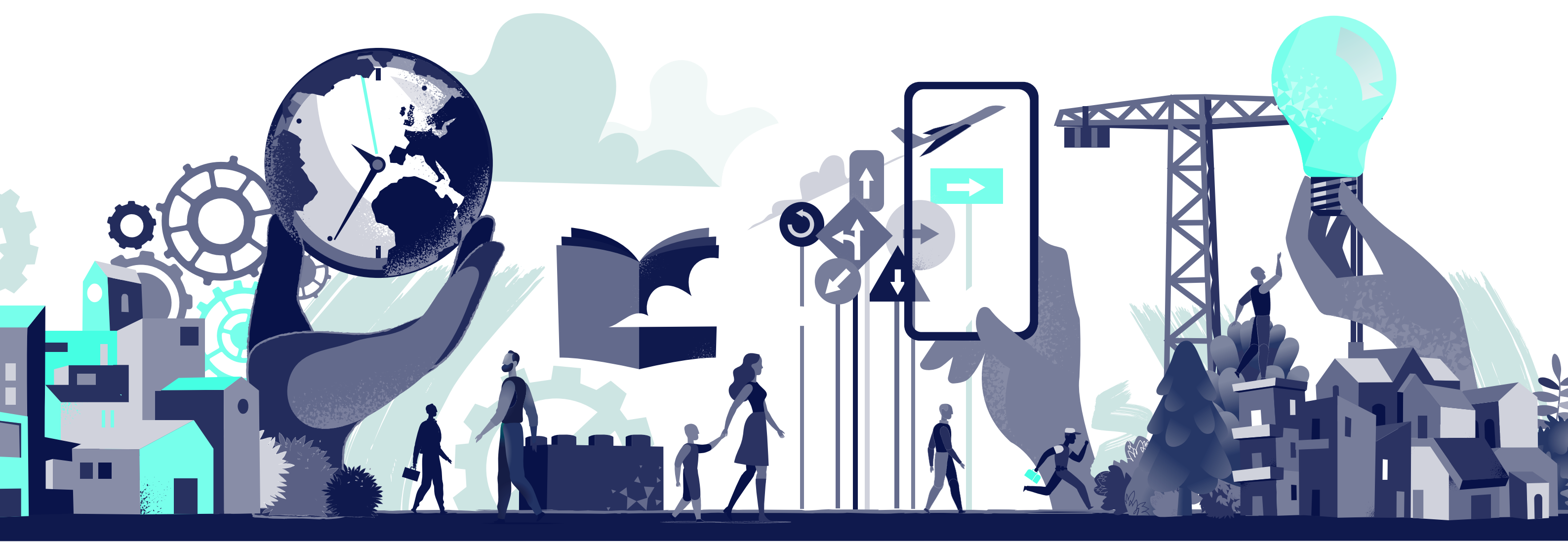
SHIFTING AND ACCELERATING DFI INVESTMENTS **FOR MORE DECENT JOBS IN AFRICA**



WHO WE ARE

ONE is a global movement campaigning to end extreme poverty and preventable disease by 2030, so that everyone, everywhere can lead a life of dignity and opportunity. Whether lobbying political leaders in world capitals or running cutting-edge grassroots campaigns, ONE pressures governments to do more to fight extreme poverty and preventable disease, particularly in Africa, and empowers citizens to hold their governments to account.

African Center for Economic Transformation (ACET) is an economic policy institute supporting Africa's long-term growth through transformation. It produces research, offers policy advice, and galvanizes action for African countries to develop their economies, reduce poverty, and improve livelihoods for all their people.

ABOUT THIS REPORT

ACET and ONE collaborated to advocate for Development Finance Institutions (DFIs) to be more strategic and intentional in their investing in Africa to create more decent jobs, particularly to address Africa's demographic bulge.

This report is an advocacy and educational tool to shine a light on the potential for DFIs to invest in transformational areas which create the greatest number of good quality jobs across the continent. This report is based on our findings from desktop research and consultation with subject-matter experts on DFIs and their operations.

ACKNOWLEDGEMENTS

We would like to thank our friends and colleagues who through their wealth of knowledge and experience on DFI operations and development, provided insights on the report and helped us to refine our findings: Samantha Attridge (ODI), Gary Forster (Publish What You Fund) and Paul James (Publish What You Fund).

Please note that their review of this report does not necessarily equate to endorsement of our findings.

BACKGROUND 01

In 2020 ONE launched the Africa Jobs Campaign, which aims to push for policy changes that could create 15 million decent jobs annually on the continent by 2025[1]. Development finance institutions (DFIs) have great potential to help meet this goal, and in 2021 a group of G7 DFIs and multilateral partners announced a commitment to increase DFI investment in Africa by $80 billion[2]. The African Center for Economic Transformation (ACET) and ONE recognized the opportunity to influence policy and decision makers in Africa and European and North African markets and commissioned this report to understand how our advocacy can ensure that DFIs help us reach our Africa jobs campaign targets. Whilst multilateral DFIs are significant players, we focus on bilateral DFIs due to the comparability of data and ONE's campaign and advocacy presence in these markets. It is initially intended as an introductory scene setter and education piece, to be expanded upon for specific DFIs and other advocacy targets, using updated and more detailed supplementary data where possible to create more targeted tools.

KEY FINDINGS

Africa needs 15 million decent jobs per year to meet the needs of its growing population. Already, 13.4%[3] of the continent's youth are unemployed. Even for those employed, 1 in 3 earn less than $1.90 per day,[4] threatening stability and progress towards the Sustainable Development Goals (SDGs). Africa's jobs are scarce, often low quality and low paying — especially for youth, women, and marginalised groups. DFIs have committed to invest $80 billion in Africa's private sector over the next five years to support the economic growth and recovery from the COVID-19 pandemic[5]. This report looks at the potential of DFIs to close the gap with quality jobs. Key findings are as follows:

- → DFIs* **appear to be investing where the jobs are —in agriculture and micro, small, and medium enterprises (MSMEs)** — although they omit details about jobs created through financial institutions, which make up 41-61% of portfolios.
- → **DFIs have failed to sufficiently report the quantity and quality of employment created in all sectors**, especially for marginalised groups[6]. Jobs for youth were only reported by one DFI, and wages and measurements of the quality of the jobs were not reported by any.
- → **Africa's future jobs will be green and digital,** which will modernise the agriculture sector and increase the productivity of MSMEs and the informal sector. Other opportunities exist in manufacturing as the domestic market grows, and capitalising on the African Continental Free Trade Agreement (AfCFTA).
- → **Productivity gains from investing in women and youth employment will only grow,** as existing sectors modernise and new opportunities in trade, digitalisation, and climate adaptation transform sectors across the economy.
- → **DFIs still do not take enough risk** investing in low-income countries (LICs) or fragile states, some marginalised groups, or businesses in new and existing sectors identified as transformational for Africa's future jobs.
- → **DFIs can contribute to job quality,** through capacity building programmes and implementing environmental, social and governance (ESG) and health and safety standards for private companies.
- → **Challenges remain** for DFIs to create decent jobs, including a skills gap, insufficient legal and regulatory environment, inadequate supporting infrastructure and market access, and wider structural barriers, which African governments need to address.

