UNITED NATIONS DEVELOPMENT PROGRAMME

Mapping successful financing strategies and models for MSMEs and informal sector enterprises, including support for their recovery and resilience in the context of the COVID-19 pandemic

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List of acronyms and abbreviations

AfCFTA:	African Continental Free Trade Area
AFDB:	African Development Bank
AMF-UEMOA	Financial Market Authority – UEMOA (formerly CREPMF)
API:	Application Programming Interface
ATM /DAB:	Automatic Teller Machine
BCEAO:	Central Bank of West African States
BADEA:	Arab Bank for Economic Development in Africa
BDEAC:	Development Bank of Central African States
CIPRES:	Conférence Interafricaine de la Prévoyance Sociale (pension system regulatory authority)
EIB:	European Investment Bank
EBID:	ECOWAS Bank for Investment and Development
BOAD:	West African Development Bank (BOAD)
BRVM :	Bourse Régionale des Valeur Mobilières (Regional Securities Exchange)
CGAP:	Consultative Group to Assist the Poor
CIMA:	Inter-African Conference on Insurance Markets (regulatory authority for the insurance market)
CREPMF :	Conseil Régional de l'Epargne Publique et des Marchés Financiers (regional regulatory authority)
DFI:	Development Finance Institution
PSD:	Private Sector Development
EADB:	East African Development Bank
EU:	European Union
FDI:	Foreign Direct Investment
FCA:	Financial Conduct Authority
FIAS:	Foreign Investment Advisory Service
GIM-UEMOA:	WAEMU interbank electronic payment system
GSMA:	GSM association
HNWI:	High-net worth individuals
IFC:	International Finance Corporation
ITC:	International Trade Centre
ILO:	International Labor Office
MFI:	Microfinance institution
MMO/OMM:	Mobile Money Operator
MENA:	Middle East and North Africa
MSME:	Micro, small and medium enterprise
MTQS:	Metrology, testing, quality and standards
PPP:	Public-Private Partnership
PoS:	Point of Sale
QHEST:	Quality, health, environment, safety and technical
SAFE:	Simple Agreement for Future Equity
SAIS:	South African Innovation Summit
SMAC:	Social, Mobility, Analytics and Cloud
SME:	Small and medium-sized enterprise
SSA:	Sub-Saharan Africa
WAEMU/UEMOA:	West African Economic and Monetary Union
UNCDF:	United Nations Capital Development Fund
UNCTAD:	United Nations Conference on Trade and Development.
UNDP:	United Nations Development Programme
UN-GA:	United Nations General Assembly
SRI:	Social Responsibility Investors
TDB:	Trade and Development Bank
TEF:	Tony Elumelu Foundation
WBG:	World Bank Group

EXECUTIVE SUMMARY

MSME in the WAEMU

Micro, small and medium enterprises, including those from the large informal sector, are vital to the socioeconomic transformation of the eight countries of the West African Economic and Monetary Union (WAEMU) - Benin, Burkina, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. The industrial transformation, export competitiveness, value addition and local participation in the natural resource sector, the green economy, the digital economy, and the much-needed job creation, all depends largely upon a striving MSME sector. Yet, despite the rather robust banking network of the WAEMU, with 131 banking institutions and 21 finance companies, the 522 microfinance institutions, 46 life insurance companies, the region's 27 domiciled private equity funds, 128 Fintechs, and a regional stock and bond exchange (BRVM - Bourse Regional des Valeurs Mobilières) common to all eight countries of the WAEMU; MSME access to finance continue to be a challenge in all 8 countries of the only economic and monetary union of the developing world.

Indeed, for reasons largely documented, **commercial banks** which dominate the regional financial landscape continue to display a timid appetite for MSME financing; the cost and access conditions of/to **microfinance** services still remain prohibitive and translate into a large portion of underserved consumers and small businesses excluded from the financial service industry; the regulatory and tax/incentive framework and overall ecosystem for **venture capital and private equity** remains largely below par with the rest of the African continent but Central Africa; while the **Fintech** sector which is largely under-funded and under-capitalized remains embryonic with services predominantly limited to payment/remittances and mobile money/wallet for consumers which have been successful from a financial inclusion point of view and is being largely driven and captured by **large telecommunication companies, the main MMO (mobile money operators)** and international money transfer companies.

WAEMU MSME access to finance gap: Size and taxonomy

The challenges of WAEMU MSME access to finance also present in terms of **MSME life-cycle funding** or availability of the financing continuum (seed funding; venture capital and private equity; working capital finance; growth finance; trade finance); **sector-specific funding** (informal sector, agriculture, handicraft/craftwork, creative and cultural, digital, transport and logistics, hospitality, manufacturing); but also in terms of **client MSME profile financing solutions** (micro, small, medium, youth, women, informal enterprise). When the informal sector is taken into account, the challenges also present in terms of **supply gap for 95 to 99% of the region's enterprise** count, but also, in terms of **consumer-level financial exclusion** which, fortunately, is being addressed with new financing and transactional finance models availed by the Fintech through the mobile money revolution driven largely by big telecommunication companies and e-commerce revolution through platforms such as Jumia.

Estimated WAEMU-level MSME finance Gap:
(based on IFC 2021 Survey)

FORMAL MSME FINANCE GAP: $28 BILLION

FINANCE GAP FOR FEMALE-OWNED FORMAL MSMES (15% OF FORMAL DEMAND): $4.2 BILLION

INFORMAL MSMES' DEMAND FOR FINANCE (68% OF FORMAL DEMAND): $19 BILLION

From a contextual perspective, WAEMU countries and the large majority of African countries should also view MSME access to finance as a platform to realizing the following four transformative opportunities for WAEMU and the continent as a whole:

- African Continental Free Trade Area (AfCFTA)
- Green growth and green transition of the region towards the 2030 goals
- Digital transformation of society and economies
- Social entrepreneurship, informal sector upgrading and youth and women entrepreneurship

All in all, WAEMU countries need not only funds earmarked for MSME access to finance from MSME-life cycle, sector and enterprise profile perspectives; but also more inclusive models of MSME access to finance in terms of financial markets, institutions and services.

Proposed solutions and roadmap to address WAEMU-level MSME access to finance bottlenecks and challenges

Opportunity areas for scaling-up and consolidating MSME access to finance

Nevertheless, the potential for financing MSMEs in the WAEMU region is considerable if one considers the margins for progress in the different countries of the subregion with respect to the **four MSME financing models and related services**:

- **Model 1**: MSME Banking (Trade Finance included)
- **Model 2**: Fintech, digital finance plus and related supporting ecosystem
- **Model 3**: Private equity financing, stock and bond market financing, and angel investors
- **Model 4**: Green finance, impact finance and microfinance

The potential is even greater if one considers: (1) **the wide range of lending technologies** - Small business credit scoring, financial statement lending, relationship lending, factoring, asset-based lending, leasing, fixed asset lending, project finance or cash flow-based lending and recently digitally-enabled alternative SME lending yet to be fully leveraged in the region; (2) **blended finance solutions** which are applicable across sectors and across the MSME life-cycle; (3) the wide spectrum of **Fintech solutions** and their ability to enable other financing solutions such as "PayGo" solutions.

RECOMMENDATIONS TO SCALE-UP WAEMU-LEVEL MSME ACCESS TO FINANCE

Leveraging blended finance to address structural MSME access to finance bottlenecks through SME banking, equity finance and impact financing:

Structural bottlenecks of MSME access to finance include but are not limited to: (1) Supply-side challenges (funding earmarked for MSME finance, capacity of banks and financial institutions involved in MSME finance and the incentives of banks and other financial institutions to finance MSMEs); (2) demand-side challenges (financial literacy and investment/credit readiness of MSME involved); and (3) ecosystem-level constraints (quality and performance of the support system such promotion, incubation and acceleration centers and other financial infrastructure such as credit bureaus).

The study proposes the leveraging of **blended finance structures** which involves the strategic use of public financial resource - local or international - or philanthropic resources to realize all or part of the following objectives of: (1)de-risking potential commercial lenders and investors thereby crowding-in more commercial resources to finance MSME; (2) de-risking the bank's loans on a portfolio or individual project basis thereby further incentivizing bank to engage in MSME lending; and (3) possibly strengthening the capacity of ecosystem players such as MSME promotion, incubation and acceleration centers, and financial institutions themselves (as illustrated by the Case Study 1 on Boost Africa Blended Finance scheme).

- Technical capacity building programmes (such as IFC/World Bank Group **SME banking advisory** services) and best practices and experience sharing programmes in favor of banks and

other MSME finance institutions can also be considered as part of or outside these blended finance schemes.

- Adjusting **Basel III-related capital adequacy requirements for MSME lending** would also be an additional incentive for WAEMU banks and MFI involvement in MSME lending.
- Removing bottlenecks which prevent earmarked resources to trickle-down to MSME, small businesses and informal enterprises

These involve the following measures: (1) set MSME and informal sector access to finance targets for any earmarked public fund (domestic and international); (2) lift regulatory impediments (such as Basel III-related capital requirements) which prevent financial institutions such as MFI from accessing public funds channeled through mainstream commercial banks as their loan ceilings are easily reached due to their small capital base; (3) use financing channels other than mainstream commercial banks and consider alternative channels such as MSME and informal sector-friendly banks (e.g. COFINA bank) and other decentralized financial systems such as microfinance institutions, village banks, NGOs and so on; as well as leverage solutions that target directly groups such as women associations/groups, youth entrepreneurs associations and farmers associations/groups; (4) consider and scale-up portfolio guarantee for MSME lending, MFI and other decentralized financial system lending programmes; (5) promote and scale-up financial services that enhance the resilience and/or de-risk MSME, small businesses ad informal enterprises such as: guarantee, Fintech which serve informal enterprises and index insurance for smallholder farmers.

Scaling-up and making MSME finance guarantee schemes work for MSME and the informal sector

Actions to be considered to achieve this objective include: (1) A combination of: proper targeting of MSME-friendly financial institutions such as MFI and MSME-friendly financial institutions (e.g. financial institutions with established MSME finance programmes) facilitated by accommodating eligibility criteria for access to the facility by the said financial institutions; (2) Innovation in the delivery of guarantee services such as, collaborating with MSME associations in the design and offering of guarantee services, differentiating guarantee services by sector, and offering group/mutual guarantees; (3) Integrated offering of guarantee services and capacity building to beneficiary MSMEs; and (4) Promoting performance-oriented entrepreneurship and MSME development at ecosystem level with key performance indicators (KPI) around: number of viable start-ups to be created, MSME growth through investment, MSME access to market (export, subcontracting, government contract)

Supporting Fintech, especially those serving the informal sector, the digital transformation of financial institutions and MSME, and promoting digital finance plus

Globally and in East Africa in particular, Fintech has catalyzed new MSME financing models more adapted to the needs and profile of MSME; smallholder farmers and informal enterprises included. Overall, Fintechs have provided the economy and MSMEs with three levels of benefits: (1) efficiency and competitiveness, (2) access to finance and transactional financial services, (3) enablers of other socio-economic sectors via Digital Finance Plus solutions. Yet, in all WAEMU countries, the Fintech start-ups face not only access to finance challenges; they also suffer from deficit in supporting polities and ecosystem.

WAEMU countries will have to address four related support agenda for Fintechs and associated ecosystem: (1) Establishing **dedicated funds to support WAEMU Fintechs** which have limited to no access to finance; (2) incentivizing and supporting the **digital transformation of WAEMU financial institutions** – commercial banks, postal bank systems, microfinance and other rural finance institutions including leveraging technology to enhance their business model (refer to UNCDF MicroLead and CGAP activities); (3) supporting **e-commerce platforms which enable MSMEs** (refer to Jumia, DigiFarm case studies); and (4) support the **digital transformation of MSMEs**.

Special efforts should be deployed to support and consolidate transformative solutions and progress being realized in the areas of: (1) **mobile money and mobile/digital wallet** which accelerate financial inclusion, (2) **cross-border payment apps** which will enable regional trade and AfCFTA **(**e.g. Paystack and Paga in Nigeria), and (3) digitally-enabled "**Pay-as-you- go**" and "**Pay-to-own**" solutions which support decentralized renewable energy projects and productive activities for disadvantage groups (e.g. Oolu Energy and PEG Africa in WAEMU and M-Kopa/case study 8 in East Africa).

Additionally, continuous experience sharing and **training on digital entrepreneurship, internet business models, and platform business models** should be promoted to support the emerging digital industry of the region. **Catalytic events**, such as the South Africa Innovation Summit, which promote interactions between digital ecosystem players, should also be promoted.

Building missing MSME finance markets: venture capital and private equity, public bond and equity market, impact investing market, and green finance market

A combination of enabling policy, regulatory and legal framework; domestic and international public resources mobilization to crowd-in commercial finance; foreign direct investment; financial institution and financial market development; and technical capacity building are to be implemented if the following missing MSME finance markets are to be developed across the WAEMU region:

- The **venture capital and private equity market for MSME**: This market is critically important for MSME, Fintechs and other innovative digital enterprises. Yet, it remains very embryonic in the WAEMU region and requires enhanced policy, regulatory and incentive framework from the regional financial market regulatory authority, CREPMF (conseil régional de l'épargne publique et des marchés financiers) and the regional central bank, BCEAO (Banque centrale des états de l'Afrique de l'Ouest) as articulated in the 2019 World Bank Group-CREPMF Report[1].
- The **stock and bond market for MSME**: The market will be developed by supporting the efforts of the regional stock and bond market (BRVM - Bourse Régionale Des Valeurs Mobilières) to accommodate the needs of the MSME sector; namely, towards full implementation of the ongoing initiatives such as BRVM Small Market Capitalization for SME listing, BRVM Basket Bonds programmes targeted at promoting group bond issuance and the BRVM Elite Lounge programme which is an investment readiness support programme for eligible SME.
- The **impact finance market**: The large deficit in access to finance for their large informal, agriculture, women, and youth entrepreneurship sectors; coupled with the actual and potential socio-economic benefits of the overlooked social enterprise sector command that WAEMU countries put special emphasis on the development of the impact finance market. Towards that end, enabling policy framework, impact investment resource mobilization, and development of pools of impact fund managers, including at least 50% of women, should be considered across the region.
- The **green finance market for MSME**: The January 2017 Report of the Business and Sustainable Development Commission "Better Business, Better World"[2], revealed considerable wealth and job creation opportunities for the global economy, developing countries included, in number of green industrial sectors which can be leveraged by WAEMU countries only by putting in place green financing solutions for MSME namely. Our report identifies a number of mechanisms to promote such MSME finance solutions: Policy frameworks such as renewable energy, energy efficiency and circular economy policy framework; institutional models such as green banks (e.g. Connecticut Green Bank/Case Study 7), green bonds and green funds; and last mile consumer finance solutions such as "Pay-as-you-go model" (refer to M-Kopa Case Study 8).

[1] World Bank Group, CREPMF, 2019 "Réforme du cadre légal et réglementaire de l'industrie du capital-risque et du capital-investissement dans l'UEMOA, Première phase », Octobre 2019
[2] Report of the Business and Sustainable Development Commission "Better Business, Better World", January 2017

1. INTRODUCTION AND BACKGROUND

1.1 The Mission

The report, commissioned by the UNDP Regional Bureau for Africa (UNDP RBA) and the Arab Bank for Economic Development in Africa (BADEA), in partnership with the Government of Benin, focuses on mapping good practices and innovations in strategies, models and tools for financing entrepreneurship and MSMEs, including in the informal sector in the West African Economic and Monetary Union (WAEMU). The mission also includes mapping stakeholders involved in digital finance (Fintech) and documenting case studies and information on Fintech and e-commerce solutions for discussion in a public-private dialogue (PPD) for adoption and scaling up as part of the effort to revive MSMEs in the context of the COVID-19 pandemic.

The main objective of this report is to inform, inspire and trigger possible action on the ground after the PPD.

The mapping exercise draws largely on existing research and literature, as well as responses to a questionnaire sent to stakeholders in the UEMOA MSME sector, including financial sector practitioners (banks, MFIs, Fintech, BCEAO, BOAD, BRVM, GIM-UEMOA), MSME owners and associations, youth and women's entrepreneurial associations, and informal sector associations. It is not intended to be prescriptive and does not advocate a single approach to MSME financing. Rather, the report sheds light on the challenges, opportunities, and effective practices in MSME financing in Africa and elsewhere, with the objective of focusing on MSME financing policies, programs, and tools that can be scaled up in the WAEMU region.

Finally, the mission also considers that the mapping exercise should focus only on best practices and solutions that can eliminate bottlenecks and/or seize opportunities identified in access to finance for MSMEs in the WAEMU. From this perspective, the mapping will not be exhaustive, but rather will focus on a selection of issues that are considered priorities for the UEMOA region with the potential of being replicable and scalable across Africa.

From this perspective, the report will be largely based on successful case studies or models of promoting access to finance for MSMEs that can be replicated and scaled up in the WAEMU region.

1.2 The Context of the mapping mission

1.2.1 Presentation of the West African Economic and Monetary Union (WAEMU)

Created on January 10, 1994, the main objective of the West African Economic and Monetary Union (WAEMU) is to build a harmonized and integrated economic space in West Africa, within which the free movement of persons, capital, goods, services and factors of production is ensured, as well as the effective enjoyment of the right to exercise and establish a business for the professions, and the right of residence for citizens throughout the community territory. Eight coastal and Sahel states, linked by the use of a common currency, the CFA franc, and benefiting from common cultural traditions, make up the WAEMU: Benin, Burkina, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. The WAEMU covers an area of 3,506,126 km^2 and had an estimated population of 129.9 million inhabitants in 2019. The consolidated 2019 nominal GDP of the union stood at around USD 150 billion and the GDP growth rate, at constant prices, was 6.1% in 2019. *(WAEMU, 2020).*

Table 1: Selected socio-economic and sector data

WAEMU countries, 2019 figures unless otherwise indicated

	Benin	Burkina Faso	Côte d'Ivoire	Guinea Bissau	Mali	Niger	Senegal	Togo	WAEMU
Population (million)	12.1	20.9	26.2	1.9	20.2	24.2	16.2	8.2	**129.9**
Adult population (million)	4.9	7.6	13.6	0.7	9.5	9.5	8.4	4.4	**58.6**
GDP per capita (USD)	712,4	403,8	1336,3	527,8	510,7	510,7	853,2	403,5	**1 ,152**
Annual inflation rate	0,9%	3,2 %	0,8%	0,2%	3,0%	3,0%	1,0%	0.9%	**-**
GDP growth rate	6,9%	5,7%	6,9 %	4,5 %	5,0 %	5.0%	5,3%	4.9%	**6.1%**
GDP, current prices, (billions of USD)	14.39	15.99	58.54	1.34	17.41	12.92	23.58	5.46	**149.65**
Doing Business Ranking, 2020, Africa out of 51	28th	29th	13th	42nd	27th	22nd	20th	9th	**-**
Internet penetration rate, Jan 2021	2 8.4%	25.7%	46.8%	13%	27.9%	13.6%	46%	23.8%	**-**
Mobile phone penetration rate, Jan 2021	83.6%	101.5%	139.1%	79%	101.8%	43.2%	102.9%	81.5%	**-**
Mobile money penetration rate, Jan 2021	50,61%	64,39%	60,12%	23,90%	22,97%	3,97%	32,06%	34,75%	**39.65**
Social media utilization rate, Jan 2021	13.0%	9.4%	22.1%	13%	10.2%	2.4%	23.0%	10.6%	**-**
Number of Fintechs – Estimates (est.)	11	10	37	1	18	10	24	17	**128**
Number, Incubators/accelerators – est.	6	9	16	1	7	7	12	14	**72**
Number, investment funds – est.	2	2	8	-	1	1	10	2	**27**

Source: Author compilation based on AfDB, World Bank, GSMA, We Are Social, MicroSave Consulting and MasterCard Foundation

1.2.2 Importance and challenges of MSMEs in WAEMU

The promotion of a dynamic micro, small and medium-sized enterprise (MSME) sector is considered a priority among the economic development objectives of WAEMU countries. MSMEs, including those in the informal sector, are a key driver of job creation and inclusive economic growth. They contribute greatly to economic diversification and social stability and play an important role in private sector development, particularly in the promotion of exports, local content in the natural resources sector and industrial transformation in the region.

