segments of the population. Historically, BII has invested in generalised funds with the intent of improving SME financing.[67] However, relative to specialised SME funds, generalised debt fund investments have not been as successful in financing SME businesses. BII has since reengineered its approach to investing in SMEs through investments in intermediated finance. Lessons learnt from internal assessments by BII of the intermediated finance portfolio highlighted that investments through specialist SME finance-focused debt funds such as the Grofin Africa Fund (one of BII's legacy investments made in 2008), were effective in increasing lending to SMEs.[68] Influenced by these findings, the intermediated finance team has focused on investing in specialised SME funds such as the African Rivers Fund in 2016 which provides debt to SMEs in Africa and the African Guarantee Fund in 2022 which provides credit guarantees to partner financial institutions for up to 75 per cent of the risk on SME loans.[69] More recently, the intermediated finance team has also introduced an innovative way to invest in SMEs, by setting-up an SME financing platform, Growth Investment Partners (GIP) Ghana in 2023 (discussed later).[70] These innovative efforts demonstrate unique market solutions to investing in SME businesses and entail market building. They also they provide unique solutions that can be replicated in the future to better serve SMEs.

In addition to supporting MSMEs, the intermediated finance team has focused on several investments to support household resilience through MFI facilities. In 2021, BII partnered with Northern Arc and for the first time invested in a Pool Bond Issuance transaction worth $43 million to support six Indian MFIs that primarily provide financing to female and rural borrowers.[71] During the same year, BII also partnered with Absa through a $25 million risk sharing agreement to increase Absa's capacity to offer financing solutions to MSMEs and households across sub-Saharan Africa through MFIs and other NBFIs.[72] In 2023, BII signed a $20 million unfunded non-trade finance MRPA with Standard Chartered Bank Pakistan Limited to improve the bank's capacity to provide LCY loans to the microfinance sector and in turn improve access to credit for low-income populations in Pakistan.[73] In the climate finance space, the intermediated finance team partnered with Symbiotics on Green Basket Bond (discussed later)

2.4 Trade Finance and Supply Chain Finance

Since 2012, BII's FS TSCF portfolio has diversified using instruments beyond unfunded master risk sharing agreements (MRPA). In 2013 BII made its first trade finance commitment, a $75 million MRPA that was 100 per cent unfunded with Standard Chartered Bank, a leading global bank.[74] Since 2018, BII has introduced funded

65 Debt investment(s) constitute a $75 million green basket bond in partnership with Symbiotics. Equity investment(s) constitute a $49.5 million into Growth Investment Partners (GIP) Ghana. Investments through funds include BII's commitments into Accion Digital Transformation Fund ($20 million) and Apis Growth Markets Fund III ($40 million). Non-trade finance guarantee investments include the African Guarantee Fund ($37.5 million) and Standard Chartered Bank Pakistan Limited ($20 million).

66 Prior to 2021, BII did not have an intermediated finance team. Instead BII had an intermediated credit and funds teams. These were consolidated in 2021 to form the intermediated finance team.

67 Generalist funds lie outside the scope of this evaluation.

68 BII, 2024, Grofin Africa Fund.

69 BII , 2024, African Rivers Fund. | BII, 2022, British International Investment and African Guarantee Fund sign $75 million programme to fund African SMEs.

70 BII, 2023, British International Investment launches pioneering investment platform to boost funding for SMEs in Ghana. | BII, 2023, A new approach to supporting SMEs in Ghana. | BII, 2023, Growth Investment Partners Ghana Ltd (GHS).

71 BII (formerly CDC), 2021, CDC Group partners with Northern Arc for a Pool Bond Issuance transaction supporting primarily female and rural borrowers.

72 BII, 2024, ABSA Bank Ltd.

73 BII, 2024, Standard Chartered Bank Pakistan Limited.

74 **Unfunded** trade finance support/participation refers to risk participation where BII provides a 'guarantee' to compensate the confirming bank should clients of the issuing bank fail to fulfil their trade finance obligations e.g. Letter of Credit Confirmations.

MRPA participation, supply chain finance and trade loans.[75] These products provide banks with liquidity and improve their ability to fund trade finance activity and value-chain finance in countries with low foreign currency liquidity. As at December 2023, BII had trade finance facilities with 17 FIs; 14 of the facilities are MRPAs, three are trade loans and one is a trade finance fund (Ancile Trade Access Program Sub-Fund).[76]

The TSCF portfolio has diversified geographically by increasingly using investments with FS providers operating regionally. BII has increasingly partnered with banks that have regional operations in Africa and South Asia. In 2023, BII entered into new trade finance facilities with three regional banks (Absa, Access Bank and Bank One Mauritius), one global bank (Citibank) and two DFIs (IFC and ADB).The trade finance facility with IFC is part of a Joint Declaration of Support for Trade Finance in Ukraine by BII made in collaboration with U.S. International Development Finance Corporation (DFC), Multilateral Investment Guarantee Agency (MIGA), and IFC.[77] Through this investment, BII contributes $25 million to the IFC's Global Trade Finance Program to help facilitate trade to support the Ukrainian economy while the conflict continues.[78] This is BII's first investment in Ukraine. By sharing some of the IFC's trade finance risk exposure, the joint participation is expected to increase the capacity of the Global Trade Finance Program in Ukraine from $200 million to almost $300 million.

BII's TSCF programme has grown, and so has the reach of BII's MRPAs, particularly to countries with low-income populations (i.e. Alpha and Beta countries). An increasing number of countries have been reached through BII's MRPAs, growing from seven countries in 2015 to a peak of 22 countries in 2021. BII's reach to Alpha and Beta countries has increased, growing to 91% in 2021 from 25% in 2015.

A more detailed evaluation of the trade finance portfolio was conducted as part of a separate in-depth study. Some of the key findings from this evaluation are presented in a later section of this report.

75 **Funded** trade finance support/participation agreements refers to risk participation where BII provides the confirming bank with funds based on the risk-sharing arrangement should clients of issuing banks be unable to fulfil their trade finance obligations. **Trade loans** refers to relatively short-term facilities, compared to risk participation agreements whereby BII provides issuing banks with funds to lend to importers and exporters. **Supply chain finance** refers to leveraging the creditworthiness of larger enterprises in domestic supply chains to facilitate SME access to finance in the case of SMEs delivering goods and services in domestic supply chains.

76 BII has both a trade finance MRPA and trade loan facility with Absa Bank.

77 IFC, 2023, Joint Declaration of Support for Trade Finance in Ukraine.

78 BII, 2023, British International Investment to support reconstruction in Ukraine.

3. The impact of BII's Financial Services investments

This section provides an assessment of BII's FS portfolio against the recommendations of the phase one evaluation, as well as BII's strategic priorities as set out in the 2017-2021 Strategy and the 2022-2026 Strategy. The following analysis groups key findings and insights from the seven thematic areas assessed in the phase one evaluation by BII's strategic impact goals of productive, sustainable and inclusive development.

3.1 Productive Development Impact

Providing appropriate funding to MSMEs

Providing finance to MSME business has been one of BII's long term investment priorities, emerging as a key focal area in both the 2017-2021 and 2022-2026 strategies. By providing finance to MSMEs the intention is to raise their productivity. The 2017-2021 Strategy aims to increase the flow of credit to MSMEs through the provision of debt and equity capital to FIs as well as intermediated equity and debt through funds. In the 2022-2026 Strategy, working with FIs to reach MSMEs is explicitly stated as one of the six priorities of BII's FS sector Strategy. By providing finance to MSMEs, BII aims to raise the productivity of recipient enterprises and thereby strengthen economic performance and promote improved living standards.

The phase one evaluation highlighted the importance of adapting BII's approach in reaching MSMEs. This was confirmed by an in-depth study of NMB Nepal as described below. The phase one evaluation noted that BII's efforts to reach MSMEs were mainly in the form of debt and equity invested in commercial banks, and while MSME lending by banks had been growing in absolute terms, it had remained unchanged relative to the banks' loan portfolios. In part scaling MSME lending through commercial banks is challenging given their limited risk appetite. In addition, banks apply relatively stringent credit qualification requirements which make it difficult for MSMEs to acquire credit. Similar findings emerged from the in-depth study undertaken of BII's investment in MSMEs (see **Case study 1**).

Case study 1: The impact of generalised debt investments on MSME financing - the case of NMB[79]

BII invested in the Nepalese banking sector in 2018 with a $15 million three-year senior unsecured loan to NMB to **enable NMB to increase its lending to domestic MSMEs** and mid-sized corporates. Ultimately, the intended impact was to enable borrowers to meet their capital needs and increase production of goods and services to the domestic market.

A key finding of the in-depth study was that BII's investment in NMB allowed the bank to extend its reach to MSMEs and mid-sized corporates during periods of tight domestic liquidity. During the three-year period of BII's funding commitment (FY 18/19 to FY 21/22), NMB's MSME loan book grew from approximately NPR 29 billion ($232 million) to NPR 54 billion ($432 million), a compound annual growth rate (CAGR) of 23 per cent. However, **despite the absolute growth in MSME lending, the proportion of NMB's overall lending devoted to MSMEs remained unchanged** at around 30.5 per cent, only slightly up from 29 per cent in FY 17/18 (prior to BII's loan disbursement to NMB).

The main lesson from this case study is that while BII did contribute to growth in MSME lending, the direct debt investment did not influence the risk appetite of NMB bank, and therefore there was little change to the relative size of its commitment to MSME businesses.

79 BII, 2023, Evaluating BII's financial services portfolio: Reviewing the impact of MSME and business financing in Nepal – a case study of NMB.

The phase one evaluation recommended that BII should consider investing in NBFIs to reach MSMEs and low-income households. NBFIs such as DFS are able to reach a wider range of customers at relatively low cost. In the case of India, MFI investments have been successful in reaching underserved segments of the population. However, it was recommended that BII consider refocusing its support to other types of FIs and sub-sectors. An in-depth study of Arohan, an Indian MFI, discussed later, re-emphasises this point.

The phase two in-depth studies of Direct Pay Online reaffirmed the recommendations from phase one and highlighted the benefits of investing in DFS. The evaluation highlighted that DFS are able to improve access to financial services for SMEs, and thereby drive the growth of these businesses.

Case study 2: The impact of DFS investments in reaching MSMEs - an in-depth study of DPO[80]

BII made an investment in Apis Fund I with the aim of improving access to FS for underserved individuals and businesses in Africa and South Asia. The investment was envisaged to specifically support the DFS eco-system by enabling access to mass-market banking in target geographies.

In turn, Apis made an investment in DPO, a payment service provider offering digital solutions to small businesses. DPO offers MSMEs digital payment services, both locally and across borders, using methods, such as card payments, mobile money, and e-wallets.

The in-depth study of DPO highlighted that digital payments have the potential to enable growth for small businesses by allowing them to serve a wider set of customers, potentially boosting revenues. The evaluation noted that as a result of the investment by Apis, DPO was able to expand digital payments offerings into new markets, reaching a wide spread of merchants (mainly MSMEs) across a diverse set of African countries.

However, the study also noted that expansion of digital payments offerings into new markets takes time to scale across a larger number of merchants. While DPO managed to enter a number of new markets (mainly through acquisitions) following the investment by Apis, sizable merchant uptake across markets is anticipated to take time in these new markets. Active merchant numbers remained low relative to the large number of merchants on the continent and compared to those acquired by DPO's main competitors. Partly because DPO started out as a niche player in the hospitality space, it may take time to attract a growing number of merchants in the e-commerce space and to attract clients from other industries.

Since the phase one evaluation, BII has adopted a more targeted investment approach to reach SME businesses. BII's debt investments have shifted towards providing directed debt moving away from generalised debt facilities to FIs. As of December 2023, BII's directed debt investments which mandate FIs to use the credit to finance SMEs represent four out of 13 of the total number of targeted debt investments since 2021. While an impact assessment of the directed debt investments lies outside the scope of this report, interviews with the FS debt team highlighted that using directed debt has enabled BII to have a greater reach to SME businesses compared to the debt instruments used previously. Investments that support SME businesses generally receive a higher impact score, and this has provided an incentive for BII investment teams to increase the SME-related investments. It is important to note that while directed debt provides greater comfort as regards the usage of BII's funding to reach underserved segments, it does raise the question as to whether the financial intermediary in question will continue to fund the same population segments once the funding discontinues.