**Based on findings from the 10 bilateral DFIs analysed in this report*

RECOMMENDATIONS

01. DONOR GOVERNMENTS

- → Must recognise the potential for DFIs to create quality jobs at scale. They should empower them to take more risk in their investments, particularly for Africa's youth and women and in challenging geographies and transformative sectors.
- → Increasing publication, use, and monitoring of technical assistance grants for capacity building, which can have a sustained impact on investment for job-creating sectors and businesses, increasing productivity and quality.

02. DEVELOPMENT FINANCE INSTITUTIONS

- → Better reporting of job quantity and quality indicators, especially in high job-creating sectors such as MSMEs (reached through financial institutions), transformative green and digital sectors, and jobs for women and youth. Reporting on these priority areas is important for transparency, and enables better targeted job creation policies for DFIs, and African and donor governments.
- → DFIs can impact job quality through the implementation of ESG, labour, and other international standards, such as the IFC Performance Standards[7]. Yet this must happen alongside better monitoring and reporting of their use and implementation.

03. AFRICAN GOVERNMENTS

- → Must invest in the education and skills of their youth, to enable them to improve their productivity and to take advantage of future opportunities created by the private sector in transformational sectors such as digitalisation, green jobs, including agriculture, and AfCFTA.
- → Supporting laws and regulations are needed to enable better participation of the private sector in job creation.

02 INTRODUCTION

The COVID-19 pandemic has taken a heavy toll on countries around the world. African economies have been hard hit with growth contracting by 2.1% in 2020, which is expected to recover to 3.4% in 2021[8]. About 20 million formal and informal jobs are estimated to have been put at risk as a result of the pandemic[9]. For those that kept their job, it is estimated that incomes declined by 10% in sub-Saharan Africa[10].

The role of the private sector and DFIs in supporting resilience has been highlighted during the pandemic. DFIs provided the private sector with funding, absorbed risk and long-term outlook, aiding the pandemic recovery[11]. Whilst other capital inflows like foreign direct investment (FDI) sharply declined, DFIs were able to continue to support businesses and in turn, livelihoods[12]. In response to the pandemic, DFIs have committed to invest $80 billion in Africa's private sector over the next five years[13].

It is estimated that DFIs directly or indirectly support over 6 million African jobs in the private sector[14]. DFI investments can accelerate job creation and productivity growth, improve informal job quality, or increase productivity and job availability for vulnerable groups (e.g. women, youth, people living in poverty), although this is not directly part of their mandate[15]. The purpose of this report is to explore the role of bilateral[16] DFIs in relation to Africa's jobs, particularly in supporting future quality and green jobs on the continent. The report focuses on 10 of the largest bilateral DFIs in Africa: US' Development Finance Corporation (DFC), Germany's DEG, The UK's CDC group[17], France's PROPARCO, Canada's FinDev, The Netherlands' FMO, Norway's NORFUND, Denmark's IFU, Austria's OeEB and Spain's COFIDES[18]. It looks at which bilateral DFIs invest in Africa and how, the future of jobs in Africa, the role of DFIs, and how they can better utilise their position to create the quality and quantity of future jobs that Africa requires.

WHAT ARE DFIS?

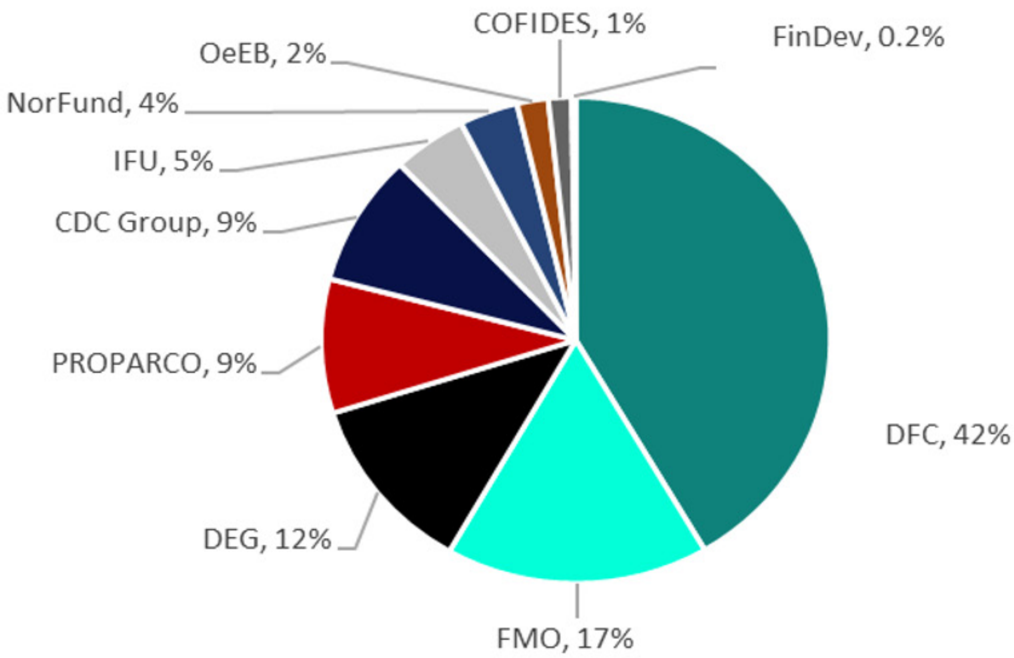
Development finance institutions (DFIs) are financial institutions that support the private sector in developing countries[19]. They are usually set up by national governments, or a group of governments, to subsidise private sector investments that have additional development or economic growth benefits, which would not be delivered by the market. Because they attract additional private finance beyond the public money invested, they are seen as good value for money. Economic and development priorities vary depending on the DFI's mandate. DFIs include multilateral development banks, bilateral development banks, national development banks, and microfinance institutions.

CONTEXT OF DFIS IN AFRICA

Despite an impressive $81 billion portfolio, bilateral DFIs have a way to go to support closing Africa's SDG financing gap[20]

Despite plans for another $80 billion to be invested in Africa over the next five years[21], combining this with bilateral DFIs' current $81 billion portfolio is still nowhere near unlocking the private finance needed to meet the "billions to trillions" ambition outlined by the World Bank in 2015[22]. The US' International DFC holds the largest share of the bilateral portfolio at 40%, followed by FMO (the Netherlands) with 17% and DEG (Germany) with 12%. In 2018, the US government increased the DFC's investment limit to $60 billion, more than double its predecessor OPIC's $29 billion; DFC invested $4.7 billion in 2020 alone[23].

