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CATALYZE

Mobilizing Private Capital
for Development

CATALYZE Year 1, 3rd Quarterly Report
April 1, 2020 – June 30, 2020



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INTRODUCTION

CATALYZE: Introduction

CATALYZE is a buy-in mechanism with a \$250 million ceiling that allows USAID MBIOs to deploy blended finance solutions to crowd-in financing across sectors, geographies and transaction type and size



Goal of mobilizing **\$2 Billion** in private capital



Focus on wholesale, **platform approaches** to deploying blended finance at scale in USAID presence countries



8 years (5-year base period, 3-year option period)



Cost Plus Award Fee contract type for buy-ins **incentivizes achievement** of results and use of pay-for-results type mechanisms



Engagement mechanisms include **Grants Under Contract**



Access to the Partner 'Network' of 240+ firms globally

CATALYZE: Illustrative Interventions

CATALYZE is designed to provide a wide range of support to missions, offices and bureaus, with activities particularly focused on developing complex multi-year programs centered on catalyzing private finance.



CATALYZE will work through intermediaries to **develop a pipeline** of financeable transactions in targeted geographies and sectors



CATALYZE will **support financial intermediaries** in developing countries to build or strengthen local financial ecosystems



CATALYZE will **link financeable opportunities** to sources of capital, structuring funds, and closing complex transactions



CATALYZE will **identify and assess blended finance approaches**, supporting agency-wide learning and development

CATALYZE: Tools

CATALYZE will use a variety of blended finance approaches to address the specific constraints faced by markets and geographies.



Use performance incentives such as results-based contracts, performance grants, development impact bonds, and other products



Develop risk mitigation tools, such as country- or sector-specific blended finance platforms or funds, pre-investment feasibility studies, and other tools that incorporate risk mitigation features



Provide catalytic capital, via the grants mechanism, for seed funding, co-funding, first-loss capital, guarantees, and performance grants



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Q3 HIGHLIGHTS

CATALYZE: Buy-in Update



Budget of **\$169M** (base period), of which **\$91.4M** is Obligated. Capital Mobilization Target of **\$1.1B**



Oct 2019 – Sep 2024



Asia, Africa, LAC,
Western Balkans

EduFinance - Improve and sustain learning outcomes for children and youth, in particular the most marginalized and vulnerable in Sub-Saharan Africa and LAC

Women's Global Development and Prosperity – Support women's employment and enterprise development

Ethiopia - Market Systems for Growth - Foster private enterprise growth, primarily in agricultural markets, to create jobs and increase incomes

Catalyzing Investment in the Peruvian Amazon's Private Sector - Catalyze investment and access to finance in the Peruvian Amazon

Sri Lanka – Private Sector Development - Promote economic diversification and employment opportunities for women

Sahel - Promote economic diversification and employment opportunities for women

Western Balkans – Engines of Growth - Increase small and medium enterprises' (SME) access to and use of finance to drive enterprise growth

CATALYZE: Q3 Highlights

- **CATALYZE Core:** Work ongoing on CATALYZE core (CLIN I) workplan, procurement forecast website, CATALYZE MEL and Communications plans. CO approval received to engage Moonshot Global for MEL services and Open Capital Advisors for intermediary assessment, training and capacity-building.
- **EduFinance** - Completed desktop assessment of the education finance market in Rwanda and Tanzania and completed market study of the non-state education sector in the DRC. CATALYZE South Africa potential partner presented to multiple USAID Missions across Africa on their education blended finance model. The potential partner received \$2M funding commitment from a Europe-based foundation. This is part of the \$7.5M targeted leverage to be raised by the potential partner.
- **Women's Global Development and Prosperity** - Generated a preliminary short-list of 11 DFC financial institution investees to receive support managing portfolio risk resulting from COVID-19 and mobilizing finance for (women-led) enterprises despite the economic uncertainty. Conducted key informant interviews with 7 financial service providers to assess the feasibility of an insurance product that mitigates bank risk when lending to women entrepreneurs.