An example of a directed SME-credit line is **BII's $100 million debt investment into First Bank Nigeria in 2021. First Bank Nigeria** is mandated to use the liquidity provided by BII to provide loans to SMEs. Of the available funds $30 million is to be used to finance credit lines to women-owned/led businesses. BII is also providing technical assistance (TA) to First Bank Nigeria to enhance the bank's ability in providing loans to women.

80 BII, 2023, Evaluating BII's financial services portfolio: Evaluating the impact of investments in digital financial services: A case study of DPO.

In line with the recommendations of the phase one evaluation BII has also shifted the focus of its efforts to enhance financial inclusion from equity investments in banks to investments in NBFIs. BII has increasingly invested in DFS, and in 2022 and 2023, approximately 38 per cent of BII's FS equity investments by value were made in DFS, an increase from 8 per cent in the previous Strategy period (2017-2022). These investments are expected to have a greater impact than equity investments in banks in improving access to affordable financial services for MSMEs. An in-depth study of Indifi, a digital lender providing loans to MSMEs in India, highlights the importance of DFS in reaching a wider range of customers.

Case study 3: MSME financing through technology enabled FIs: an in-depth study of Indifi

Indifi provides small business access to funding using a business model that addresses critical constraints in loan origination and in underwriting risk. In addition to using regular credit data, Indifi's business model uses data from aggregated sources (such as financial transaction history from mobile apps) to identify borrowers, assess their credit worthiness, provide them a loan directly or through a partner lender, and manage the customer relationship from end to end. This reduces the cost of customer acquisition and risk assessment, enabling MSMEs to access the credit they need, and sometimes for the first time.

Indifi delivers its unsecured loans through a flexible technology-enabled platform. The core elements of the platform are: (i) sourcing customers through partnerships with existing digital aggregators such as food delivery companies; (ii) providing customised product design to serve the credit needs of specific payment streams (tenors, cash flow aligned repayment frequency etc.), without requiring hard collateral; these products include term loans, working capital credit, invoice discounting and merchant cash advance (iii) underwriting customers based on proprietary credit scorecards and technology.

A survey of Indifi's clients complemented by in-depth interviews revealed that businesses who received financing experienced positive financial and non-financial outcomes.[81] The survey results showed increased sales revenue (79 per cent), strengthened relationships with suppliers (74 per cent), increased profits (71 per cent), customer satisfaction (70 per cent), and job creation (54 per cent). Interviews with these clients also confirmed these findings and revealed additional benefits such as market share expansion and improved business development opportunities. The financing also led to changes in production, new products and processes, improved inventory management. Additionally, the interviews revealed that changes cited by clients, such as better staff retention are related to punctual salary payments, improved employee training initiatives and other employee benefits such as upgraded health insurance provisions, food and travel allowances, public holidays, and sick leave benefits.

Complementing DFS investments, **BII has made several investments in specialised MSME lenders that use tech-enabled models and tailored product design to reach credit-starved smaller businesses.**[82] An example is the investment of approximately $30 million into Aye Finance, an Indian fintech company that specialises in providing affordable loans to MSMEs.[83] Similar investments have been made in the trade finance space, namely the Trade Access Programme (discussed later). Another example highlighting BII's new approach in investing in MSMEs is a $49.5 million equity investment made by BII into an investment platform to boost funding for MSMEs in Ghana.

81 The survey was administered to 76 per cent of Indifi's 38,000 clients. This yielded a response rate of less than 1 per cent of the sample size. While the survey data is not statistically significant, it offers valuable qualitative findings on the respondents. The survey was complemented by 10 in-depth interviews.

82 BII, 2023, Evaluating our financial institutions portfolio: management response update.

83 BII, 2023, BII investments promote financial inclusion in India.

Case study 4: An innovative approach to investing in SMEs: an example of Growth Investment Partners Ghana Ltd[84]

In 2023, **BII launched Growth Investment Partners (GIP) Ghana, an innovative platform that will provide long-term flexible capital to SMEs, primarily in local currency.** GIP will provide capital to SMEs of between $0.5 million and $5 million, equivalent primarily in local currency, through flexible financing options that meet the needs of local businesses and are otherwise not available in the market. Through GIP, BII aims to support up to 150 Ghanaian SMEs within the next 15 years. GIP Ghana is supported with an anchor capital commitment of up to $50 million from BII.

Through this investment, BII aims to provide the Ghanaian SMEs ecosystem with a unique and lasting solution that is not limited by typical fund investment horizons but will enable investee companies to become long-term partners for Ghanaian businesses and thereby fuel their growth. In addition to capital, GIP will provide SMEs with business support services and capacity building in areas such as financial management, corporate governance, and environmental and social practices. Furthermore, GIP is designed to harness funding contributions to be made by local institutional investors.

BII's commitment of capital is accompanied by a technical assistance (TA) facility, the Ghana Investment Support Programme (GhISP).[85] The aim of the market-shaping TA is to increase investment flow to SMEs that enhance development impact in Ghana. GhISP aims to increase the impact of GIP by providing pre- and post-investment support to high impact current/potential SMEs, work with market participants (e.g. advisers) to prepare and match investee SMEs to fund managers, and more broadly support the PE/VC industry to increase development impact.

Trade and supply chain finance

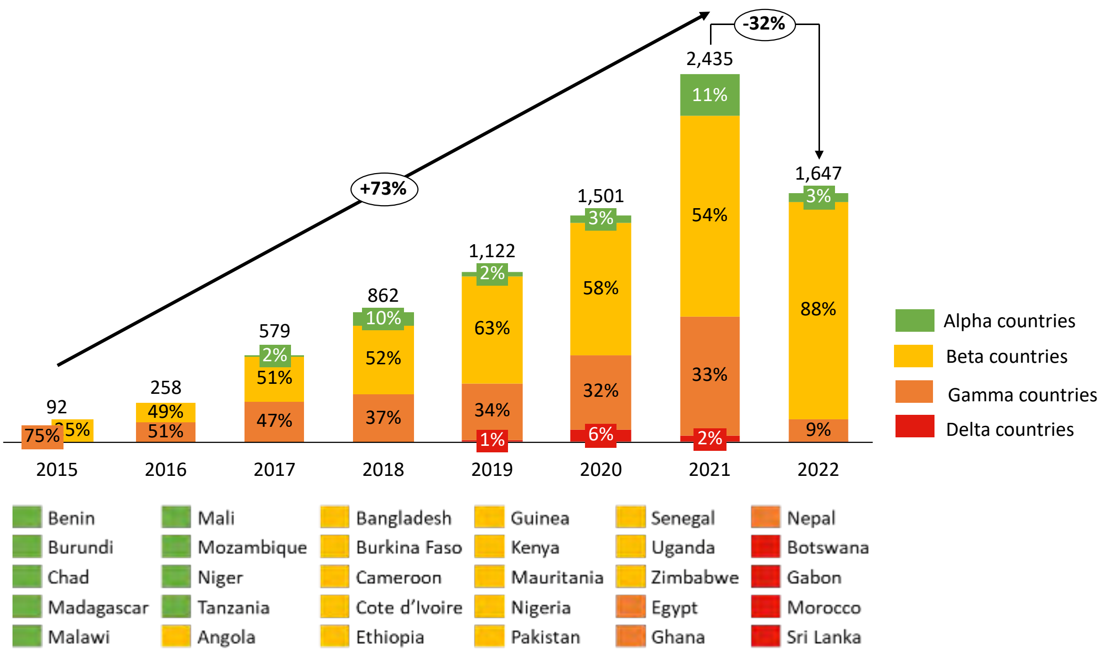
BII's trade finance programme focuses on building partnerships with banks to bridge the trade finance gap. In 2013, BII launched a Trade and Supply Chain Finance (TSCF) programme to improve the availability of trade finance. The programme forms part of BII's overarching efforts to foster long-term **growth,** generate employment opportunities, alleviate poverty, and enhance the resilience of supply chains.[86]

Over the period January 2015 to September 2023, BII has supported trade finance transactions worth over $29.3 billion of trade in Africa and South Asia.[87] Of the $29.3 billion trade finance transactions supported, BII's exposure amounted to approximately $10.2 billion spread across 177 local issuing banks using Master Risk-Sharing Agreements (MRPAs). BII also provided trade loans and supply chain finance to global and regional banks, which make up 6 percent of the total value of BII's trade finance exposure. MRPAs represent 94 per cent of the total value of BII's exposure under the TSCF programme. Unfunded MRPA participation make up 88 per cent of BII exposure, while funded MRPA participation constitute 12 per cent.

The phase one evaluation conducted a high-level assessment of BII's TSCF programme and found that **BII had a good overall coverage of poorer and fragile countries in providing trade finance support.** The in-depth study of BII's trade finance support (as highlighted below) reinforced this finding from phase one: 91 per cent of BII's MRPA support was to Alpha and Beta in 2022. This also a significant shift in BII's focus to reach poorer and fragile countries since the phase one review, increasing from 65% in 2019 to 91% at the end of 2022.

84 BII, 2023, British International Investment launches pioneering investment platform to boost funding for SMEs in Ghana. | BII, 2023, A new approach to supporting SMEs in Ghana. | BII, 2023, Growth Investment Partners Ghana Ltd (GHS).
85 GHISP, 2023, Ghana investment programme.
86 BII (formerly CDC), 2020, CDC Group unveils record levels of trade finance to Africa and South Asia.
87 BII, 2023, Trade and Supply Chain Finance (TSCF) programme database.

Figure 11: The total value of BII's MRPA trade finance risk exposure, split by BII's country classification (USD million, 2015–2022)[88]



The phase two trade finance in-depth study highlighted that BII's TSCF programme has grown, and so has the reach of BII's MRPAs, particularly to countries with low-income populations (i.e. Alpha and Beta countries). An increasing number of countries have been reached through BII's MRPA agreements with confirming banks, growing from seven countries in 2015 to a peak of 22 countries in 2021. More importantly, BII's reach to Alpha and Beta countries has increased. These countries are "low-income and fragile countries" in terms of investment in BII's 2022-2026 Strategy impact score.[89] In 2015, BII's risk exposure was mainly in Gamma countries, which made up 75 per cent of the total value of its participation, followed by Beta (25 per cent). BII did not have any exposure in Alpha countries, which generally struggle to acquire investments because they are "high risk" and the most difficult to invest in. However, BII's trade finance facilitation has shifted towards supporting Alpha and Beta countries, which made up three per cent and 88 per cent of its total risk exposure in 2022. Going forward, BII is focused on increasing the portfolio's exposure to difficult and high-risk markets (Alpha and Beta) and aims to reach a target of 15 per cent of its MRPA exposure to Alpha countries by 2026.[90]

The phase one evaluation also highlighted that there was a lack of diversity in confirming banks being supported by BII. At the time of the review, from the seven MRPA investments made by BII, four were to Standard Chartered Bank (SCB) – a dominant player in the global TF market. SCB's total TF facility was $400 million, much larger than the other three confirming bank investees which together amounted to $300 million. Similarly, the evaluation found that BII's supply-chain finance product was partly limited by a lack of local partner banks, and therefore had limited reach.

Therefore, the phase one evaluation recommended that BII should diversify its TSCF portfolio and ramp up new MRPAs and supply chain finance partners, especially with local confirming banks. The evaluation recommended that BII should continue entering into new partnerships with other confirming banks. In terms of the supply chain finance programme, the phase one evaluation recommended that additional confirming banks with strong local presence and partnerships with more anchor buyers should be explored to scale up the facility. This could potentially be impactful in securing financing for MSMEs and helping them manage their working capital. Another approach recommended for BII's consideration was the establishment of factoring platforms that build

88 BII. (2023). Trade and Supply Chain Finance (TSCF) programme database.
89 BII. (2022). Impact Score - 2022-26 Strategy Period.
90 BII. (2023). Trade & Supply Chain Finance (TSCF) Strategy.

on the creditworthiness of the buyer while circumventing the high costs associated with the provision of banking services.[91]

Evidence from the trade finance in-depth study demonstrates that BII's TSCF programme has evolved in line with recommendations from phase one. BII has increased the number of unique MRPAs from four banks at the time of the phase one evaluation to 14 as at December 2023. In 2023, BII signed four new risk-sharing agreements, and provided trade loans to two regional banks in Africa. Another observation is that the risk-sharing agreements entered into have increasingly been with regional confirming banks that have a local presence in target markets, compared to global banks. Generally, regional banks have a stronger geographical local presence compared to global banks, and therefore are likely better suited to reach local importers and exporters more effectively.