However, the development of MSMEs in WAEMU is proving particularly difficult with several challenges to be met relating to: (1) their operating environment at the legal and regulatory levels; (2) their size, technical capacity and risk profile; and (3) the supply of financing and coaching/training services. All in all, they generally face more severe growth constraints than larger companies and have a risk profile that results in reduced access to markets, skills, and capital.

The lack of access to finance was consistently cited by WAEMU MSME sector stakeholders as one of the main obstacles to their growth in the questionnaire administered as part of the mission that produced this report. Often viewed by commercial banks and financial institutions as risky and costly to serve, MSMEs are generally underserved in terms of basic financial services; including technical assistance grants, investment financing, seed capital, venture capital or private equity, and trade finance. With such limited access to finance, MSME owners in the region find it difficult to make the investments they need to increase productivity and improve the competitiveness of their businesses, develop new markets, and create jobs.

Banking institutions continue to dominate the financial landscape of WAEMU countries. However, for well-documented reasons, MSMEs in the region, like those in Africa in general, continue to suffer from limited access to financing services (investment, working capital, trade finance, factoring and alternative financing such as leasing).

The BCEAO's measures to promote MSME financing and financial inclusion (regulatory framework governing the activities of credit information bureaus, support for SME financing through refinancing, modernization of the electronic money issuance framework, regulatory framework and appropriate infrastructure to promote the development of digital financial services in the Union through the interoperability of payment platforms) must be complemented by other more targeted measures to finance MSMEs in the region. Furthermore, BCEAO regulations must be simple and easy to interpret and implement.

Despite the progress made by the **microfinance** sector, underserved populations, microenterprises and informal sector actors continue to suffer from: (1) a major problem of limited access to finance for a large segment of the population; (2) exorbitant financing costs (interest rates and application fees combined) even for 100% guaranteed financing; and (3) caps on financing amounts that do not benefit growing microenterprises. In addition, the impact finance market ecosystem remains largely underdeveloped (in terms of local impact finance institutions, local fund managers, access to the international impact finance market), with WAEMU attracting only 3.9% of impact investment into Africa from the major funding sources.

Table 2: Financial Inclusion in the WAEMU Zone - 2019

	Benin	Burkina Faso	Ivory Coast	Guinea Bissau	Mali	Niger	Senegal	Togo	WAEMU
Banking services usage rate	14,32%	17,80%	18,71%	20,28%	14,24%	6,61%	17,18%	20,97%	15,57%
Strict banking penetration rate	24,80%	23,20%	19,08%	20,28%	14,24%	6,76%	18,98%	25,12%	18,03%
Microfinance services usage rate	47,40%	20,22%	11,72%	1,00%	12,51%	9,70%	33,04%	53,35%	21,67%
Expanded banking penetration rate	72,20%	43,42%	30,79%	21,28%	26,74%	16,46%	52,02%	78,47%	39,70%
Electronic money services usage rate – accounts opened	97,48%	87,92%	73,47%	46,47%	64,75%	12,04%	61,89%	84,27%	65,99%
Electronic money services usage rate - account usage	50,61%	64,39%	60,12%	23,90%	22,97%	3,97%	32,06%	34,75%	39,65%

Source: BCEAO, 2021

While **Fintech** is vibrant in East Africa and part of Southern Africa, it is only beginning to take off in the WAEMU region, with Fintech startups largely undercapitalized and only at the first tier of service offerings around payments, money transfers, and digital/mobile wallets and accounts. Digital credit, savings, and insurance services are not yet widely available in the WAEMU region. Of the 128 or so Fintech start-ups identified by the study in the region, only 12 offer marginally so-called alternative financing services (crowdfunding/investment) which, incidentally, remain very limited and concentrated in Côte d'Ivoire and Senegal. In addition, the ecosystem supporting digital sector companies and Fintechs remains underdeveloped, particularly in terms of seed capital, private equity, governments support policies and institutions.

1.2.3 Opportunities to strengthen the supply of MSME financing and access of MSMEs to financing

However, the potential for financing MSMEs in the WAEMU region is considerable if one considers the margins for progress in the different countries of the subregion with respect to the **four MSME financing models and related services**:

- **Model 1** : MSME Banking (Trade Finance included)
- **Model 2** : Fintech
- **Model 3** : Private equity financing, stock and bond market financing and angel investors
- **Model 4** : Green and social finance

The potential is even greater if one considers: (1) **the wide range of lending technologies** - Small business credit scoring, financial statement lending, relationship lending, factoring, asset-based lending, leasing, fixed asset lending, project finance or cash flow-based lending and recently digitally-enabled alternative SME lending yet to be fully leveraged in the region; (2) **blended finance solutions** which are applicable across sectors and across the MSME life-cycle; and (3) the wide spectrum of **Fintech solutions** and their ability to enable other financing solutions such as "PayGo" solutions.

WAEMU and Africa as a region have two transformative opportunities to leverage through improved MSME access to finance: (1) **Trade Finance in support of the AfCFTA;** and (2) **Green Finance** in support of green growth and the Continent's green transition toward the 2030 development goals.

Table 3: External Financing Solutions for MSMEs and entrepreneurs

Bank financing	Alternative financing				Green and social financing
Cash-flow or Collateral-based Credit	**Asset-Based Finance**	**Alternative Debt**	**"Hybrid" Instruments**	**Equity Instruments**	**Climate and social finance instruments**
▪ Discounting ▪ Overdraft ▪ Working capital / short-term loan ▪ Short-term line of credit ▪ Trade finance (letter of credit, documentary collection, stand-by letter of credit, pre-export financing) ▪ Guarantee and bonds (performance bond, advance payment bond, bid bond) ▪ Term loans (medium and long-term)	▪ Asset-based lending ▪ Factoring ▪ Forfeiting ▪ Purchase Order Finance ▪ Warehouse receipts ▪ Leasing ▪ Value chain finance – Commodity financing, Receivable financing, Physical collateral-based financing, and Structured finance ▪ Islamic finance ▪ Value chain finance platform/Fintech ▪ Invoice trading platform / Fintech ▪ Pay-as-you-go/Fintech ▪ Pay-to-own/Fintech ▪ Lease-to-own/Fintech	▪ SME bond ▪ SME basket bond ▪ SME note ▪ SME commercial paper ▪ Securitized debt ▪ Covered bond ▪ Private placement ▪ Crowdfunding (debt) / Fintech	▪ Subordinated loans/bonds ▪ Silent participations ▪ Participating loans ▪ Profit participation rights ▪ SAFE (simple agreement for future equity) ▪ Convertible bonds ▪ Bonds with warrants ▪ Mezzanine finance	▪ Seed funding, ▪ Early-stage funding ▪ Series A, B, C… funding ▪ Stock exchange /public listing of SMEs – IPO & secondary issues ▪ Private Equity ▪ Venture Capital ▪ Business Angels ▪ Crowd investing /Fintech	**MICROFINANCE** ▪ Microcredit, Microassurance ▪ Mutual guarantee, Index insurance ▪ Crowdfunding, P2P, P2B lending / Fintech ▪ Pay-as-you-go/Fintech ▪ Invoice trading/Fintech ▪ Digital insurance/Fintech **IMPACT FINANCE** ▪ Social impact investing ▪ Social bond, Social impact bonds ▪ Social venture capital ▪ Charitable / Retail charity bonds ▪ Crowdfunding/Fintech **CLIMATE FINANCE** ▪ Green bank credit – Loan, mezzanine, project finance, risk sharing, investor de-risking, weather risk solutions ▪ Green fund ▪ Green bond ▪ Structured green finance solutions: (1) Green asset-backed security; (2) Green securitized bonds; (3) YieldCo financing; (4) PACE (property-assessed clean energy); (5) On-bill (on utility bill repayment ▪ Carbon finance – certified / verified emission reduction trading, offset market finance, REDD/REDD+-based project finance

Source: Author compilation and adaptation from: OECD, 2013, "New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments", page 17

1.3 New Context for MSME Financing in WAEMU

1.3.1 The rise of MSME-friendly banks

Despite the above, a number of financial sector players see MSMEs as not only the economic future of their countries but also as credible business propositions. The COFINA banking Group, **positioned** exclusively towards the **missing middle**, is present in 5 WAEMU countries and 2 Central African countries. Elsewhere in Africa, emerging MSME-friendly banks and established microfinance institutions which up-scaled into full banking such as Equity Bank in Kenya have demonstrated that banking services for MSMEs can be largely profitable. In fact, MSME-only banks or MSME segment of banks with higher profitability ratios than traditional banks in the same jurisdictions have emerged in all regions of the world including in the WAEMU space.

1.3.2 Fintech and MSME Finance

The advent of Fintech has catalyzed new MSME financing models more adapted to the needs and profile of MSME. Fintechs have provided WAEMU economy and MSMEs with three levels of benefits: (1) efficiency and competitiveness benefits for MSMEs; (2) access to finance and transactional financial services benefits for MSMEs; and (3) enablers of other socio-economic sectors.

Noteworthy, mobile money and mobile/digital wallet which accelerate **financial inclusion**, cross-border payment apps which will enable **AfCFTA**, digitally-enabled "Pay-as-you- go" and "Pay-to-own" solutions which support **decentralized renewable energy projects** and **productive activities** for disadvantage groups are all transformative for the WAEMU and Africa as a region.

1.3.3 Scaling-up and Facilitating MSME Access to Trade Finance in Support of the African Continental Free Trade Area (AfCFTA)

The AfCFTA and ECOWAS offer WAEMU countries with expanded entrepreneurial, trade and economic opportunities. With a regional population of around 130 million inhabitants and a consolidated GDP of USD 150 billion; the WAEMU region presents sizeable entrepreneurial, trade and business opportunities for entrepreneurs and MSMEs. Considered within the larger space of the Economic Community of West African State (ECOWAS) to which all 8 WAEMU countries belong, the opportunities become even greater with a consolidated 387 million population and USD 688 billion GDP.

The AfCFTA represents even greater opportunity for WAEMU and other African countries to boost growth, reduce poverty, and broaden economic inclusion. A recent World Bank Group report[3] suggests that implementing AfCFTA would: (1) Lift 30 million Africans out of extreme poverty and boost the incomes of nearly 68 million others who live on less than $5.50 a day; (2) Boost Africa's income by $450 billion by 2035 of which $292 billion would come from stronger trade facilitation— reducing red tape and simplifying customs procedures; (3) Increase Africa's exports by $560 billion, mostly in manufacturing; and (4) spur larger wage gains for women than for men while boosting wages for both skilled and unskilled workers.

Precisely, the World Bank Group Report suggests that West Africa would see the biggest decline in the number of people living in extreme poverty—a decline of 12 million (more than a third of the total for all of Africa) with Guinea Bissau, Mali and Togo registering the biggest drop.

To realize the above benefits of AfCFTA, WAEMU countries can take advantage of the special purpose grant created by AFREXIMBANK and the AfDB and scale-up and facilitate MSME access to trade finance;

[3] World Bank Group, 2020, "The African Continental Free Trade Area: Economic and Distributional Effects", Washington, DC: World Bank. doi:10.1596/978-1-4648-1559-1. License: Creative Commons Attribution CC BY 3.0 IGO

as well as leverage the opportunities availed by Fintech in the area of cross-border payments and other digitally-enabled trade finance solutions.

1.3.4 Green finance, green transition and green growth

Green finance opportunities and solutions could help unlock the WAEMU immense green economy and green growth opportunities while helping meet the 2030 SDG. The report of the Business and Sustainable Development Commission[4] identified the 60 biggest market opportunities related to delivering the Sustainable Development Goals (SDGs) from a green growth perspective. These are categorized in 4 clusters:

- ***Food and Agriculture***: e.g. Reducing food waste in value chain, forest ecosystem services, low-income food markets, reducing consumer food waste etc.
- ***Cities***: e.g. Affordable housing, energy efficiency –buildings, electric and hybrid vehicles, public transport in urban areas, car sharing, municipal water leakage, cultural tourism, smart metering, water and sanitation infrastructure, durable and modular buildings, etc.
- ***Energy and Materials***: e.g. Expansion of renewables, energy efficiency, energy storage systems, carbon capture and storage, energy access, local content in extractives, shared infrastructure, etc.
- ***Health and Well-being***: e.g. Risk pooling, remote patient monitoring, telehealth, detection of counterfeit drugs, tobacco control, better maternal and child health, healthcare training, low-cost surgery, etc.

Achieving the Global Goals will add at least $12 trillion to global GDP over the period 2018- 2030 for the private sector with over 50 percent of this amount located in developing countries and the potential to create 380 million new jobs over the same period according to the Report. To take advantage of these considerable green opportunities, WAEMU and other African countries have to come-up with green growth financing strategies and specifically MSME financing strategies for green growth.

1.3.5 Islamic finance

According to Statista, in 2019, the total assets value of global Islamic finance markets amounted to **about $2.88 trillion;** value projected to reach **$3.69 trillion** by 2024. Based on the 2015 Report of the Islamic Finance Services Board (IFSB)[5] ; the size of unmet demand for Islamic banking products alone was estimated to a minimum of $**45 billion for sub-Saharan Africa**.

From an MSME finance point of view, the added value and advantages of Islamic finance over conventional finance include: (1) increased financial inclusion for MSMEs and individuals ; (2) its potential for promoting entrepreneurship, innovation and industrial development through financing/investment based on a risk-sharing model, the intrinsic quality of projects, and the company and its managers instead of guarantees and personal contributions required by conventional finance.

In addition to the above, Islamic Finance can offer WAEMU MSME sector the following benefits:

- **Resource mobilization benefits** through the issue of **Sukuk**s or asset-backed trust certificate (associated with Islamic bonds) and the setting up of **Islamic funds** for financing MSMEs and informal enterprises; Sukuks have indeed being widely used for resource mobilization to finance capital investment projects; and
- Ability to use the many **MSME project/start-up and/or working capital finance products** of Islamic finance such as profit-and-loss sharing partnership (mudarabah), profit-and-loss sharing joint-venture (musharakah) and leasing (*Ijarah).*

[4] Source: Better Business, Better World: The report of the Business and Sustainable Development Commission; January 2017
[5] IFSB (Islamic Financial Service Board), 2015. Islamic Financial Services Industry Stability Report 2015. May 2015

1.3.6 Disruptive impact of the COVID-19 pandemic

1.3.6.1 Negative impact of the pandemic

Economic impact: The pandemic triggered a massive health and economic crisis that affected billions of households and commercial institutions, and in particular MSMEs that were already vulnerable due to their very limited capital bases and cash reserves. The decline in sales on national, regional and/or international markets has had a devastating effect on small-scale producers and their communities, with significant consequences for poverty, food security and nutrition in WAEMU countries and the African continent. In addition to the health threat to workers and stakeholders along their value chains, the pandemic has highlighted the vulnerability of supply chains to trade disruptions at national, regional, and international levels. In the context of the COVID-19 pandemic, the very measures that are designed to counter the spread of the COVID-19 pandemic (containment, social distancing, and limited mobility) have had a direct cost for more than three-quarters of the population in Africa whose livelihoods depend largely on the informal economy.

However, thanks to its solid institutional foundations (**WAEMU** - the regional economic and monetary integration institution of the 8 countries, **BCEAO** - a central bank common to all 8 countries, **BRVM** - a regional stock exchange and an increasingly dynamic regional financial market, **BOAD** - a regional development bank, a fairly dynamic **banking market**, a **microfinance industry** in full transition, 8 countries with **sound macroeconomic management** - national growth rates between 4.5% to 6.9% and inflation rates between 0.2% and 3%), the 8 WAEMU countries were able to manage the pandemic crisis and its economic consequences in an acceptable manner.

Impact of banking services for MSMEs: UEMOA banks, like African banks, have been doubly affected: (1) materialization of the combination of market risk - decline in demand and counterparty/client risk - MSMEs and (2) the liquidity shortage caused by the impact of the crisis, particularly from the point of view of credit lines for trade finance. As a result, many banks in WAEMU and other regions in Africa have reported a decline in demand, and some have had to cut back on many types of lending for fear of increased defaults. While the crisis continues in the context of easing COVID-19 restrictions, and a full picture of its impact on SME banking is not yet available, the orientation of many African and WAEMU banks toward MSME banking does not appear to have changed significantly. This is despite the fact that some banks are scaling back their aggressive targets for MSME loan growth, citing a lack of demand from MSMEs.

However, COVID-19 has also unleashed creativity and innovation with the accelerated deployment of Fintech solutions and the digital transformation of many businesses In particular, cashless and contactless modes of payment (to reduce the risk of virus spread through handling of cash) were adopted by financial service providers and businesses such as restaurants.

1.3.6.2 The crucial contribution of digital payment systems

Fintech and Financial Inclusion: As part of the global response to COVID-19, the digital finance industry has been playing a key role in developing and providing services and innovations that have mitigated, at least partially, the disruptions brought about by the pandemic on multiple aspects of people's lives.

Across the UEMOA zone and Africa, there has been a strong surge in interest for the potential that Fintech carries in preserving people's livelihoods and businesses that have been, and continue to be, threatened by the pandemic. In particular, thanks to Fintech, the flow of cash, credit, deposits, investments, salaries, government-

to- persons (G2P) and peer-to-peer (P2P) transfers, among others, at national and regional levels could be maintained without threatening people live.

As a result, the COVID-19 crisis has been promoting an overall acceleration of the digital financial inclusion process in developing contexts, especially in a number of countries (such as West African ones), where it was still lagging compared to regional trends (Peyton, 2020).

In total, as a result of the pandemic, the following has been observed:

- An accelerated process of financial digitization induced by the pandemic;
- A surge in the use of digital payment and transfer services;
- The promotion of digital payment systems to reduce dependency on cash exchanges; and
- The increased use of digital payments to enable e-commerce and door-to-door delivery services

1.3.7 Lessons Learned from WAEMU response to the COVID-19 crisis

The WAEMU region's response to the COVID-19 pandemic was overall coherent with a comprehensive intervention package involving monetary, budgetary, fiscal, banking level and financial market-level instruments. These are briefly outlined as follows:

National government-level interventions applied variably from country to country:

- Package for large businesses
- Package for SME Support
- Informal Sector Support Fund
- Agricultural Emergency Support Programme

BCEAO/central bank:

- Supply of liquidity/refinancing at concessional rate for the banks and large enterprises; with total refinancing increased from nearly 4.5 trillion CFA as of March 2020 to more than 6 trillion CFA at the end of October 2020;
- Interest rates eased across all segments of the money market;
- Relaxation of regulatory provisions for problem loan-related provisions with maturity extension for a total, as of August 2020, of 385 billion CFA, in favor of more than 3,000 companies and 13,000 private sector employees;
- Issuance of Treasury bills known as "COVID-19 Bonds";
- BCEAO advocacy towards commercial bank around the following: (a) strengthening the capital base of banking institutions in order to improve their resilience; (b) quality of the loan portfolios of banks needed to be strengthened despite the derogations; (c) control of operational risks should not be relaxed as they tend to increase in time; and (d) measures must be taken to prevent cyber-attacks and fraud.

BOAD (the regional DFI) level intervention:

- BOAD granted 120 billion CFA francs in concessional loans (18-year term including a 5-year grace period with an exit rate of 2.75% and a 2.80% subsidy) to member states, i.e. 15 billion CFA francs per state.

WAEMU Commission (the regional integration body):

- 10 billion CFA made available to member states.