Relative Portfolio Size of bilateral DFIs (as at 2020)



Investment in low-income countries is just 6.4%

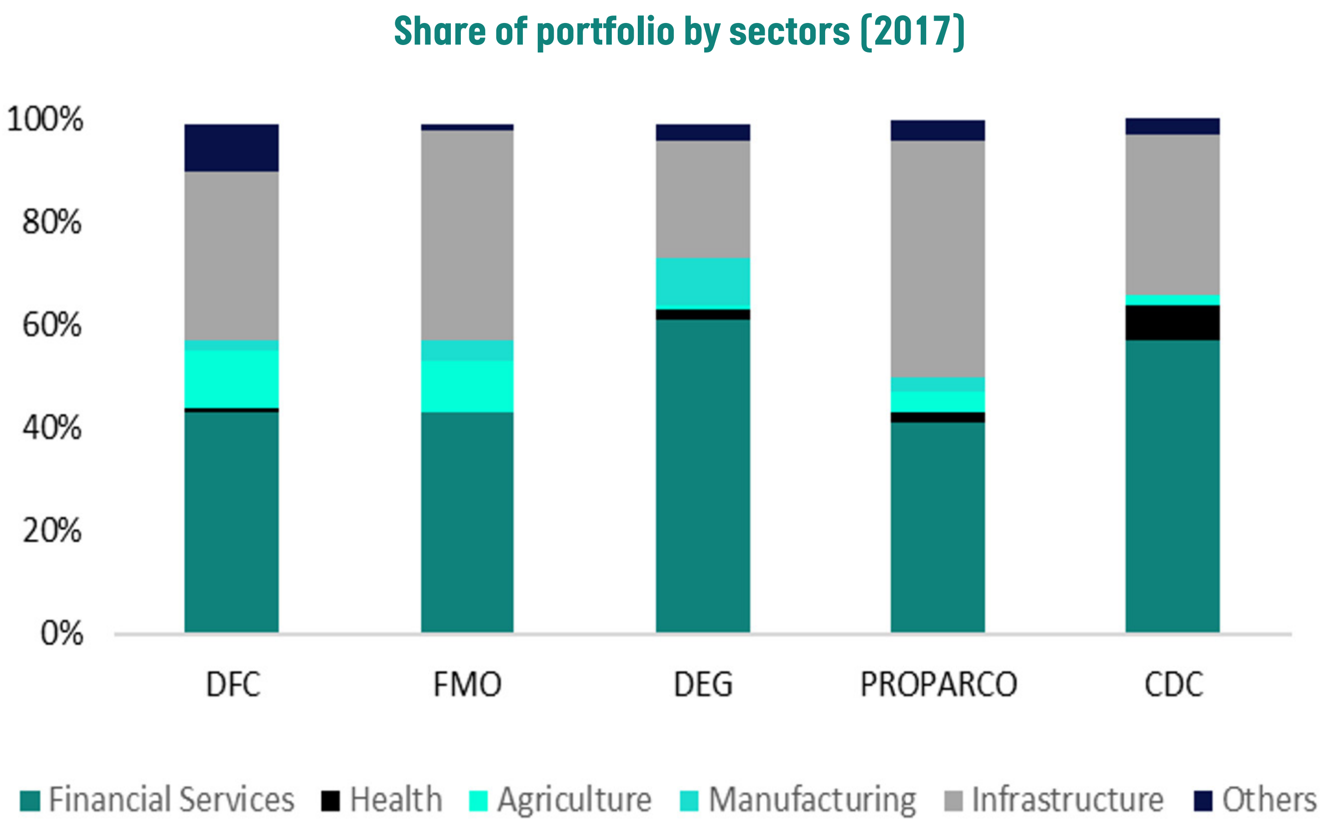
Priority remains in developing and emerging markets. All 10 of them invest in Africa, with 60% of CDC's portfolio,[24] 49% of Proparco's, and 35% of FMO's located in Africa. Yet investment in low-income countries globally is still very low, receiving only 6.4% of DFIs and MDBs commitments in 2018[25]. For instance 90.8% of CDC's investments in Africa went to MICs in 2020, leaving 9.2% for LICs.[26]

We do not know whether DFIs invest in their priority sectors, as most is channeled through financial services

The latest comparable sectoral investment data is from 2017 and for just the top five of the 10 DFIs assessed, highlighting the need for better reporting.

The financial and insurance sector accounts for the largest share of DFI investments, ranging from 61% of DEG's portfolio in 2017 and 41% of Proparco's[27]. Yet this does not reveal the ultimate use of proceeds. Lending to local financial institutions can enable DFIs to reach MSMEs, including those in agriculture, renewable energy, and financial inclusion. Equally, they can support the bank's balance sheet and enable large projects that do not meet DFI impact requirements.

Infrastructure also received significant allocation, ranging from 23% to 46% among the top five DFIs, and all DFIs state this as a priority.



Transparency and reporting of development impact remains insufficient

DFIs use public money[28], and transparency about its impact is therefore imperative. Recent reports have criticised this transparency, particularly around the channeling of finance to MSMEs through financial institutions.[29]

DFIs have improved in transparency in publicizing the frameworks used to define the impacts of their investments[30], and coordinate indicators reported[31]. Whilst overarching principles exist and progress has been made with indicators harmonisation through the Global Impact Investors Network (GIIN) and Harmonised Indicator for Private Sector Operation (HIPSO)[32], DFIs all prioritise different develoment outcomes depending on their mandates[33]. These impact priorities also do not always translate into sufficient reporting as there is no standard template. Most DFIs also have specific Technical Assistance Funding which can enhance the impact of their investments, yet information about the total amount granted and details of its use is only provided by a few.[34]

While all DFIs report the aggregate number of jobs created by their investments, not all report details of these jobs and their nature.

- Women: Eight of the 10 DFIs assessed specified gender equality and inclusion as one of the development impacts evaluated, however only four of them reported the number of jobs created for women.[35]
- Youth: Of the 10 DFIs, only Norfund tracks the number of jobs created for youths. At the end of 2020, 26% of the people employed in Norfund's investee were youths, defined as those aged below 25 years.
- Job quality: None of the DFIs publish information on the wages of employees relative to local averages or poverty lines. Most DFIs specify that ESG issues are assessed during the project appraisal phase. However, none published any report on adherence to ESG policies during implementation, thus the impacts that the investee companies, and particularly the financial intermediaries have, remain unclear.[36]

THE JOBS CHALLENGE IN AFRICA AND ROLE FOR DFIS

Africa's working-age population is expected to increase by 450 million between 2015 and 2035[37]. Each year, about 15 million people are expected to enter Africa's workforce[38]. With just 3 million formal jobs being created, the job deficit is widening each year[39]. Africa's youth are bearing the brunt, with nearly 16 million young people, or 13.4% of the workforce, unemployed in 2019.[40] Africa also has the highest rate of working poverty in the world, with 33% of workers earning less than $1.90 per day.[41]