The phase two evaluation noted that large corporations were the main users of trade finance products. Interviews with issuing banks highlighted that trade finance remains concentrated among large businesses (employing over 300 individuals, and with revenues above $15 million). These businesses are often repeat customers of issuing banks, with multiple confirmation lines with several issuing banks in their country of operations. SMEs remain constrained in their ability to access trade finance. This highlights the need for targeting trade finance products to reach SMEs.

The phase two evaluation also reported on BII's Trade Access Programme, an innovative approach to providing trade finance to SMEs. The programme aligns with the recommendations of phase one that BII should explore platform-based approaches to securing financing for SMEs and helping them manage their working capital. Case study 5: Providing trade finance to SMEs - an in-depth study of BII's Trade Access Programme provides an overview of BII's Trade Access Programme.

Case study 5: Providing trade finance to SMEs - an in-depth study of BII's Trade Access Programme

The TSCF programme provides trade and supply chain finance to SMEs in Africa and Asia. BII's TSCF team created a Managed Account called 'Trade Access', which is wholly owned and funded by BII and managed by Investment Managers with existing specialist experience deploying capital for small ticket trade finance.

The Investment Managers deploy funds directly to SME borrowers or via Alternative Trade Financiers ("ATFs"). The ATFs are an emerging set of financiers who cater to small or less formal borrowers. They can be small funds, originators, merchant banks, fintechs, trade-techs, non-banking financial institutions (NBFIs) and small trade finance funds. They are often found in African or Asian countries, or outside Africa and Asia but have a strong in-country presence.

The SMEs receiving direct funding from Inoks have similar business models to the ATFs. These SMEs act as wholesalers or facilitators using technology-based platforms to connect suppliers with MSMEs. They are buyers and sellers of goods, engaged in a production or processing activity to generate a profit from a sale. ATFs, on the other hand, offer financial services and are either lenders to MSMEs, or arrangers and managers of trade and supply chain finance facilities to MSMEs.

BII made an initial investment of $25 million in April 2022 and appointed Inoks Capital as the first investment manager. Inoks is an asset manager of collective investment schemes that channel capital to SMEs. In the last quarter of 2022, BII increased the Trade Access facility by another $25 million to a total of $50 million.

Since its launch, Inoks has invested in four (4) ATFs and eleven (11) SME wholesalers or facilitators, and BII has made a further commitment of $25m (totalling $50m) although the Trade Access Program is still in its nascent stages, the initial collaborations with its investees offer a glimpse of its potential. Key insights from

91 Factoring platforms allow small businesses to acquire cash advances based off their invoices (i.e. after delivering a product or service to its client, the small business is able to use the invoice provided by the purchaser for payment normally in 90 or 180 days as security for a loan). The factoring company pays the business immediately, using the invoice as collateral taking the risk on the larger enterprise purchasing from the small business. This is beneficial for SMEs, as factoring benefits their working capital and relieves them of having to meet collateral requirements otherwise required by commercial banks.

Inoks' impact assessment report and interviews with two SME wholesalers and one ATF revealed that Inoks' financing is significantly benefiting its investees. Inoks provides crucial short-term financing that helps business stabilise cash flow and ensure operational stability. This is especially helpful for businesses that struggle to get traditional credit lines. For example, one of the SMEs interviewed stated that they use Inoks' stock-based financing to draw on funds as they purchase inventory, giving them more flexibility.

In addition to financing, Inoks also facilitates informal technical assistance to its clients which has empowered businesses to expand their social and environmental impact.

Furthermore, it was recommended in the phase one evaluation that BII should explore a broader toolkit in providing counter-cyclical finance products. The evaluation found that BII has been able to play an active role in mitigating the effects of various crises on economies and firms. One such example is the Sierra Leone risk-sharing facility during the Ebola crisis in West Africa. The evaluation also noted that BII increased its trade finance commitments during the COVID-19 pandemic to mitigate the adverse effects to economic activity. During the pandemic, BII increased the size of its risk-sharing facility with SMBCE Bank International (SMBCE BI) to $200 (from $100) to provide additional counter-cyclical support during the COVID-19 pandemic and help mitigate the indirect economic impacts of the crisis.[92] BII also increased its trade finance MRPA with SCB from $400 million to $500 million in 2020, and provided Absa an additional $75 million commitment to its existing trade finance facility with Absa to total of $150 trade finance guarantee commitments.[93]

The phase two evaluation noted however, that although BII increased its risk exposure of its MRPAs by 47 per cent during the pandemic to assist confirming banks in continuing to provide trade financing, the total value of trade finance transactions only rose by 1 per cent. Nonetheless BII's support played a stabilising role during the pandemic, as the overall total value of trade finance transactions supported by BII would have declined without BII taking on increased risk.

Another key finding consistent across the evaluations of phase one and two is that issuing bank limits is not the only challenge limiting access to trade finance in Africa and South Asia. The evaluation of BII's MRPAs highlighted that issues such as high confirmation fees and stringent collateral requirements remain a challenge in accessing affordable trade finance, especially for SMEs. Moreover, the evaluation highlighted that importers and exporters in BII's target markets often find it difficult to acquire trade finance products with long tenors (i.e. longer than 180 days).

The phase two evaluation noted that **risk-sharing agreements under BII's TSCF programme provided financial support to confirming banks, allowing them to expand their trade finance offerings in BII's focus countries.**[94] BII's TSCF programme is designed to assume 50 per cent or more of the confirming banks' exposure on each approved trade finance transaction. Therefore, BII's guarantee reduces confirming banks' risk exposures and their need to set aside capital, allowing them to expand their trade finance portfolios beyond their country limits in those countries which have reached their designated limits but where demand for trade finance remains high.

However, the evaluation noted that the benefits derived by issuing banks and consequently importers and exporters are potentially compromised by the relatively long value chain associated with providing trade finance through MRPAs. The nature of MRPAs is such that DFIs do not have a direct effect on the pricing or structure of trade finance products offered to clients by issuing banks. MRPAs are not intended to directly influence the risk appetite of issuing banks in terms of their willingness to service new customer segments in need of trade finance support. As a result of the nature of MRPAs, interviews with issuing banks highlighted that MRPAs had

92 BII (formerly CDC), 2022, CDC announces additional $100 million commitment to risk sharing facility with SMBC Bank International plc. | Note – This facility expired at the end of 2022, as it was aimed at providing aid during the pandemic.

93 BII (formerly CDC), 2020, CDC unveils additional US$100 million trade finance agreement with Standard Chartered as part of COVID-19 response. | BII(formerly CDC), 2020, CDC announces additional US$75 million trade finance deal with Absa as part of COVID-19 response.

94 BII stipulates the countries confirming banks are allowed to reach through each MRPA with BII. The evaluation found that the confirming banks did indeed support BII's focus countries.

limited impact on the confirmation fees charged by confirming banks, and therefore the fee structures charged by issuing banks to their clients and the tenor period of these trade finance products.

The evaluation also noted that BII is not in a position to directly provide confirmation lines to issuing banks, which would contribute to reducing the long value chain associated with providing trade finance through MR-PAs. BII does not operate as a confirming bank operating on SWIFT, and therefore cannot provide confirmation lines directly to issuing banks. The evaluation noted that BII does provide trade loans directly to issuing banks. BII's trade loans facility (including direct trade loans to businesses), an evaluation of which lies outside the scope of the study, made up only 6 per cent of BII's commitment under the TSCF programme between January 2015 and September 2023. These products have the advantage of allowing BII to positively influence the trade finance fees and tenor period of trade finance products.

The phase two evaluation recommended that BII should continue to explore increasing trade finance support through direct engagement with issuing banks to deepen the impact and broaden the reach of trade finance support. While requiring BII to assess and monitor the credit risk of issuing banks, direct involvement with issuing banks, such as through greater emphasis on trade loans, would facilitate the provision of trade finance to new customer segments and encourage issuing banks to offer affordable trade finance products and longer tenors to importers and exporters. BII currently provides trade loans to three regional banks in Africa and South Asia and intends to increase this form of trade finance support in 2024.

Another key barrier to accessing trade finance identified in the in-depth study of BII's trade finance support is foreign currency (FX) shortages. The phase two evaluation found that limited availability of FX is a pervasive constraint across the majority of countries within BII's focus limiting the ability of issuing banks to confirm transactions. Two case studies of BII's MRPAs were evaluated in phase two. Interviews with the issuing banks acquiring confirmation from the confirming banks supported by BII, and the clients of the issuing banks highlighted FX shortages as a key barrier, as presented in **Case study 6**.

Case study 6: FX challenges - an in-depth study of two MRPAs

The in-depth study revealed that across Africa and South Asia, access to trade finance is exacerbated by a shortage of foreign exchange. Discussions with issuing banks revealed that FX shortages in Nigeria and Mozambique were critical barriers preventing issuing banks from providing trade finance to their clients. Similarly, recent FX shortages in Pakistan and Bangladesh exacerbated the challenges faced by issuing banks in making trade finance available to importers. During interviews with issuing banks in Bangladesh, Mozambique, Nigeria and Pakistan it transpired that confirming banks were unable to maintain their exposure in terms of confirming letters of credit, due to uncertainty regarding the ability of issuing banks to fulfil their financial obligations given the limited availability of FX.

Consequently, the overall ability of importers to finance their trade transactions using letters of credit has been constrained by shortage of FX. In Bangladesh, import growth declined during the first half of 2023 due to various measures adopted by the Central Bank of Bangladesh to ration access to foreign exchange, such as limiting commercial banks' access to issuing LCs.[95] Similarly due to import controls and the rationing of LCs, Pakistan experienced an 18 per cent decline in imports during the same period.[96] In key sub-Saharan Africa economies, including Kenya, Mozambique and Nigeria, persistent US dollar shortages have resulted in liquidity challenges, negatively impacting trade finance and growth in overall economic activity.[97]

Interviews with businesses in Bangladesh also highlighted that FX shortages presented a significant barrier in accessing trade finance. Large businesses, who generally do not struggle to access trade finance due to the size of their businesses, noted that despite having access to trade finance from multiple banks, they were unable

95 World Bank, 2023, Bangladesh Development Update - Trade Reform: An Urgent Agenda.
96 World Bank, 2023, Pakistan Development Update - Trade Reform: An Urgent Agenda.
97 Afreximbank, 2020, Contemporary Issues in African Trade and Trade Finance. | S&P Global Market Intelligence, 2022, Foreign exchange shortages could prompt further debt restructuring trends in SSA. | Business A.M Live, 2023, How sub-Saharan Africa can scale trade finance amid hard currency challenges.

to meet their needs for trade finance due to ongoing FX issues in their respective countries. In the case of SMEs such FX shortages are likely to be more acute, layered on top of other factors (such as high confirmation fees and stringent collateral requirements) that severely limit their access to finance.

Therefore, given the overall shortage of foreign exchange in the countries of analysis, access to trade finance remains limited, especially for net importing businesses and SMEs who have limited access to FX. Issuing banks prioritise larger corporates especially in an FX constrained market, and therefore SMEs find it more difficult to acquire trade finance. While addressing FX challenges is key to enable trade growth, the responsibility for resolving this dilemma lies predominantly with the authorities of the target countries. A concerted effort by country authorities would be required to address the macroeconomic imbalances that give rise to foreign exchange shortages.

BII provides FX liquidity to issuing banks through trade loans. Through this direct engagement with issuing banks, BII is able to improve the foreign exchange liquidity for the issuing banks it is partnering with, and consequently access to trade finance for the specific issuing bank's clients. However, this does not resolve the FX shortage for the country as whole, as FX liquidity is made available to partner issuing banks, albeit at the expense of other importers that are receiving funds from other issuing banks.

Financial market liquidity for emerging markets

BII engages in investments that serve to increase the liquidity of FIs and markets to allow for more lending in markets where funding is difficult to come by both in terms of quantity and pricing. The lack of liquidity in financial markets, particularly in Africa is in part, a currency challenge.[98] **BII's provision of liquidity to markets for on-lending to businesses is predominantly in the form of 'hard' currency (dollar-denominated) debt to FIs,** although in the case of equity investments, which made up 12 per cent of the FS sector's new commitments by value in 2023, BII's exposure is by nature in local currency. Investors tend to prefer dollar-denominated investments to protect themselves from the risk of local currency devaluations.

