

European Fund for Sustainable Development (EFSD) Guarantee

Title: Investment window - Digital for Development

1. Policy Rationale

Background analysis: Digitalisation acts as an accelerator and enabler of many, perhaps all of the United Nation's Sustainable Development Goals (SDGs) and, in this respect, the 2030 Agenda for Sustainable Development sets specific targets. For example, there are various benefits digital technologies and services can provide to health (SDG #3); education (SDG #4); gender equality (SDG #5); jobs and growth (SDG8); environment and climate change (SDGs #13, #14 and #15); and peace, justice and strong institutions (SDG #16). Investing in digital economy can bring economic growth and quality jobs¹, put women and youth at the core of development policies and close the gap between citizens and governments, while creating a digital bridge with the world. It will also address climate risks helping countries deliver on their commitments to implement the Paris Agreement on climate change.

The digital sector has been one of the fastest evolving economic and social areas worldwide, creating opportunities for sustainable development and inclusive growth. This evolution was the result of an increasing demand that was driven by the benefits citizens found in mobile communication, the Internet and digital services.

In the EU Neighbour countries the development of digital economy has been translated into six priorities for the Eastern Partnership region, namely: telecom rules (including broadband deployment), eSkills, ICT innovation, Trust & Security, eTrade (including eCommerce, eCustoms and eLogistics / Digital Transport Corridors) and eHealth. Concerning the Southern Neighbourhood, EU's Regional South Strategy Paper (2014-2020) highlights the partnership's ambitions for a more harmonized and investment friendly environment in the area of electronic communications, thereby fostering economic development, job creation, innovation and technological upgrades, while setting up modern and better connected information societies.

In Africa, being the continent with the largest digital divide, mobile penetration is more than 80%, while mobile technologies and services in 2015 have generated 6.7% of Africa GDP supporting 3.8 million jobs². In addition, Africa boasts 180 digital hubs and is the world leader in innovative mobile financing solutions. Nonetheless, Africa is very far from achieving the potential of the digital economy to benefit its young and innovative population. While basic mobile is widely available, lack of enabling environment and regulatory frameworks do not create the necessary incentives for private operators to invest in the provision of reliable internet access and, in combination with heavy

¹ WB Development Report 2016 Digital Dividends, p. 14: : In Kenya, the M-Pesa digital payment system creates additional income for more than 80,000 agents. And in China, the State Information Center estimates that the recent boom in the e-commerce sector has created 10 million jobs in online stores and related services, about 1.3 percent of the country's employment.

² GSMA study: The Mobile Economy Africa 2016 (<https://www.gsma.com/mobileeconomy/africa/>).

taxation imposed, result in unaffordable prices for citizens³. Inequalities are significant, urban areas having more than twice the number of digital users (23%) than the rural ones.

Supporting digital start-ups for scale up and addressing financial and other bottlenecks for successful digital entrepreneurship shall strongly contribute to growth, reduce poverty and create sustainable jobs for the youth.

E-Government solutions in particular can greatly increase the efficiency, transparency and accountability of public services, but many African governments are not yet equipped with the necessary means to take advantage of these benefits. In the area of digital innovation, although African start-ups have proven their capacity to generate solutions for local problems in a multitude of fields, scaling up is often impossible due to the price of a quality internet subscription and the lack of venture capital.

These shortcomings have been clearly addressed in the new European Consensus on Development⁴, while confirming that the EU and its Member States will continue to support information and communication technologies in development and promote the use of digital technologies in a range of priority areas. In accordance with that, the Commission has recently published a Staff Working Document⁵, articulated around four main priority areas: promote access to affordable and secure broadband connectivity and to digital infrastructure, including the necessary regulatory framework; promote digital literacy and skills; foster digital entrepreneurship and job creation; and promote the use of digital technologies as an enabler in other sectors, presenting a comprehensive framework for mainstreaming digital technologies into development policy.