CREPMF (WAEMU regional financial market authority):

- Enabling texts for issuance of public securities and the issuance of green, social and sustainable bonds

1.3.8 Global best practices in COVID-19 response support schemes for MSME

A September 2020 report from the World Bank Group identified key support package to address the challenges posed by the COVID-19 crisis globally. These are captured in the Table 4 below.

Table 4: COVID-19 Response Support schemes for SMEs and Instruments used: *Global best practices*

Types of support	Instruments
Debt finance	▪ Capital buffer safeguards requirements on banks and central banks' actions to induce commercial banks to increase lending to SMEs, such as lowering capital requirements ▪ Credit guarantees - new schemes, more generous guarantee levels ▪ Delayed repayments. Deferral of payments, restructuring and rescheduling ▪ Existing lending with reduced or no interest, and/or lower collateral requirements ▪ New lending – under concessional terms ▪ Rapid approval/dispersal arrangements, low/no fees, removal of fees/penalties (e.g. for Overdrafts)
Employment support	▪ Cap on layoffs ▪ Increased labor training subsidies ▪ New working schemes ▪ Other Employment ▪ Provide wage subsidies (can be broad, or targeted – e.g. apprentices) as alternative to direct payments to individuals ▪ Retirement funds frontloading ▪ Subsidies for employee sick leave ▪ Support for informal or self-employed workers ▪ Unemployment benefits
Tax	▪ Corporate tax – rate reductions, credits, waivers, and/or deferrals ▪ Expedited tax reimbursements ▪ Incentives for capital expenditure (larger/wider limits, accelerated depreciation, broader range of products eligible) ▪ Other Tax ▪ Payroll/social security/VAT taxes/land taxes - rate reductions, credits, waivers, and/or deferrals ▪ Simplified tax procedures and regulations
Business costs	▪ Changes to bankruptcy, business closure, insolvency, business restructuring regulations ▪ New working arrangements ▪ Reduction or waiver of administrative and government fees ▪ Rent/leasing - reductions (if government is landlord), direct payment or indirect (e.g. tax concession for suppliers/ landlords) ▪ Utilities – reduction of direct or indirect (e.g. tax concession for suppliers/landlords) fees and payments
Demand	▪ Other Public Expenditure Programs ▪ Procurement - Increase purchases from SMEs and/or Increase margin for SME-sourced product; ease procurement processes ▪ Support for corona-related production - e.g. healthcare products (grants, procurement, et al), either to ramp up existing capability or for new capability ▪ Targeted (sector or region) expenditure programs
Business climate	▪ Changes to bankruptcy, business closure, insolvency, business restructuring regulations ▪ Reduced import restrictions (NTBs, duties) on intermediate goods ▪ Simplified foreign exchange arrangements (for those countries where this is an issue)
Business advice	▪ Mediation services (contracts, financial etc.) ▪ Subsidized business advice (e.g. through vouchers) and information (e.g. through chambers, industry organizations, accountants, etc.) on emergency support measures, and business operations ▪ Vouchers for remote business services (e.g. purchasing teleworking service products)
Other finance	▪ Grants ▪ Supply chain finance, factoring, leverage online platforms for conducting reverse factoring transactions that can facilitate supply-chain finance to MSMEs and shorten the maturity of the payments involved ▪ Support for firms which need to close or have reduced their activities

Source: World Bank Group, 2020, "Small and Medium Enterprises in the Pandemic: Impact, Responses and the Role of Development Finance", Policy Research Working Paper 9414, by Ikmal Adian, Djeneba Doumbia, Neil Gregory, Alexandros Ragoussis, Aarti Reddy, Jonathan Timmis, September 2020

Overall, WAEMU-level support package to address the challenges posed by the COVID-19 crisis compares favorably with key support schemes for SMEs. However, there are challenges and lessons to be learned.

Challenges faced by WAEMU countries included:

- The limited capacity of national budget to support these large, immediate, and unexpected outlays of cash has proven to be problematic for many countries; pointing to the question whether most African countries have the capacity to maintain the support package beyond 2021.
- The execution of the support programme in the context of preventive measures to minimize the spread of the virus was problematic especially where significant logistics were involved.
- The support provided to the MSME and the informal sectors in terms of amounts and types of resources was not necessarily adequate; and claims of lack of transparency have also been experienced.
- Informal sector and MSME sector support have proven to be far insufficient with the large majority of informal enterprises and MSMEs not benefiting from the limited financial allocations availed by their governments. The reasons for funds availed not trickling down to small business and informal enterprises included: the exclusive banking channels used to intermediate the funds as well as the restrictive capital adequacy regulations applied to decentralized financial systems such as microfinance institutions; as well as the limited targeting of informal and small enterprises.

Lessons learned - The need for national Disaster Risk Finance Strategy:

The COVID-19 crisis has revealed the need for WAEMU and other African countries to articulate a national Disaster Risk Finance Strategy. This strategy will identify the country's priorities and determine ways of combining different risk financing instruments to cost-effectively address these priorities. The Global Disaster Risk Facility administered by the World Bank can assist in that respect.

2. MSME Banking in WAEMU: *Scaling-up good practices and realizing the benefits of AfCFTA through scaled-up trade finance and cross-border digital payment*

2.1 Context

Despite the rather robust banking network of the UEMOA space, with 131 banking institutions and 21 finance companies, MSME access to finance continue to be a challenge in all 8 countries of the only economic and monetary union of the developing world. Commercial banks which dominate the regional financial landscape continue to display a timid appetite for MSME financing despite the setting-up of MSME units in most operational charts of banks in the region. The challenges include: the nature of banks' deposit/liability resources and the need to match them with lending assets, the negative perception of MSME risk, the limited knowledge/understanding of both the MSME sector and financing instruments to serve them, a legal environment that is not conducive to the efficient management of legal disputes, restrictive prudential/Basel III rules not conducive to MSME financing as reserve requirement for MSME lending deter banks from engaging in MSME operations, and an operating environment for MSMEs that exposes them to unfair competition from informal sector enterprises.

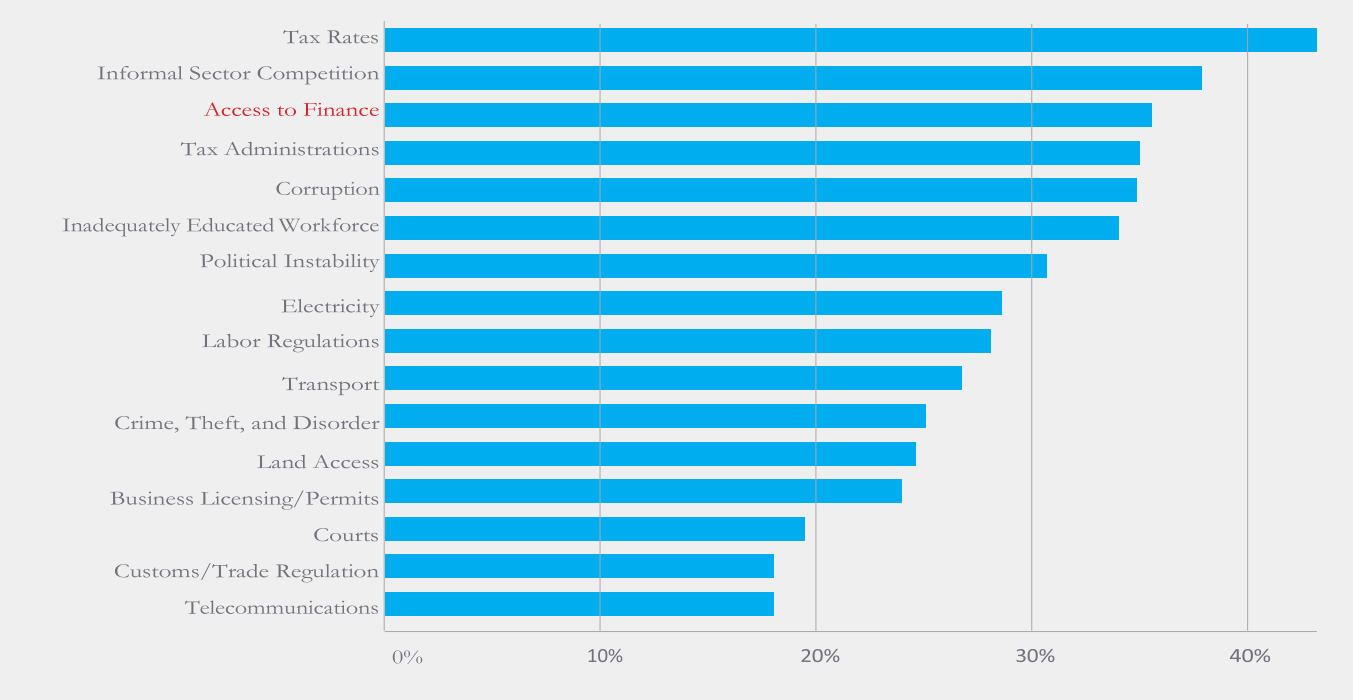
2.2 Challenges of WAEMU MSME access to finance

A World Bank Group's Enterprise Survey (ES) across all developing countries reveal that the 8 countries of UEMOA like those from other Sub-Saharan Africa countries face a number of constraints. Figure 1 shows how a lack of access to finance continues to rank among the top obstacles to the everyday operation of MSMEs including in the WAEMU region. Analyzed in detail, in the WAEMU region, the challenges of MSME access to finance present in terms of:

- First-order supply side challenges: These include the gap/deficit in financial resources earmarked for MSME finance (informal sector included) via namely: Government funds/budgetary allocations; donors' funds; and national, regional, and international private sector and financial markets.
- Second order supply-side challenge or deficit in financial institution/financial market-level supply of funds earmarked for MSME finance.
- Demand-side challenges in terms of MSME sector and size profile, balance sheet risk, governance risk, limited financial literacy, as well as MSME financial, management and entrepreneurial readiness.

The challenges also present in terms of **MSME life-cycle funding** or availability of the financing continuum (seed funding; venture capital and private equity; working capital finance; growth finance; trade finance) **sector-specific funding** (informal sector, agriculture, craftwork, creative and cultural, digital, transport and logistics, hospitality, manufacturing); and also in terms of **client MSME profile financing solutions** (micro, small, medium, youth, women, informal enterprise). When the informal sector is taken into account, the challenges also present in terms **supply gap for 90 to 95% of the region's enterprise** count, but also, in terms of **consumer-level financial exclusion** which fortunately are being addressed with new financing and transactional models availed by Fintech (e.g. mobile money services and emerging savings and credit services offered by digital platforms) and e-commerce platforms such as Jumia which cater for the need of formal and informal small businesses.

Figure 1: Top constraints faced by MSME in developing countries, 2021



Source: IFC, 2021, "Small Business, Big Growth: How investing in SMEs creates jobs, International Finance Corporation, March 2021

MSME finance gap for WAEMU derived from the figures from Sub-Saharan Africa from a recently released IFC report[6] presents as follows:

Box 1: MSME finance gap: Sub-Saharan Africa and WAEMU

Sub-Saharan Africa MSME finance Gap[7]:

Population, 2020: 1.139 billion
Formal SME finance gap, $, billion, 2020: $245b
Finance gap for female-owned formal SMEs, as % of formal SME finance gap: 15% or $37
Informal MSMEs' demand for finance, as % of formal demand for MSME finance: 68% or $167 billion
(Annual formal SME jobs required (2017-30), million: 17 million)

Estimated WAEMU-level MSME finance Gap[8]:

Total population, WAEMU, 2020: 130 million (11,41% of Sub-Saharan Africa)
Formal SME finance gap: $28 billion
Finance gap for female-owned formal SMEs, as % of formal SME finance gap: 15% or $4.2 billion
Informal MSMEs' demand for finance, as % of formal demand for MSME finance: 68% or $19 billion
(Annual formal SME jobs required (2017-30): 2 million)

Source: Adapted from IFC Survey

While numerous approaches have been proposed to address this gap, the following cases showcase models that present particular interest in terms of their potential impact, replicability and scalability to improve MSME financing in WAEMU.

[6] IFC, 2021, "Small Business, Big Growth: How investing in SMEs creates jobs, International Finance Corporation March 2021
[7] ibid
[8] Estimates are based on adjustments based on UEMOA share of Sub-Saran Africa's population which is 11.41%

2.3 Proposed solutions to address the challenges of MSME access to finance through MSME banking

The study proposes 4 levels of interventions to improve access to finance for MSMEs in the region through banking services:

- Addressing the gap/deficit in financial resources earmarked for WAEMU-level MSME finance;
- Addressing commercial banks incentives and capacity to consider MSME finance operations as core business and a valuable business proposition;
- Addressing bottlenecks that prevent earmarked MSME fund to trickle-down to/reach smaller businesses and the informal enterprises; and
- Addressing the WAEMU's MSME finance demand-side challenges

The proposed case for consideration to address all the above four levels of challenges is a **blended finance structure** which involves the strategic use of public financial resource (local or international) or philanthropic resources to realize all or part of the following objectives:

1. de-risking potential commercial lenders by positioning the public resource as a junior debt which takes for instance first credit and local currency risk before senior lenders are impacted;
2. de-risking potential commercial investors by positioning the public resources as a C share which takes investment risk before A and B shares are impacted;
3. de-risking the bank's loans on a portfolio or individual project risk sharing or guarantee basis (funded guarantee or unfunded one) and absorb the credit risk up to an agreed-upon percentage before the bank itself is impacted;
4. financing technical assistance, training, project development, business plan preparation or other investment readiness support services which will make the borrower/demand-side more bankable/less risky.

While (1) and (2) incentivize private lenders or investors to get involved in an MSME banking/financing scheme, (3) incentivizes the bank itself to get involved in the scheme; while (4) potentially reduces the risk profile of the MSME borrower.

The public resources can also be used for the objectives related to addressing market failures and/or directly contributing to the SDGs.

Recommendation 1: Addressing the gap/deficit in financial resources earmarked for WAEMU-level MSME finance through:

- **Scaling-up financial resources earmarked for MSME, social enterprises and informal enterprises** – namely through BCEAO contribution and minimum budgetary allocation earmarked for MSME finance;
- **Blended finance schemes** to crowd-in private sector/commercial finance for WAEMU MSME finance through a combination of de-risking vehicles (first loss risk sharing, and layered investment schemes and/or guarantee or risk sharing mechanisms);
- **Incentivizing commercial banks** to look at MSME banking as viable business proposition and/or by reducing bank potential risk through a combination of enabling regulations, sharing of good practices and guarantee and risk-sharing facilities;
- Further **capitalization of regional and national DFI**, enhancing their management and operational capability and scaling-up their MSME operations; thereby enabling them to extend loans, credit, lines of credit, guarantee facilities, and/or refinancing facilities to WAEMU commercial banks for on-lending to MSMEs.

Figure 2: Typical design of a blended finance fund

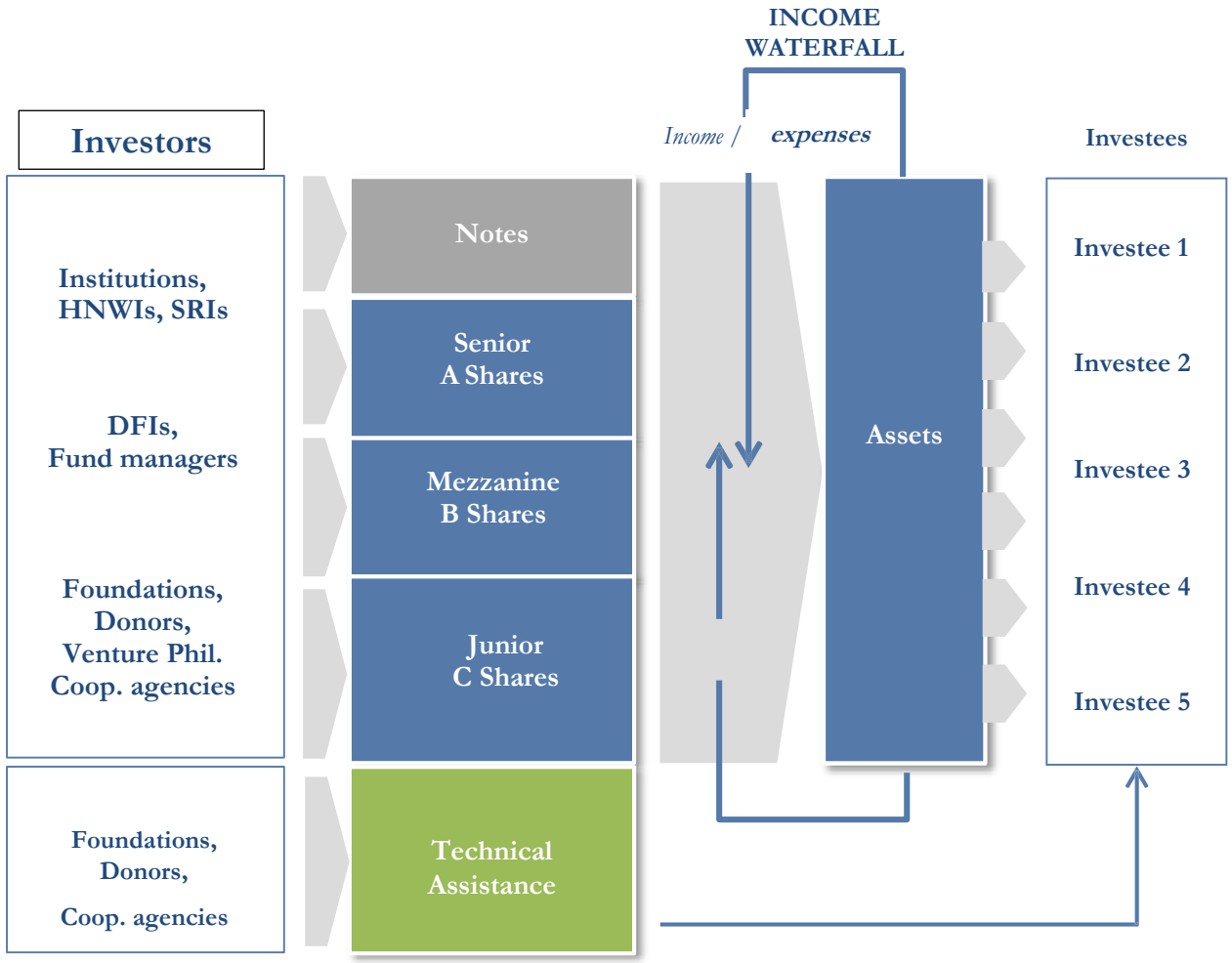
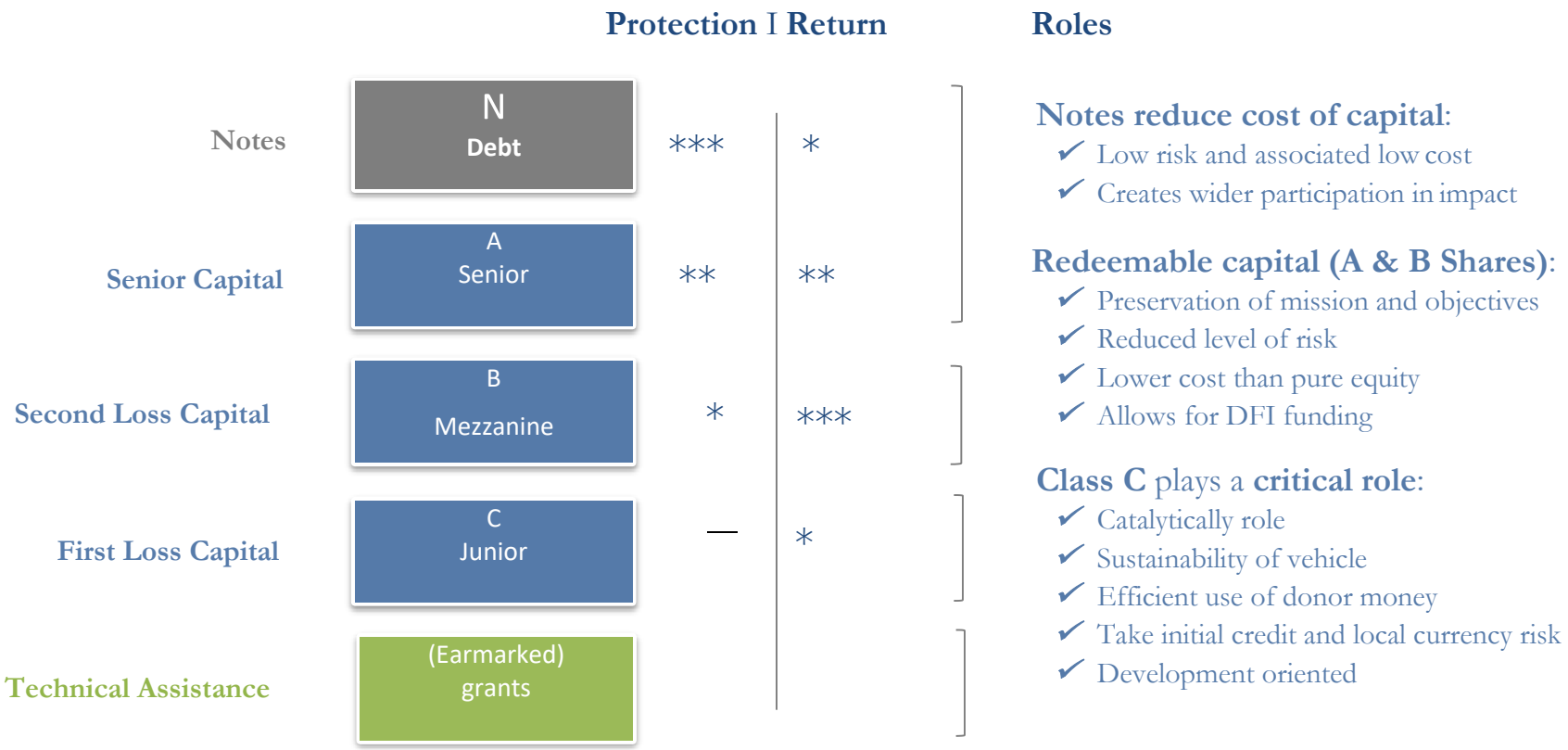