The phase one evaluation noted that some dollar- denominated debt facilities in Africa have been unsuccessful. Generally, foreign currency debt has limitations, as when lending to enterprises without dollar-based export earnings, financial intermediaries on-lending in dollars assume significant credit risk. Hedging facilities are either expensive or unavailable, as forward foreign exchange (FX) markets are relatively underdeveloped in the majority of African countries. Therefore, the phase one evaluation noted that some investments across the African direct debt portfolio were either underutilised or repaid early due to low appetite for dollar-denominated debt.

The in-depth study of NMB highlighted the challenges associated with the provision of dollar-denominated debt to FIs in markets where hedging facilities are generally unavailable. BII provided a USD denominated debt investment to NMB Bank in Nepal to provide LCY loans to MSMEs. Case study 7: FCY debt investments to finance LCY MSME loans - an in-depth study of NMB presents some of these challenges.

Case study 7: FCY debt investments to finance LCY MSME loans - an in-depth study of NMB[99]

The evaluation of BII's $15 million debt investment in NMB noted that the investment allowed NMB to extend its reach to MSMEs and mid-sized corporates during periods of tight domestic liquidity. Approximately 48 per cent of BII's investment in NMB was disbursed in USD loans to two local mid-sized corporates and the remaining 52 per cent of the funds were on-lent by NMB in Nepalese Rupee (NPR) to MSMEs.

While BII's investment in NMB proved to be instrumental for the bank, there were challenges in managing the foreign currency risk. The evaluation revealed that LCY loans posed difficulties for NMB due to the currency mismatch between its USD-denominated liabilities, and LCY loans to MSMEs. In the case of the two hotels, NMB was able to pass on the currency risk to its borrowers since the hotels generate USD-denominated revenues.

98 BII, 2023, Evaluating our financial institutions portfolio: management response update.
99 BII, 2023, Evaluating BII's financial services portfolio: Reviewing the impact of MSME and business financing in Nepal – a case study of NMB.

However, even in this scenario, these exposures proved to be risky during the pandemic when the hotels' dollar revenues significantly declined, affecting their ability to repay. On the other hand, MSMEs are unlikely to generate foreign currency-denominated revenues, which means that NMB would either need to hedge the currency risk to the extent possible or bear the risk itself. Given that Nepal has a nascent hedging market, NMB faced some challenges in managing the foreign currency risk associated with the dollar-denominated loan from BII.

The evaluation concluded that due to the currency mismatch when lending in foreign exchange, **BII should prioritise efforts to provide liquidity in the local currency,** particularly when it comes to lending to MSMEs in emerging markets, which are unable to hedge currency exposure, as they are unlikely to be earning foreign exchange. It is important for BII to help mitigate the challenges faced by their investees in managing foreign currency risk to derive impact.

Noting these challenges, the phase one evaluation recommended that **BII should consider other complementary instruments, such as partial credit guarantees, guarantees on locally issued bonds by FIs and making loans available in local currency.**

Since the phase one recommendation, BII has experimented with several LCY-denominated investments. BII has put in place an unhedged local currency allowance to have the option of offering local currency financing to impactful projects in certain qualifying currencies in 2022.[100] Under the 2022-2026 Strategy, the FS team has made one investment under the catalyst portfolio that provides financing in local currency. The investment was made to M-Kopa, an asset financing provider in Kenya. In addition, the FS intermediated team has made several other investments (under the growth portfolio) to support LCY lending such as the GIP Ghana platform and a re-guarantee with the African Guarantee Fund to support LCY bank lending to SMEs. The $25 million risk sharing agreement with Absa (noted earlier) made in 2021, as well the $20 million risk share agreement with Standard Chartered Bank Pakistan Limited (noted earlier) also support LCY lending to MSMEs and households.[101]

Case study 8: A local currency investment to enhance gender and climate finance - an example of M-Kopa[102]

In 2021, BII made a local currency debt investment equivalent to $7.5 million into M-Kopa, a connected asset financing platform selling a diversified range of devices including smartphones, digital financial services such as cash loans and solar home systems. Products are sold through a "pay-as-you go" ("PAYG") model, requiring clients to pay an initial deposit followed by daily instalments via mobile money.

Through this investment, **BII will fund M-Kopa's PAYG phone products as well as solar home system products** enabling more affordable access to smartphones and mobile internet, and affordable access to energy services, respectively. This will also **enable unbanked customers to establish credit histories,** which will improve their ability to access financing though DFS.

The PAYG market remains nascent with the industry still pre-profit. **BII's investment is financially additional to the PAYG industry in Kenya.** BII is providing local currency debt financing, which is not available at scale as commercial lenders are reluctant to enter the nascent off-grid solar sector, and the cost of capital is often prohibitively expensive.

Developing capital markets

In its most recent Strategy for 2022 to 2026, the FS team continues to prioritise developing domestic capital markets to unlock funding for investments in Africa and South Asia. At their core, capital markets exist to match borrowers with savers. Specifically, these markets bring together those who hold surplus funds (e.g. households, banks, and institutional investors) and those that require funding (e.g. businesses and governments).

100 BII, 2023, Evaluating our financial institutions portfolio: management response update.
101 BII, 2024, ABSA Bank Ltd. | BII, 2024, Standard Chartered Bank Pakistan Limited.
102 BII, 2023, Investments: M-Kopa.

Therefore, from a productivity point of view, capital markets enable an efficient way of allocating financial resources across the economy, and thus open up economic opportunities for market participants.

The phase one evaluation noted that BII has been contributing to capital market development in Africa and South Asia, although this support has been limited. BII's investments included supporting initial public offerings (IPOs), insurers and pension fund managers, and building the private equity market through funds and acting as a "pioneer" in debt funds.

However, the phase one evaluation also noted that BII needed to do more in capital markets space to have impact. The review highlighted that investments in the broader financial system and capital market were lacking across the portfolio as almost all of BII direct investments in 2019 were in MFIs or banks. It also observed that support to IPOs and listing of FIs is limited, particularly in Africa.

Therefore, the phase one evaluation recommended that, in line with BII's FI Strategy (adopted in 2019), which emphasises the role of developing capital markets, BII should consider increasing its investments in a diverse range of FIs. In addition, **BII should consider supporting more listings and private placements across both Africa and South Asia** and using a wide range of products to support capital markets.

In response to the recommendations of phase one, BII has emphasised its ambition to broaden and deepen its participation in the capital markets space in its 2022-26 Strategy. BII will focus on broadening and deepening the institutional investor base, with a particular focus on pension providers and insurance companies. FIs in the pension and insurance sectors are key in mobilising domestic pools of longer-term capital through products such as pensions and annuities. According to the 2022-2026 Strategy, BII's investment in the capital market space will be directed at supporting the development of market infrastructure by investing in entities such as exchanges, central clearing platforms, custodians and credit data.

In 2023, alongside IFC, BII made an anchor investment into NMB Bank Tanzania's sustainable bond issuance (NMB Jamii Bond) through an investment of $15 million equivalent in Tanzania Shillings in 2023.[103] This investment in Tanzania's capital market is expected to help catalyse a highly successful bond issuance with participation of local investors, as it serves as an example for institutional investors and financial institutions in the region to encourage greater innovation in this area. The bond is listed on the Dar Stock Exchange. The proceeds from the bond will finance social and climate projects that contribute to inclusive socioeconomic growth and strengthen the response to climate change.

However, while there are examples of investments in this area, BII's focus has mainly been on credit market development rather than development of capital markets. Another example of an investment to support capital markets is a directed loan facility to Pubali bank in Bangladesh to support its climate finance lending activities.[104] Through this investment BII has participated in developing the market for sustainable access to financing for high-impact target projects and/or underlying customer segments, thereby making a contribution to Bangladesh's capital markets.[105] As noted earlier, BII supported a Pool Bond Issuance in India.[106] Similarly, in February 2024, BII launched a gender bond toolkit to advance the issuance of bonds supportive of gender equality and climate action in Africa. This toolkit is expected to have positive spillover effects on Africa's capital markets.

Case study 9: An investment to enhance gender and climate financing through Africa's capital markets[107]

BII partnered with FSD Africa, and the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) to develop a gender bonds toolkit, launched in February 2024. The toolkit provides a guide for advancing gender equality and climate action in African capital markets. It deepens the understanding of gender bonds and their potential to mobilise capital for women's empowerment initiatives within the African capital markets context.

103 BII, 2023, British International Investment makes $15 million anchor commitment to NMB Bank's sustainability bond.
104 BII, 2022, British International Investment signs $50 million climate loan to Bangladesh's Pubali Bank.
105 BII, 2022, British International Investment signs $50 million climate loan to Bangladesh's Pubali Bank.
106 BII (formerly CDC), 2021, CDC Group partners with Northern Arc for a Pool Bond Issuance transaction supporting primarily female and rural borrowers.
107 BII, 2024, We're launching a gender bonds toolkit to advance gender equality and investments in African capital markets.

Generally, gender-focused bond issuances have been viewed as complex due to the lack of a 'go to' reference on the process and procedure. BII expects that the gender bonds toolkit will play a crucial role in building a pipeline of Gender Lens Investing (GLI) opportunities within African capital markets, promoting sustainable growth while providing clear guidance on how to incorporate gender metrics into businesses that address the slow progress of gender lens investing.

BII is also in the process of working to develop the market for private credit funds (PCFs) in Africa.[108] BII's African Private Credit Fund Strategy aims to have a signalling effect by attracting more commercial investors to African markets which will in turn help to develop reliable, long-term private debt platforms that can facilitate economic growth, employment, and sustainable development. In 2021, BII made two investments in Vantage Mezzanine Fund IV ($30 million) and BluePeak Private Capital Fund I ($30 million).[109] These commitments are expected to enable fund managers to increase credit supply to mid-market African companies by providing countercyclical mezzanine funding to meet the market need.

Key findings and recommendations: productive development

BII's SME lending has diversified in line with the recommendations of the phase one and phase two evaluations. The evaluations highlight the importance for BII to broaden its SME outreach beyond traditional banking channels; by engaging with non-banking financial service providers like DFS and specialised SME lenders. The analysis of BII's FS equity portfolio confirms this shift in Strategy.

The need to more reliably reach SME businesses induced BII to pivot towards a targeted approach when investing. BII adopted a directed lending approach targeting SME businesses. BII has also expanded its investment portfolio to encompass fintechs and other NBFIs that specialise in lending to SMEs and underserved individuals.

Productivity recommendation (1) : Continue to invest in specialised lenders

The evaluation recommends that BII should continue to prioritise investments made through NBFIs such as DFS, and specialised lenders that provide credit lines to excluded and underserved segments such as MSMEs. These lenders often possess the requisite know-your-customer (KYC) strategies and risk mitigation tools necessary to expand outreach while safeguarding against potential risks inherent in dealing with smaller, less financially robust entities.

By partnering with confirming banks through risk-sharing agreements, BII encourages confirming banks to provide trade finance to issuing banks in risky and fragile countries as per BII's country classification. However, the evaluation also found that FX shortages in the countries concerned by the study limit the ability of issuing banks' clients to access trade finance, especially when these are net importing businesses and SMEs.

BII provides FX liquidity to issuing banks through trade loans. Through this direct engagement with issuing banks, BII could be able to positively influence issuing banks to provide loans with longer tenors and to extend trade finance facilities to importers and exporters as well as underserved segments such as SMEs. While this does not resolve the FX shortage for the country as whole, it allocates some of the available FX liquidity to those issuing banks partnering with BII, improving the foreign exchange liquidity for specific banks, albeit at the expense of other importers that are receiving funds from other issuing banks.

Productivity recommendation (2) : Continue to explore innovative solutions to enhance access to trade finance for SMEs

While risk-sharing agreements play a crucial role in enabling confirming banks to serve issuing banks that operate in challenging environments, and trade loans provide FX liquidity to issuing banks, BII could consider increasing support to trade finance in local currency. An alternative approach already being successfully tested by BII is the Trade Access programme which uses digital assessment/scoring methodologies to facilitate SME

108 BII, 2023, Evaluating our financial institutions portfolio: management response update.
109 BII (formerly CDC), 2021, CDC backs African Private Credit with $60 million commitment under new Strategy.

access to short-term working capital or trade loans. This approach has been successful in alleviating constraints to trade finance for SMEs.