EU Policy objectives: In line with the orientations presented in the Commission Staff Working Document on mainstreaming digital technologies and services in EU Development Policy ⁵ and the related Council conclusions⁶, the EU policy objective is to boost the digital economy by: i) Supporting innovative digital solutions promoted by local entrepreneurs, particularly those addressing social needs (health, education and social assistance related services and financial inclusion) and promoting decent job creation; ii) Supporting the introduction and development of e-government related services and promoting the use of digital technologies in a range of priority areas (agriculture, education, water management, health and energy); and iii) Supporting enabling environments for the digital economy by enhancing connectivity, removing obstacles to unleash its full potential for sustainable development, while promoting free, open and secure Internet.

³ According to 2016 International Telecommunications Union (ITU) findings⁴⁷, a monthly fixed broadband package costs 1.7% of average income in developed countries, compared with 31% of average income in developing countries, and 64% of average income in Africa.

⁴ Article 57: "The EU and its Member states will continue to support information and communication technologies in developing countries as powerful enablers of inclusive growth and sustainable development".

⁵ SWD(2017) 157 final: Digital4Development: mainstreaming digital technologies and services into EU Development Policy.

⁶ 14320/16 DEVGEN 243 ACP 152 RELEX 938 TELECOM 227: Mainstreaming digital solutions and technologies in EU development policy - Council conclusions (28 November 2016).

Geographic area: Sub-Saharan Africa and the Neighbourhood regions. The inclusion of LDCs/landlocked/fragile and conflict affected countries within proposals will be positively viewed.

Domain: Digital economy.

Sectors of intervention: i) Innovative digital solutions, especially those addressing local social needs and financial inclusion, low-carbon climate resilient solutions and promoting decent job creation; ii) Support to national governments and regional organisations, as well as large municipalities in order to put in place the digital services needed for deployment of e-government services (priority investments in government digital infrastructure, equipment and software development); iii) Private sector investments aiming to connect citizens, businesses and digital entrepreneurs, educational and other public institutions to broadband internet at affordable prices (specific focus to land-locked countries⁷ and remote/undeserved areas⁸).

2. Operational concept

The ESFD guarantee shall be structured in such a way as to lower investment risk financing and create the conditions to contribute to the deployment of digital infrastructure and scale-up of digital services. It is envisaged that IFIs will work jointly with the private and public sector in de-risking investments in last mile infrastructure, engage with the public sector to deploy digital services infrastructure and develop innovative instruments to work together with venture capital and angel investors to support the scale up of start-ups in the digital field. Particular attention will be paid to scalable platforms that could benefit from start-up funding and to climate friendly investments.

Type of operations: The EFSD Guarantee may be used to cover the risks for loans, guarantees, counter-guaranties, capital market instruments, and any other form of funding or credit enhancement, insurance, and equity or quasi-equity participations. Different types of eligible operations may be included, such as:

- Guarantees covering providers of digital services such as digitalising and interconnecting national registries, eID, eProcurement, eHealth, eEnergy, climate services, disaster risk management, forestry and land management, e-Justice, e-Company and other digitalised public services intended to increase the performance of public services towards citizens and business.
- Guarantees covering venture capital funds, business angels and other non-institutional investors for the financing of digital innovative solutions proposed by local or international companies in the form of co-investments. Financing should also target early stages of development (proof of concept, pre-seed, seed, etc.) and be directed at digital services that can generate a social and/or a climate-friendly

⁷ Africa ICT infrastructure map shows that the continent is mainly connected at its port cities (submarine cables) and is lacking in land backbone connectivity.

⁸ WB Development Report 2016, p. 211: Markets fail where the private sector underinvests—for instance, because the private return may be less than the social return. This appears to be happening in the ICT sector in at least three areas (remote areas, unattractive markets and uneconomic services).

impact. The proposed operations shall take into account financing options offered by the MSME investment window for what concerns early stage enterprise financing.

- Guarantees provided to local operators in the field of Digital Payment Systems (working with in-country providers to extend their reach and encourage people to adopt them through a mobile phone, kiosk, or other digital interface). Digital Financial Services (working with banks, insurance companies, and other providers to increase the range of financial services that people can access in digital form) and other platform services.
- Guarantees provided to de-risk last mile connectivity. Financial products could cover fixed, mobile and satellite investments through partnering with municipalities to deploy fibre, guaranteeing private investments or PPP to deploy fixed or mobile broadband to under-served areas and supporting the satellite connectivity business models to scale and achieve affordability.