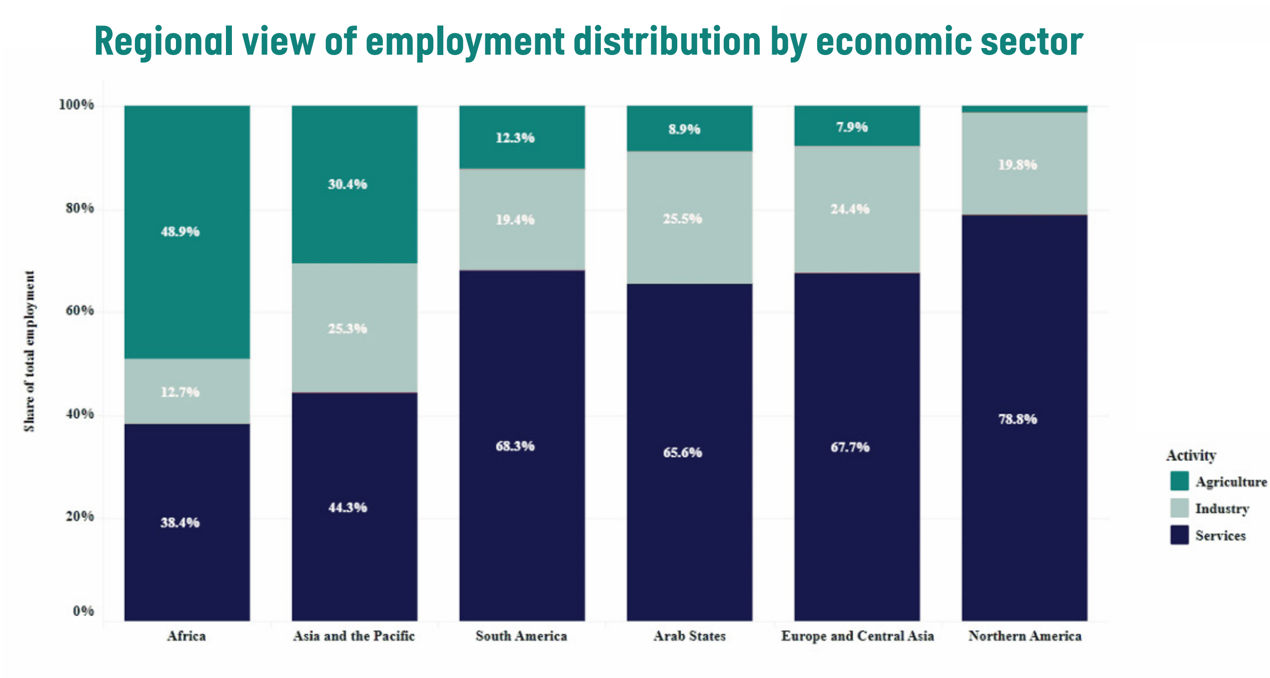
When asked, African citizens' greatest priority is SDG 8: Decent work and economic growth.[42] The link between work and poverty reduction (SDG 1: End poverty everywhere) is direct. A decent job increases the income and therefore consumption of those living on less than $1.90 a day, enabling both a reduction in inequality and growth of national income.[43] The challenge is that over the past few decades, Africa's economic growth has not translated into jobs. Between 2000-2008 employment grew at 2.8%, half the rate of economic growth.[44] To transform Africa's booming population into a demographic dividend and avoid the ticking time bomb of discontent created by jobless growth depends largely upon whether Africa's job challenge can be solved. This will involve a concerted effort from all actors.

UNDERSTANDING AFRICA'S JOB MARKET: AN OVERVIEW

Agriculture employs 49% of African workers, but job quality is poor. The sector has low productivity and wages, large gender pay gaps, threats associated with climate change adaptation and population pressure, as well as the highest level of informality.

- For most African countries, agricultural employment is over 90% informal,[45] which is associated with challenges with value chains, child labour, and unfair working conditions.[46] In Ghana and Côte d'Ivoire, cocoa farmers typically earn $1 (PPP) per day.[47]
- Women make up 51% of the agricultural workforce, but are less productive than men[48] and earn 38% less.[49] However this is largely due to their inequitable access to farm inputs like fertiliser, pesticides, and equipment.[50]
- Climate change has caused a 33% reduction in agricultural yield in the world's warmest regions such as Africa over the past 60 years.[51] Agriculture is responsible for 25% of greenhouse gas (GHG) emissions globally and is under pressure to adapt.[52]
- Population pressure means that farms are becoming smaller, and people of all ages are leaving the sector.[53]

Of the DFIs assessed, 80% identified agriculture as a priority sector, showing a good understanding of Africa's job creation needs, despite the five DFIs with comparable data investing just 6% of their portfolio in it.[54] However, details of the quality and sustainability of the jobs, especially for marginalised farmers in the case of outgrowers, is often hard to track.[55]



Most employment is informal and in micro, small, and medium enterprises (MSMEs)

86% of men's employment and 92% of women's employment is in the informal sector.[56] At least 80% of employment is also estimated to be from MSMEs in Africa, and this too is mostly in the informal sector.[57] As well as no social protection, the informal sector has lower productivity and wages, unsafe working environments, and little training and skills development.[58]

- Working conditions in the informal economy are often poor, with no safety standards and greater hazards.[59]
- Firms in the informal sector are 25% as productive as those in the formal sector.[60]
- Formal sector jobs pay 19% more than informal ones.[61]
- One in three Africans are in working poverty, living on less than $1.90 per day despite having gainful employment. This is four times higher than Arab states, which hold the second highest rate.[62]

DFIs largely invest in financial institutions, which comprises between 41-61% of their investments. This is the most effective route to MSME financing, as transaction costs are too high for them to monitor these directly. However, not all financial institution funding will go to MSMEs, some may go to other large projects, some may go to other financial products such as mortgage finance.[63] It is important that MSME impact through financial institutions is captured and reported to the DFI, and safeguards put in place where possible.

Young people and women face the greatest challenges to finding quality jobs

- Youths aged 15-24 have an unemployment rate twice as high as the 6.8% average for Africa.[64] In 12 African countries, the rate is three times as high.
- Africa's Youth Not in Employment, Education or Training (NEET) rate of 21.5% indicates that one in five young Africans neither has a job nor is enrolled in education or training.[65]
- Women work 50% more hours than men in Africa.[66] Even in the formal sector, where women hold less than half the jobs, women earn two-thirds as much as their male counterparts. Only 15 African countries have laws against gender discrimination in hiring.[67]
- Underemployment is also more prevalent among women, with 62% of working age women economically active in sub-Saharan Africa, compared to 73% of men.[68]

Some of the DFIs assessed did report jobs for women, but just one for youth, showing that there are knowledge gaps that must be closed if we are to address these challenges.