BII's endeavours to enhance financial market liquidity for emerging markets have encountered challenges and limitations. Some investments posed challenges in managing foreign currency risk, especially concerning currency mismatches when using USD denominated liquidity provided by BII to lend to MSMEs in LCY whose earnings are in local currency. In the markets where BII operates FX hedging markets are underdeveloped and over the counter hedging options are expensive.

In 2022, BII put in place an unhedged local currency allowance to have the option of offering local currency financing to impactful projects in certain qualifying currencies. FS equity instruments remain the primary tool through which BII takes on local currency risk. BII's equity investments are by nature denominated in LCY, and through equity investments, BII avoids introducing foreign currency risk exposure to investees when making LCY investments in FI partners.

Productivity recommendation (3): BII should increase its investments in local currencies

BII should offer local currency financing options to impactful projects in order to overcome the challenges in financial market liquidity and take advantage of opportunities for development. The evaluation also recommends BII should consider issuing securities in local currency and make use of guarantees among possible methods to limit the foreign currency risk associated with FCY investments especially in target countries with an underdeveloped hedging market.

BII has made some investments that aim to develop the broader financial system and capital markets in Africa and South Asia, although the scope of such investments has been relatively limited across the entire portfolio. In supporting development of capital markets BII's focus has mainly been on supporting bond issuance, such as BII's anchor investment in NMB Bank Tanzania's sustainable bond and the partnership with Northern Arc for a Pool Bond Issuance transaction to support primarily female and rural borrowers in India.

Multiple products can support capital market development in BII's target countries including guarantees that encourage greater participation by local institutional investors. For example, GuarantCo, a Private Infrastructure Development Group (PIDG) company funded by FCDO provides first loss guarantee solutions to provide comfort to institutional investors investing in infrastructure projects, thereby contributing to closing the infrastructure financing gap in Africa and Asia through blended finance using local currency credit solutions and building local capital markets.

Productivity recommendation (4): BII should consider exploring using guarantees to promote the development of local capital markets in BII's target countries

Given the small size of local capital markets across most countries in Africa, one option worth considering is whether BII could invest in domestic wholesale development banks whose mandate it is to encourage lending to SMEs by providing private banks with risk-coverage in the form of partial credit guarantees. BII could also explore synergies by partnering with entities such as GuarantCo to finance risk-coverage to promote development of local capital markets. Finally, as direct conduits of long-term finance to small businesses BII could consider enhancing the role of specialised SME debt and equity funds (e.g. BII's investment in the African Rivers Fund) and platforms (e.g. BII's investment in GIP Ghana) across its portfolio.

3.2 Sustainable Development Impact

In 2020, BII published its climate change Strategy stipulating how it intends to align its investment activities with the goals of the Paris Agreement.[110] BII has committed to support economic transformation in target markets to support the transition to net zero, just and resilient economies. To accomplish this, BII focuses on three dimensions: **(1)** invest for a net zero world, as investment decisions today affect emissions tomorrow, **(2)** support

110 BII, 2020, Climate Change Strategy.

a 'just transition' to a net zero economy by keeping the creation of decent jobs and skills development at the forefront of the change, and **(3)** strengthen adaptation and resilience of sectors, communities, businesses and people to the effects of climate change.

Following the introduction of the climate change Strategy, BII introduced the fossil fuel policy at the end of 2020.[111] The policy stipulates exclusions for new commitments into the vast majority of the fossil fuel value chain in line with its commitment to net zero emissions by 2050. The policy states that BII will no longer make new investments (direct equity or debt or through funds) to support upstream activities (i.e. the exploration and production of fossil fuels), midstream activities (i.e. the transportation and storage of raw fossil fuels) and downstream activities (i.e. the refining and distribution of refined fossil fuels, and power generation).

For investments in the FS sector, BII will apply these exclusions to the use of funds for any directed lending lines and generally require a whole portfolio exclusion for coal mining and grid-connected coal power. Where BII cannot specify where funds will be ultimately deployed, (such as with new equity investments), BII will seek credible evidence that investees are working towards aligning future activities and portfolios with the Paris Agreement. For trade finance, BII will not support trade activities related to all fossil fuels.

Evidence from the phase two trade finance in-depth study highlights the effect of the introduction of the climate change Strategy, and consequently the fossil fuel policy on BII's trade finance portfolio. The exclusion of coal and petroleum products from trade finance transactions supported, following the introduction of BII's fossil fuel policy, resulted in a shift in BII's trade finance support away from activities related to coal, oil and gas (including refined petroleum products). Historically, a large part of BII's contribution within the manufacturing sector was to finance trade in petroleum and coal products, making up 41 per cent of BII's MRPA risk exposure to the sector in 2015. However, in line with its commitment to net zero emissions by 2050, BII strategically worked with its confirming banks to gradually eliminate all coal, oil and gas (including refined petroleum products) from its trade finance portfolio. This has brought BII's exposures to fossil fuels to zero by July 2022).[112]

BII incorporated its climate change Strategy into its 2022-2026 Strategy and included sustainable development as a strategic impact objective.[113] As such, BII assesses all its investments against the sustainability criteria (mentioned earlier), and scores them accordingly. Investments that qualify as climate finance on mitigation or adaptation and resilience receive a higher score on the sustainability metric in calculating the impact score of the investment.[114] All other investments are scored according to their emissions profile and, in line with BII's commitment to Paris alignment, can receive additional points if they reduce emissions in line with Paris aligned sector pathways and/or use some of BII's funding to implement adaptation & resilience measure

From an FS sector perspective, the inclusion of sustainable development as a strategic impact objective means an increased focus on qualifying investments across the three dimensions of the climate change Strategy. In collaboration with BII's climate team, the FS sector team conducted an emissions profile assessment of all investments in the FS portfolio to estimate the emissions intensity of the investments.[115] In line with the net zero building block of BII's climate change Strategy, the FS sector team instituted a mandatory Paris alignment action plan for relevant investees. The FS team is assisting FIs where more than 50 per cent of their portfolio is in high emitting sectors to develop a Paris alignment action plan, which establishes appropriate climate governance and risk management systems, set climate targets and develop products to help borrowers transform. In addition to 'net zero emissions' and 'just transition', the FS team has been increasingly focused on investments that drive climate change adaptation and resilience - the third dimension of the climate change Strategy. An example of BII's climate innovation through financial services is the partnership between BII and Symbiotics to finance small-scale green projects and businesses across Africa, South and South-East Asia.

111 BII, 2020, Fossil Fuel Policy.

112 Following the implementation of the Fossil Fuel Policy, BII allowed for a transition period of 18 months (from when it was introduced in December 2020 until 30 June 2022) for confirming banks to comply.

113 Sustainable development is defined by BII in reference to investments that reduce emissions, protect the environment and adapt to the changing climate.

114 BII, 2022, British International Investment Impact Score 2022-26.

115 The FS team uses the joint impact model (JIM) to estimate the emissions that BII's FS portfolio is financing through its investments. This helps BII and FIs understand the climate footprint of their lending portfolios. Source: FMO, 2023, The Joint Impact Model.

Case study 10: BII's investment to promote climate impact - an example of Symbiotics[116]

In 2022, BII partnered with Symbiotics to launch the first-ever Green Basket Bond across Africa, South and Southeast Asia. The $75 million investment is funded through Micro, Small & Medium Enterprise Bonds SA (MSME Bonds), an issuance platform dedicated to impact investing for institutional investors and is managed by Symbiotics. MSME Bonds will then invest in 10-15 MSME banks to finance small-scale green projects and businesses which contribute to reducing greenhouse emissions and increasing access to energy across Africa, South and South-East Asia.

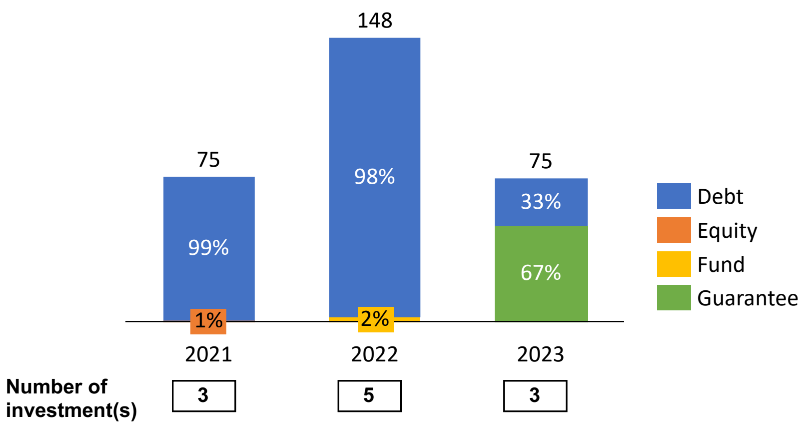
BII expects that through the basket bond, the **four-year directed loan to MSME banks will enable them to sustain and grow their green lending portfolios.** Given the shallowness of the climate finance market across the target geographies, particularly at the MSME bank level, BII expects the investment will have high impact. This is because without investing in the basket bond, it is anticipated that the supported underlying lending would take a longer time to materialise owing to the limited appetite and capacity for green issuances by MSME banks in these countries.

In addition to the $75 million, **BII provided $520,000 through its technical assistance (TA) facility** which will be managed by Symbiotics' provider, Symbiotics Association for Sustainable Development (SASD). The TA facility will support the MSME banks to develop their green financing capabilities by enhancing their ability to identify and manage green assets.

This investment highlights BII's commitment to create and catalyse new funding structures that can help address the greatest challenges in target markets. The innovative funding structure improves BII's reach to small businesses in the climate finance space through FIs that require relatively smaller investment capital than BII is typically able to fund directly. More importantly, the green bond programme provides lending in multiple currencies (both local and foreign currency) to target small businesses.

Overall, in line with BII's efforts to achieve sustainable development under the 2022-2026 Strategy, there has been a rise in investments that qualify as climate finance. Since its first climate finance-qualifying investment in M-Kopa in 2021, BII's climate finance investments have been increasing, reaching a peak of five new investments in 2022 when the 2022-2026 Strategy came into effect, amounting to a total of $148 million. In 2023, three climate finance investments totalling $74.5 million were made.

Figure 12: Total value of BII's investment qualified as climate finance split by investment instrument (USD million, 2021 - 2023)[117]



Source: BII new commitments data | Note: The total value of commitments only includes the proportion of the full investment amount that is dedicated to climate finance.

116 BII, 2022, British International Investment and Symbiotics partner to launch first-ever Green Basket Bond across Africa, South and Southeast Asia.

117 BII, 2024, Data: New commitments.

Climate finance qualified investments only made up 19 per cent of the FS new commitments by value in 2022 and 2023. BII intends to achieve an aggregated total across all of its sectors of 30 per cent of the total value of new commitments by 2026. In 2024, the FS equity team plans to make investments that promote climate insurance solutions. Similarly, although several (six out of 13) directed debt investments meet the climate finance criteria, the FS debt team plans to deploy an increasing number of climate related credit lines, especially through specialised lenders that provide climate finance to businesses.[118] The intermediated financial services team plan to increase structured climate related investments, exploring the financing of climate finance projects through green bonds (e.g. the investment in Symbiotics), and risk-sharing agreements supporting green trade transactions through the TSCF team. In 2023, BII entered its first green trade transaction with the Asian Development Bank (ADB), amounting to $50 million.[119] The risk sharing agreement will help international banks increase financing support to local banks in South and South-East Asia to finance renewable energy, energy efficiency and climate-smart agriculture. This will support the region's clean energy transition and climate resilience.

Provision of technical assistance to FIs is at the core of BII's efforts to transform its FS portfolio in line with its commitment to the Paris Agreement. Given that countries in Africa and South Asia still rely on fossil fuels to meet their energy demand, most FIs have exposure to high emitting sectors. While these FIs might not meet BII climate finance criteria, they may have high impact in the inclusive and productive development space. Taking this into account, BII intends to provide technical assistance to these FIs to develop a transition plan and climate risk management systems. BII will assist the FIs to quantify the emissions financed through their portfolio using the Joint Impact Model (JIM) and establish realistic tailored steps that will help FIs reduce their exposure to high emitting sectors and help transition businesses over time. This will enable FIs supported by BII to increase their contribution to net zero economies.

Key findings and recommendations: sustainable development

The evaluation of BII's sustainable development objective highlights increased efforts by the FS team to increase investments in a net zero emissions world. The number of investments that qualify as climate finance has significantly increased, following the publication of BII's climate change Strategy, and the adoption of BII's 2022-2026 Strategy that places emphasis on sustainable development. While there is an upward trend in the FS sector's climate finance portfolio, climate financing remains nascent in BII's target markets, and most FIs do not have adequate monitoring systems in place.