CATALYZE: Q3 Highlights

- **Ethiopia – Market Systems for Growth** - Held key informant interviews with 8 stakeholders with broad and deep knowledge of private sector investment in Ethiopia, with several more meetings planned. Began recruiting for Ethiopia-based leadership, including the Country Director.
- **Catalyzing Investment in the Peruvian Amazon's Private Sector:** Year 1 workplan and budget submitted to USAID for approval. Identified Peru Cacao Alliance staff, including technical experts and administrative employees, that could contribute to initial assessments, stakeholder engagement and support recruitment, operations and other activities on an interim basis.
- **Sahel** - Burkina Faso co-design workshop organized with USAID West Africa Regional Office

CATALYZE: Q3 Highlights

- **Sri Lanka – Private Sector Development** - Finalizing the Mobilization Plan and details of initial mapping exercises including SME Competitiveness and Gender Opportunities Assessment, Financial Institution Mapping, and Business Advisory Services Mapping. Developing COVID-19 Response procurement that will invite new local partners to develop innovative interventions to support SMEs arising from secondary (i.e. economic) impacts of COVID-19
- **Western Balkans – Engines of Growth:** Worked with the regional mission on a revised Performance Work Statement to include an initial window of support to help viable SMEs in the wake of COVID-19 and a second window to support capital mobilization to growing SMEs. Engaged the regional mission on a Statement of Work (SOW) around the creation of a COVID-19 Dashboard for the region



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CORE SERVICES UPDATES

CATALYZE: Core Services

Each buy-in to CATALYZE contributes to the Agency's understanding of and offers tools to deploy blended capital to catalyze finance for development.

Monitoring Evaluation and Learning: Contributes to continuous refinement to blended finance initiatives, and the Agency's learning agenda on deployment of blended capital to mobilize finance and support Missions with M&E on each buy-in.

Communications, Knowledge Management and Community of Action: Supports a knowledge-sharing platform for the development community, as well as expansion of the Partner Network to encourage adoption, adaptation and application of scalable solutions.

Tool Incubation and Development: Furthers the development, refinement and testing of a suite of tools to support blended finance projects such as a Financial Sector Diagnostic or an Opportunity Optimization Toolkit.

Enhancing the Facilitator Model: Insights on how to engage and orient new implementing partners, and lessons learned on the types of award mechanisms and incentive structures that are most effective for different types of partners, sectors, and settings.

Buy-in Pipeline Development: Ongoing engagement with USAID Missions, Bureaus and Independent Offices (MBOs) in the orientation to, and services available through CATALYZE.

Core Services: Activities

- Executive Director, Roland Pearson, submitted a draft of, "Taking Blended Finance to Scale by Developing Market Systems", for publication in the upcoming 2020 OECD-UNCDF Blended Finance in LDCs Report.
- Continued to work on procurement forecast website and USAID.gov/CATALYZE webpage, both of which will be completed in the next quarter.
- CO consent to subcontract received for Open Capital Advisors and Moonshot Global.
- Drafted the feedback loop survey to collect feedback from MBIOs.
- Established a project management mechanism between USAID and CATALYZE to increase collaboration and coordination via buy-in tracker on Google drive.
- Submitted the first draft of the CATALYZE Core (CLIN I) work plan which will be finalized early in the next quarter.
- Advanced conversations about CATALYZE MEL Plan, including theory of change and logic model
- CATALYZE Communications Strategy submitted to CO for review




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BUY-IN UPDATES

EduFinance: Buy-in Summary

 Projected LOP Budget of **\$50.3M**, of which **\$42.0M** is Obligated. Capital Mobilization Target of **\$68.3M**

 Oct 2019 – Sep 2024

 DRC, Rwanda, South Africa, Tanzania, Zambia, LAC

 Partners in final stages of contracting



Improve and sustain learning outcomes for children and youth, in particular the most marginalized and vulnerable

Zambia - *Strengthen regulatory environment to reduce barriers for school entrepreneurs and scale a network of low-fee schools*

DRC – *Provide financing mechanisms and technical assistance to improve quality of education*

South Africa - *Support Early Childhood Development (ECD) centers to access low-cost capital and provide quality pre-primary education*

*Market assessments underway in **Rwanda, Tanzania and LAC***

EduFinance: Activities

- Completed desktop assessment of the education finance market for pre-primary, primary, and technical/vocational education/training (TVET) for the Rwanda mission which showed potential for investment at the pre-primary and TVET levels. The mission confirmed buy-in to the mechanism.
- Completed desktop assessment of the education finance market for pre-primary, primary, and secondary schools for the Tanzania mission which showed potential for investment in pre-primary, primary and secondary levels. The mission confirmed buy-in to the mechanism.
- Completed market study of DRC non-state education sector, including phone survey of 200 private schools in Kinshasa, Lubumbashi and Goma. On June 18, Palladium team presented findings from the market assessment to Mission colleagues. Potential CATALYZE partner presented their market findings.

EduFinance: Activities contd.