Figure 3: Blended Finance Structures: Roles of different risk-return profiles

Each tranche is designed with its own ***tenor, risk, return, voting right***



Case Study 1:
Boost Africa: *A Blended Finance Scheme for Early-stage Risk Capital and Ecosystem Development for Start-ups*

1. Boost Africa programme sponsors and objectives
Boost Africa is a joint initiative of the African Development Bank (AfDB) and the European Investment Bank (EIB), with financial support of the European Commission and the Organization of African, Caribbean and Pacific States Secretariat (OACPS) under the 11th European Development Fund (EDF). It is one of the flagship initiatives of the AfDB's Jobs for Youth in Africa strategy, which aims at: (1) contributing to the development of an entrepreneurial ecosystem in Africa; (2) addressing the financing gap at the earliest and riskiest stages of enterprise creation; and (3) strengthening skills and expertise with young entrepreneurs. The programme started its operation in 2020.

2. Boost Africa programme components

2.1 - Investment Programme
The Investment Programme spans the whole venture segment, including seed funds, incubators, accelerators, follow-on funds, business angel's funds, equity-crowd platforms, and venture capital funds to support the creation of innovative and highly scalable start-ups and SMEs.

The blended finance structure
The investment component is structured as a co-investment partnership between EIB and AfDB, who will each commit up to €50 million. The €60 million from the public resources (EU/OACPS) will serve for technical assistance and risk/patient capital used to de-risk and crowd-in private investment. Ultimate aim is to mobilize a combined amount of €200 million - 250 million, and leverage €1 billion in additional investments through financial intermediaries.

- Lead Financial institutions: €120 million (AfDB, EIB)
- EU-EDF/intra-ACP: €60 million (Technical assistance € 4.2 million + Risk capital € 50 million plus lead fees)
- Additional private investment into the blended finance scheme: € 40 million to 90 million

Deploying a blended finance approach, the programme expects to de-risk and crowd-in additional private investment and build a portfolio of 25 to 30 risk capital funds for start-up/SME finance over a 7-8-year period.

2.2 - Technical Assistance (TA) Pool
The TA Pool aims to provide capacity building and disseminate best practices for:

- The investment readiness of intermediaries, especially first-time local fund managers;
- The business and technical training of investee companies/entrepreneurs; and
- The creation of investors' networks, notably for business angels.

2.3 - Innovation and Information Lab
The Lab act as a catalyst for innovation, knowledge, and partnerships by incubating and piloting promising new ideas. It also disseminates best practices and provide support to ecosystem interventions at country level.

3. Sector coverage of Boost Africa
The focus is on sectors where innovations can improve quality of people's lives, in particular that of poorer households, providing access to affordable products and services. These sectors include, but are not limited to: ICT, agribusiness, financial services and financial inclusion, health, education, and renewable energy.
There will be a particular emphasis on intermediaries that focus on youth and women as final beneficiaries.

4. Potential development Impact

Target size of programme across the various components:	€200 - 300 million
Potential investment through financial intermediaries:	€1 billion in investments
Portfolio of funds built:	25 to 30 funds
SME to be supported:	1,500 SMEs,
Direct jobs to be created:	25,000 direct jobs and at least 70,000 indirect jobs.
Leverage ratio for public funds:	16.6 (1 billion/60 million)
Leverage ratio for program budget:	5 (1 billion /200 million)

Source: Author compilation based on AfDB, EIB and Business ACP website

Recommendation 2: Addressing commercial banks incentives and capacity to consider MSME finance operations as core business and profitable business proposition through:

- Relaxing Basel reserve requirements for commercial bank MSME portfolio;
- Consolidating the development of UEMOA financial infrastructure namely: (1) public and private credit bureaus by replicating the experience of CreditInfo Volo;
- Strengthening capacity of UEMOA commercial banks and other financial institutions in the area of MSME finance within a **blended finance** framework or standalone financial institutions capacity building programmes; and
- Supporting UEMOA commercial bank's digital transformation process
- Institutionalizing yearly UEMOA banks experience and best practice sharing events as well as relevant MSME finance toolkits development and dissemination.

Notwithstanding the above, UEMOA banks should consider adopting good practices and emerging innovations in MSME banking as outlined in the below box.

Box 2: Best practices and activities of MSME-friendly banks that work

1. Design of innovative digital products
2. Improved risk assessment models for MSMEs
3. Segmentation based on MSME growth potential and risk profile
4. Product design for MSMEs
5. Investment in the bank's internal capabilities
6. Effective technology adoption/digital transformation
7. Value-added advisory and networking support for MSMEs

Source: Adapted from IFC survey (2019)

Across the UEMOA, banks have been consistently going through some form of digital transformation and introducing digital services; with the most MSME-friendly among them investing in product design (e.g. COFINA's FIN'ELLE product for women entrepreneurs) to meet the specific needs of their clients.

Recommendation 3: Removing WAEMU-level bottlenecks which prevent financial resources earmarked for MSME finance to trickle-down to MSME, small businesses and informal enterprises

The removal of the bottlenecks can be achieved through the following measures: (1) set MSME and informal sector access to finance targets for any earmarked public fund (domestic and international); (2) lift regulatory impediments (such as Basel III-related capital requirements) which prevent financial institutions such as MFI from accessing public funds channeled through mainstream commercial banks as their loan ceilings are easily reached due to their small capital base; (3) use financing channels other than mainstream commercial banks and consider alternative channels such as MSME and informal sector-friendly banks (e.g. COFINA bank) and other decentralized financial systems such as microfinance institutions, village banks, NGOs involve in financing small businesses and social enterprises; as well as leverage MSME finance programmes and solutions which target directly groups such as women associations/groups, youth entrepreneurs associations and farmers associations/groups; (4) consider and scale-up portfolio guarantee for MSME lending, MFI and other decentralized financial system lending programmes; (5) promote and scale-up financial services that enhance the resilience and/or de-risk MSME, small businesses and informal enterprises such as: guarantee, Fintech which serve informal enterprises and index insurance which protects smallholder farmers against weather/climate risk; and design and manage.

To substantiate the above, BCEAO, BRVM regional and national DFIs, commercial banks, venture capital and private equity funds, decentralized financial institutions in WAEMU should design and dynamically manage an MSME and informal sector access to finance information system, the "WAEMU MSME Finance, to not only monitor MSME access to finance but also inform related policies.

Recommendation 4: Addressing the UEMOA's MSME finance demand-side challenges including:

- Strengthening capacity of support institutions (MSME promotion agencies, incubation and accelerator centers, local UEMO and others) to provide MSME bankability and investment readiness services but also result-oriented entrepreneurship and MSME development programmes through blended finance schemes or standalone financial institutions capacity building programmes;
- Strengthening capacity of MSME support institution in critical result-oriented entrepreneurship and MSME development support in the areas of: (1) start-up support; (2) MSME growth through investment; (3) MSME access to market – local subcontracting, export, government contract; and (4) MSME restructuring, sale and acquisition;
- Considering a certification scheme for UEMOA-level entrepreneurship and MSME development agencies, business incubation and acceleration centers, MSME sector consulting firms and freelance consultants and experts

Recommendation 5: Supporting Mesofinance Bank or Bank for the Missing Middle

Mesofinance is the 3rd way of finance which is at the crossroads of the classical banking system and traditional microfinance. In other words, a Mesofinance bank is a "**bank entirely dedicated to the Missing Middle**" such as the COFINA Banking Group which is present in 5 UEMOA countries and two other ones in Central Africa.

Case Study 2:
West Africa's COFINA Banking Group: *The Rise of Mesofinance or Banking for the Missing Middle*

COFINA GROUP SA is one of the very first African banking institutions entirely dedicated to **Mesofinance**; the 3rd way of finance which is at the crossroads of the classical banking system and traditional microfinance. In other words, COFINA is a "**bank entirely dedicated to the Missing Middle**": MSME sector, women and youth entrepreneurs, and informal sector enterprises with growth ambition and potential.

Context and rationale for the creation of COFINA: COFINA founders saw opportunities where many see challenges**;** including: Informality in the Sub-Saharan Africa region; financial exclusion of SMEs and entrepreneurs in Africa (especially Sub-Saharan Africa); Focus on SME/SMI and VSEs (Very Small Enterprises) and entrepreneurs; perceived opportunities in African economy and industrial value chains; absence of a Pan-African banking institution dedicated to financing SME and entrepreneur and in financial inclusion.

Target market: Cofina supports the emerging middle classes and more specifically entrepreneurs and MSMEs whose financing needs have become too important for traditional microfinance institutions, but whose entrepreneurial structure is still considered insufficiently formal by commercial banks.

Services offered:
COFINA assessed the limit of traditional banking and microfinance vis-à-vis its segment and tailored the following:

Financing products: Spot Credit, Investment Credit, Working Capital Credit, Advance on Purchase Order / Advance on Invoice / Advance on Market, and Off-balance sheet commitment (guarantees and contract bonds).

Transactional products: Pack (current account + account); Digital banking - Cofina mobile (PC, Android, iOS) and Banking via WhatsApp and USSD; Payment solutions: Prepaid VISA card (COFICARTE), book of provision (COFICASH), bank transfer, check collection.

Accounts and investments: Current / interest bearing accounts, savings accounts, and term deposit accounts

COFINA Women Banking Institution "Fin'ELLE": In 2018, COFINA launched Fin'ELLE "la finance pour ELLE" which is a subsidiary of the COFINA Group exclusively dedicated to banking for women through tailored financing, transactional banking and training services for women.

COFINA results and impact after 8 years of operations: Created only 8 years ago in 2014, the geographical footprint of the banking group covers the following countries: Togo, Senegal, Republic of Guinea, Republic of Congo, Gabon, Mali, Côte d'Ivoire and France.

The key figures of the banking group in 2014 and 2019 are as follows:

	2014	**2019**
Total balance sheet:	15.82 billion FCFA /24 million euros	212 billion FCFA / 323 million euros
Total loans:	13.80 billion FCFA / 21 million euros	148 billion FCFA / 225 million euros
Total deposits:	11.12 billion FCFA / 17 million euros	134 billion FCFA / 203 million euros
Number of clients:	13,295	174,963 clients
Staff count:	135	1340

Replicating and scaling-up the COFINA model - The replication of the COFINA model will require knowledgeable and committed African bankers who understand the challenges and opportunities of MSME banking, Fintech, Financial Inclusion as well as sustainable Entrepreneurship and MSME Support Models and tools for women, youth, informal sector, and agriculture.

Advocacy: COFINA leadership stresses that areas of support needed to sustain "Scaling-up" its interventions include: (1) Policy, regulatory and incentive framework in support of banking for MSME, women, youth and informal sectors; (2) support to their credit/lending operations through dedicated lines of credit, refinancing facilities and guarantee falicities; and (3) support to their training and business incubation/acceleration activities through technical assistance.

Source: Author compilation based on COFINA brochure, website and exchange with COFINA leadership.

Recommendation 6: Scaling-up trade finance and digital cross-border payment solutions in support of the African Continental Free Trade Area (AfCFTA)

The massive transformative benefits of the AfCFTA in the form of industrial development, trade, and poverty reduction benefits through intra-African trade command that trade finance in favor of WAEMU and African MSME be scaled-up and digital cross-border payment deployed across the continent by adopting the following:

- Mobilizing trade finance lines of credit from Afreximbank, AfDB, international development cooperation and international financial markets;
- Developing capacity in trade finance and structured trade finance tools and techniques by leveraging Afreximbank trade capacity building programmes and international cooperation;
- Supporting Fintech involved in the delivery cross-border payment services;
- Exploring the potential of digital currencies/Blockchain technologies to address continent-challenges in foreign exchange, trade settlement currencies and payment timeliness in cross-border import-export transactions.

Recommendation 7: Promoting and making MSME finance guarantee schemes work for MSME and the informal sector

Over the past decades, the WAEMU countries, like their peers in Africa, have benefited from guarantee schemes targeted at the MSME sector with only marginal success or failures in many instances due to a number of challenges including: (1) the stringent financial institutions' eligibility criteria applied by the sponsoring institutions (World Bank Group, EU, EIB, AfDB and bilateral cooperation agencies); (2) increasingly, the unfunded nature of some guarantee facilities which compound the limited appetite of some financial institutions to even consider the guarantee facility; (3) the limited capacity and/or incentives of targeted MFI, SME-friendly banks, and commercial banks to administer the guarantee funds especially when the small credit amounts are compared to the anticipated costs and returns of administering guarantees; and (4) the still high-risk profile of MSME and the inability of the MSME support ecosystem to address it.

Other noteworthy reasons why many guarantee schemes are not successful include their limited sustainability as many guarantee schemes are sponsored by donors whose priority changes very often or built out of state funds with limited capitalization and loose governance framework.

Actions to promote and make guarantee schemes work for WAEMU MSMEs include:

- A combination of proper targeting of MSME-friendly financial institutions such as MFI and MSME-friendly financial institutions (e.g. financial institutions with established MSME finance programmes) facilitated by accommodating eligibility criteria for access to the facility by the said financial institutions.
- Innovation in the delivery of guarantee services such as, collaborating with MSME associations in the design and offering of guarantee services, differentiating guarantee services by sector, and offering group/mutual guarantees.
- Integrated offering of guarantee services and capacity building to beneficiary MSMEs.
- Promoting performance-oriented entrepreneurship and MSME development at ecosystem level with key performance indicators (KPI) around: number of viable start-ups to be created, MSME growth through investment, MSME access to market (export, subcontracting, government contract).

3. Capital Markets and MSME Financing:

Consolidating the BRVM's innovations and developing the private equity market for MSMEs

3.1 Context: Benefits, opportunities and limitations of the WAEMU capital market

From a direct finance perspective, the WAEMU space presents a combination of opportunities and constraints for the development of a financial market favorable to MSMEs: capital market financing (stock and bond market); and venture capital and private equity.

In terms of achievements and opportunities, WAEMU remains characterized by:

- An integrated economic and monetary area with a significant population of 130 million inhabitants;
- A central bank common to all 8 member states, the BCEAO, whose macroeconomic management is recognized as being quite sound, with controlled inflation rates that are among the lowest on the African continent, and quality banking supervision;
- A regional stock exchange, BRVM, common to the 8 countries of the zone, which launched a third compartment for the financing of SMEs in 2018.

In terms of constraints, the region's financial culture, particularly in terms of equity financing and investment fund activities, remains below that of Southern Africa, East Africa and North Africa. This constraint is exacerbated by a lackluster business environment and investment climate, with entrepreneurship, innovation, SMEs/SMIs and investment promotion ecosystems still in need of improvement.

The venture capital and private equity market in WAEMU countries remains very embryonic with significant reform needs that can only be effectively implemented if its regulatory and supervisory bodies such as the Conseil Régional de l'Epargne Publique et des Marchés Financiers (CREPMF), the BCEAO and its WAEMU member states are empowered.

3.2 Challenges to be addressed and opportunities to be seized

3.2.1 A venture capital and private equity market yet to be developed

Overview of the venture capital and private equity market in the WAEMU

The amount of private and principal investment capital under management in Sub-Saharan Africa remains very low by international standards - just 0.1 percent of GDP; concentrated mostly in South Africa, Nigeria, Kenya, and parts of North Africa. This compares to about 1 percent of GDP in Western countries (BCG, 2016)[9].

The WAEMU space is not yet attractive for venture capital and private equity funds: In 2016, the WAEMU zone accounted for 3.9% of the venture capital and private equity industry's assets under management in

[9] BCG, 2016 "Why Africa remains ripe for private equity."

Sub-Saharan Africa, while the zone's GDP represented 10% of the region's GDP and its population about 11.4% of the region. By comparison, South Africa accounted for 40.7% of assets under management, followed by Nigeria (18.5%), Kenya (12.4%), and Ghana (6.1%). Among WAEMU countries, Côte d'Ivoire accounted for 2.7% of assets under management in sub-Saharan Africa, followed by Senegal (0.9%) and Mali (0.9%)[10]

Domiciles of funds operating in the UEMOA space: Of the 22 registered funds in the WAEMU space, 15 are domiciled in Mauritius, 3 in South Africa, 2 in Togo, 1 in Ivory Coast, and 1 in Luxembourg. In 2018, Investisseurs et Partenaires (I&P) fund established "Investisseurs et Partenaires pour le Développement 2" (IPDEV2) which sponsored 4 impact funds domiciled in Burkina Faso, Côte d'Ivoire, Niger, and Senegal, respectively.

It should also be noted that several thematic and generic investment funds, in the form of blended finance or not, initiated by development cooperation cover the WAEMU and other African regions. The EU-ACP Agro-Business Capital Fund (ABC) and the Emerging Africa Infrastructure Fund (EAIF), which is part of the Mauritius-based Private Investment Development Group (PIDG) for infrastructure, are such examples. French cooperation funds via PROPARCO are particularly active in the WAEMU region; and several funds operating from South Africa, Mauritius and to a lesser extent Kenya and North Africa co-invest in the sub-region's small pipeline of investible projects as capacity to prepare and market investment memorandum remains weak in the region.

Fund category: Growth funds are the dominant category of funds operating in the WAEMU; followed by impact funds sponsored by I&P/IPDEV2. In terms of investment sectors, most of the funds in the region are multisector, with the exception of two South African funds, Harith and AIIM (African Infrastructure Investment Managers), which specialize in infrastructure PPPs; Luxembourg's Injaro fund, which focuses on the agro-industrial value chain; and the Equator fund, which focuses on the banking sector.