Sustainability recommendation (5) : Technical assistance for climate finance investments should be prioritised.

The evaluation recommends that BII should continue to provide technical assistance to support climate finance investments to ensure FIs are adequately equipped to provide the market with sufficient climate finance products. More importantly, TA should be directed at assisting FIs to integrate climate considerations into their operations and investments, develop a transition plan and climate risk management systems, as well as climate related reporting requirements ensuring they meet the required standards for transparency and accountability.

3.3 Inclusive Development Impact

Reaching low-income populations

Sharing the benefits of higher productivity and greater sustainability with poor and marginalised sections of society is core to BII's development impact objectives. BII considers investments that reach underserved individuals (i.e. people that lack access to economic opportunities, goods and services, etc.) to likely have greater impact in improving standards of living for these individuals. These include investments that empower women and enhance their economic participation, promote and increase representation of black African-owned and led

118 BII has expanded the geographic location of its FS Debt team to South East Asia. The team is specifically focussed on making climate related investments in that sub-region.

119 BII, 2024, BII and ADB Trade and Supply Chain Finance Program sign $100m risk sharing agreement to promote green trade in Asia.

businesses, and improve the livelihoods of people living in poverty, Throughout the two strategies (2017-2021 and 2022-2026), the primary target end-recipients of BII's investments are underserved individuals and/or households.

The phase one evaluation highlights that MFIs are key in ensuring BII's investments reach the bottom of the pyramid (i.e. underserved individuals). MFIs across the portfolio appear to be reaching largely underserved segments, particularly in India. Similarly, the evaluation of BII's investments in the MFI space highlights that microfinance was an effective tool for groups that are traditionally underserved by formal financial services (see Case study 11: Investing in MFIs to reach underserved segments- an in-depth study of Arohan).

Case study 11: Investing in MFIs to reach underserved segments- an in-depth study of Arohan[120]

In 2012, BII made an investment in Aavishkaar Goodwell India Microfinance Development Company II (AGIMDC II), which subsequently invested in Arohan Financial Services, an Indian MFI seeking to provide loans to underserved groups, particularly women. More than 75 per cent of Arohan's borrowers are groups that are traditionally underserved by formal financial services, such as women, people from rural communities, and small business owners.

A key finding of the evaluation is that Aavishkaar's investment fuelled Arohan's growth which **allowed Arohan to increase the number of its active borrowers to more than two million** in 2021 (from ~84,000 in 2012). Though Arohan's expansion took some time, the growth in the company's borrower base suggests that BII's initial investment of $15 million in Aavishkaar, of which $7.1 million was subsequently reinvested in Arohan, has been effective in aiding the expansion of financial services to low-income, and rural individuals. Considering the size of the investment made, it was very effective in increasing outreach.

The evaluation of Arohan showcases that microfinance (as practised in India) remains an effective tool for groups that are traditionally underserved by formal financial services. MFIs being the primary providers of microfinance are key to reaching these underserved populations.

The phase two in-depth study of Arohan also highlighted that BII investments in MFIs in India were effective as a result of a supportive regulatory environment. Although the Indian microfinance sector has recently undergone some deregulation, it has traditionally been under tight regulatory control by the Reserve Bank of India (RBI). The RBI's regulations established the maximum allowable interest rates, and therefore ensured financing was affordable despite the high-touch model of serving customers, common in India.

The evaluation recommended that **BII should consider scaling back its support for a large number of MFIs in India, in favour of other geographies and/or sub-sectors.** This was because support (BII's investments) to India's MFI industry appeared to be saturated, and other FIs would benefit from BII's support.

BII has since introduced an MFI Strategy, aligned to the objective priorities of the 2022-2026 Strategy. Under the MFI Strategy, BII will target high impact segments such as underserved geographies, women and climate finance. In Africa where there are relatively few opportunities of scale, BII will focus on intermediated approaches (e.g. funds) and local currency investments for additionality. BII plans to assist MFIs to digitise to improve their efficiency and effectiveness in serving underserved segments of the population.

A key lesson from the In-depth study of Arohan is the **role DFIs can play to digitise India's MFI industry, especially given the loosening of regulations pertaining to the maximum allowable interest rates.** The MFI sector has traditionally been focused on a high-touch model, with a large amount of physical interaction between borrowers and lenders. Given the tightly regulated structure of the industry, it was unlikely that smaller players could feasibly overtake big players, who have grown their borrower networks aggressively over the past decade or so. However, the gradual loosening of regulations in the industry and the pursuit of digitalisation may open up new investment opportunities. Greater reliance on digital services may lead to additional diversification opportunities in the market, as borrowers could be assessed on their individual risk levels, rather than relying on the "social" collateral that

120 BII, 2023, Evaluating BII's financial services portfolio: Reviewing the impact of microfinance in India: A case study of Arohan financial services.

is currently common across the industry. Moreover, digitisation may facilitate the 'graduation' of current users of MFIs to access a broader array of services provided by other financial intermediaries.

In response to the recommendations, BII has diversified its support to a range of FS providers, including those in India.[121] **Under the 2022-2026 Strategy, BII has made several investments in NBFIs in India that use digital solutions to serve their customers.** An example is BII's investment in Indifi, a digital lender providing loans to MSMEs in India noted earlier. Another example is BII's equity investment into Kinara Capital, a tech-enabled provider of unsecured small business loans in India to MSMEs. '

Case study 12: An investment in digital NBFIs to finance underserved individuals - an example of Kinara capital[122]

In 2022, BII made a direct equity Indian Rupee investment equivalent to $12.2 million to boost productivity within India's MSME sector and facilitate entrepreneurial growth. Kinara provides rapid and convenient access to working and growth capital to micro-enterprises in India. A material proportion of these firms are: 1) excluded from formal financial services; 2) low-income; and 3) female owned.

BII's investment is additional to Kinara and its clients. An analysis of Kinara's lending to date shows that 75 per cent of clients have no access to formal bank finance.123 Therefore, by investing in Kinara, the NBFIs is enabled to provide capital to its clients that is not offered in sufficient quantities. BII is also supporting Kinara to broaden its presence in existing locations, and drive technology initiatives and product expansion for its customer base.

In Africa, MFIs were less effective in delivering access to finance that targets poor households and the financially excluded, and now face competition from DFS. The phase one evaluation noted that the MFI lending model was relatively unsuccessful in Africa. Most of BII's MFI portfolio in Africa suffered from poor performance, except for a few investments. Additionally, the evaluation noted that in recent years the MFI sector has been experiencing extensive competition from DFS providers, contributing to the low success of the African MFI portfolio compared to Asia.

The phase one evaluation recommended that BII should actively invest in DFS providers to reach the bottom of the pyramid often served by MFIs in Africa. The review highlighted that digital MFI models are able to reach underserved in a way that is scalable and financially sustainable.

In response to the recommendations from phase one, as well as changes in the market and BII internal lessons learned, **BII has been actively investing in DFS providers.** More specifically, **one of BII's 2022-2026 FS Strategy priorities is to utilise suitable digital financial services** to reach a far wider range of customers. As noted earlier, DFS constitutes 38 per cent of the total value of the FS equity's commitments in 2022 and 2023, compared to only 9 per cent in the 2017-2021 Strategy period. The majority of these investments are in India, and the remaining two are in Africa: Tyme Bank in South Africa and M-Kopa in Kenya.

Another key finding of the evaluation is that provision of technical assistance is important alongside long-term capital. The phase one evaluation highlighted that BII's technical assistance played an important role in supporting the scaling of MFIs to small finance banks (SFBs) in India. The case study of Arohan, an MFI in India, in phase two highlighted that in addition to financial assistance borrowers benefit from technical assistance provided to investees, see **Case study 13** below.

Case study 13: The impact of providing TA in addition to financial capital- an in-depth study of Arohan[124]

BII provided technical assistance to Aavishkar in the form of Environmental, Social and Governance (ESG) risk advice, including corporate governance, anti-money laundering and combating the financing of terrorism

121 BII, 2023, Evaluating our financial institutions portfolio: management response update.
122 BII, 2024, Kinara Capital.
123 BII, 2024, Kinara Capital.
124 BII, 2023, Evaluating BII's financial services portfolio: Reviewing the impact of microfinance in India: A case study of Arohan financial services.

(AML/CFT). The evaluation found that the impact of the technical assistance was also extended to the borrower level.

As a result of the technical assistance, Aavishkaar began to monitor ESG topics in its portfolio companies. The focus on corporate governance as part of BII's technical assistance to Aavishkaar filtered down to Arohan. Consequently, corporate governance became one of Arohan's strengths. The in-depth study revealed that it is possible that Arohan's strong corporate governance acted as a driver in its retention of a strong credit rating.

Arohan's strong credit rating improved its ability to raise funding more affordably allowing Arohan to provide borrowers with funds at lower interest rates. Arohan's management noted that as a result of its strong credit rating, the MFI has been able to reduce its cost of funding by 2 per cent between 2017 and 2018, with this benefit subsequently passed on to its borrowers.

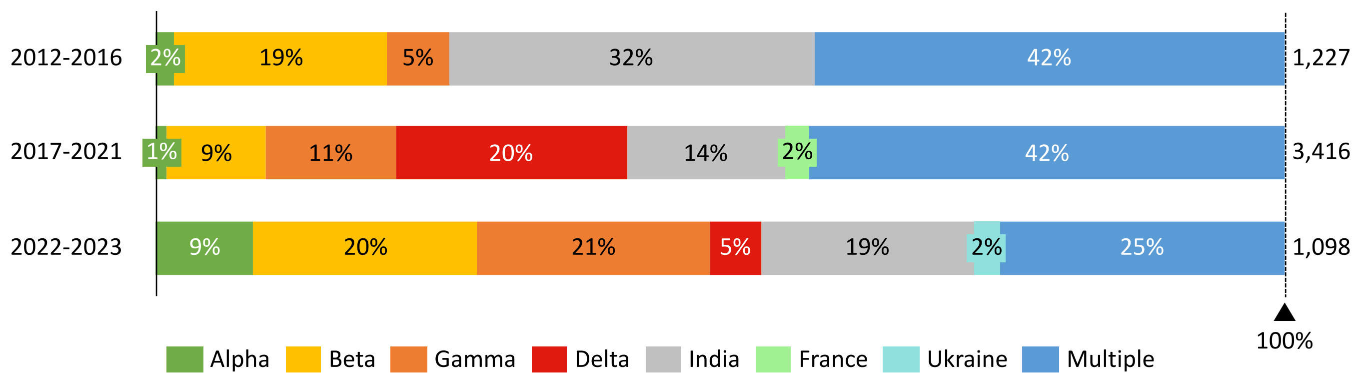
Poorer and fragile markets

BII considers the geography of its investments an important variable in realising impact. Across the two strategies (2017-2021 and 2022-2026), BII has prioritised investing in poorer and fragile economies in Africa and South Asia.

For BII to meet its strategic objectives, **the phase one evaluation recommended that BII should prioritise investing in Alpha and Beta countries** compared to Gamma and Delta countries. The phase one evaluation found that there was a relatively even exposure of investments in harder to reach countries (i.e. Alpha and Beta) (45 per cent) compared with easier to reach (i.e. Gamma and Delta) countries and states (46 per cent). Therefore, to realise impact, BII needed to increase its coverage of poorer and fragile countries.

In response to the recommendation, BII has focused on rebalancing its FS portfolio in the 2022-2026 Strategy, increasing its coverage to poorer and fragile markets. As part of BII's inclusive development strategic objective, BII has been targeting poor and fragile countries (Alpha and Beta) more intentionally, compared to previous years as highlighted by Figure 13. The coverage of Alpha and Beta countries has increased from 10 per cent of the total value of new commitments during the 2017-2021 Strategy period to 29 per cent in the early stages (2022-2023) of implementation of the 2022-2026 Strategy period.