- Monitoring, evaluation and learning (MEL) clinics organized for Africa-based Missions that confirmed buy-in into CATALYZE. The clinic introduced a suggested Edufinance MEL approach to Mission colleagues and invited them to comment on the framework proposed for Edufinance activity.
- CATALYZE South Africa potential partner presented to multiple USAID Missions across Africa on their blended finance model to improve education outcomes and increase access to capital for affordable learning providers.
- Potential partner received \$2 mil funding commitment from Europe-based foundation. This is part of the \$7.5 mil targeted leverage to be raised by the potential partner.
- EduFinance team working closely with 7 LAC Missions and Regional Lead, Michael Lisman, to finalize market assessment SOWs and release of RFPs
- Preliminary findings from EduFinance Literature Review presented at the USAID Education Sector Council meeting on June 24th. The final report will be finalized in the next quarter.

EduFinance: Lessons

- In designing the Community of Practice (COP) the team reviewed past evaluations of USAID COPs and concluded they were too USAID-centric. In order to have a demand-driven COP and platform, the team is using key informant interviews to determine informational needs and identify platforms that would meet those needs.
- For many USAID Missions, CATALYZE EduFinance is the first foray into non-state education. The team is working closely with Missions and local governments to ensure clear communication regarding the focus of EduFinance to increase private financing in education, increase quality school options for low income families and provide improved learning outcomes for children.

EduFinance: Lessons contd.

- Especially in the WGDP and EduFinance buy-ins, where the development focus is on sectors with little commercial track record (e.g. care and domestic work, and pre-primary education for the poorest communities), we are having to strike an optimal balance among learning, impact, and capital mobilization – a portfolio approach, wherein discrete activities may not maximize any one of these factors, but as a whole, we would see good performance in all three metrics.
- Many non-state schools have pivoted towards distance learning strategies because of COVID-19, deploying their curriculum on apps that students on mobile devices or laptops can access on internet. However, learners attending low-fee schools in Africa don't have reliable access to internet or a mobile device and their learning has been stalled. The full impact of this disruption on the learning levels of these students will only be known once they return to school.

EduFinance: Lessons contd.

- Financial impact of COVID-19 on non-state schools will be seen in the next quarter (July-September) when schools in many of the African countries are scheduled to reopen after a COVID lockdown break. Most school owners remain optimistic about continuing the school business next year. This assumption will get tested when school fees become due at the start of the next academic session.

Women's Global Development & Prosperity: Buy-in Summary



Projected LOP Budget of **\$10M**, of which **\$10M** is Obligated. Capital Mobilization Target **\$3M** (TBD).



Oct 2019 – Sep 2024



Latin America and Caribbean



DFC and their bank & SME clients



Support women's employment and enterprise development

The US Development Finance Corporation (DFC) is collaborating with the USAID-funded CATALYZE platform to build capacity in DFC financial institution investees to manage problem loans and to provide additional financing to clients without incurring undue risk during the COVID-19 crisis and beyond.

Women's Global Development & Prosperity: Activities

- Generated a preliminary short-list of 11 DFC financial institution investees to receive support managing portfolio risk resulting from COVID-19 and mobilizing finance for (women-led) enterprises despite the economic uncertainty.
- Conducted key informant interviews with 7 financial service providers to assess the feasibility of an insurance product that mitigates bank risk when lending to women entrepreneurs.
- Reached consensus on an interim Performance Work Statement for the buy-in and began start-up
- Issued RFPs for a virtual business development service provider and received 6 bids
- Hosted introductory meetings with 7 financial institutions in 4 countries. Additional meetings planned for early July 2020

Women's Global Development & Prosperity: Lessons

- More nuanced understanding of how participating financial institutions' (M)SME portfolios have evolved following the onset of the COVID-19 pandemic. Many financial institutions have already seen a 5% increase in non-performing loans, although official data may not reflect it as central banks adjust their policies to reflect the current context.
- View into the participating financial institutions' expressed needs in the current context (introduction to best-in-class practices for restructuring and refinancing loans) and liquidity.
- Commercial banks are segmenting their portfolios based on how the crisis is impacting their clients and attempting to tailor their response to different businesses' needs.

Ethiopia – Market Systems for Growth: Buy-in Summary



Project LOP budget of **\$68M**, of which **\$15.8M** is Obligated. Mobilization target of **\$320M**.