THE FUTURE OF WORK AND OPPORTUNITIES FOR DFIS

Africa's current job market is not providing enough jobs, and the available jobs are not of sufficient quality for Africans to live a life of dignity, free of poverty. Africa's future work will still be impacted by present challenges, but there are also several opportunities associated with different sectors, transition to digital and green economies, continental trade, and the potential of Africa's women, youth, and informal sector. There are eight opportunities that can be facilitated by DFIs.

1 A MODERNISED AGRICULTURAL SECTOR IS CRITICAL TO CREATE THE NUMBER OF JOBS NEEDED, BUT QUALITY MUST BE IMPROVED

Direct investment in agriculture accounts for just 6% of the five bilateral DFIs' portfolio, despite all stating this as a priority sector[69]. Agriculture accounts for the largest share of employment in Africa, particularly in rural areas, with numbers employed expected to rise despite the sector's relative decline.[70]

To combat the challenges with poor quality employment, relating to low productivity, climate change adaptation, informality, and gender inequality, the future of agriculture in Africa must be different. Focus should be on utilising pioneering new technologies and business models, improving the productivity of farms,[71] raising labour standards, and adapting to climate change. Giving women equal access to farm inputs could raise crop production by up to 19%.[72]

Studies show that the top three reasons for inadequate private sector engagement in African agriculture are access to affordable finance, development of the value chain, and infrastructure access — all of which DFIs play a role in solving.[73]

2 MANUFACTURING CAN CREATE STEADY JOBS BUT REQUIRES SIGNIFICANT INVESTMENT

Of the five DFIs with data available, two define manufacturing as a priority sector; DEG and CDC. The five DFIs allocated an average of 4% of their annual commitments to the manufacturing sector in 2017.[74] DEG committed 9% of its portfolio whilst CDC committed 1%, and an average 2.2% per year after 2017.[75]

Africa's manufacturing output has the potential to double to almost $1 trillion per year by 2025, with roughly half that production remaining on the continent and the rest exported to other world regions.[76] Modern industry provides relatively well-paid jobs for large numbers of unskilled or under-educated workers — particularly those who are not integrated in the formal economy.[77]

Despite the manufacturing sector maintaining a relatively stable share of output, information and communications technology (ICT) based services, tourism, and transport are outpacing the growth of manufacturing in many African countries.[78] Insufficient human capital, higher costs, and access to markets have been just a few of the areas that have held African manufacturing back.[79] Yet, if the AfCFTA is successful, the manufacturing sector is estimated to create an additional 14 million stable, well-paid jobs.[80]

Africa has the agricultural and mineral inputs required to boost manufacturing, and future improvements in transport, power, and export infrastructure, as well as relative wages becoming lower than the rest of the world, provide opportunity for expansion of the sector.[81] African countries have already seen success in the use of Special Economic Zones, which could provide an avenue for future growth of manufacturing and exports on the continent.[82] Realising these opportunities requires greater and more targeted investment.

3 AFRICA'S DIGITAL SECTOR CAN PROVIDE QUALITY JOBS IF HIGH RISK INVESTMENTS ARE MADE NOW

Africa's digital economy is growing, and is expected to reach $180 billion by 2025 (5.2% of GDP) and $712 billion by 2050 (8.5% of GDP).[83]

Digitalisation has huge potential to create new jobs and boost the productivity of existing ones. A subsection of the digital economy will employ iWorkers, who rely on ecommerce platforms for work such as delivery and taxi services. These workers could make up 10% of Africa's workforce by 2030.[84] Just a 10% increase in email use raises the number of full-time workers in a firm by 12-14%.[85] Creating digital jobs disproportionately helps youth and women, but is generally concentrated in large cities, meaning that greater effort is needed to safeguard rural inequality.[86] Digitalisation also improves the productivity for MSMEs, again raising wages.[87] Some point to the risks around the displacement of jobs, but evidence is mixed, with fast internet connectivity having large positive impacts on sub-Saharan African job creation, without displacing low-skilled jobs.[88]

Tackling barriers to creating jobs through digital transformation will be critical. These relate to skills matching, physical infrastructure, legal and regulatory environments, as well as concentrating on rural digitalisation.[89] Only one out of five African countries have a legal framework for digital security, and 11 countries have adopted substantive laws on cybercrime.[90] The digital infrastructure is also insufficient, and inputs such as reliable power are needed. 80% of the $7 billion received for digital infrastructure in 2018 was from the private sector.[91] This is an area in which DFIs can and should invest.

4 MSMES AND THE INFORMAL SECTOR WILL DRIVE JOB CREATION, SO QUALITY MUST BE SAFEGUARDED AND MONITORED[92]

DFIs could already[93]be investing heavily in MSMEs through financial institutions, which hold an average of 49% of the five DFIs' portfolios, yet there is no way of telling whether this is the case with the current available data.[94] The informal sector is already the main gateway to job markets for the vast majority of Africa's working-age population, employing 75% of graduates aged 15-29[95]. It is estimated to create 90% of new jobs in Africa.[96] Many of these jobs will be through MSMEs, which hold the key to unlock mass employment opportunities.

Yet concerns remain around the quality of informal sector jobs, and its impact on existing inequalities. The sector earns less money, with some estimating they are just 20-25% as productive as the formal sector. The workforce is 66% female and, along with agriculture, often employ people living in extreme poverty.[97]

Financing must happen alongside an improvement in the productivity of the sector, including upgrading the skills of workers, especially for youth and women and facilitating a move to formalisation in the future.[98] DFIs investing in MSMEs must therefore monitor and report progress and safeguards.

To unlock the quantity of jobs, the primary challenge faced by MSMEs is a lack of access to affordable finance. MSMEs in SSA have an unmet financing need of $331 billion per annum.[99] In Africa, for the 20-30% that can access bank lending, interest rates start at around 20% and can reach 50% if taken from an informal money lender.[100] DFI lending to financial institutions helps provide access to this finance through financial institutions, enabling them to provide it at a cheaper rate.

5 TARGETED DFI INVESTMENT IS KEY TO UNLOCK PRODUCTIVITY GAINS ASSOCIATED WITH GENDER PARITY

Accelerating progress toward gender parity could boost African economies by the equivalent of 10% of their collective GDP by 2025.[101] This also has spillover effects on education, health, and economic opportunities for children, through allocation of household resources.

Opportunities for women's gainful employment overlap greatly with other areas, and include agriculture, the AfCFTA, and digital and green jobs. Agricultural productivity gaps between female and male farmers in six African countries ranged from 23% in Tanzania to 66% in Niger after accounting for differences in plot size and geography.[102] However, the coronavirus pandemic also demonstrated the vulnerability of women in the workforce,[103] making social protection and other measures vital to unlock their productivity potential.