Figure 13: BII's commitments split by geography (total amount committed per annum, USD million, 2017 - 2023)



Note: The graphs depicts the total value of funding committed by BII including trade finance facilities. The investment in France is BII's trade finance MRPA with Societe Generale. Source: BII's internal monitoring data | Note: The figure above is based on original cost data rather than current market valuations. It also includes exited/realised investments. It also takes into account MRPA adjustments made each year. Investments have been allocated according to the prevailing DI grid at the time of investment (i.e. investment between 2012 and 2021 are classified as per the 2017-2021 Strategy country classification [labelled A-D countries, A being the poorer and more fragile economies, while investments made in 2022 and 2023 are classified based on the 2022-2026 Strategy classification [labelled Alpha to Delta countries, with Alpha being the poorer and more fragile economies]. Under the 2017-2021 Strategy, India is broken down into states and the classification from Alpha to Delta countries varies across the states. In the 2022-2026 Strategy, India is classified under Gamma countries. Granular data on the Indian states being reached was not provided for further analysis during *the 2017-2021 Strategy period.*

Nevertheless, coverage of easier to reach countries that have less difficulty in attracting investments (Gamma and Delta) remains relatively high. The proportion of investments in Gamma countries increased from 11 per cent of new commitments over the 2017-2021 period to 21 per cent over the 2022-2023 period. Considering that India (all states included) fall under the Gamma classification, coverage of Gamma countries over the 2022-2023 period is at 40 per cent. In line with the 2022-2026 Strategy, coverage of Delta countries has declined significantly, falling to 5 per cent in the 2022-2023 period compared to 20 per cent in the 2017-2021 period. Overall, easier to reach countries (Gamma, including India, and Delta) constitute 45 per cent of BII's new commitments, compared to 29 per cent invested in difficult to reach countries (Alpha and Beta) over 2022 and 2023. Within Gamma countries such as India, BII has focused its investments on underserved segments of the population, such as women and low-income populations.

Figure 13 above also suggests BII is shifting towards increasing its investments in local FS providers with operations in target markets. Over the 2017-2021 Strategy period, the majority (42 per cent) of new commitments consists of institutions operating in multiple countries, suggesting these FS providers are large corporations or funds. However, BII's commitments to such institutions have decreased to 25 per cent over the 2022-2023 period. This highlights BII's commitment to primarily working with local FS providers to support specific customer groups in the FI's country of operation.

Gender and Diversity

Since 2017, promoting the participation of women in the FS sector has been one of BII's objectives. Under the 2017-2021 Strategy, BII committed to supporting women's economic empowerment (SDG 5). BII noted that to achieve this, it would invest with the intention of creating economic opportunity for women as leaders, entrepreneurs, employees, suppliers and customers.

Despite this commitment to gender inclusivity, the phase one evaluation showed that there was a lack of a consistent approach to gender inclusion across DI investment theses. The evaluation highlights that the extent to which investments made a concerted effort to target women is unclear. Therefore, the evaluation recommended that BII should adopt a consistent approach to DI regarding gender to ensure that all investments are working towards a common goal.

The phase one evaluation also highlights that there was a lack of evidence around efforts to increase gender-based lending in BII's investees, particularly banks. On average, as at 2019 female customers accounted for 16 per cent of (BII's investees) commercial banks, and 96 per cent of (BII's investees) microfinance banks.[125] However, BII investments were mainly with commercial banks, whose exposure to financing women is relatively low. It was therefore recommended that BII should consider investing in FIs that specialise in financing women, and/or have a large pool of female clients.

Since the publication of the phase one evaluation, BII has renewed its commitment to women's economic empowerment. BII led the development of the 2X Challenge criteria in 2018, a guide to investors to assess women's participation across their investments, looking at different levels of the business value chain, including suppliers, employees, consumers, entrepreneurs, and leaders.[126] The 2X Criteria has been incorporated into BII's impact score system, so that all deals are now assessed for 2X.[127] Investments that meet the 2X criteria and are qualified receive up to an additional point as a part of the Inclusion section of the Impact Score. (The Inclusion section also assesses reach to low-income populations, whether the investment is in an alpha, beta, gamma or delta country, and eligibility for BOLD.)[128] A key change is that, unlike previous strategies, BII adopted a gender target of at

125 Note: 13 MFIs, six MFBs, two Housing businesses, two Banks and two specialist funds were reviewed based on data availability

126 Note: The 2X Challenge is a global standard for gender finance launched at the G7 Summit 2018 as a bold commitment to inspire DFIs/IFIs and the broader private sector to invest in the world's women. | BII played a leading role in the development and implementation of the 2X Criteria and has reinforced 2X with its Gender Toolkit.

127 The 2X criteria qualifies an investment as gender finance across six areas: (1) share of women ownership in a business, (2) share of women in senior management, (3) share of women employed, (4) commitment to women in the value chain, (5) products/services that enhance the well-being of women and drives gender equity, and (6) investing in FIs that are aligned with the 2X criteria in their portfolio.

128 BII, 2022, British International Investment Impact Score 2022-26.

least 25 percent of new commitments to be 2X qualified for the first time under the 2022-26 strategy period. This target, in addition to 2X being included in the Impact Score, provides a strong incentive for investment teams to originate more 2X deals. Since the phase one evaluation, BII has developed and is implementing a consistent approach to gender inclusion across the portfolio.

In 2022, BII published an updated gender and diversity finance position statement to showcase its renewed commitment to women, as well as introduce a new initiative: Black Ownership and Leadership for Development (BOLD) This seeks to support BII to invest representationally in sub-Saharan Africa, recognising that Black African entrepreneurs continue to access capital at significantly lower rates compared to other races.[129] As a result, under the 2022-2026 Strategy, in addition to promoting women, BII prioritises black African ownership and leadership as a diversity finance focus area. In addition to the 2X criteria mentioned above, BII includes a BOLD criterion to contribute to the impact score for Inclusion.[130] Given the importance of gender and diversity, BII assesses all its investments using the 2X framework and all investments majority serving sub-Saharan Africa using the BOLD framework in order to intentionally drive capital toward underrepresented sponsors.

Preliminary evidence suggests BII has been making targeted efforts to increase its reach to women. An analysis of the FS portfolio indicates that BII has increasingly diversified the type of investment instrument and FS providers it invests in to improve its reach to women. BII has broadened its investments beyond commercial banks, and invested in MFIs and specialised lenders that have a footprint in providing financing to women. In addition, BII has employed a directed lending approach to ensure FS providers intentionally use BII's investment to finance women led and owned businesses. Out of a total of 13 directed-lending FS debt investments, five investments are targeting women in Africa and South Asia. BII has also participated in credit guarantee structures to support greater lending to women businesses. Recent examples of some of the women-targeted investments made by the FS sector team include:

- **KASHF Foundation** – BII made a $15 million investment in Kashf Foundation, a women-founded MFI lending to women microentrepreneurs in Pakistan. Kashf only serves women (i.e. 100 per cent of portfolio are female and of this, 63 per cent are female-led businesses), and 82 per cent of the MFI's portfolio lives at or below the poverty line of $2/day.
- **Kinara Capital** – BII made a $12.2 million investment in Kinara Capital, a tech-enabled leading provider of unsecured small business loans in India. Kinara also specialises in financing women led and owned businesses and has with women-focused product for women entrepreneurs.
- **Light Microfinance:** BII invested $9 million as direct equity into the Indian-based MFI that specifically targets underbanked and low-income female borrowers.[131]
- **Aavas Financiers Limited:** BII's made its first private Gender Bond into an Indian retail-focused affordable housing company. The rupee-denominated bond aims to increase home lending to women in India.[132]
- **First Bank of Nigeria:** BII invested $100 million directed funding to finance women-owned and led businesses in Nigeria, as well as SMEs. Of the $100 million, $30 million will strictly be used to provide loans to women businesses. BII is also providing technical assistance to build First Bank's knowledge base of the women-led and women-owned businesses in its portfolio First Bank.[133]

Case study 14: BII's investment to promote women empowerment - an example of Habib Bank Limited[134]

129 BII, 2022, Gender and Diversity Finance Position Statement.

130 BII's BOLD criteria assesses investments against three areas: (1) Black entrepreneurs: intentionally investing in businesses in sub-Saharan Africa that are founded and/or owned by black Africans, (2) Black leaders: investing in businesses in sub-Saharan Africa that are majority led by black Africans, and (3) Black investors: investing in black-led fund managers who intentionally invest in black-owned and black-led businesses in sub-Saharan Africa. BII, 2022, Gender and Diversity Finance Position Statement.

131 BII, 2022, Light Microfinance Private Limited.

132 BII, 2022, Aavas Financiers Limited.

133 BII, 2022, We're partnering with FirstBank to support women and small business owners with a $100 million credit facility.

134 BII, 2024, Becoming the bank of choice for women in Pakistan.

In 2015, BII made a $121 million direct equity investment for 5 per cent stake in Habib Bank Limited (HBL). Through this investment, BII aims to increase access to finance for MSMEs in Pakistan.

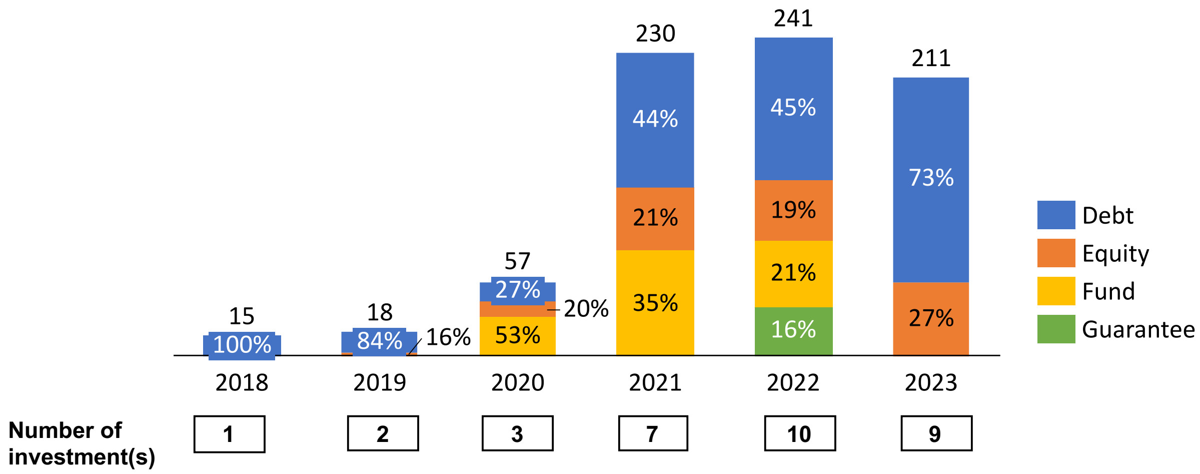
HBL provides micro-credit to 2.4 million female customers.[135] In 2016, HBL introduced Nisa, a women-only banking platform, designed to improve the banking experiences of existing women customers as well as to attract more women clients to the bank.

In 2018 and 2019, BII worked with HBL to develop a Gender Action Plan that would integrate gender diversity into its operations. Through targeted training sessions, BII empowered HBL's leadership and employees to recognise the business case for diversity, highlighting its transformative impact on performance, innovation, and customer engagement. BII continued to provide HBL technical assistance in the form of gender-smart banking training for management throughout 2020, 2021 and 2022.

Following BII's targeted support, HBL's share of women in its workforce grew by six percentage points between 2018 (from 16 per cent) and 2022 (to 22 per cent), and the bank is on track to meet its 25 per cent female workforce target by 2025.

With the introduction of the 2022-2026 Strategy which has a gender and diversity finance focus, the number of 2X qualified investments have increased. Investments qualifying as gender finance in the FS sector increased from one commitment in 2018 to a peak of 10 in 2022, with BII investing approximately $241 million (from $15 million in 2018). In 2023, nine FS 2X qualified investments were made.

Figure 14: Total value of BII's investment qualified as 2X split by investment instrument (USD million, 2018 - 2023)[136]



Source: BII new commitments data

Going forward, BII aims to continue increasing the number and total value of its investment that qualify as gender finance. Between 2022 and 2023, 2X investments constitute 29 per cent of the total value of new FS commitments by value. The FS portfolio surpasses BII's target to achieve a threshold of 25 per cent of all of BII's new investments (across all of its sectors) that qualify as gender finance.[137] The FS team intends to broaden its investment instruments to increase its reach to women and is exploring investment instruments such as gender bonds. At the start of 2024 BII in collaboration with Financial Sector Deepening Africa (FSD Africa), and United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) launched a Gender Bonds Toolkit.[138] The toolkit provides a guide for how to design and issue a gender bond to support gender equality. BII

135 BII, 2024, Habib Bank Ltd.
136 BII, 2024, Data: New commitments.
137 BII, 2022, Technical Strategy (2022-2026).
138 BII, 2024, We're launching a gender bonds toolkit to advance gender equality and investments in African capital markets.

is also considering introducing a gender-linked rebate structure for debt investments to incentivise banks to lend to women.