May 2020 – Sep 2024



Ethiopia



Partners – Subcontracting plan in development



Foster private enterprise growth, primarily in agricultural markets, to create jobs and increase incomes

Initiative 1: Catalyze business growth for job creation

Initiative 2: Build capacity for market-led workforce skill building

Initiative 3: Improve the business enabling environment

Cross-cutting Effort 1: Enhance USG capabilities to catalyze trade and investment

Cross-cutting Effort 2: Advance the digital economy

Cross-cutting Effort 3: Increase exports

Ethiopia – Market Systems for Growth: Activities

- Developed preliminary planning documents including a Fast Start Workplan Outline, Theory of Change and Objectives
- Recruited 5 short-term expert consultants to support in crafting detailed project activities
- Began recruiting for Ethiopia-based leadership, including the Country Director.
- Held informant interviews with 8 stakeholders with broad and deep knowledge of private sector investment in Ethiopia, with several more meetings planned
- Held weekly meetings with the USAID Mission, and key USAID/DC staff to ensure alignment on plans and priorities
- Reviewed and integrated background documents into preliminary planning documents

Ethiopia – Market Systems for Growth: Lessons

- Our key informant interviews provided valuable context around the complicated political environment in Ethiopia, for example, demonstrating the need not only to lobby for laws that remove barriers to investment – but also, supporting the implementation of newly-passed legislation. Understanding the nuances of the changing policy landscape in Ethiopia, which includes the upcoming privatization of the ICT sector, will enable MS4G to find and harness key opportunities to catalyze economic transformation in support of private enterprise.
- Similarly, we have learned about the complex relationship(s) between private sector entities and the Government of Ethiopia. We have initially identified financing needs in three key ranges (between \$50,000 to \$1.2 million; \$1.2 – 2 million; and deals up to \$5 million). We have uncovered the importance of ensuring synchronization between localized and federal investment bureaus, particularly vis-à-vis the sale of land. Prior to COVID-19, there were regularly-convened opportunities for private sector, government and stakeholders to meet, and we will examine ways to engage in (and facilitate, where appropriate) these conversations in a manner that is adapted to the current situation.

Ethiopia – Market Systems for Growth: Lessons contd.

- Throughout our key informant interviews, and in conversations with the Mission, stakeholders have repeatedly emphasized tourism as an industry with great potential to create jobs and attract outside investment. However, we also recognize that this industry is particularly impacted by the COVID-19 pandemic; we are carefully examining opportunities to work around this constraint, including potentially developing training programs for relevant soft skills that lead to immediate employment in related customer service occupations and which can easily be transferred to the tourism industry upon its rebound.

Catalyzing Investment in the Peruvian Amazon's Private Sector: Buy-in Summary



Projected LOP budget of **\$15M**, of which **\$5M** is Obligated. Capital Mobilization Target of **\$300M**.



May 2020 – Sep 2024



Peru



Partners - TBD



Catalyze investment and access to finance in the Peruvian Amazon

***Develop projects and business models** with direct supply relationships that include innovation around finance and technology.*

Provide technical assistance and incentives to financial institutions to motivate and enable FIs to increase funding in target geographies.

***Develop a digital information system** with the goal of adding value for all actors involved in a business model – smallholders, SMEs, off-takers, end buyers, input suppliers and financial institutions*


Catalyzing Investment in the Peruvian Amazon's Private Sector: Activities

- Developed and submitted an initial draft Year 1 workplan, as well as a revised version incorporating USAID's comments.
- Developed and submitted a draft Year 1 budget for USAID review.
- Identified Peru Cacao Alliance staff, including technical experts and administrative employees, that could contribute to initial assessments, stakeholder engagement and support recruitment, operations and other activities on an interim basis

Catalyzing Investment in the Peruvian Amazon's Private Sector: Lessons

The primary focus at this early stage is to get initial assessments off the ground, which will inform the structure of the buy-in moving forward. Inability to travel has led to a hybrid plan for using existing Palladium staff (both DC and Peru-based) with deep professional networks and connections in the region, who can conduct interviews and discussions via teleconferences, along with local firm(s) and consultants that may be able to travel on a limited basis, but may also rely primarily on virtual means. Operating a program in Peru and the Amazon region during the pandemic has enabled us to find some solutions that are working for outreach and remote data collection.

Sahel: Buy-in Summary

 Projected LOP budget of **\$10.2M** of which **\$5.9M** is Obligated. Capital Mobilization Target of **\$50M**.