Fund tickets: Most funds focus on mid- to large-cap companies with tickets in the range of $1 million to $10 million. Funds such as ECP (Emerging Capital Partners) target tickets in the range of $25 million. As a result, the region's SMEs are of little interest to private equity funds, especially for deals below $1 million. With the exception of IETP, investors are not present in the venture capital and private equity markets in the region.

Constraints and challenges in developing the venture capital and private equity market for WAEMU SMEs

The legal and regulatory framework for the venture capital and private equity industry in WAEMU consists of the **WAEMU Uniform Law** on closed-end investment companies of 2003, the **WAEMU Directive** on the harmonization of taxation applicable to closed-end investment companies of 2011, and the **CREPMF** (Conseil Régional de l'Epargne Publique et des Marchés Financiers) **instruction on the** classification and asset allocation rules for collective investment schemes (UCI) of 2011. The Uniform Law has been transposed into national law in six member states, and the Directive in only three member states (World Bank, 2019).

Incomplete legal, regulatory, and fiscal framework: According to a recent World Bank diagnostic study of the legal, regulatory, and fiscal framework of the venture capital and private equity market in the region, there are many limitations compared to international practices:

- To date, there is no specific regulatory framework for venture capital and private equity fund managers in the WAEMU.

[10] Thomson Reuters, op.cit.

- The WAEMU Directive does not provide for tax exemptions for company forms other than SA (société anonymeà and SARL (société à responsabilité limitée).
- The CREPMF Instruction is not based on a clear distinction between mutual funds and other collective investment schemes (CIS).
- PPP/infrastructure investment funds, strategic investment funds set up or envisaged by member state governments or at the WAEMU regional level, as well as professional investors who are signatories to the United Nations Principles for Responsible Investment are not covered.

Challenges associated with the domiciliation of funds and fund managers outside the WAEMU zone: The domiciliation of funds and fund managers outside the WAEMU zone presents a number of disadvantages for fund managers and their investors:

- On the one hand, fund managers face significant costs in executing currency transfers outside the zone. On the other hand, the domiciliation of funds outside the WAEMU zone is a major obstacle to the mobilization of resources from institutional investors in the zone.
- on the other hand, pension funds invest their assets only in the WAEMU because of their investment policy; whereas insurance companies are not allowed *to invest* their assets outside the WAEMU and CEMAC zones under the CIMA regulatory framework.

Limited oversight framework and capacity: The implementation of an effective and efficient oversight framework by the CREPMF will be critical to the initial choice of the WAEMU space by the various funds and their decision to confirm this choice for their future funds.

Technical skills deficit: The WAEMU region technical skills in investment fund management: The UEMOA region suffers from a lack of culture and skills in investment fund management on the one hand, and from a weak capacity to formulate information notes for investors on the other.

Lack of a catalytic ecosystem: Market failures in terms of adequate financial information, limited liquidity in the equity market, limited exit options (stock exchange, private sales, equity markets, and others), a lackluster regional entrepreneurial environment, limited investment fund management culture and skills in Francophone Africa and UEMOA, and an unfavorable investment climate and entrepreneurial ecosystem call for the involvement of the public sector in the process of developing the UEMOA venture capital and private equity market.

3.2.2 BRVM innovations in favor of MSMEs

Operational since September 1998, BRVM is the only stock and bond exchange in the world that is common to several countries sharing the same currency, the CFA Franc, within the framework of the West African Economic and Monetary Union (WAEMU). The member states of the WAEMU are: Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. The eight countries represent a population of about 130 million (about 10% of Africa's population) and a combined nominal GDP at current prices of about $149.5 billion, or 8.5% of Sub-Saharan Africa's GDP and 6.1% of Africa's GDP.

The 8 countries of the union mutualize the management of their foreign exchange reserves and the financing of international trade. From the point of view of savings and investment mobilization, the BRVM allows public institutions and private companies of the Union to mobilize the public savings of the 8 member countries for the financing needs of their economies.

By the end of December 2020, the BRVM had registered **46 listed companies**, representing **a market capitalization of FCFA 4,367 billion** (about $8 billion); **80 bond lines** for a capitalization of FCFA 6,051 billion ($10 billion), with an average of 328,096 securities traded per day, and FCFA 980.24 million ($1.8 billion) traded per day. The BRVM has also registered **3 listed Sukuk or Islamic bonds** (BRVM, 2021).

Going forward, the BRVM is striving at expanding its stock market by attracting new securities; launching SME-related programmes, with **group bond issues (basket bonds)** dedicated to eligible SME. BRVM is also considering the establishment of a **market for financial derivatives**; studies are planned for this purpose.

Case study 3:
West Africa's BRVM Basket Bond Issue for SME and BRVM Small Cap Compartment: *Innovation in MSME Financing through the Public Equity and Bond Markets*

Beyond the financing of large private companies and the State, BRVM has implemented a mechanism to facilitate SMEs' access to long-term capital with the launch of the Third Compartment, in December 2017, called **"BRVM Small Caps"** dedicated to SMEs with high growth potential.

The launch of the Third Compartment was followed, in March 2018, by the start of a capacity building and investment readiness program for the listing of SMEs, called **ELITE BRVM Lounge**. To date, the said program has 30 SMEs from 9 sectors. The objective is to enable these SMEs to integrate the Third Compartment at the end of their certification process.

BRVM is also implementing an innovative project of issuing **"Basket Bonds"** or **grouped bond issues for eligible SMEs**, whose aim is to facilitate the access of SMEs and startups to the bond market. The structuring of Basket Bonds requires the creation of a special purpose vehicle (an Investment Grade SPV for the group of SMEs) as the issuer. The typical SPV would be owned by a pool of SMEs with attractive return perspective and low debt ratios.

The Basket Bond program could also be extended to eligible microfinance institutions to enable them to raise long-term financial resources in the regional bond market for lending to small, micro, and informal sector enterprises. Blended finance structure could be considered to risk-enhance the SPV.

Source: Adapted from BRVM brochure and website

The achievements of the BRVM and its progress towards international standards, in terms of services that meet the needs of SMEs and the regional economy, should be consolidated. In particular, the projects related to the 3rd compartment, the Basket Bond and the Elite BRVM Lounge must be enhanced and expanded to fill the financing gap experienced by MSMEs in the region.

3.2.3 SME financing models through direct financing

In addition to venture capital and private equity funds, direct equity financing models for SMEs abound, as illustrated in the six models described in the table below.

- The Small Business Investment Company (SBIC) model in the United States
- The Enterprise Investment Scheme (EIS) model in the UK
- Venture Capital Trust (VCT) in the UK
- Business angels (BIs) found in many countries.
- Structured Angel Investor Groups (SPIGs), primarily in Europe; and
- The SME segments of the stock exchanges - e.g. BRVM - WAEMU, AltX - South Africa, Nouveau Marché - France, and AIM - UK.

Table 5: Selected venture capital and private equity financing models for SMEs

Small Business Investment Corporation (SBIC) - United States	**Enterprise Investment Scheme (EIS)** - United Kingdom	**Venture Capital Funds (VCT)** - United Kingdom	**Angel Investors (AI)** - various countries	**Structured Angel Investor Group (SAIG)** - Europe	**3rd Compartment of the Stock Exchange for SMEs** - examples: BRVM - WAEMU AltX - South Africa, Nouveau Marché - France, AIM - United Kingdom
Government guarantees allow **SBICs to** borrow money at low rates in the capital markets, which they combine with private capital to invest in SMEs. **Investment**: from 250,000 to $1.7 million. Both equity investments in high growth SMEs and mezzanine investments in medium growth SMEs.	**EISs** are designed to facilitate the financing of SMEs. They do this by offering tax relief to individual investors who directly subscribe for shares in an EIS-eligible SME. **Investment**: less than $150,000 on average for seed funding. Shares must be held for at least 3 years.	A **VCT** is a publicly traded, professionally managed company that invests in a qualified SME. Investors subscribe to shares in the VCT. **Investment**: US$200,000 on average to fund an MBO or MBI in companies with an established track record and positive cash flow. The VCT may not hold more than 15% of its investment in any one company. Shares must be held for at least 3 years.	Individual **AI** invest directly in one or more SMEs that meet their investment criteria by dealing directly with the owners. They are generally informed of investment opportunities by word of mouth, without a steady stream of business proposals to evaluate. **Investment**: $50,000 to $350,000 on average.	A **GIPS** is typically a limited liability company (LLC) managed by a managing partner, whose members are individual business angels. The value-added of the group's members includes: screening of applications, due diligence, monitoring and mentoring of the SME client. **Investment**: $100,000 to $500,000 on average.	Eligible companies raise public funds directly from the **stock exchange** through an initial public offering (IPO) (or secondary offering). Some markets (e.g., London and Luxembourg) allow companies to raise equity by issuing bonds. **Investment**: $2.5 million to $50 million on average for innovative medium-sized companies with high growth potential.

Source: Author's compilation based on U.S. Small Business Administration, British government, French Nouveau Marché, and South Africa's Johannesburg Stock Exchange.
MBO: Management buy-out; MBI: Management buy-in; AltX: Alternative public equity exchange for SME in South Africa; AIM: Alternative investment Market.

3.3 Solutions to manage constraints and capture opportunities

The recommendations for developing the private equity market for the WAEMU regions in Africa evolve around the following non-exhaustive propositions:

Recommendation 1: Develop a competitive and coherent legal, regulatory and fiscal framework

The establishment of a competitive legal, regulatory, and fiscal framework is a necessary but not sufficient condition for fund managers to choose WAEMU as the place to register their funds and conduct their activities. CREPMF, in collaboration with BCEAO and the member states, will have to take into account the conclusions of the World Bank diagnostic study and bring the legal, regulatory and fiscal framework for private equity and venture capital in WAEMU up to international standards. In parallel, a plan to strengthen the CREPMF's market surveillance capacities should be considered to effectively support the development of a prosperous venture capital and private equity industry that meets international standards.

Recommendation 2: Technical capacitation in financial market, investment banking and private equity

The study recommends that the BCEAO, CREPMF and BRVM, in coordination with member states, institutionalize a continuous training program in market financing, venture capital and private equity, and investment banking, based on the model of BCEAO's own COFEB (West African Center for Banking Training and Studies), which is being transformed into a department at the BCEAO. The COFEB model has served the WAEMU region well. The objective is to produce pools of investment fund managers, investment bankers and other technical personnel in the financial market ecosystem; with 50% women for each profile considered. Skills will also need to be developed in demand-side activities, including investment readiness for SMEs and companies; business advisory services - preparation of investment memoranda and business plans, financial education, valuation of companies/SMEs; intellectual property professionals; project and SME development fund management. Toolkits to support professionals and eligible SMEs and financial institutions for venture capital and private equity funding will be developed and made available to them.

Recommendation 3: Catalytic role of the state

In the context of SME promotion, the role of the public sector cannot be limited to improving the legal, regulatory and fiscal environment of the venture capital and private equity markets. The state will also need to invest in their efficiency and effectiveness and help mitigate their risk and incentivize institutional and small investors appropriately. In particular, the multiple levels of market failures require the state to play a catalytic role in the development of the venture capital and private equity market. Catalytic activities by the state, as found in dynamic markets such as Singapore and the Republic of Ireland, can include funds of funds to support local funds, co-investment funds, tax incentives for institutional and retail investors, guarantees to support fundraising operations by local managers, and the use of public funds to increase private sector participation through blended finance structure namely.

Recommendation 4: Promotion of national networks and a regional network of business angels

States, in coordination with chambers of commerce, financial institutions, captains of industry and national and sub-regional entrepreneurs should promote the creation and/or revitalization of national networks and a regional network of business angels by drawing on successful experiences from other regions in Africa and elsewhere. To this end, a study on business angel network models, best practices, charters, and operational models will be implemented and support for the formation and official launch of such networks, through private sector actors, considered.

4. Fintech: *Developing the ecosystem, supporting financial inclusion, and enabling innovative business models for MSME*

4.1 Definition of Fintech, categories of players and industry verticals

Definition: Fintech or digital finance aims to improve existing processes, products and services in the financial services industry through modern software and technology. The most talked about Fintech startups share the same characteristic: they are designed to threaten, challenge and ultimately usurp established traditional financial service providers by being more agile, serving an underserved segment or providing faster and/or better service (Investopedia).

The categories of Fintech players include: Small and medium-sized Fintech **startups** (technology startups offering financial solutions or services), **Bigtech companies** (e.g., GAFAM in the United States and BAXT in China [11]) and large telecom companies (Safaricom in Kenya and Orange in West Africa), **banks** offering digital financial services, Fintech-bank **partnerships**, and **digital banks** (100% digital banks, including so-called challenger banks [12]and neo-banks[13] , personal finance services, mobile banking, alternative credit scoring).

So-called SMAC technologies (social, mobility, analytics and cloud) as well as "new" technologies such as machine learning/artificial intelligence, predictive behavioral analytics and data-driven marketing are the cornerstone of the Fintech revolution.

Fintech industry verticals: Fintech companies are now penetrating all segments of the financial services industry, driving innovation and disruption in these markets. Financial services industry verticals and their constituent parts that fall under Fintech include the following segments: **Digital Banking or BankTech** (mobile/phone banking, internet banking, data-driven finance, SME finance, alternative credit assessment, personal finance, and risk management); **Financial Sales and Trading, Investment and Wealth Management or WealthTech** (robo advisor/automated advice, securities sales and trading, portfolio management, risk management), **Transactional Financial Services** (PayTech, payment gateway, m-account/e-accounting, e-wallet, money transfers, digital currency, currency exchange), **Other Fintech** such as: InsuranceTech, Security/Fraud and Authentication, Crypto-currency and Blockchain, Regtech, and Accounting.

Fintech business models: In reality, Fintech business models are limited only by the imagination of the entrepreneur.

[11] GAFAM: Google, Amazon, Facebook, Apple, and Microsoft
BAXT: Baidu, Alibaba, Xaomi and Tencent
[12] A challenger bank, on the other hand, is a smaller, newer bank that aims to compete directly with - or challenge - traditional banks by using modern financial technologies and practices.
[13] Neo-banks are financial technology companies that offer financial services only on the Internet and do not have physical branches.

Table 6: Fintech business models

Archetype	Dominant technological component	Value proposition	Distribution channel	Customers	Revenue streams	Product and service offer
Crypto-currency	Blockchain	Convenience Usability	API	B2C	Variable	Currency exchange
Payment service	Transaction processing system	Convenience Usability	Application	B2B	Variable	Payment service
Financial market intermediary	Market; Transaction processing system	Matching intermediation Security	Physics Internet	B2B	Sales, variable	Brokerage; Device
Information aggregator	Decision support system	Convenience Usability	Application	B2B B2C	Variable	Information aggregation
Information extractor	Decision support system	Analysis	Application	B2B	Variable	Information aggregation
In-sourcing of sub-processes	Decision support system	Automation	Application	B2B	Variable	Information aggregation
Lending community	Market place	Monetary Transparency	Internet	B2C	Share of revenue; variable	Loan/Credit; Financing
Alternative trading system	Market place	Correspondence Intermediation	Internet Application	B2B B2C	Variable	Investments; Loans/ Credit
Robo Advisor	Decision support system	Monetary	Application	B2C	Share of revenue; variable	Personal assistant
Co-creator of the financial analysis	Decision support system	Convenience Usability	Application	B2B	Variable	Information aggregation

Source: Adapted from Matthias Eickhoff, Jan Muntermann and Timo Weinrich, 2017, What do Fintechs actually do? A Taxonomy of Fintech Business Models, Conference Paper, Thirty Eighth International Conference on Information Systems, South Korea, December 2017.

4.2 Dynamics and Challenges of Fintech in WAEMU

As of December 2020, there were approximately 128 Fintech startups of various profiles in the WAEMU; primarily in the digital payments and remittance space (60%) and only 9% in the crowdfunding, P2P lending and investment space. As in the rest of the African continent, governments in the UEMOA region recognize the need to leverage digital technology as a vehicle for financial inclusion and socio-economic empowerment of disadvantaged groups; but also as one of the new drivers of national competitiveness. While the mobile money narrative was focused on East Africa, the 2017 GSMA report reveals that it has expanded to West Africa and beyond.

Indeed, Fintech has not only proven to offer alternative financial service channels while facilitating e-commerce-backed business models, but it is also a major contributor to the growth of e-money/mobile accounts, and thus financial inclusion, with the potential to migrate to progressive provision of savings, credit and insurance services, as enabled by M-Pesa in East Africa.

Table 7: Number of E-Money Institutions and Fintech Start-ups, 2019

COUNTRY	E-money institutions	DFS authorized to issue E-money	Bank-Telco* Partnership	Fintech Start-ups	Total Digital Finance Service Providers
Benin	1	1	4	11	16
Burkina	1		3	10	14
Côte D'Ivoire	7	1	5	37	50
Guinea Bissau	-	-	2	1	3
Mali	1	-	2	18	21
Niger		-	3	10	13
Senegal	2	-	5	24	31
Togo	-	-	5	17	22
Total UEMOA	**12**	**2**	**29**	**128**	**171**

Source: Adapted from BCEAO
DFS: Decentralized financial systems; Telco: Telecommunication operators

Yet, the strong commitment of WAEMU governments to support Fintech and other digital start-ups, translated into concrete actions, remains to be seen as there are still considerable gaps to fill in the regional Fintech ecosystem:

Policy, regulatory and fiscal incentive gap: Purposeful result-oriented policy, strategy, regulatory and institutional frameworks in support of Fintech and enabling ecosystem needs to be developed if the region is to fully realize the benefits of Fintech. Comprehensive digital entrepreneurship regime (via Start-up Act for instance) and digital transformation roadmap for industries, the financial service industry and MSME are yet to

Digital infrastructure gap: Digital infrastructure such as telecommunication infrastructure and high-speed broadband internet infrastructure; interoperability of systems and other open APIs/digital interfaces; as well connectivity of consumers, MSME and disadvantaged communities are yet to me mainstreamed across the region.

Fintech financing gap: Dedicated financing schemes targeted at Fintech start-ups and national and regional angel investors' networks for Fintech start-ups are yet to be consolidated. Seed money and series A, B and C funding are absent for the WAEMU start-up financing continuum.

Complementary and specialized ecosystem resources: Complementary resources and processes (business accelerators/incubators; sector analysts, strategists and economists and regulator statistical data and market report on the sector; catalytic events involving hackathons and investment platforms and other interaction and networking of sector players; and training and education in digital/Fintech and platform enterprise business model) are still to be harnessed and organized in a sustainable way.

Box 3: Game Changers in Fintech Development: Lessons from Kenya

WAEMU and other African countries can learn from Kenya's success in developing a vibrant digital entrepreneurship and Fintech ecosystem.

Game changers and critical success factors in Kenya's Fintech and digital entrepreneurship development include the following: (1) Government commitment to digital economy epitomized by the Government of Kenya's (GoK) digital economy blueprint, ICT Masterplan, and eCitizen (government service platform for Kenyan citizens and residents); (2) accommodating regulation from central bank which encourages innovation; (3) relatively strong physical ICT infrastructure with approximately 95% of the population covered by at least 2G (second generation) networks, 88 percent by 3G, and 61percent by 4G or more, with plans to roll out 5G networks in the near future[14]; (3) Safaricom-Vodafone partnership which generated M-PESA and related ecosystem and clusters of digital services; (4) an expanding portfolio of digital financial services for the unbanked, informal service included, such as: mobile account, mobile wallet, dynamic payment system, credit service, saving service, insurance service; (5) sector-specific digital finance solutions such as DigiFarm for the agriculture sector; Digitally-enabled "pay-as-you-go" service for the renewable energy . M-Kopa.