The operations listed above are indicative and non-prescriptive/exhaustive. Priority will be given to inclusive initiatives offering high sustainable development impact (including job creation, youth and women empowerment), optimising leverage and cost efficiency, and mobilising funding from multiple sources in fragile countries.

Measures for aligning the interests of the different stakeholders - including fund managers and investors - should be considered in line with relevant market practice. Such measures shall be transparent and will take into account the policy and financial objectives of the relevant instrument.

Type of risks: Risks to be mitigated may include: i) Commercial risks (repayment risk, performance risk, etc.); ii) Political and country risk (e.g. expropriation, coup d'état, civil war etc.); iii) Legal and regulatory risk (change in law and regulatory framework etc.); iv) Currency risks (e.g. exchange rate fluctuation, convertibility, transferability, etc.); and v) Climate change and environmental risks (e.g. droughts, extreme weather events, temperature rises, etc.).

Expected Additionality: i) Potential to mobilise the private sector, both locally and internationally; ii) Sustainability: the digital market is among the most sustainable with fast returns on investment, but one of the most risky, especially in the case of start-ups; iii) Contribution to the EU's Digital4Development policy objectives as regards to promoting affordable connectivity, digital skills, digital entrepreneurship, job creation and use of digital tools and services as an enabler in other sectors; iv) Innovation through the demonstration of the viability of new climate-smart digital solutions.

Envisaged Impact: i) create jobs, both in the digital domain as well as in other sectors profiting from digital input⁹; ii) remove obstacles and improve accountability of institutions and public services by establishing e-governance systems and solutions; iii) reduce the existing digital divide by increasing proportion of population with access to affordable broadband connectivity; iv) low-carbon and climate-resilient growth

(reduced greenhouse gases emissions and local pollution, renewable energy deployment, natural resources management, climate adaptation measures, disaster risk reduction and management) helping countries to achieve their international climate change pledges.

When relevant, indicators as approved in the context of EUBEC Platform and included in the list in Annex 2, will apply. Additional sector indicators will be agreed at the level of specific proposals, such as:

- Mobile broadband subscriptions per 100 inhabitants.
- Internet access per 100 inhabitants.
- Reduction or elimination of roaming charges.
- Digital literacy rate (gender differentiated).

Disaggregation by gender (when applicable and feasible) shall be pursued.

Complementarity/Risk of potential overlap with other Investment Windows:

As quality of digital services is also a core element of the local business environment, interventions under this window can facilitate those undertaken under the "MSME Financing" window.; while the former shall focus on access to finance for MSMEs, including innovative start-ups, the interventions of the proposed Digital for Development window shall be rather focused on well identified innovative digital solutions in view of their expected social impact as well as a strong climate-smart focus. Complementarity with the "Sustainable Energy and Connectivity" and "Sustainable Cities" Investment windows is also envisaged.

Expected minimum Private Sector involvement: at least 30-40% of final investment volumes, on a portfolio (PIP) basis, are expected to be financed by the private sector (including commercial banks).

3. Supporting Policy Actions (links to pillars 2 and 3)

Links will be established to adequately coordinate between the investment pillar (pillar 1) and enabling policies (pillar 3) to foster conducive business environment and investment climate as well as technical assistance (pillar 2). Implementation of this window may thus be accompanied by sector policy dialogue with the partner countries and by in-country reform processes supported by the Commission. The most relevant policy actions may relate to:

- Policy dialogue in order to develop national multi-stakeholder forums with a role to advice the government on public policies in the digital economy sector.
- Promote and ensure democratic and inclusive processes in the country
- Support to the development of National Digital Plans.
- Regulatory legal frameworks, mainly on a regional basis, to create the enabling environment for affordable connectivity - telecom regulator independence, infrastructure sharing, affordability of interconnection prices, access to the

incumbent's local loop, cooperation with the private sector, financing schemes for rural areas, etc.

