Donors, implementing agencies and DFI/PDB cooperation

The case of France: AFD and Proparco

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This study is part of a series of analyses covering 8 European case studies (France, Germany, Italy, the Netherlands, Spain, United Kingdom, the European Bank for Reconstruction and Development - EBRD and the European Investment Bank - EIB) as well as a synthesis report.

COORDINATION FRAMEWORK

In France, blending operations are implemented by the public development bank (PDB) Agence Française de Développement (AFD) and the development finance institution (DFI) Proparco. Proparco has gained a larger role in recent years, reflecting a growing recognition of the need to mobilise private investment. Proparco is part of the AFD Group and in charge of all development operations with the private sector. Its latest capital increase dates back to 2020, bringing its share capital to €984 million. AFD is France’s main implementation agency. It finances the public sector, non-governmental organisations (NGOs), and research and education in sustainable development. In principle, coordination between AFD and Proparco is embedded from the start as part of a group approach in which each organisation builds on the comparative strengths of the other.

Both Proparco and AFD implement France’s development cooperation and international solidarity strategy. In doing so, they cooperate with the responsible ministries from an early stage. In addition to providing funding, France’s Ministry for Europe and Foreign Affairs and Ministry of Finance designed the legal and
strategic framework in which Proparco and AFD operate. In August 2021, France adopted a new law on solidarity-based development and the fight against global inequality. Its first article sets out global strategic objectives for development and a mandate shared by all French development actors, including AFD and Proparco. These strategic objectives are further defined in thematic priorities by the Inter-Ministerial Committee for International Cooperation and Development (CICID). One of the priorities is “to strengthen partnerships with private sector actors.” The main geographical zone of operation is defined as the African continent, with an established list of priority poor countries and an emphasis on francophone states. These strategic orientations provide overall guidance and objectives that are shared by the ministries, AFD and Proparco. Further specification is carried out in line with the agencies’ respective mandates. While the ministries determine strategic orientation, AFD and Proparco are largely responsible for implementation. Proparco’s 2020-2022 strategy, which is embedded in the AFD Group strategy, expresses the ambition to double financing flows to private actors, to reach a total of more than €8 billion.

In addition to strategic orientation, France’s broader coordination framework has been translated into dedicated governance structures. The ministries are closely involved up front in selection and approval of financial cooperation operations, via a dedicated board, investment committee discussions and, to a lesser extent, reporting exercises. The Proparco Board of Directors meets four times each year and includes representatives of AFD (its majority shareholder). Every month, the investment committee assesses alignment of the largest proposed projects with Proparco’s own strategy and the mission assigned to the AFD Group as a whole, while also looking at financial conditions and risks.

Coordination happens at the European Union (EU) level as well. Here, coordination has reportedly been strengthened with the recent ‘Team Europe’ approach. In 2020, as part of the programming of the multiannual financial framework (MFF), or EU aid and cooperation budget, for 2021-2027, a number of Team Europe initiatives were designed and member states, along with their agencies, were asked to indicate where they were interested in participating. In response, the French ministries, AFD, Proparco and other French development actors coordinated internally to identify France’s potential contributions, seeking to speak with one voice as much as possible. The European Commission’s strong focus on private sector mobilisation, and especially the related financial instruments, such as the guarantees under the European Fund for Sustainable Development Plus (EFSD+), meant that Proparco and AFD were key players in these discussions. Proparco and AFD coordinated to manifest their contribution, in cooperation with the French ministries. They also presented joint proposals at the Commission level. 4

COORDINATION IN PRACTICE: FISEA+ SUPPORT FOR HIGH-IMPACT MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES IN AFRICA

The FISEA facility was first established in 2009 to promote longer term investment and sustainable job creation in Africa, especially in fragile countries. The facility initially supported social and solidarity-based businesses and MSMEs providing essential goods and services. FISEA was set up as a pioneer entity to provide equity support in risky environments on the African continent. It therefore deployed tools and mechanisms that prioritised development impact over financial returns. Having reached full investment in 2019, the facility was transformed into the FISEA+ in 2021 with new funds allocated to it. The facility is unique in multiple ways, but perhaps its most important feature is that it brings together a wide range of actors who have to coordinate effectively at multiple levels to make it work.

Strategic and governance-related coordination

FISEA, and now FISEA+, is managed by Proparco, fully owned by AFD and includes financial contributions from the French Ministry for Europe and Foreign Affairs, as well as now from the European Commission.

The ministries for Europe and Foreign Affairs, and of Finance, are both represented in the dedicated governance structures set up for FISEA and FISEA+. These set out the facility’s strategic orientation and priorities.