There have been improvements in the use of a gender lens in DFIs' operations, yet it is unclear whether investments in process changes are leading to beneficial gender-related outcomes. For instance, a Centre for Global Development (CGD) survey found that half of the DFIs assessed do not systematically incorporate gender scores into each investment approval decision by the investment committee.[104]

It is important that DFIs' investments are targeted towards expanding investment impacts towards women, and that the necessary processes are implemented to ensure systematic incorporation of gender scores into investment processes, to reduce existing significant gender gaps in the economy and across society.

6 ADDRESSING THE YOUTH SKILLS MISMATCH IS CRITICAL TO THEM ACCESSING DECENT JOBS

Youth unemployment is one of the biggest unrealised opportunities facing Africa today. In 2016, youth unemployment in North Africa was more than three times higher than adult unemployment. [105]

Africa's youth are well positioned to capitalise on the digital and green transformations that are already underway. AfDB sees Africa's youth opportunities in agriculture, industry and ICT, and the support of the private sector finance in achieving this.[106]

Preparing Africa's youth to create and take job opportunities involves addressing supply-side factors such as overcoming educational and skills mismatch and inadequate training. 45% of youths feel their skills don't match local labour markets, 28% of youth feel underqualified, and 17% even feel overqualified.[107] On the demand side, firms employing 20 or more are most likely to cite inadequate skills as a constraint to business growth, as well as export oriented firms, which has implications for new trade opportunities (see point 9).[108]

Only one of the 10 DFIs in the sample tracks jobs for youth in their investments.[109] As the largest and most critical challenge facing Africa's labour markets, DFIs must not only include, but prioritise this in their impact assessment, to ensure their investments help tackle it.

7 GREEN TRANSITION OPPORTUNITIES MUST BE HARNESSED

The Paris Agreement states that the world should be at net zero emissions by 2050. Each country has developed its nationally determined contributions (NDCs) roadmap in order to reach this goal.[110] The transition to a low-carbon economy would lead to net job creation worldwide, and Africa has a great opportunity to capture many of these.[111] Green jobs will be characterized by nonroutine thinking and higher dependence on formal education, work experience, and on-the job training.[112]

Many future green jobs are in agriculture, where climate technologies will need to be leveraged to boost agricultural productivity, or in manufacturing where greener products will be produced. Job creation will also be in the circular economy, such as recycling plastic and converting food waste into fertilisers and other products.[113] Other industries that are linked to supporting the green transition, such as mining cobalt, lithium, copper, manganese, nickel, and zinc, will provide better paying jobs as their prices increase with demand.[114]

Just half of the 10 DFIs assessed track how much of their portfolio is allocated to green or climate finance generally, although their definitions vary. None track green jobs.[115] The IRIS+ indicators provided by GIIN use the ILO guidance to create a green jobs indicator, which DFIs can use as a starting point to begin tracking and better understanding this critical component of Africa's future jobs.[116]

8 AN EFFECTIVE IMPLEMENTATION OF THE AFCFTA WILL FACILITATE ACCESS TO A WIDER MARKET FOR MSMES AND DRIVE DEMAND FOR LABOUR

The African Continental Free Trade Area is the largest free trade area in the world.[117] It has the potential to bring 30 million people out of poverty and raise the incomes of 68 million others living on $5.50 per day.[118] The AfCFTA will have a range of benefits that can improve the quantity and quality of work as businesses access a larger market for selling their products and benefit from increased competition.

Whilst there will be winners and losers, the manufacturing sector in particular will see strong job growth, with energy intensive steel and aluminum manufacturing jobs alone increasing by 2.4 million.[119] Increased business competition enhances productivity and increases wages.[120]

Compared with a business-as-usual scenario, implementing AfCFTA would lead to an almost 10% increase in wages by 2035, with larger gains for unskilled workers and women.[121] Sectors that typically employ more women, such as recreation, are set to create more jobs, and therefore disproportionately benefit women.[122]

Implementing AfCFTA requires innovative mobilization of long-term capital for increasing intra-African and global trade. This would require the creation of a viable, sustainable, effective, and standardized continental infrastructure and systems, coupled with governments' support in the removal of policy barriers to achieving the objectives of AfCFTA. DFIs are well placed to mobilise the private capital needed to do this.

OPPORTUNITIES FOR DFIS TO ADDRESS THE CHALLENGES OF CREATING DECENT JOBS IN AFRICA

The table below summarizes the challenges facing the eight opportunity areas described above and what the DFIs can do to address these challenges and create quality jobs for African youths.

Challenge	Areas affected	Implications	Action required	DFI opportunity
Low productivity in farms	• Agriculture	• Lower yields • Higher food prices • Low wages and income • Poor living coditions • Poor quality of economic growth	• Improved use of new technologies and methods • New skills are required • Increased access to inputs • Well-targeted and closely monitored tax incentives to encourage sector productivity	• DFIs should take the risk of financing new technologies and methods where other private actors would not, such as emerging techpreneurs in agriculture • DFIs can offer skills transfers from the private sector, but widespread skills development must be provided by governments or other public sector finance
Inadequate human capital with the required skills	• Manufacturing • Digital • Green	• Low productivity • Inability to access employment opportunities • Low wages and income	• Training specifically in the areas of digital and science, technology, engineering and mathematics (STEM) to take advantage of the Fourth Industrial Revolution (4IR). This will also lead to the emergence of inventors and entrepreneurs in Africa that can develop and/or adapt digital technologies to enhance the productivity of low-skilled workers	• Governments are responsible for the provision of basic education hence countrywide educational programmes must be led by government and national plans • DFIs can invest in the provision of project-specific training
Climate change	• Agriculture • Manufacturing • Green • Digital	• Lower yields • Smaller plots • High carbon footprints	• Improved use of new methods and technologies including low carbon technologies • Greater research needed for green technology • International agendas must support Africa's transition to a greener economy	• Experimental and new technologies should be supported by DFIs, who can take on this risk • DFIs have long term, patient capital that can invest in large structural changes • National development plans by governments can support a smooth transition
Inadequate financing, unequal access for women	• MSMEs • Gender • Youth • Green • Manufacturing	• Expensive finance • Limited sector growth and firm size • Gender inequality • Geographical inequality • Low productivity • Poor quality economic growth	• Increased access to affordable finance for infrastructure and MSMEs. • Increased lending to women-owned, youth or informal businesses • Provision of training to financial institutions' staff, entrepreneurs and specifically to women entrepreneurs • Increased finance for new and unproven sectors • Well coordinated and communicated government national plans and policy • Enabling environment for the private sector	• DFI finance needed to subsidize risks in lending to new and risky sectors, transactions, groups (women, youth) and geographies • DFIs can offer cheaper, longer term capital suited to larger investments for structural change • DFIs can use local financial institutions to cover risk, increasing lending to MSMEs, the informal sector and women-owned businesses • DFIs can provide technical assistance to financial institutions enabling replication and greater impact • DFIs can engage in dialogue with government to provide a feedback loop for national plans and policies, and the business environment