However, Kenya's digital ecosystem, the USAID 2020 Digital Ecosystem Country Assessment report points to the fact that Kenya will face challenges to inclusivity, safety, and productivity as it digital ecosystem evolves. The challenges include: (1) Barriers to effective access and use of digital technologies: The high cost of data, severe gaps in last-mile connectivity, low levels of digital literacy for the underserved parts of the population (such as women, youth, and more rural communities); (2) Protection of individuals and organizations from digital harm: as government capacity to implement and enforce data privacy and cybersecurity regulations remains limited; and (3) leveraging the digital ecosystem for inclusive economic growth centered around the M-Pesa digital platform is somehow dis-incentivized outside this platform.

Source: Author's compilation.

4.3 Opportunities for WAEMU

Fintechs offer MSMEs more options than ever before for financing, payment processing, money transfer, and transaction initiation anywhere, anytime. In addition, Fintechs have provided the economy and MSMEs with three levels of benefits: (1) efficiency and competitiveness benefits for MSMEs, (2) access to finance and transactional financial services benefits for MSMEs, (3) benefits to other socio-economic sectors through Digital Finance Plus (DF+) or Fintech solutions that support the feasibility of innovative business models in other sectors.

The **benefit areas of Fintech for the efficiency and competitiveness of MSMEs** include:

- Automation of accounting and financial statement production processes
- Point of Sale (PoS) management system
- Tablet-based cash registers
- Mobile point of sale solutions
- Presentation of an innovative customer service software:
- Encouraging solutions that promote customer loyalty
- Transfer to digital space
- Payment gateways

The **benefit areas of Fintech in terms of access to finance and payment services** include:

- Omnichannel banking
- The rise of challenger banks and neobanks
- The rise of Banking as a service (BaaS)
- Improve lending to MSMEs
- Peer-to-peer (P2P) lending and peer-to-business lending (P2B)
- Alternative credit assessment
- Payment: Real-time payment, cross-border payment and digital wallet
- The rise of factoring platforms

[14] USAID, 2020, «Digital Ecosystem Country Assessment (DECA) : KENYA», September 2020

The **benefits of Fintech as enablers of other sectors** include, among others:

- Pay-as-you-go financing solutions namely for decentralized renewable energy systems
- Lease-to-own solutions for production equipment for smallholder farmers for instance
- Buy-now-and pay later solutions for contract financing

Box 4: Fintech in Africa: Innovation and Ecosystem Development in Progress

July 2020 - Increased interoperability: The GSMA launches the **Mobile Money Interoperability Testing Platform** allowing third-party service providers and digital financial service providers to test their software implementation in an end-to-end ecosystem.

March 2020 - **Ghana** becomes the first African country to launch a universal **QR code** allowing all Ghanaians to make instant merchant payments from their mobile money wallets, bank accounts or international cards.

July 2020 - Increased Interoperability in **Central Africa / CEMAC**: The interoperability platform, GIMACPAY, is launched in CEMAC countries to facilitate **interoperability of bank payments and mobile money** for CEMAC populations.

Nigeria's evolving Fintech ecosystem: Building on its large economy and a population of 60 million unbanked, Nigeria is gradually becoming the Fintech powerhouse of the Continent with a number of emerging national champions: (1) The **Payments App Paga** is "making it simple for people to pay, get paid, shop and sell' with 27,000 agents which are registering new customers for Paga accounts and helping them process payments or put cash into a bank deposit; Paga is also making its programming interface available to tech entrepreneurs for payments while expanding its consumer business through the partnership with Visa; (2) **Nigeria Paystack, a Multichannel Payment Platform** for merchants, is allowing them to accept payments from all over the world, by credit card, debit card and direct bank transfer on the web and on mobile; (3) Jumia, the African e-Commerce leader, has its largest base in Nigeria with 15 million monthly visitors, over 10,000 active vendors, more than 50 000 international and national brands and 6 million products.

MaTontine in Senegal - Savings and credit platform: A mobile-driven peer-to-peer savings platform with an integrated credit system. Users can use credit scoring to access loans and other financial services in Senegal.

Source: GSMA, 2021 and GSMA, 2018 research on Paga, Paystack and Jumia by author

Other major benefits of Fintech for the WAEMU region

Fintech as enablers of social, industrial, and economic transformation: Innovative "**Digital Finance Plus**" solutions [15]are gaining traction in East Africa, but also, albeit at a slower pace, in West Africa, particularly in basic services that enable "a la carte" consumption, such as solar energy, water, and production tools**. Oolu Solar** has sold more than 34,000 solar home systems to rural customers in Senegal, Mali and Burkina Faso, while **PEG Africa** already has 450,000 users in countries such as Senegal, Ghana and Côte d'Ivoire. In Kenya, companies like **M-Kopa**, **Angaza**, and **Mobisol**, which offer remote monitoring solutions and **"pay-as-you-go"** and "**lease-to-own**" as well as the promising "**buy-now-and pay later**" financing options, are contributing to financial inclusion and socio-economic transformation, bridging the last-mile energy gap, while reducing the carbon footprint for the communities that need it most; in the process they deliver SDG acceleration services in education, health and income for the poor. M-Kopa has reportedly reached over 950,000 customers powered by decentralized solar energy systems through Fintech solutions.

Fintech and intra-African trade in the context of the AfCFTA (African Continental Free Trade Area): Fintech has the potential to be a key enabler of e-commerce services in the region. One of the limitations of e-commerce services to date has been the relatively low penetration of online payment, which has led many e-commerce businesses to rely on cash on delivery (COD) and its associated risks. A number of emerging Fintech startups are addressing this challenge by offering domestic and cross-border solutions for merchant payments and other online transactions via cell phones (GSMA, 2020).

[15] "Digital Finance +" is the use of mobile money and branchless banking to make essential basic services and utilities - in energy, health, education, and water, for example - more accessible to people at the base of the economic pyramid.

4.4 Programmatic pillars of Fintech development for UEMOA

The study suggests the following 4-point actions to develop Fintech in the WAEMU region.

4.4.1 Developing Fintech in the WAEMU region

The challenges for Fintechs in the UEMOA region are manifold and include access to appropriate financing solutions, access to information, strategic partnerships, skills development, and adoption of local Fintechs by incumbent operators.

In addition to having a strong base of scientists, graduates, and professionals in the digital and financial sector, the development of the Fintech sector in the WAEMU zone requires strong policy actions in four key areas.

- **Digital, financial and entrepreneurial education:** Supported by the private sector, starting with upgrading and bringing the education system up to global standards;
- **Digital infrastructure and broadband connectivity at competitive rate**: National coverage of digital telecommunication and internet infrastructure, namely high-speed broadband infrastructure and services, a competitive cost;
- **Interoperability/ interconnection** of digital finance infrastructure including more importantly, **API:** Fintech start-ups in the WAEMU region complain that major players' reluctance to share API constrains both innovation and their ability to scale-up and upgrade their service offerings.
- **Consistent policy, legal, regulatory, fiscal and other incentive** framework with a supportive institutional framework around incubators and accelerators that meet international standards; and deployment of associated **results-oriented programs** coupled with the engineering of targeted **catalytic events** for interaction of ecosystem players (like South Africa Innovation Summit); supported by an entrepreneurial and innovation culture; and
- **Availability of the Financing continuum for digital, Fintech and tech startups**: namely, seed capital; Series A, B, C capital; and private equity and growth financing for micro, small and medium enterprises; but also for social enterprises

4.4.2 "Start-up Act" to support innovation, youth /women entrepreneurship, and digital/tech entrepreneurship

Although embedded in the framework for supporting entrepreneurship in countries with an advanced entrepreneurial ecosystem, in recent years, as part of policy, legislative and regulatory reforms to support start-ups in a number of countries, the so-called Start-up Act has gained importance in the industrial and startup development policy of countries such as Italy (2012), India (Company Act 2013), Latvia (2016), Austria (startup program 2017), Belgium (2017) and Tunisia (2018).

The Start-up Act is a law that provides special benefits (e.g., tax incentives, government loan guarantees, tailored labor laws, reductions in paperwork and start-up costs) for companies registered as "innovative startups" under a startup labeling program. This special legislation has been implemented by the governments concerned to increase the innovative capacity of small and young firms by facilitating access to external capital and (highly skilled) labor. In some countries, such as Tunisia, the Start-up Act includes a set of policies to encourage young people to become entrepreneurs, investors to invest in promising companies, and other ecosystem actors to provide support when needed. For more ambitious countries, Start-up Acts can be coupled with special economic zones (science parks, technology parks, industrial parks, and business parks) and focus on a combination of the following objectives: (1) attracting foreign equity and venture capital, (2) attracting foreign entrepreneurial talent, (3) promoting digital start-ups, (4) developing deep tech entrepreneurship in cutting-edge technologies, and (5) industrial development in innovative and high-tech sectors.

Case Study 4:
The Startup Act of Tunisia

As part of the policy, legislative, regulatory and incentive framework to support start-ups; digital start-ups in particular, the last decade has seen a number of countries enacting a "Start-up Act" with variations in their industrial and startup development ambitions and objectives. Countries such as Italy (2012), India (Company Act 2013), Latvia (2016), Austria (startup program 2017), Belgium (2017) and Tunisia (2018) have been among those countries. In Africa, a dozens of countries are also considering the adoption of a Start-Up Act.

Key elements of Tunisia's start-up law include government salaries for up to three founders per business in the first year of operation, generous tax breaks, and a one-year leave of absence for public and private sector employees to start a business with the right to return to their former jobs. Other incentives encourage potential entrepreneurs to start new businesses, including available start-up grants, expedited licenses for obtaining start-up registration documents, and increased state support for patent license coverage.

Two years after its passage, Tunisia's Startup Act appears to be paying off and the country's digital economy has deepened. Q4 2019 data obtained from Entrepreneurs of Tunisia (EOT) - a new organization formed after the Startup Act was passed - shows that the country has had more than 165 new startups registered, twenty-four new co-working spaces opened, and $18.5 million raised in one year. In an April 2020 profile by WeeTracker, some Tunisian entrepreneurs expressed concerns about the impact of the pandemic on business, but they largely acknowledge that the Startup Act has solved key bottlenecks in the ecosystem by allowing them to focus on growing their business. This is a very promising indicator that has no doubt prompted other countries to consider following suit and enacting their "own version." If implemented on a larger scale on the continent, Startup Acts could catalyze a positive change in the overall business environment by improving local support for entrepreneurs and signaling to global venture capitalists that African innovation is here to stay.

A dozen African countries, including Senegal and Mali in the WAEMU zone, intend to follow Tunisia. The ideas/policies put forward in the Tunisian and Senegalese acts were developed as part of an innovative Policy Hackathon (or Policy Lab) organized by i4policy, a multi-stakeholder group that promotes policy reforms in the startup space in Africa.

Source: Adapted from Africa-Europe Innovation Partnership, December 16, 2010, "Startup Acts are the next form of policy innovation in Africa. At africaeurope-innovationpartnership.net/

In the context of WAEMU and most African countries, successful implementation of the START-UP ACT will be even more beneficial to countries if parallel efforts are made towards the following actions: (1) mastering advanced tools and techniques for industry, export, start-up and MSME development, including R&D, innovation and commercialization of research results; (2) effective design and administration of regulatory, fiscal and financial incentives; (3) mastery of the administration of equity fund of funds as well as investment banking and private equity practices; (4) deep understanding of digital technologies, digital entrepreneurship, and related digital enterprise and platform enterprise business models; and (4) political stability and stability of economic development policies.

Finally, in deploying their Start-up Act, countries can learn from peers with an already effective entrepreneurial ecosystem, such as Singapore, Israel and the Republic of Ireland to name few.

4.4.3 Regulatory framework for Fintech and digital/tech startups: Case for regulatory sandboxes

A key challenge policy-makers and regulatory authorities are faced with include the proper regulation of the innovative and disruptive technology enterprises such as Fintech start-ups. A regulatory sandbox is a framework set up by a regulator that allows Fintech startups and other innovators to conduct live experiments in a controlled environment under the supervision of a regulator (CGAP). The "graduates" of the sandbox set out to create their Fintech business. In 2016, the U.K. Financial Conduct Authority (FCA) launched the market-driven regulatory sandbox concept, with cohorts selected from a pool of aspiring innovators. Reminiscent of the concept of private sector incubators or accelerators, the FCA's sandbox model had immediate intuitive appeal to regulators and Fintech innovators looking for common ground.

CGAP has seen the emergence of thematic sandboxes in three distinct categories:

Financial inclusion sandboxes, such as those sponsored by the Bank of Sierra Leone and Bank Negara Malaysia, are limited to products, services, and business models designed to advance financial inclusion.

Vendor-specific sandboxes have become tools for catalyzing innovation in specific sectors of the financial system. For example, the Abu Dhabi Global Markets RegLab recently completed a cohort focused on small and medium-sized enterprise financing. Similarly, the Monetary Authority of Singapore's Sandbox Express program, currently in the consultation phase, plans to offer "pre-defined sandboxes" for insurance brokerage, money transfers, and certain institutional trading platforms (recognized market participants).

NextGen regulatory sandboxes are used to develop guidance and standards on technologies of broad interest to financial services market development (see CGAP's work on core regulatory enablers for digital financial services). For example, the Bank of Thailand used its sandbox as a focal point for industry consultation on a standardized QR code for domestic and cross-border payments. Similarly, the Fintech Proof of Concept (POC) Hub at Japan's Financial Services Commission has conducted Sandbox testing with small cohorts focused on customer identity verification and automation of customer suitability determinations. The first Sandbox graduate from the Central Bank of Bahrain provides account aggregation infrastructure for open banking.

Box 5: Regulatory framework for P2P crowdfunding/lending platforms

General provisions and guidelines

Minimum capital requirements: Platforms are required to hold a minimum amount of regulatory capital in order to withstand potential financial shocks.

Successor Loan Management Arrangements: Platforms must take steps to ensure that loans continue to be administered if the platform fails.

Dispute *resolution rules:* Investors have the right to complain to the platform and then to the Financial Ombudsman Service. Disputes follow a standardized process.

Client Money Protection Rules: Platforms are subject to client money protection rules that require all firms holding client money in the course of investment activities to provide adequate protection for that money.

Disclosure rules: Platforms are required to provide investors with all the information they need to make informed investment decisions in a fair, clear and non-misleading manner.

Ongoing Reporting: Platforms are required to report regularly on their financial status, client holdings, complaints and details of loans made on a quarterly basis.

Regulatory and control framework

Participatory financing product	Licensing Authority	Controlling authority
Credit/Loan	Central Bank	Central Bank
Donation		
Actions	Capital Markets Regulatory Authority	Capital Markets Regulatory Authority

Source: Author

4.4.4 Institutions and processes that support Fintech and other start-ups

In addition to the policy, infrastructure/digital connectivity and interoperability issues, a number of institutions and processes are critical to the proper functioning of the Fintech and digital ecosystem for WAEMU and other African regions. These include: Fintech/business incubators and accelerators, innovative Fintech/tech talent attraction programmes, catalytic events with enable interactions among ecosystem players, and government-backed digital and tech start-up support programmes.

4.4.4.1 Fintech accelerators and incubators

Fintech accelerators are institutions or programs that offer intensive 3- to 6-month programs designed to accelerate the growth of early-stage financial technology companies. Specifically, they help companies define and build their initial products, identify promising customer segments, and secure resources, including capital and employees. Accelerators typically provide some level of pre-seed or seed investment for each startup in their cohort in exchange for an equity stake in the company. The amount of investment and equity varies, but as a general rule, accelerators tend to take a 7-10% stake.

Fintech accelerators are expected to have deep expertise in digital technologies, entrepreneurship, and digital business models, a network of qualified/certified mentors, angel investors, institutional investors, private equity/venture capitalists, and government programs that support startups.

Case Study 5:
The Tony Elumelu Foundation Entrepreneurship Support Programme: *Youth Entrepreneurship Support Model for Africa Integrating Mentorship and Early-stage Seed/Grant Capital*

The Tony Elumelu Foundation

The Tony Elumelu Foundation (TEF) was founded in 2010 by Tony O. Elumelu, CON, an entrepreneur, investor and philanthropist who is passionate about Africa's economic development. The Foundation is active in all 54 African countries as of 2019.

The TEF Entrepreneurship program

In 2015, the Foundation launched the TEF Entrepreneurship Programme, a $100 million commitment by Tony Elumelu to empower 10,000 African entrepreneurs over 10 years. Under the program, thousands of young entrepreneurs benefited from this intervention model and use both the skills attained, the resilience mindset and the seed capital funding to contribute to starting and growing their businesses. Key program tools include:

The 7 Pillar Framework: 12 Week Business Training; TEFConnect; Online Mentoring; Meetups; TEF Entrepreneurship Forum; Seed Capital; and Alumni Network

Innovation & Technology: TEFConnect; Business Incubation & Acceleration; and Fostering Intellectual Property and Patents for African Entrepreneurs

TEFConnect leverages the digital economy to create more business and networking opportunities for African entrepreneurs. In 2019, the number of registered users grew to 768,611 comprising of entrepreneurs, mentors and other representatives in the African entrepreneurship ecosystem.

Partnership: The program is increasingly sharing its robust delivery platform and working in partnership with institutions such as UNDP (TEF-UNDP partnership. TEF-UNDP Sahel programme and TEF-UNDP Mali programme), AfDB, ICRC, GIZ, EU, UBA Plc and various African Governments to create meaningful and permanent impact across Africa.

Result and impact so far

Six years after the establishment, TEF Entrepreneurship Programme is now a recognized an established model which champions result-based youth and women entrepreneurship across Africa with the following results:

- Integrated and tested entrepreneurship / start-up support model for African youth and women at scale
- 800k+ applications received after only 6 years of operations
- 54 African countries covered
- 9,360 young African entrepreneurs trained, mentored and funded with seed money
- Over 1million jobs created
- 1million users on TEFConnect

Replicability and scaling-up

Initiated in Nigeria, TEF success and demand for partnership from various development partners and African governments triggered its scaling-up across the African continent.

The programme business model and digital delivery platform make its replication and outreach across the entire continent seamless with the TEF programme now being implemented in 54 African countries.

The next step in the TEF journey will be to contribute, through its E-commerce platform, to further development of intra-African trade in the context of the African Continental Free Trade area (AfCFTA).

Expanding TEF network of skilled and experienced mentors coupled with expanding TEF donors' partnership could also contribute to the scaling-up of the program which replication will require a generous philanthropists with a vision like Mr. Tony Elumelu

Source: Author's compilation based on TEF website

Accelerators and incubators can be government or private sector owned. They can be programs of higher education institutions, R&D centers, private companies, financial institutions, central banks, or a public-private partnership (PPP).

Table 8: Incubators and Accelerators: Defining Characteristics and Differences

	Incubators	Angel Investors	Accelerators	Hybrid
Duration	1 to 5 years	In progress	3 to 6 months	3 months to 2 years
Cohorts	No	no	Yes	no
Business model	non-profit, plug & play workspace	Investment	Investment Plug & play Possibly not for profit	Investment Plug & play Possibly not for profit
Selection	Yes	Yes	Yes	Yes
Stage of the company	Early or late	Early	Early	Early
Training	Entrepreneurship, business model, HR law...	None, Can be suggested	Seminars	Incubator/Accelerator Practices
Mentoring	Minimal, tactical	According to the needs of the investor	Intense by center and others	Support from the expert staff A little mentoring
Location of the company	On-site	Off-site	On-site	On-site

Source: Adapted from Suzan Cohen, 2013 "What Do Accelerators Do?" Insights from Incubators and Angels"

4.4.4.2 Talent and Investment Attraction: Leveraging Diaspora Direct Investment (DDI) and Foreign Direct Investment (FDI)

For a given country, the benefits of diaspora engagement include: stable investment, technology transfer, skills transfer, catalytic effect, diplomatic effect and reversal of brain drain. In other words, the diaspora represents the ideal investor profile for African countries.