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1. https://www.legifrance.gouv.fr/affichId/JORFTEXT000043898536
4. For reference, between 2014 and 2020, EU blending funding covered more than half of the AFD Group’s blending operations.
The facility has its own board of directors and investment committees. Representatives of the French ministries serve on these, alongside other actors, including independent experts. They identify sectoral priorities, which currently are four: MSME support, social businesses, sustainable private sector, and start-ups in the innovative digital sector. Thematic envelopes are also established – such as, currently, fragile states, agriculture (which so far represents a third of the facility’s MSME support), and social and inclusive businesses. Geographical distribution reflects the focus of French development cooperation on the African continent. Eighty-five per cent of FISEA+ allocations are to be dedicated to operations in Africa.

Most coordination between the parties happens up front within these dedicated governance structures. They are responsible for ensuring full alignment with global and shared development objectives, as well as assessing the financial viability of the proposed operations. From a financial perspective, FISEA+ is unique in that portfolio equilibrium is its main longer term goal while accepting lower returns in the short term if it contributes to its development impact objectives. This allows for greater investment in what are perceived as riskier markets, where development needs are high but investors scarce.

The AFD Group, on behalf of Proparco, has led negotiations with the European Commission to demonstrate the relevance of the facility’s operations for the EU and obtain additional funding for the FISEA+ to achieve greater development impact. This has been helpful to Proparco, as it has no representative based in Brussels as yet. Even though Proparco’s operations are fully part of the AFD Group approach, close coordination with the AFD Brussels office has been required. This setup has proven efficient in facilitating Proparco’s inputs in negotiations at the European level (which can be lengthy); however, it has also required additional internal discussions and clarifications on roles and responsibilities ahead of time, to come up with joint proposals. The interactions with the European institutions have been described as helpful in infusing European policy objectives into the mission assigned to FISEA and FISEA+.

Coordination at the implementation level

To achieve the main ambition of FISEA+, which is to support projects with increased development impact, a varied toolbox is available for deployment by the multiple actors involved, who also bring their own expertise.

In 2022, the facility had a €210 million global investment capacity. It maintains at least an 80% distribution to private equity or venture capital funds (excluding funds of funds) and a maximum of 20% direct equity in company capital. It invests in operations with longer lifespans (15 years) and in venture capital funds positioned on pre-seed or seed capital, as well as junior tranches. It also includes a technical assistance budget of €21 million (up from €4.5 million in 2009) to support the development of bankable projects and reliable project pipelines, along with the promotion of sustainable business practices. In 2022, the European Commission provided a €35 million guarantee to assume some of the risk of FISEA+ operations and encourage private investors to support MSMEs in fragile countries.

As long as substantial development impact can be demonstrated, FISEA+ aims for low returns on the balance sheet in the short term, with global equilibrium as a longer term goal. This change was made after a budgetary loss was initially suffered by the FISEA. That led the Ministry for Europe and Foreign Affairs to provide FISEA+ increased support in the form of a €40 million grant allocated to AFD and Proparco, to be used as a guarantee and to cover the potential initial loss. This has provided the AFD Group and Proparco more room to manoeuvre, protected their own resources and given FISEA+ the ability to do what Proparco could not do on its own or only with its own resources. Table 1 presents an overview of the actors involved in the FISEA+ and the roles of each.

Proparco teams implement the various financing tools. This involves a level of coordination between the teams based in Paris and those in the field, though since Proparco has a limited presence in the field, the AFD mission sometimes assumes responsibility for operations on behalf of the group.
CHALLENGES, KEY SUCCESS FACTORS, RESULTS AND IMPLICATIONS

At the strategic level

So far, all of the parties have expressed mostly positive feedback on the quality of the cooperation, praising the shift in focus towards greater development impact rather than additional financial returns. This was confirmed in the transformation of FISEA into the FISEA+ and its clearer mandate for market development in fragile countries. The involvement and financial support provided by both the Ministry for Europe and Foreign Affairs and the EU, in particular, has been key for Proparco to lead on riskier operations and target smaller structures in African countries where such equity investments are rare. All of the interviewees observed that the mandate that was given by the French presidency was important in maintaining such focus, along with the ‘policy first’ emphasis of the European Commission, which echoes this objective. While financial results have been negative at times, the strategic focus on development impact and policy objectives have enabled Proparco to focus on longer term gains, rather than short-term losses. Lessons were learnt from the experience of FISEA, leading to adoption of a lower risk-return ratio for the FISEA+, in line with the facility’s clearer development mandate.