- Legal frameworks for privacy, data sharing, eID, e-signature and cybersecurity setting the rules for how data can be handled and protected .
- Legal frameworks to promote innovation or to remove barriers such as mobile payments, free access to public data - open data.
- Legal frameworks that promote the creation of Micro, Small and Medium Enterprises operational in the IT sector. Fiscal reform (where appropriate) to achieve financial predictability for investors and eliminate excessive burden, especially for equipment imports.
- Support new regulatory frameworks to promote the digital transformation of the energy system through innovation for the deployment of renewable energies and smart grids and infrastructures.

In line with the policy actions technical assistance may include:

- Capacity building on various aspects of infrastructure financing (including private concessions) to enhance the planning and implementation capacity of governments, regulatory capacity of government agencies.
- Capacity building to strengthen arrangements for involvement of private sector at local level. This could also encompass reinforcing the capacities of private sector at all levels (not only MSMEs) to provide sound low-carbon climate-sustainable services/equipment/works to the public sector/local government/consumers (with due consideration to TA provided under "MSMEs financing" window).
- Preparation of pilot projects on use of digital technologies in sectors, such as agriculture (eAgriculture), energy (eEnergy), governance (eGovernance), health (eHealth), climate change (climate services), etc.
- Formulation of recommendations to National Administrations in Africa for the finalisation of digital policies.
- Support partner countries to draft digital skills and literacy strategies and to adapt curricula to integrate digital skills and literacy into their educational system (including training of teachers), taking into account local culture and languages, including cultural diversity;

ANNEX 1: Examples

Boost Africa

Boost Africa will be implemented through a partnership between the African Development Bank and the European Investment Bank, open to other institutional and private investors to participate in, to enable and enhance entrepreneurship and innovation across Africa in a commercially viable way through a blending mechanism with the European Commission. The idea is to contribute to the development of an efficient entrepreneurial infrastructure in Africa by maximizing the support to the earliest and riskiest stages of the venture value chain.

This initiative will use an integrated approach via the establishment of an (i) Investment Platform, (ii) a Technical Assistance Pool, and a (iii) Entrepreneurship Lab (ELab). The Investment Platform will span the whole venture segment (e.g. seed funds, incubator's accelerators' follow-on funds, business angels funds, equity-crowd platforms, social innovation funds and venture capital funds) to support the creation and growth of start-ups and innovative SMEs with high-growth and job creation potential. It is in line with the ACP-EU partnership objectives to support private sector development broadly, and the Resolution of the 95th ACP Council of Ministers calling for enhanced support to MSMEs.

The Boost Africa Investment Platform will invest junior tranches on a deal by deal basis, meaning that all the senior investors of a given fund (including EIB) will benefit from it. The junior tranche is expected to have a critical catalytic effect, as it will directly benefit all the investors in the target funds. It will strongly enhance the chances of attracting investors.

The TA Pool will be used to provide capacity building to the targeted financial intermediaries, in particular first time fund managers, their investee companies, and sometimes investors (e.g. informal business angel networks) through grants / technical assistance support.

The ELab will act as a facilitator for innovation, skills, knowledge and partnerships to accelerate the development of MSMEs in Africa. As such, the ELab will build strong local entrepreneurship ecosystems and will create a strong base of innovative early stage SMEs who can become eligible for funding from the Boost Africa supported funds

ANNEX 2: Indicators

CROSS SECTOR INDICATORS (Application subject to current practices and methodologies by Financial Institutions)		
INDICATORS	UNIT	DEFINITION
Jobs sustained / created	Number (FTE)	Jobs sustained / created as a result of the project (methodology used to be made transparent)
Total number of beneficiaries	Nr.	Estimated number of people with improved access to services (financial services, social and economic infrastructure, etc.)
Number of beneficiaries living below the poverty line (whose living conditions are improved by the project)	Number (and/or %)	sub-group of the above (if applicable), (to be made transparent which reference point has been used, e.g. national or international definitions of poverty)
Variation CO2 / Greenhouse gases	CO2 ktons equivalent / year	Amount of CO2 / GHG emissions generated for a typical year of operation by a project compared with the baseline scenario.