The box below illustrates the "Start-up Chile" model of investment and start-up promotion by the Diaspora and foreign talent.

Box 6: Diaspora and Foreign Investment Promotion Model: Case of STARTUP Chile

Programme:

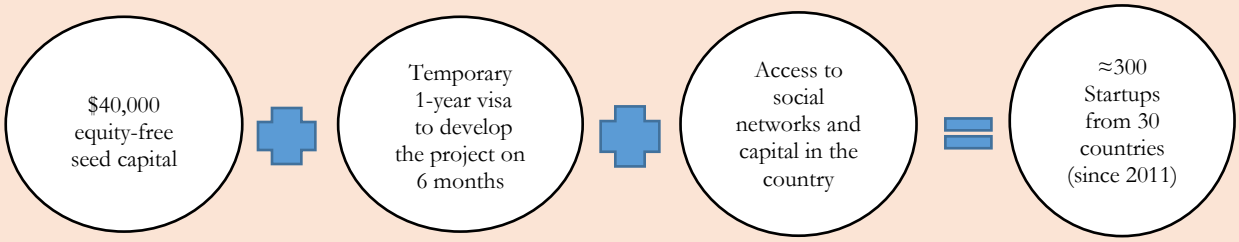
- STARTUP Chile program created by the Chilean government, executed by CORFO via InnovaChile

Program Objectives :

- Attracting high-potential, early-stage entrepreneurs to "bootstrap" their start-up in Chile, using it as a platform to go international
- To make Chile the center of innovation and entrepreneurship in Latin America.
- 1,000 bootstrappers from 2011 to the end of 2014

Program process:

- Participating entrepreneurs are selected through an admissions process conducted by Silicon Valley experts and a globally minded Chilean innovation council.



Source: adapted from IADB, 2014. Global best practices in investment promotion. By Fabrizio Opertti

4.4.4.3 Catalytic Event which supports Fintech and Digital start-ups: Example of South Africa Innovation Summit

Catalytic event in support of digital entrepreneurship and Fintech start-up in particular are events which connect the digital ecosystem players; including potential investors and start-ups in a deal making structure; where the issues surrounding early-stage financing are minimized. The South Africa Innovation Summit (SA Innovation Summit) is a deal making platform for the tech start–up community with funders, large businesses and small enterprises along with relevant supporting services/platforms such as "Student Activation", "Inventor Activation", "Hackathons or collaborative platforms for programming", "Acceleration Programs", "Match & Invest or investor-entrepreneur linkage", "Pitching Den or business plan presentation to investors" and "event to prepare participation to the World Start–up Cup at Silicon Valley".

Started as a national event, the SA Innovation Summit, organized annually, now attracts up to 39 African countries according to the event website.

4.5 Solutions to address Fintech-related problems and opportunities in WAEMU

Recommendation 1: Strengthen and extend digital infrastructure to underserved areas, promote interoperability of systems and other APIs/digital interfaces

As suggested in the responses to the questionnaire, financial inclusion is progressing with full national coverage of digital infrastructure. In this regard, the study recommends that WAEMU member states implement programs to provide universal access to telecommunication (GSM network) and internet (broadband) infrastructure and ensure that payment systems and databases are interoperable.

Recommendation 2: Enhance and develop Fintech, digital enterprises and the associated ecosystem - regulatory framework, venture capital and private equity market, business incubators and accelerators.

Digital solutions and Fintech in particular have proven to be the accelerators of financial inclusion, the catalyst of business models that support MSMEs and address the needs for infrastructure, productive facilities and economic empowerment of disadvantaged groups (farmers, rural population, women, youth, informal sector). In this perspective, the study recommends that WAEMU and its 8 member countries articulate a master plan to develop and expand Fintech, digital businesses, and the digital transformation of banks and microfinance

institutions in the region; promote training and experience-sharing activities in the management of Fintech and other digital businesses; and develop an enabling ecosystem, including the legal, regulatory, and incentive framework as well as the private equity and venture capital market.

Recommendation 3: Consolidate and expand successful e-commerce solutions that support MSMEs and empower the disadvantaged groups

A wide range of digital solutions that emerged before and during the COVID-19 pandemic needs funding to reach their full potential. These solutions would help manage the crisis, assist medical personnel, control the spread of the virus, support the poorest people, and help the government educate the public. Some of these solutions support business continuity, entrepreneurship, and the promotion of scalable and successful business models such as the Jumia platform (see box below). Yet, despite their potential, many start-ups have difficult access to finance and need specific financial and non-financial support.

Case Study 6:
The Online Platform "Jumia": *The African leader in e-commerce*

Jumia services, African footprint and shareholders
The Jumia platform is an online marketplace that connects buyers and sellers, providing logistics, shipping and delivery of packages in addition to a payment service. Jumia is present in more than 14 African countries, including Egypt, Morocco, Ivory Coast, Kenya and South Africa, as well as in Uganda, Tanzania, Ghana, Cameroon, Algeria, Tunisia and Senegal.

Jumia is part of the Africa Internet Group (AIG), which operates in more than 30 African countries through 10 other online services companies. Jumia's founding shareholders are two French nationals, Sacha Poignonnec and Jérémy Hodara, who remain co-directors of the company. The company's initial institutional shareholders include Rocket Internet (a German incubation center that has launched startups such as Zalando), MTN and Millicom. In March 2016, Jumia raised more than €300 million from MTN, Rocket Internet, AXA, Goldman Sachs, Orange and CDC Group.

Jumia Operations
For the African continent with its growing commercial needs, an e-commerce platform like Amazon or Alibaba was welcome. Jumia has partially filled this gap.

Jumia has to deal with the particular demands of African countries by compensating for the weak commercial infrastructure: it has developed its own remote payment and logistics branch. The company operates a logistics service, which enables the shipping and delivery of packages from sellers to consumers, a payment service, Jumia Pay, which facilitates transactions between participants and the Jumia platform in certain markets. It has partnered with more than 50,000 local African businesses, stores and individuals who are hosted on the marketplace platform as sellers.

Results and impact, December 2020
- 1.2 billion consumers
- 17 million SMEs serving Africa
- Over 1 billion visits to the marketplace in 2019; 1 transaction or lead every 2 seconds.
- 110,000 active sellers on the platform
- Over 40 million products, restaurants and other services listed

In June 2021, despite the positive narrative about Jumia and the growth of its business, the company is still struggling for sustainable profitability. Yet, Jumia remains a highly regarded player in the African e-commerce world. In the midst of the COVID-19 crisis, Jumia has helped connect informal sellers with consumers.

Replication and expansion of the Jumia model
In addition to its presence and growth in Africa's largest economies, Jumia has been able to survive in part because of strong financial support from credible industry players, but also because of technical support from its parent company (African Internet Group), which has provided considerable market intelligence and technical support.

According to analysts, the success of Jumia's business model remains to be seen, as the capital and human resource intensive business model means that Jumia uses a considerable level of cash. Yet there is no doubt that the first African-branded tech company listed on the New York Stock Exchange (NYSE) is bringing value to many African MSMEs.

Source: Compiled by the author based on Jumia website

The study recommends dissemination and scaling of solutions such as Jumia; including smaller ones, through a combination of facilitating the sharing of best practices in understanding digital economy business models and access to finance.

5. Green Financing and Social Financing:

Scaling-up green and social finance solutions and supporting the digital transformation of decentralized financial systems

5.1 Green Financing for MSME

To take advantage of these considerable green opportunities, WAEMU and other African countries have to come-up with green growth financing strategies grounded on a vision of what they should be in the next 10-20 years from a GHG emission, environmental preservation, renewable energy and overall green economy point of view. More specifically, strategies, expertise and enabling environment for the leveraging of ODA-based global/regional facilities, carbon credit-related instruments and commercial instruments for green growth financing should be developed.

From an MSME finance perspective, the study proposes the development of green financial infrastructure, financial expertise and enabling regulatory and incentive framework around the following green finance vehicles and solutions.

5.1.1 Green banks

Green Banks are mission-driven institutions that use innovative financing to accelerate the transition to clean energy and fight climate change (Coalition for Green Capital). Financial services offered by green banks include: Loan, mezzanine, project finance, risk sharing, and investor de-risking, weather risk solutions.

Case Study 7:
Connecticut Green Bank

From 2012 to 2016, Connecticut Green Bank or CT Green Bank, one of the first Green Bank in the world, has:

- Received $186 million in state funding and deployed $165 million for project investments;
- Leveraged $755 million in private investment, generating nearly a billion dollars of total investment;
- Deployed nearly 200 MW of renewable capacity, mostly through distributed solar generation;
- Created nearly 12,000 clean energy jobs in the state;
- Financed projects in multiple ways, including direct lending, leasing, and loan loss reserves;
- Leveraged capital in innovative ways such as credit enhancements and sales of aggregated portfolios
- Preserved effectively all of the public capital it has received so it may be recycled for further investment

CT Green Bank energy, economic and environmental outcomes over the period 2012-2016 also involved the following:

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Energy Outcomes					
Number of Clean Energy Projects	417	1,118	2,422	6,543	8,271
Annual Energy Savings (MMBtu)	9,334	59,481	378,877	1,086,544	419,219
Renewable Capacity (MW)	2.9	23.5	26.1	65.5	74.4
Lifetime Production (MWh)	68,388	1,419,346	1,007,648	1,824,810	1,995,564
Job Outcomes					
Jobs Direct	88	559	550	1,455	1,703
Jobs Indirect	142	1,132	885	2,340	2,740
Total Jobs	230	1,691	1,435	3,795	4,443
Lifetime CO2 Emissions Reductions					
Emission Reduction (Tons)	35,459	178,437	271,179	815,600	885,103
Home Equivalents	326	15,293	6,499	10,116	10,491
Cars of the Road Equivalents	236	1,967	1,630	5,432	5,816

These top line metrics confirm that the Green Bank is accomplishing its mission through:
• Using public dollars to drive multiples of private investment;
• Growing the state's clean energy market;
• Creating clean energy jobs in the state;
• Lowering energy costs; and
• Preserving public dollars through financing so capital can be recycled.

Source: Adapted from Connecticut Green Bank – Organization Fact Sheet (Accessed on August 18, 2017)
http://coalitionforgreencapital.com/wp-content/uploads/2017/04/CT-Green-Bank-Org-Fact-Sheet.pdf

5.1.2 Green funds

Green funds are investment vehicles or development associated funds that will only invest in companies or projects that are deemed socially conscious and/or directly promote global environmental agenda – reducing global warming and carbon footprint, promoting renewable energy and energy efficiency, contributing to natural ecosystem preservation and regeneration, etc. The three global development-oriented global green funds which serve the developing world, WAEMU countries included, are:

Climate Investment Fund (CIF): A global multi-donors trust fund (more than USD 8 billion of grants since inception in 2008) administered by the World Bank Group. It supports developing countries only through multilateral development banks (African Development Bank, Asian Development Bank, etc.).

Global Climate Fund (GCF): GCF (USD 8.1 billion of grant since inception in 2010) supports WAEMU and African countries via so-called Accredited Entities (AE). Administered from Incheon – South Korea.

Global Environment Facility (GEF): Created in 1991 (replenished through GEF 1 through GEF 7, USD 4.1 billion for GEF-7 and USD 19.03 billion for GEF 1-GEF7), GEF supports WAEMU and African countries via so-called GEF-entities. Administered from Washington DC.

A number of other development cooperation-funded green funds exist notably from the EU, leading bilateral cooperation agencies and global initiatives such as the Sustainable Energy for All (SE4ALL).

5.1.3 Green bonds

Climate or green bonds are fixed-income financial instruments that have positive environmental and/or climate benefits. They follow the "Green Bond Principles"[16] stated by the International Capital Market Association. The proceeds from the issuance of green bonds are to be used for the pre-specified types of projects. WAEMU's BRVM can gradually engage in enabling the issuance of green bonds by eligible institutions such as regional development banks for on-lending to financial institutions involved in green financing.

5.1.4 Structured green finance solutions and Carbon finance market

A number of structured green finance solutions, including, carbon finance ones in the framework of Clean Development Mechanisms, beyond the scope of this mapping work, do exist and could potentially tapped by WAEMU and African firms and MSME.

5.1.5 Review of scalable energy and impact finance models

In the transformative renewable energy and energy efficiency (RE/EE) market, a number of scalable structured MSME and project financing models are emerging regionally and globally. These models and schemes are worth popularizing to the broader WAEMU and African green infrastructure market. They involve the following models presented in the following cases:

[16] The **Green Bond Principles** (GBP) seek to support issuers in financing environmentally sound and sustainable projects that foster a net-zero emissions economy and protect the environment (ICMA Group)

"Pay-as-you-go" or "PayGo" consumer Finance Model: A Fintech-enabled innovative financing of last mile solar energy system for disadvantage groups which now widely adopted in East Africa and is developing in the WAEMU region.

Case Study 8:
"Pay-as-you-go" Consumer Finance Model: Example of Kenya's M-Kopa
Fintech-enabled innovative financing of last mile solar energy system for disadvantage groups

The Founders

M-KOPA was founded in 2011. It sells solar powered battery packs to low-income, often unbanked, customers on a pay-to-own instalment basis. It was launched by Nick Hughes, formerly the Head of Global Payments at Vodafone; the GSMA Foundation's former Director, Jesse Moore; and Chad Larson, who brought a long background in finance to the team, with equity capital and microfinance experience.

The opportunity: M-KOPA solar products for the unbanked

Given the importance of electricity to providing domestic light, charging mobile phones and powering radios, personal computers, and televisions, M-KOPA opted for solar power as the product with the greatest potential to build –and prove – their pay-as-you-go financing and associated distribution system.

In a country where only 18% of the country's 44 million people have access to grid energy, M-KOPA saw considerable growth potential, and estimated that it could reach around 4 million of Kenya's 7 million households in Kenya. The solar battery pack alone could be sold to up to 2 million households; experimenting with different price points up could make the reach wider still.

M-Kopa business model

M-KOPA launched operations in 2012 with a scheme which allowed customers to purchase solar battery over 18 months. The packs included an embedded SIM device that could track customer use remotely and disable power in the event of non-payment.

Given its social mission, with a focus on improving the livelihoods of poorer consumers, M-KOPA's business model was first financed by grant and impact investment capital. Then the company considered a partnership with Commercial Bank of Africa and the Safaricom M-Pesa platform. This partnership helped bring solar innovation, mobile technology, and asset financing under one roof. Thanks to its back end, M-KOPANet, M-KOPA Solar was able to categorize the consumers and to design suitable payment plans for them.

M-KOPA's business model aimed to bypass the costs and credit risk barriers involved in physical payment collection systems. Once established, it could roll out a variety of different products for lower income consumers which were readily affordable if staggered over a manageable payment period.

Outcome from M-Kopa Perspective:

- The first year of operations, M-KOPA's customer base has grown from 30,000 to 150, 000; by 2018 the 500,000 mark was reached. Today M-KOPA is said to have around 950 000 customers in Kenya, Tanzania, and Uganda.
- M-KOPA is using its mobile payment history for each individual customer as a credit rating system by which to approve additional product payment loans.
- M-KOPA is the market leader in pay-as-you-go services for off-grid customers, and it provides an upgrade product that includes smartphones, water tanks and fridges.
- In 2018, the company launched SOLAPESA – a cash loans to existing customers

Take-away from a Fintech impact perspective

Before mobile money, credit services for the unbanked were a physical undertaking that usually fell to microfinance institutions (MFIs), who charged onerous interest rates to compensate for the significant costs of monitoring loans.

The new **pay-in-advance (prepaid**) or **pay-as-you-go** models are electronic hybrids of old-fashioned savings and credit plans-but **mobile-money systems** give sellers and lenders the **ability to collect millions of frequent micro-payments**, which is impractical with manual or cash systems.

The key to **prepaid models** is their flexibility-you buy (or pay down or pay forward) what you can afford when you want. This nascent model suggests that it might be **possible to scale new and innovative products much faster, with an efficient system of financing, than has been possible before.**

Source: Author compilation based M-KOPA website

Energy and Environment Partnership: An Impact finance model involving early-stage capital and grant funding for small-scale RE/EE projects for under-served communities in a blended finance structure. The programme is financed and co-implemented by the Finnish, Austrian and UK government in the SADC region.

Case Study 9:
The Energy and Environment Partnership – Finland-Austria-UK in SADC
Impact financing for small-scale renewable and energy efficiency projects

The **Energy and Environment Partnership** is a small grant programme developed by the Finnish government and supported by the Austrian and UK governments to stimulate the development of small energy efficiency and renewable energy projects in eastern and southern Africa. EEP Africa covers 11 of the 15 SADC Member States (Botswana, Eswatini, Lesotho, Malawi, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia and Zimbabwe) and provides early stage grant and catalytic financing to innovative clean energy projects, technologies and business models. It offers two financing windows:

- **EEP Innovation provides early-stage grants and repayable grant**s between EUR 200,000 (USD 232,000) and EUR 1 million (USD 1.2 million), co-financing up to 70% of the project budget;
- **EEP Catalyst provides follow-on risk sharing finance to select projects in the form of concessional loans** of up to EUR 2 million (USD 2.3 million), covering up to 25% of new investment. Between 2010 and 2015 EEP Africa funded 153 projects, of which 102 were in the SADC region. By the end of 2017 the total had reached 225 projects, of which 138 were located in SADC.

This programme structure is potentially replicable for the rest of the continent and especially the frontier countries. It applies to both small-scale commercial RE/EE projects and social enterprise-type projects.

Source: Author compilation based on IFC and International Solar Alliance (2016), Compendium of Global Success Stories in Solar Energy

World Bank/IFC's Scaling Solar programme: The programme involves developing and financing clusters of small-scale grid-connected solar projects via project development, RE auctions, RE production and pricing contract, financial advisory and financial close streamlined and standardized processes and tools. The model has been successfully rolled-out in Zambia.

Case Study 10:
World Bank/IFC's Scaling Solar programme: *Developing and financing clusters of small-scale grid-connected solar projects through streamlined and standardized processes and tools*

Problem statement:

Zambia's power shortage was estimated at 560 MW in 2015 and developing decentralized renewable energy (RE) system with private project sponsors was considered a viable solution to address the gap while reducing the carbon footprint.

Developing renewable energy project involves a complex process of project development, auctioning RE production rights, negotiating and agreeing power purchase agreement (PPA) with national energy company, risk allocation between the private project sponsor, Governments and financial institutions, and robust advisory services from transaction advisor.

This complex process makes the turnaround time of grid-connected solar projects quite long. As a result, Zambian authorities through Industrial Development Corporation (IDC) Zambia had to find a partner who could assist in shortening the project turnaround time.

Solution: Zambia was one of the first African countries in which the **IFC/World Bank's Scaling Solar programme** was implemented, with Industrial Development Corporation (IDC) Zambia officially engaging the IFC as lead transaction advisor. The Scaling Solar programme aims to provide a one-stop shop including advisory services, **standardized contracts**, and a "**stapled offer" of investment products** (financing) and risk management services/ products (guarantees and insurance) for which bidders are free to apply. The IFC together with other advisors drafted a set of template documents including **a PPA and government support agreement**. These **agreements offered a fair, balanced and bankable allocation of risk between the government and private parties**, based on which the IFC and others would offer **project-specific financing and guarantees**. The goal of the programme was to **make privately funded grid-connected solar projects operational within two years of award and at competitive tariffs** to mitigate Zambia's power shortage, estimated at 560 MW in 2015.

Outcomes and impacts: In May 2016, Zambia completed its first solar auction, designed to develop two solar PV projects of up to 50 MW in the Lusaka-South Multi-Facility Economic Zone. The auction was very competitive and attracted a total of 48 solar power developers, of which 11 prequalified to submit full bids and seven produced final bids. Two winning bidders were announced in June 2016: Neoen/First Solar, with 52 MW at USD 60.2 per MWh, and Enel Green Power, with 34 MW at USD 78.4 per MWh. The bid prices were much lower than expected, and among the lowest in the world at the time.