The 2024 launch of the new 2X Challenge and revised 2X Criteria will enable BII to assess deals for 2X more effectively by considering the country context of the investment. Under the 2017-2021 Strategy, investments were qualified for 2X under the first iteration of the 2X criteria, which assessed if the FI met the Ownership, Leadership, Employment criteria or the Portfolio level criteria. Under the 2022-2026 Strategy, with the adoption of the second iteration of the 2X criteria, emphasis is placed on ensuring 2X thresholds are met at both the FI and Portfolio levels.[139] Therefore, increasing the rigour by which investments are qualified. Going forward, BII will adopt the third iteration of the 2X Criteria, to be launched in mid-2024. These updates will include the introduction of new criteria for Governance and Supply Chains[140] and country and sector specific thresholds for Leadership and Employment levels.[141] For example, investments in South Asia, where the benchmark for women's representation is lower than in sub-Saharan Africa, the thresholds for Leadership and Employment are lower and based on country-level benchmark data.[142] This is important for incentivising attainable targets for improved gender outcomes.

BII will also continue to provide TA to FIs to support gender and diversity value-add work. Currently, for example, BII supports FirstBank Nigeria with a technical assistance project.[143] The project builds on the bank's knowledge base of the women-led and women-owned businesses in its portfolio and strengthens the bank's technical capabilities and ability to reinforce its commitment to gender-based initiatives. This has enabled the bank to further leverage BII's lending facility to provide increased funding to women. TA is important for FIs, especially those at the start of their gender and diversity finance journey, as it assists these FIs to build in gender and diversity parameters into their systems. This enables them to achieve greater impact in targeting women-led and -owned businesses.

Key findings and recommendations: inclusive development

The evaluation of BII's efforts to reach underserved households and scale microfinance institutions reveals a mixed landscape across regions. While MFIs remain vital for reaching underserved populations in South Asia, challenges persist in Africa, where poor MFI performance and DFS competition pose obstacles to using MFI as a vehicle to enhance financial inclusion. Recognising this BII is placing greater reliance on DFS and specialised lenders to pursue scalable and sustainable solutions to extend financial services to underserved segments.

Inclusivity recommendation (6) : Invest in tailored solutions to reach low-income households

The evaluation recommends BII should continue prioritising investments in DFS and specialised lenders across Africa and South Asia, as such NBFIs are able to leverage their technology-based low-cost business model to offer affordable financial services to underserved segments of the population. Similarly, local-based specialised lenders providing financing to underserved segments of the population are key in ensuring BII's investments achieve inclusive development. Such lenders have a greater understanding of local markets and are therefore better suited to meet the demands of underserved individuals.

As part of the strategic focus in its 2022-2026 Strategy BII has rebalanced its portfolio towards poorer and fragile markets. The coverage of Alpha and Beta countries has notably increased from 10 per cent during the 2017-2021 period to 29 per cent in the early stages of the current Strategy implementation. This underscores BII's commitment to inclusive development, targeting economies that are traditionally underserved and fragile. However, while progress has been made in increasing coverage to poorer countries, easier-to-reach countries (Gamma

139 The 2X criteria qualifies an investment as gender finance across six areas: (1) share of women ownership in a business, (2) share of women in senior management, (3) share of women employed, (4) commitment to women in the value chain, (5) products/services that enhance the well-being of women and drives gender equity, and (6) investing in FIs that are aligned with the 2X criteria in their portfolio.

140 BII played a pivotal role in driving the changes to the updated 2X criteria.

141 2X challenge, 2024, 2X Criteria.

142 An example: with the updated 2X criteria, the leadership and employment criteria threshold in Kenya is at least 35 per cent senior management/board members and at least 50 per cent women employees for FIs. Whereas in India, the leadership and employment criteria threshold are 30 per cent senior management/board members and at least 25 per cent women employees.

143 BII, 2022, We're partnering with FirstBank to support women and small business owners with a $100 million credit facility.

and Delta) still constitute a significant portion of BII's FS portfolio compared to difficult-to-reach countries (Alpha and Beta).

BII is shifting its investment approach away from global FS providers towards local FS providers operating in target markets. Investments in multinational FS providers and/or funds have decreased from 40 per cent over the 2017-2021 period to 25 per cent in the 2022-2023 period. This strategic pivot towards collaborating with local FS providers reflects BII's commitment to maximising impact and catering to specific customer groups within target markets.

Inclusivity recommendation (7): BII should continue to increase investments in Alpha countries

The evaluation recommends that BII should increase its focus on investing in poorer countries, particularly Alpha countries. It is recommended that BII employs a combination of risk management strategies such as due diligence processes, partnerships and syndications, to manage and share the risks associated with investing in these countries and maximise the impact of investments on sustainable development.

BII's commitment to gender inclusion is evident through the incorporation of gender criteria into its impact framework and increased investments targeting women. In recent years, BII has intensified its investments targeting women, particularly through specialised lenders that provide financing to marginalised individuals.

However, the full impact of these initiatives is still unfolding, given the early stage of implementation of the 2022-2026 Strategy. Nevertheless, lack of robust data collection tools at the FIs level poses a significant challenge in accurately assessing the impact of BII's investments on female borrowers.

Inclusivity recommendation (8) : Support FIs to develop and/or strengthen robust data collection and monitoring tools for 2X investments

The evaluation recommends that BII should continue to assist FIs to ensure they develop and implement robust gender-disaggregated data collection mechanisms. With the gender focus under BII's 2022-2026 Strategy, BII should work with FIs to enhance their tools (where applicable) to capture gender metrics and data management systems to track and manage this data. This is beneficial for future comprehensive evaluations of the impact of gender inclusion initiatives and investments on female borrowers, to inform future investment strategies effectively.

4. General Observations and Data Limitations

While analysing the FS portfolio, several observations emerged that were general in nature, and these have been captured within this section.

4.1 Technical Assistance

BII introduced Financial Services Group Plus (FSG Plus) in 2021, a TA facility for FIs that is enabling a systematic approach to the delivery of TA. The facility supports FIs to adapt their processes and systems (including data collection), develop and adapt products and reach new customer segments. By improving the manner in which FIs collect and report their client data, BII is able to receive better quality metrics to assess and monitor the progress of its investment to achieve the intended objectives. Some key examples of technical assistance provided through the FSG Plus facility include:[144]

- BII supported Veritas, an Indian NBFI, in analysing its operations, products, and services through a gender lens, seeking strategies to close gender both internally and among the client base.[145] BII's TA played a crucial role in catalysing the growth of Veritas Finance's loan book. BII assisted Veritas to move from a paper-based system to a digital and automated system of loan assessments, and this allowed the NBFI to approve more loans and cut turnaround times in half.
- BII supported Advans across Ghana, Tunisia, and Cote d'Ivoire to build its climate Strategy through an assessment of its country subsidiaries' portfolio exposure to climate changes. Thereafter, BII assisted in developing training tools to help staff understand climate change-related risks and their impacts on the business sectors and to implement actions to mitigate these risks.[146]
- BII supported Pubali bank in Bangladesh to develop its directed lending line and expand its green lending initiatives.[147] The project focuses on enhancing the bank's capacity, improving its green governance; refining processes and procedures; developing a comprehensive reporting system; establishing a compliance framework; and implementing loan tracking systems as per the green lending principles.

4.2 Impact Score

The 2022-2026 Strategy and the associated impact score system highlights BII's increased focus on achieving impact. BII has used a variety of instruments, such as directed debt investments, equity investments in DFS, and to a limited extent local currency investments, to increase the impact of its investments in reaching target groups and improving their access to finance.

However, the focus on several parallel objectives encompassed under the umbrella of productive, sustainable and inclusive development may compromise the objective of making investments targeted at developing the financial sector of target countries. The impact scoring system gives higher scores to investments that meet the combined productivity, sustainability and inclusivity objectives. For example, investments that are aimed at developing domestic capital markets to unlock more funding may not achieve high scores on the sustainability and inclusivity criteria. And when compared to investments that score highly on all three criteria, it is possible BII may forgo investments that are highly impactful seen from the narrower perspective of developing financial systems. There is much to be said for expanding the assessment of BII's FS portfolio to include climate and gender perspectives and the likely outcome of the scoring process is that decisions will be skewed towards investments that meet climate finance and gender finance criteria. On the other hand, the decision-making process needs to be

144 DAI, 2024, Regional—Financial Services Group (FSG Plus).
145 BII, 2023, Veritas Finance proves being commercially scalable and impact-driven can go hand in hand.
146 DAI, 2024, Regional—Financial Services Group (FSG Plus).
147 BII, 2022, British International Investment signs $50 million climate loan to Bangladesh's Pubali Bank.

managed carefully so as not to dilute focus on investments with high comparative advantage in achieving impact on the core productivity objective.

4.3 Evaluating Impact of Investments

The self-reported nature of the qualitative data captured during interviews raises concerns about potential bias in reporting by BII's investees who might have incentives to provide positive reports about BII's funding. This was more likely in those cases where investees were currently considering future engagements with BII. For example, at the time of the evaluation of BII's debt investment into NMB Nepal in 2018, BII and NMB Nepal were considering signing another debt investment to with the bank to finance climate finance projects in Nepal.

COVID-19 limited in-person engagements with BII's investees and their clients and, therefore negatively affected the transmission of information. The phase two evaluation started during the COVID-19 pandemic, and as a result, engagements with BII's partner FIs (i.e. investees) were all conducted virtually. This made it relatively difficult to explore non-verbal cues such as facial expressions and body language and likely reduced the level of engagement and ability to probe the interviewees, and consequently the information disseminated during these interviews.

In addition, engagements through surveys (administered both online and through telephone interviews) were largely unsuccessful. There were limited responses, and it was not possible to verify the accuracy of the survey data as the responses were self-reported. The results were likely subject to some acquiescence bias which is where respondents tend to respond in agreement. This might have led to overestimating the positive outcomes resulting from the use of BII's investee's products.

A key observation is that data collection at the FI level remains a significant challenge in understanding the extent to which investments are impactful. There is general lack of information on underlying households and firms being reached. This observation was particularly evident when the phase two in-depth studies were conducted. BII's current impact reporting is largely at the FI level, in terms of growth in portfolio size. General reporting on clients of FIs (e.g. regarding individual income level, the development in core business data, such as business revenues, profits, and the number of employees and other factors, such as the gender of FI customers, etc.) and the impact of BII's investment on these businesses and individuals is not available across the portfolio. The evaluation does note that in certain instances BII's investees have implemented more robust data collection processes, for example in the case of Inoks which had a detailed dataset, compared to the other investees included among the in-depth studies.[148]

To improve the quality of the evaluation(s) conducted, BII should gain the commitment of the investee to the design and process of the evaluation at the time of approval of the investment. At the time BII commits to making an investment, the investees together with BII's investment officers are those best qualified to pull together an appropriate evaluation process for the investments. As part of BII's investment process, in addition to agreeing on data relating to performance indicators, the investment committee (IC) team should approve the performance methodology agreed between the investee and BII's investment officer needed to measure impact as reflected in the impact framework. The data and evaluation processes defined at this time would include data to be made available by the FIs and would also commit the FIs to allow BII or its appointees to undertake survey work as required by the evaluation process, as such information is integral to informing BII's decision-making process both as regards the choice of investees and in understanding and supporting development impact, going forward. Such a process is also integral to BII's responsibility to its shareholder, the Government, and ultimately, in being answerable to UK taxpayers.

148 Investments assessed under the phase two evaluation were made before the 2022-2026 Strategy period, with the exception of the investment in Inoks. The in-depth studies of the investments assessed suffered from a lack of adequate data on the impact of BII's investments on underlying households and firms that were being reached by BII's investees.

General observation recommendation (9): BII should gain investee buy-in on the evaluation process at the time of approval of the investment by BII's investment committee

The quality of evaluations would benefit from gaining the commitment of the investee to the design and evaluation process at the time of approval of the investment by BII's investment committee (IC). In designing the evaluation process in preparation for IC project approval BII should define the information requirements for the evaluation process and make it mandatory for FIs to assemble information, including a commitment to enable BII to survey client's ex-post, in line with BII's impact objectives through that investment.

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