 August 2020 – Sep 2024

 Burkina Faso, Niger, Mauritania (TBC)

 Partners - TBD



Increase financing to support capital investment in the agricultural sector

Component 1: Mobilize lending from financial institutions (FIs)

Component 2: Provide incentives for facilitators who link FIs and other sources of finance with the farmers, cooperatives and enterprises in targeted regions & sectors

Component 3: Support for youth and women-led microentrepreneurs

Component 4: Drive the development and financing of small-scale community “infrastructure” projects

Components 1 & 2 are expected to run the duration of the program. Components 3 & 4 may start in Year 3 depending on early program results.


Sahel: Activities

- Burkina Faso co-design workshop with USAID West Africa Regional Office, Burkina Faso country representative, agriculture & private sector experts and local market actors including investors
- Pre-workshop discussion with Niger Office agriculture sector specialist
- Engagement with Development Finance Corporation (DFC), Millennium Challenge Corporation (MCC), and other likely US government collaborators


Sahel: Lessons

- Collaboration with USAID's Sahel Collaboration and Communication Activity (SCC) will be helpful to start-up activities in identifying potential organizations to contact and local candidates for local staff opening

Sri Lanka - Private Sector Development: Buy-in Summary

 Projected LOP budget of **\$19.5M**, of which **\$5.7M** is Obligated. Capital Mobilization Target of **\$160M**.

 May 2020 – Sep 2024

 Sri Lanka

 Partners - TBD



Promote economic diversification and employment opportunities for women

***Increased SME competitiveness** - Strengthened business services industry to increase SME capacity and technology adoption, improved market linkages and info and advanced private markets, increased innovation*

***Improved Women's Labor Force Participation** - improved care economy, professional development for women, increased growth of women-led enterprises*

PSD will focus on tourism, ICT, the commercial care industry, and two additional sectors that will be selected based on their potential to create productive employment opportunities, including for women, increase SME revenues, and contribute to economic diversification.


Sri Lanka - Private Sector Development: Activities

- Finalizing the Mobilization Plan and details of initial mapping exercises including SME Competitiveness and Gender Opportunities Assessment, Financial Institution Mapping, and Business Advisory Services Mapping.
- Developing COVID-19 Response Annual Program Statement that will invite new local partners to develop innovative interventions to support SMEs through secondary impacts of COVID-19
- Scopes of work for key leadership positions on Private Sector Development program drafted and posted


Sri Lanka - Private Sector Development: Lessons

- Learned from call with the DFC Sri Lanka team that there are ongoing concerns of underutilization of DFC-backed finance products. Will continue to discuss to avoid similar issues and leverage existing Loan Officer trainings.
- Expanding call for concept notes for COVID-19 response to both grants and subcontracts. Tailoring solicitation mechanism to allow for both.

Western Balkans – Engines of Growth: Buy-in Summary

 Projected LOP budget of **\$18M**, of which **\$4M** is Obligated. Capital Mobilization Target of **\$180M**.

 May 2020 – Sept 2024

 Western Balkans
Individual missions considering CATALYZE: Albania, Bosnia & Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia

 Partners - TBD



Increase small and medium enterprises' (SME) access to and use of finance to drive enterprise growth

This activity will engage market actors and other stakeholders to identify key constraints and opportunities and develop one or more activities to minimize the access to finance constraint. Initiatives could include:

- Increased utilization of non-bank financial products*
- Improved SME financial literacy*
- New approaches to transaction origination*
- Exploration of the potential for blended capital and other tools to crowd-in financing.*

West Balkans – Engines of Growth: Activities

- Worked with the regional mission on a revised Performance Work Statement to include an initial window of support to help viable SMEs in the wake of COVID 19 and a second window to support capital mobilization to growing SMEs.
- Put together a problem statement and a supply side pay for results approach for the missions' review, consideration and feedback
- Engaged the regional mission on a Statement of Work (SOW) around the creation of a COVID-19 Dashboard for the WB
- EoG undertook preparations for the kick-off introductory meeting with Western Balkans missions

West Balkans – Engines of Growth: Lessons

- All assumptions around program design need to be validated with missions and stakeholders on the ground.
- The impact of COVID-19 on economies is difficult to estimate; regional impact may be minimal.
- Tools like the COVID-19 Dashboard can be a very effective tool in helping to understand the impact and predict the outcome of the crisis on these economies. This platform should coordinate or build off other dashboards that already exist.
- Capital mobilization through traditional sources of financing such as commercial banks during a period of global economic crisis might be prove to be a challenge and also an opportunity to catalyze alternate non-traditional sources of financing for SMEs.

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