Challenge	Areas affected	Implications	Action required	DFI opportunity
Insufficient infrastructure and poor access to market	• Agriculture • Manufacturing • Digital • MSMEs • AfCFTA	• Lower trade, competition and firm productivity • High cost of operation • High inequality (spatial, income)	• Increased infrastructure finance • Targeted connecting infrastructure policy for transport, telecoms and special economic zones etc. including for rural areas • Supportive trade policy • Coordinated national policies that de-risk and attract private investments	• DFIs are suited to infrastructure finance due to their provision of patient capital and can provide finance for riskier stages of project development • DFIs can also invest along the value-chain in the manufacturing and agriculture sectors • DFIs can engage in dialogue with government to provide a feedback loop for national plans and policies, and the business environment
Under-developed legal and regulatory environment	• Gender • Digital • Agriculture • Manufacturing • MSMEs • AfCFTA	• Underinvestment from private sector, local and foreign • Short term, expensive capital availability only in less risky sectors • Poor environmental and labour standards and hazardous working conditions • Gender inequality, including access to finance and land titles • Inability to meet standards to export or attract international investment	• Strengthened laws, regulatory bodies and institutions governing the financial sector • International labour, ESG, HSE standards must be adhered to, regulated by industry bodies • Government must enforce industry standards through regulation and legislation, incorporating gender equality and climate targets • Sector specific regulation needed such as digital security and cybercrime laws, or child protection in the agriculture value chain • Civil society can put pressure on governments to change legal regulations, and empower industry bodies and enhance gender equality	• DFIs can support changes to the legal system through pioneering transactions and technical assistance, but the government ultimately must implement this process • DFIs can transfer skills to local companies, requiring them to meet minimum standards through ESG and HSE. However, these must be monitored by the DFI, which can be costly • DFIs can join CSOs to make calls for legislative changes • DFIs can set targets for female employment, especially in leadership positions, as well as in local companies that provide finance and inputs

WHAT CAN DFIS DO ABOUT THIS?

DFIs have the ability to provide patient public capital that can effectively subsidize higher risk investments that would drive economic growth and enable the creation of more and higher quality jobs.[123] Research shows that DFIs can have the most impact when they are transformative, create markets, and make SDG investment more accessible.[124] This aligns strongly with our findings, with much of the DFI opportunity to enhance the quality and quantity of jobs being related to transformation with intentional impact.[125] For the $80 billion that DFIs have committed to investing in Africa's private sector to fulfil its potential, DFIs must do three things:

1. TAKE RISKS THAT LEAD TO TRANSFORMATION FOR JOB CREATION

The overarching way in which the future of jobs is constrained is through the high risk associated with the changes needed. However, there is an inherent tension between the amount of risk a DFI can take and their return on investment, which must be tackled by the donor government and is dependent on their mandate and business model, meaning it cannot be a universal target. In essence all risk that the DFI takes on should be able to prove a concept and build a track record, which in itself requires better reporting and greater transparency, for private actors to invest without them in the future. In order to be at the frontier, DFIs must continually evaluate where and how more risk can be tolerated and articulate this to stakeholders. DFIs are mandated to subsidise risk in order to enable transformation and they should be intentional about targeting the following areas for job quality and growth.

- **Pioneering developments within existing and new sectors.** Agricultural transformation requires investment in new productivity enhancing business models and technology. Scaling investment in both manufacturing and agriculture to meet international standards suitable for export requires considerable investment. New and pioneer sectors such as climate and digital transformation by nature have no track record and can't get enough finance.
- **Subsiding riskier end users:** Informal workers and MSMEs are risky to invest in, but are critical job-creating and sustaining areas. Whilst transaction costs are too high for DFIs to invest in MSMEs directly, local banks can lend to them at an affordable interest rate if the DFI subsidises some of this risk and informal workers can become formalised as a company receives the long-term investment that it needs to offer them security. DFIs can take on the risk for local banks that are able to provide this.
- **Harder to reach geographies:** Inherently harder to operate in, due to the difficult business environment, capacity gaps, and inadequate laws required to attract investment.[126] Low-income countries cannot be left behind and this is exactly why DFIs have a role here. Within countries, rural populations often have surplus labour and the greatest productivity, gender and wage gaps, and a primary challenge of a lack of access to finance and infrastructure.

2. TRANSFER STANDARDS AND SKILLS

- **Skills transfer:** DFI are in a unique position to implement capacity building[127] or skills transfer alongside a transaction. This can be through the partnership with local financial institutions structuring a deal in a new sector, which can then be replicated without them, or more targeted capacity building through the use of technical assistance (TA). The development impact of a transaction can be greatly enhanced by such TA funds, and DFIs should routinely assess opportunities and look to increase its funding.

- **Standards:** International environmental, social and governance (ESG) standards can be introduced and implemented in local companies when they receive DFI finance. DFIs are good at doing this generally, although some areas for improvement remain for bilateral DFIs around disclosing meaningful project-level data.[128] The greatest gap, however, is in DFI application to financial intermediaries, where they disclose little ESG and gender information.[129] Standards are particularly important in these situations, as such informal settings are where the quality of work is generally poorest and DFIs have a route through which they can influence them.

3. MEASURE AND SHARE IMPACT, INCLUDING FOR INVESTMENTS IN FINANCIAL INSTITUTIONS, FOR ACCOUNTABILITY AND LEARNING

Measure and share job creation and quality: Most DFIs do collect information about their impact on job creation. They also coordinate among themselves to try to ensure that indicators align. However, this needs to happen faster and universally. Moreover, this report has been unable to build a complete picture of how DFIs are improving the quality of jobs and whether they are targeting those most in need of them, including youths, women, and rural workers. Quality indicators can include wages relative to local averages or poverty lines, as well as the enforcement of ESG and safety standards. Although we do not advocate for a universal baseline or target, we want to make sure that the right questions are being asked and information being collected in order to maximise impact and manage tradeoffs between job creation and quality.

- **Financial institution investment:** Without the knowledge of how financial institutions are using funds and the jobs they are creating, we do not know the impact on MSMEs, informal workers, and even green jobs. Without this information, other DFIs cannot effectively invest to meet their own development impact priorities and citizens cannot hold DFIs to account for them.

THE ROLE OF DFIS VIS-À-VIS OTHER ACTORS

Our evidence shows that many of the challenges faced in job creation are down to other structural barriers outside of the private sector and DFIs' control. Job growth is constrained by inadequately skilled labour force and a challenging business environment, as well as more money for areas that have greater impact.