The setup of the facility’s dedicated governance structure was also identified as a key success factor, as it provides a dedicated space for discussion and the decision-making process. The composition of the governance structure, which combines various types of expertise, including the private sector in Africa, was underlined as a valuable addition to ensure that operations are more adequately designed and implemented.

However, the involvement of so many actors brings its own challenges. Reaching a compromise on the shared objectives and identifying a method to reach the objectives has been a lengthy and sometimes difficult process. For example, FISEA’s overall strategy changed three times over ten years, reflecting changing political orientations. This has had concrete implications, and sometimes introduced complications, for delivery in the field, in terms of either beneficiary identification or geographical focus. While political drive has provided impetus and visibility to the initiative, it has also hindered continuity and longer term impact. Indeed, the facility’s ten-year evaluation recommends defining a longer term strategy with clear impact.
objectives that are aligned to the French development strategy and EU objectives, as well as with international frameworks such as the 2030 Agenda and Paris Agreement.5

Such a vision would also ensure a clearer financial trajectory for the facility. The facility has a 15-year lifespan, and the end goal is for companies that receive support to become viable or find new investors to develop their activities further. Yet, this lifespan currently extends beyond the financial support provided by French and European stakeholders, introducing uncertainty.

**At the implementation level**

On the quantitative side, the overall results are positive, but more can be done to target fragile countries and least-developed countries (LDCs). Investments made through FISEA have supported more than 800 MSMEs on the African continent (including 47 MSMEs in health, 26 in the education sector and 24 in renewable energy). Technical assistance has been provided to 130 companies in 35 countries. Only 32% of FISEA investments, however, went to LDCs, and 14% went to fragile countries; while 40% went to more mature markets, such as Kenya and South Africa. Proparco’s limited presence in the field could go some way to explain this distribution. If so, further complementarity with the AFD network could be sought.

Particularly in fragile countries and LDCs, coordination between Proparco and AFD could be strengthened to better combine their respective expertise. Fragile countries and LDCs present multiple challenges for investment, and therefore require a well-filled toolbox for operations. Mobilising the private sector through guarantees cannot work in isolation. Public sector expertise is also required, for example, to improve the business environment and lead in policy dialogues with authorities towards structural transformations. The AFD Group approach, in that sense, along with the Team Europe approach, should be promoted to make complementary expertise work better together.

The lack of a structure dedicated to monitoring and evaluation purposes is another area for remediation, especially in the absence of a shared understanding of development impact. Part of the transformative power of the FISEA+ lies in its ability to promote longer term and structural changes in countries in need. However, all of the actors involved seem to have different understandings of what development impact should be. Some focus on the number of jobs created while others prefer broader definitions that incorporate transformation within a specific sector of operations towards longer term impact on public policy, in line with the more global agendas of international development. In that sense, cooperation could be strengthened in the monitoring of the facility, with a view towards reconciling quantitative, systemic and more geopolitical impact expectations. This would also help clarify the contribution made by such blending operations to global agendas like the 2030 Agenda and the Paris Agreement, as well as their impact in specific countries at the national and local levels.

The differences in understandings reflect different positionalities in terms of timeline, as structural changes necessarily involve longer timeframes. The wide range of instruments mobilised for the facility represents a key asset in this regard. Direct equity provides necessary support to businesses in Africa, without intermediaries, over longer periods of time. The technical assistance complements this in two ways: developing the skills of the actors involved and strengthening either all activities pre-investment or improving the broader environment. Finally, the guarantee is necessary to cover potential risks, particularly economic and political ones. These financial instruments support but do not replace policy dialogue, which has been limited so far. Impact on policy dialogues is not at the heart of Proparco’s mission. This is an area where the forces of AFD, the ministries and the European institutions could be combined for a more transformative and longer term impact.

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Lessons from the FISEA highlight the need for strong dialogue at the operational level. Strong dialogue is even more important when operations involve a wide range of actors and questions are still being raised on the relevance of using official development assistance (ODA) funds to mobilise the private sector and how best to implement transformative operations.

As part of the AFD Group dynamic, sectoral platforms are being set up internally to bring together practitioners from AFD and Proparco, for example, on a specific theme. The idea is for them to get to know each other and share practices potentially from different geographies, to identify opportunities for strengthened cooperation. These platforms are still in the making and are expected to remain largely informal; but they have been identified as important learning spaces to build resources and skills. Similar dialogue could be strengthened at the European level, too, building on the dynamic created by the Team Europe initiatives. These would need to remain flexible, however, so as not to slow down activities or dilute the focus of some operations.

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