Lessons learned: The interest of this **IFC/World Bank Scaling Solar programme** project advisory programme structure lies in **its structured process** to bringing large number of renewable energy projects of a given country to rapid financial close and implementation.

Source: Author compilation based on IFC and Development Bank of Zambia

EU-ACP Infrastructure Trust Fund: A Blended Finance Scheme for Infrastructure Finance which have been able to crowd-in and de-risk EUR 11.1 of additional finance from EUR 763 million of EU concessional funding and develop and finance 123 critical water, transport and energy infrastructure across Africa through blended finance over the period 2008 – 2018.

Case Study 11:
The EU-Africa Infrastructure Trust Fund (ITF):
Blended finance solutions for infrastructure project

Blending or blended finance is the term used to describe the leveraging of grant funding to attract private capital in infrastructure project and/or other private sector development activities (e.g. attracting equity investor in an SME investment project). "Blending" facilities can include, in addition to the commercial investment/lending component, one or more elements of a range of instruments, including: technical assistance, feasibility studies, project development fund, investment co-financing; equity participation and other risk-capital, interest rate subsidies, on-lending; guarantees and insurance subsidies and/or incentive payments.

Created in 2007, the EU-AITF is a trust fund set up by the European Commission and a number of European Union Member States. The EU-AITF's main objective is to promote investment in infrastructure in sub-Saharan Africa through various forms of ***grants, which are blended with long-term investments*** by selected development finance institutions. In this way, the EU-AITF helps to mobilize additional finance for projects, thereby increasing access to energy, transport, water and communications services. Ultimately, such projects contribute to poverty reduction and help foster sustainable economic growth.
Grant envelopes:

- The regional envelope promotes infrastructure projects with a demonstrable regional impact.
- The Sustainable Energy for All (SE4ALL) envelope supports regional, national and local energy projects targeting SE4ALL objectives.

Grant support by the ITF

- Technical assistance: for preparatory work, project supervision, targeted capacity building.
- Interest rate subsidies: to lower interest rates and hence reduce the total amount of debt.
- Investment grants: to finance project components or part of the investment, to increase the concessionality of the financing package.
- Financial instruments: guarantee cost financing, equity or quasi-equity investments or participations, risk-sharing instrument

Eligible projects under the ITF

- ***Energy***: geothermal, hydropower, solar power and wind power plants, transmission lines, sustainable cooking fuels, access, etc.
- ***Transport***: road and railway networks, ports, maritime and river routes, air transport, etc.
- ***Water:*** water supply, treatment, and sanitation plants, etc.
- ***Information and communication technologies*** : submarine internet cables, satellite-based infrastructure, etc.

The Project Financiers Group (PFG): The PFG brings together development finance institutions (the EU-AITF Project Financiers) that have been nominated by the EUAITF Donors, as well as experts from the European Commission.

Investment impact of the ITF: As at the end December 2018:

- Donor funds pledged: EUR 813 m
- Donor financing approved: EUR 763 m
- Total investments supported: EUR 11.1 bn
- Number of projects financed from 2008 – 2018: 123
- Leverage ratio: 11.1 / 0.763 = 14.5

Source: EU Infrastructure Trust Fund Annual Report 2018

5.2 Social Finance and the Informal Sector

5.2.1 Importance and characteristics of WAEMU informal sector

The informal economy refers to all economic activities of workers and economic units that are - in law or in practice - not covered or insufficiently covered by formal arrangements (ILO, 2015)[17]. The ILO (2018) report indicates that informal employment is the main source of employment in Africa, accounting for 85.8 percent of all jobs (67.3 percent in North Africa and 89.2 percent in Sub-Saharan Africa).

The WAEMU figures corroborate those of sub-Saharan Africa with a rate of informal employment of around 92%; thus requiring that special attention be paid to this sector in the private sector support policies of WAEMU and its member countries.

Box 7: Importance of WAEMU Informal Employment

	Formal jobs	Informal jobs	Total workforce
Non-agricultural sector	10.4%	89,6%	18,403,123
Agricultural sector	3.6%	96,4%	9,725,292
Total	8,0%	92,0%	28,128,415

Source: AFRISTAT. 2019. Integrated Regional Survey on Employment and the Informal Sector, 2017-2018: Summary Report. Bamako, Mali.

Agricultural sector and informal sector: As illustrated by the above figures, 96.4% of the 9.7 million agricultural jobs in WAEMU are informal.

In addition, the results of a recent IFAD survey of 143 farmers' organizations (FOs) involving 458,830 farmers in Eastern and Southern Africa [18]reveal the following preliminary findings:

- The greatest difficulties that FOs face in obtaining credit are the lack of information available on financing opportunities (54%) and the complexity of financing procedures (37%).
- 74% of respondents indicated that it was "difficult" or "very difficult" to obtain commercial loans.
- The percentage of FOs needing financing is: 81% for working capital; 50% for investments and 44% for trade finance.

Women and the informal sector: The same AFRISTAT source indicates that, in the WAEMU region, the rate of under-utilization of the labor force is 37.6% for women as against 25.3% for men; and the rate of vulnerable employment is 82.7% and 64.1% for women and men respectively.

Added to this is the fact that support for women entrepreneurs has taken on renewed urgency since the emergence of COVID-19. In the first year of the pandemic, women-owned businesses in Nigeria, Kenya, and Côte d'Ivoire experienced a 39% decline in sales, compared to only 28% for male-owned businesses according the reports.

Youth Employment Challenges: In 2019, 800 million Africans, representing 60% of its population, were under the age of 25. While 10 to 12 million young people enter the labor market each year, only 3.1 million jobs are created, leaving a large number of youth unemployed (AfDB).

[17] ILO, 2015, "ILO Recommendation No. 204 concerning the transition from the informal to the formal economy.
[18] IFAD, 2021 "Access to Finance Surveys", 5 May 2021

5.2.2 Social Finance and Impact Finance

Social finance and **impact finance** are inter-changeable concept and represent an approach to managing investments that generate financial returns while including measurable positive social and environmental impact**.** Social financing and impact financing/investing comes in a variety of vehicles or instruments including the following inter-related ones: Social impact investing, social bond, social impact bonds, social venture capital, Charitable / Retail charity bonds and crowdfunding for social purpose.

Impact investing provides financial returns in addition to social impacts. Thus, it provides the opportunity to invest capital in order to create societal impacts combined with financial returns. It opens the field to investors that rely on financial returns. Additionally, impact investment is able to use capital more efficiently than philanthropy because it will be paid back or even creates an additional financial return and thus is able to leverage capital. Impact investing uses the leveraging effect of loans, investments, and other financial services.

Social banks and microfinance institutions: Social banks are institutions that offer products and services that should create a social impact (GABV). A number of them are members of the Global Alliance for Banking on Values (GABV), the only global association of social banks. In developing countries, Social banks are associated with microfinance institutions.

Social venture capital is a type of seed-funding investment that seeks to achieve financial gain while also making a positive impact on the world. Social venture capitalists invest their money in startups that are working towards creating a positive change in society, namely in poverty and the environment.

Social Impact Bonds are government bonds that raise private capital for investments to create improvements in the system that create cost savings as well as social benefits. They link financial returns to the achievement of a social outcome. Social Impact Bonds could be used, for instance, to finance a project of a social enterprise that has the goal to reintegrate long-time unemployed into employment.

Retail Charity Bonds is an issuing platform to enable charities to raise medium term debt through bonds listed on London Stock Exchange (https://retailcharitybonds.co.uk). The bonds are issued by a special purpose vehicle, Retail Charity Bonds plc, which is governed by an independent and experienced board of non-executive directors from the financial and social sectors who are acting on a pro-bono basis. The platform also provides investors with social investment opportunities offering market-related returns. The bonds are expected to be admitted to trading on the Order book for Retail Bonds, where they may be bought and sold on the secondary market

5.3 Challenges to be addressed

Access to financing for the informal sector enterprises

From an access to finance perspective, the needs of the informal sector are only marginally met by microfinance, social/impact finance and digital finance. While microfinance has become a mature activity in many parts of the world and quite developed in the WAEMU region, microfinance institutions (MFIs) in the region tend to be undercapitalized and limited in their ability to meet the growing demand of their clients. In addition, significant savings mobilization by MFIs, one of their key success factors, remains a challenge for the vast majority of players. Finally, all-in-cost of credit (interest, fees and collateral requirement) granted by MFIs in the WAEMU zone and in several African countries remain abnormally high despite the existence of regulatory and supervisory authorities.

UEMOA social enterprises and NGOs receive only a small share of international impact funding

Impact finance gap: UEMOA countries receive an insignificant portion of the estimated $715 billion global impact investment market based on the Global Impact Investors' Network (GIIN) database of over 1,700 impact investors, as of June 2020. In addition, impact finance resources for Africa and the UEMOA region are generally channeled through foreign organizations, bypassing local institutions. Yet the COVID-19 pandemic has highlighted the power of proximity. Locally led African organizations trusted by their communities were often better placed to respond to changing needs when many international NGOs recalled their staff to their home countries.

Importance of Social Enterprises: Social enterprises are businesses that undertake commercial activities to intentionally address social issues, improve communities, provide people with access to employment and training, or help the environment (Social Traders). Through business activities, social enterprises prioritize at least two of the following three criteria: financial return, social impact and environmental sustainability.

The most common legal structures used in the social entrepreneurship sector are: the economic interest group, the NGO, the cooperative society; and the company limited by shares.

Box 8: Importance of social enterprises in Sub-Saharan Africa

- 2 million social enterprises across Sub-Saharan Africa employ 41.6 million people in the region.
- 78% of social enterprises actively seek to create jobs, compared to only 27% of commercial enterprises.
- Social enterprises employ an average of 20.6 people, while MSMEs employ an average of 1.7 people.
- 35% of social enterprises in Sub-Saharan Africa specifically aim to support vulnerable people (women, disabled, elderly), compared to only 7% of commercial enterprises.
- 44% of social enterprises aim to improve a particular community, compared to 10% of commercial enterprises.

Source: British Council (2021)

Yet, despite the recognition of the sector's critical importance, it suffers from a combination of poor policies, limited or no access to social protection/safety nets, and financial exclusion from most programmes from government, donor, and commercial financial institution.

5.4 Solutions to address identified challenges and opportunities

Recommendation 1: Increase budgetary allocations and innovative financing schemes for the informal sector in its agricultural, women and youth components and, in the process, promote models that maximize access to finance for the underserved

The study recommends that WAEMU member states make substantial budgetary allocations to the agricultural sector as suggested by the Maputo Declaration which requires that all African countries allocate 10% of their national investment budget to the agricultural sector. These resources should be combined with external public resources in blended finance structures to attract more commercial resources and enable the provision of financial and other services that de-risk the supply of and demand for financing services for the informal agricultural sector, particularly small-scale producers. A similar approach should be adopted for the informal sector in its various significant sectoral (agriculture, handicrafts, mining, trade, etc.) and social (women, youth, and disadvantaged social groups) components.

Recommendation 2: Tap into the international impact finance market and develop the social finance and social entrepreneurship ecosystem

WAEMU government institutions and their partners should **actively advocate for more access to the global impact finance and philanthropy market,** whose resources only marginally reach Africa through East Africa, Southern Africa, Nigeria and Ghana. In particular, countries in the region and their partners will need to advocate and lobby for attracting a fair share of the resources of the estimated $715 billion global impact investment market to the region based on the Global Impact Investors' Network (GIIN) database of over 1,700 impact investors as of June 2020. In parallel, countries and institutions in the region will need to **develop the social finance ecosystem,** in particular: (1) assessing the challenges and opportunities of the sector and proposing strategies and programs to address them; (2) developing the capacity of locally established impact investing actors to attract funding; (3) developing pools of impact finance fund managers, including 50% women fund managers where possible; and (4) articulating a coherent legal, regulatory, and fiscal regime for social enterprises, as well as the management standards that should govern them.

Recommendation 3: Encourage digital transformation, penetration and diversification of microfinance services in rural areas

As per Kenya's DigiFarm model the study recommends: (1) the diversification and capitalization of financing institutions serving rural areas (MFIs, postal banks, financial cooperatives, recognized NGOs, etc.) and their capacitation to offer value-added/innovative financial services (index insurance, microinsurance, micro-leasing, micro-savings and micro-loans, etc.); and (2) systematic support for the digital transformation of MFIs and other financial institutions serving rural areas; namely in their ability to offer digital financial services (payment/transfer services as well as savings and credit), leverage multiple distribution channels and facilitate new value-added services such as Pay-as-you-go services.

Case Study 12:
Blended Finance Guarantee Scheme in support of Smallholder Farmers
Tanzania Private Agriculture Support Trust (PASS Trust)

Context: Agriculture is central to the Tanzanian economy; over 75% of the working population relies primarily on this sector. Agriculture contributes a sizeable proportion of the country's GDP (about 27%) and is a major source of foreign exchange earnings (about 30%), in addition to its role in ensuring food security.

Commercial financial institution in Tanzania claim that the small loans requested by MSMEs do not justify the high transactional costs incurred in doing loan appraisals. They also view agricultural lending as risky, due to factors such as weather and volatile market conditions. Further to this, most of these banks have high collateral requirements (up to 125% of loan value), which MSMEs find difficult, if not impossible, to muster. When all these factors are combined, very little credit finds its way to MSMEs or the agriculture sector.

PASS Trust's started as a project in 2000 and turned into an NGO under the Tanzania 2002 Trustees Incorporation Act. PASS Trust is not the only credit guarantee scheme in Tanzania; an estimated 15 of these have been, or still are, in operation. However, PASS Trust has the only active credit guarantee scheme offering a coverage ratio of between 50% and 75%—even 80% in certain cases, such as for projects owned by women or youth. It does so by working with around 15 partner financial institutions (PFI).

Type of risk addressed: Business model risks associated with financial institutions serving Agri-SMEs or smallholder clients.

Type of blended finance instruments: Technical Assistance and various financial product: **guarantee**s; **sovereign guarantees** (unfunded); commercial **senior debt** or **private equity investments**; and **weather index insurance**

Value added services – Training to clients and staff from partner financial institutions in: business skills, entrepreneurship, post-harvest food safety and packaging, financial literacy and access to finance. More than 1,900 individuals benefited from a PASS guarantee induction seminar. **Agribusiness Incubation Centre (AIC)** established in 2015 to nurture high-potential SMEs through mentorships and business development services to transform the mindset of youth and encourage them to receive modern agricultural business training. In 2019, 18 young people successfully exited the program after a 12-month agribusiness incubation period in partnership with Sokoine University of Agriculture in Morogoro, Tanzania. They are now establishing their own horticulture businesses.

PASS Trust Outputs, Outcomes and Impact
2013-2019

Year	Number of business proposals supported	Value of business proposals (TZS Billions)	Number of beneficiaries	Number of jobs created
2013	310	48.8	129,000	387,000
2014	378	75.5	117,901	353,703
2015	564	56.1	128,796	386,388
2016	1,010	101.0	183,249	549,747
2017	623	122.7	170,974	211,055
2018	15,563	191.7	196,873	387,804
2019	10,666	129.7	226,689	225,198
TOTAL	**29,114**	**725.5**	**926,793**	**2,500,895**

Source: SAFIN, IDB, 2020

Case Study 13:
DigiFarm: The Agritech application from Safaricom - *An integrated mobile platform of digital services for farmers*

Launched in 2017 in Kenya, DigiFarm is Safaricom's integrated mobile digital services platform for farmers. DigiFarm, accessible on a basic phone, provides farmers with access to products and services that enable them to source, transact, learn and grow their farms in a convenient way. Over time, additional services are being added to the platform to make DigiFarm a one-stop shop for Kenyan farmers, including an open marketplace for agricultural products.

DigiFarm services include:

- ***Order inputs***: DigiFarm allows farmers to purchase inputs through selected vendors.
- ***Engage in learning***: DigiFarm provides access to educational content on agricultural best practices and financial literacy.
- ***Access input credit, crop loans and insurance***: DigiFarm provides digital credit products based on alternative credit scoring and bundled with insurance.
- Connecting ***with buyers***: DigiSoko connects farmers and buyers in specific value chains.
- ***Soil testing / farm testing***: DigiSoko tests soils to understand the required inputs and sustainability for the production of the value chain.
- ***Product aggregation***: DigiSoko facilitates product aggregation and final payment to farmers.

DigiFarm is designing a savings product to help women farmers cope with emergencies.

Source: Author compilation based on DigiFarm website

Beyond the digital transformation agenda for decentralized financial systems, delivering micro-finance-type services to underserved segments can be approached from a number of perspective including by adopting good practices in microfinance service delivery which are now widely documented.

Box 9: Elements of good practices in financing small businesses

Good practice areas	Institutions
Downscaling	Banco del Desarrollo, Chile
Transformation of NGO-MFIs into formal institutions	ACLEDA, Cambodia; CARD Bank, Philippines
Role of public banks in microfinance	Ag Bank, Mongolia, Banco de Nordeste, Brazil
New microfinance banking institution	MEB, Bosnia
Mesofinance "Missing Middle" banking institution	COFINA Banking Group, West Africa
Savings products and introduction of savings	BIS, Indonesia
Effective targeting on extension, impact and poverty	SHARE, India
Effectiveness of financial sustainability	Constanta, Georgia
Rural microfinance	GAPI, Mozambique; PRODEM, Bolivia; CVECAs, Niono-Mali

Source: adapted from World Bank, 2004, "Microfinance and the Poor in Central Asia Challenges and Opportunities

Recommendation 4: Improve models of support to the informal sector

Through the production of toolkits and their dissemination, promotion of good practices and models of support to the informal sector around the following core **programmatic pillars**: (1) Pillar 1 - Policy and incentive framework, legal/fiscal/administrative framework, institutional support framework; Pillar 2 - Social protection and decent jobs : Pillar 3 **-** Formalization, productivity, competitiveness, growth and inclusion (market, financial and technological) of informal sector enterprises; as well as successful models for targeting the main **vulnerable groups** identified: small rural producers and their farmers' organizations; women and women's groups; youth and youth associations; urban, peri-urban and rural informal sector enterprises; and social enterprises.

6. CONCLUSION

The report has taken the view that **WAEMU countries needs not only additional funds earmarked for financing MSME; but also more inclusive means of facilitating MSME access to finance** in terms of financial markets, financial institutions and financing services/products.

Furthermore, the report takes cognizance of **four non-mutually exclusive perspectives** to addressing MSME access to finance in the 8 WAEMU countries:

- The perspective of **legacy financial institutions** such as commercial bank and microfinance which needs to be further incentivized and capacitated to offer increased access to finance services to MSME;
- The perspective of the **emerging Fintech sector** which delivers improved financial inclusion to the underserved segment of the populations, improved access to finance solutions through crowdfunding, P2P lending, receivable/invoice trading platforms and alternative data-driven consumer and MSME lending models;
- The perspective of **missing yet critically important markets** such as the venture capital and private equity, public bond, and equity market; the impact and social finance market, and green finance market; and
- The perspective of seizing the socioeconomic opportunities availed by the **AfCFTA** (African Continental Free Trade Aarea) via MSME trade finance support; by **green growth** and the requirements for green transition of WAEMU towards the 2030 goals; and by the **digitalization of society and economy.**

Recommendations and roadmap to implement the four perspectives for enhanced and scaled-up WAEMU MSME access to finance include all or part of the following actions: (1) enabling policy, regulatory, legal and fiscal framework; (2) mobilization of domestic and international public resources to crowd-in commercial finance namely through blended finance schemes; (3) financial institution and financial market development; and (4) relevant supply-side and demand-side technical capacity building

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