1. African governments must invest in the education and skills of their youth, to enable them to improve their productivity and to take advantage of the future opportunities created by the private sector in transformational sectors such as digitalisation, green jobs, agriculture, and AfCFTA. This includes developing education and skills, particularly technical and vocational educational and training (TVET), but also creating sustainable and dignified jobs, by supporting standards and laws that incentivise participation.[130]

2. African governments must create the business environment and incentives needed to enable better participation of the private sector in job creating sectors. Between 1.3-3 million private sector jobs are lost every year due to business obstacles.[131] Licensing and permitting, courts, political instability, and corruption are associated with the highest numbers of private sector jobs lost in Africa.[132] On the other side, conducive policies, such as SEZs have led to increased growth and job creation.

3. DFIs, local institutions, and African policymakers should collaborate to maximise job creation in priority sectors and provide feedback loops. For years DFIs have been faced with the challenge of a lack of a pipeline of bankable projects despite having the capital to invest, especially in low-income or fragile states. [133] DFI investment in local financial institutions reflects this reliance on local knowledge to find investment opportunities. In its 2020-2025 roadmap, the DFC has also reflected a need to work with a range of partners including local business and trade associations to enhance their development impact.[134] This includes being better able to select transforming sectors that create jobs, instead of being opportunistic "market takers". [135] Where there is overlap with national plans, DFIs can benefit from favourable government policy and even provide a feedback loop should they work together.[136]

4. Donor governments should support DFIs to play their catalytic role in decent job creation. Foremost, governments must empower their DFIs to take greater risks and invest in areas that have the most development and employment impact, accepting the negative impact this will have on profits.[137] Second, they must give more TA to embed and amplify job quality benefits as well as reduce other barriers to entry and expansion for local firms. They must provide DFIs with sufficient liquidity, fulfilling their $80 billion commitment.[138] However, given increasingly limited official development assistance (ODA) budgets, development impact must be carefully balanced, both alongside and relative to ODA for poverty reduction, which can include DFI prerequisites, such as education and skills development.

SUMMARY

Given the significant financing gap and tight fiscal positions faced by African governments, private investments will play a major role in financing economic development and creation of decent jobs in Africa. DFIs have a mandate to be market creating and transformational; these markets in turn will define the future of work in Africa. There are three ways in which DFIs can improve to address the challenges and seize opportunities for decent job creation:

- **Take on greater risk.** Including frontier markets that need experimental technology and business models like agriculture and climate, work with local funds to reach MSMEs and informal workers, working with LICs and fragile states, as well as helping business orientate to take advantage of AfCFTA.
- **Transfer standards and skills.** Standards in ESG, HSE, and labour, as well as having targets for women in management. Skills transfer through capacity building and technical assistance. These can improve the quality of jobs, raise productivity and wages and enable future replication of these standards and skills in the industry.
- **Measure and share employment impact,** including for financial institutions. Measure the quantity and quality of jobs, particularly for youth, women, rural workers, and especially in riskier areas like the informal sector. Financial institutions should have better minimum standards and monitoring of proceeds, especially around job quality, including implementing ESG standards. Sharing methodologies, metrics and progress reports and asking the right questions will enable better targeted investment in the future.

Beyond this, we have identified other areas that need to improve, which are beyond the scope of a DFI.

- **African governments** must improve the skills of their population, as well as create an enabling business environment for their firms to operate.
- **Donor governments** must improve financing, ability to take on risk, and amount of TA funds available to ensure long lasting impact.

Taking these steps, actors can enable DFIs to fulfill their roles on the frontier. They will absorb the risk that the private sector and other sources of development finance can't, creating the skills and capacity, laws and regulations and proof of concept needed to trigger further investment from the private sector. It is this investment that will create the scale and scope of jobs needed to meet the needs of Africa's large and growing workforce. It is clear that all actors, including DFIs, must collaborate and coordinate their activities to ensure the greatest efficiency in creating quality jobs in targeted sectors.

Endnotes

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Appendix

Table 1: Bilateral DFIs covered in this study by portfolio size, focus regions and instruments

DFI	Country	Portfolio Size	Focus Regions	Priority Sectors	Instruments
DFC	United States	$33.6 billion	Latin America (31%), Africa (24%), Indo-Pacific (16%), Eurasia (10%), Middle East(10%)	• Climate • Financing for SMEs and women entrepreneurs • ICT • Healthcare • Infrastructure • Agriculture • Education	Debt financing, Equity investments, Feasibility studies, Investment funds, Political risk insurance, Technical assistance
FMO	Netherlands	$13.5 billion	Africa (~35%), Asia, Latin America and the Caribbean, Eastern Europe and Central Asia	• Financial services • Energy • Agribusiness, food and water	Loans & syndications, Private Equity, Guarantees, Capacity development, Grants
DEG	Germany	$9.6 billion	Asia (31%), Africa/MENA (27%), Latin America (27%), Europe (12%)	• Agriculture • Infrastructure • Financial services providers • Manufacturing • Services	Long-term loans, Equity investments, Mezzanine financing, Bonds, Business Support Services
Proparco	France	$7.2 billion	Africa (49%), Latin America and the Caribbean (21%), Asia (18%), Mediterranean and the Middle East (3%)	• Agriculture • Financial Institutions • Infrastructure (renewable energy) • Health • Agribusiness • Education	Loans, Equity and Quasi-equity, Guarantees, Local currency financing
CDC	United Kingdom	DEG $7.1 billion	Africa (60%), South Asia (31%)	• Financial services • Infrastructure • Manufacturing • Health • Food & agriculture • Construction & real estate • Education	Equity (direct & intermediated), Debt, Guarantees
IFU	Denmark	DEG $3.8 billion	Africa, Asia, Europe, Latin America	• Healthy foods (Agribusiness) • Healthy lives (Health) • Financial Inclusion (Financial sector) • Energy, waste and water • Transformational businesses (businesses that help transform their industries towards more green, just and inclusive economies)	Equity, Loans, Mezzanine financing (equity-like loans), Guarantees, Advisory services

DFI	Country	Portfolio Size	Focus Regions	Priority Sectors	Instruments
NorFund	Norway	$3.0 billion	Latin America, Africa, Asia	• Clean energy • Financial institutions • Green infrastructure • Scalable enterprises (agribusiness and manufacturing	Funds, Loans, Equity
OeEB	Austria	$1.6 billion	Sub-Saharan Africa, Middle East and Northern Africa, South-East Europe, South America, Central America and the Caribbean, Pacific Region, Southern and Eastern Asia, Central Asia	• Renewable Energy • FInancial Inclusion • MSMEs • Infrastructure	Long-term loans, Equity, Business Advisory services, African-Austrian SME Investment Facility
COFIDES	Spain	$1.2 billion	Global	COFIDES can support projects in all productive sectors provided they incorporate assets that require medium / long-term financing. It does not invest in real estate or the defence sector or any of the activities on the Environmental and Social Policy's list of excluded activities.	Loans, Equity
FinDev	Canada	$0.2 billion	Sub-Saharan Africa, Latin America	• Agribusiness value chain • Green growth • Financial industry	Loans, Equity, Guarantees

Sources: DFIs' annual reports and websites