Access to Finance: DCED Member Priorities and Next Steps

Online Consultation, 16 May 2024

Background information and Minutes

June 2024

Introduction: DCED's Journey into SME Finance and Ecosystem Development

The DCED is grounded in the reality that the private sector at large, and SMEs in particular, can thrive and create positive change when embedded in appropriate support systems. This includes access to finance and business services. When programs focused on facilitating access to transacted Business Development Services (BDS) yielded mixed results in the late 1990s and early 2000s, the emerging field of Market System Development (MSD) started to focus more on technical and financial services embedded in the value chain. While these are highly relevant to increase SME productivity, their ability to facilitate fast SME expansion is more limited. The question of how to provide SMEs with access to finance and the appropriate services to facilitate investment continued to linger in the background.

At the 2023 Annual Meeting, the Argidius Foundation organised the thematic day on 'SMEs: The Transforming Middle', bringing a renewed focus on the topic. Featuring the theme appeared to be timely. In the 2024 DCED Member Survey, fourteen members referred to finance, in various forms, as a priority. Only climate adaptation/green growth and Women's Economic Empowerment (WEE) were mentioned more often. The most frequently mentioned topics included:

- SME financing
- BDS/Enterprise Support Organisations (ESOs)
- Nurturing entrepreneurship ecosystems

In response to the importance attached by members to the topic, the DCED Secretariat decided to explore if and how the DCED could add value to SME access to finance and support services, noting that other specialist organisations were already working on this topic. As a first step, a member consultation was held on 6 May 2024. The purpose of the meeting was to understand:

1. Member priorities, activities
2. Member views on how DCED could add value.

The outcomes of the discussions are summarised below. This is followed by a proposal for next steps, which will be further discussed in follow-up meetings on the topic, including at the DCED 2024 Seminar.

2. Participants in the 2024 Donor Consultation on Finance

1. Argidius Foundation
2. Austrian Development Agency (ADA)
3. Foreign, Commonwealth and Development Office (FCDO)
4. Deutsche Gesellschaft für Internationale Zusammenarbeit **(**GIZ)
5. International Development Research Centre (IDRC)
6. International Labor Organization (ILO)
7. International Trade Centre (ITC)
8. Irish Aid
9. The Netherlands Ministry of Foreign Affairs (Netherlands MOFA)

10. Organisation for Economic Co-operation and Development (OECD)
11. State Secretariat for Economic Affairs (SECO)
12. U.S. Agency for International Development (USAID)

Melina Heinrich-Fernandes, Harald Bekkers, Holger Grundel (DCED Secretariat)

3. Member Priorities (Presented in Alphabetical Order)

The Argidius Foundation

The Argidius Foundation's principal interest lies in small and medium enterprises (SMEs) development, supporting growth firms and the creation of formal employment in the production sector, as these are essential components for achieving development goals. In this context, the Argidius Foundation is interested in improving financial flows to SMEs, either through existing or new, innovative institutions.

In terms of existing institutions, this includes how to enable established commercial banks to better understand the SME market, i.e., segment it to identify which parts of the market they can serve profitably, and therefore which systems and processes they need to put in place for this purpose.

In terms of new institutions, this includes how Local Capital Providers (LCPs) can expand financial access to SMEs with different forms of finance, related to the stage of development they are in. It is essential to gain a deeper understanding of this SME finance trajectory. New institutions can develop innovative approaches and contribute to an enriched local ecosystem.

The Argidius Foundation emphasises that developing such ecosystems requires significant philanthropic or public investment in helping to build out these pathways (through established or new institutions). An example from the past is the development of microfinance, where public finance played a leading role. This led to the development of institutions and also created a recognised asset class. This means that commercial capital can move into these markets in a relatively straightforward manner. For SMEs, this is missing. This institutional dimension, and establishing these pathways, is critical.

Additionally, the Argidius Foundation is interested in addressing some of the challenges associated with the flow of capital, for instance, from DFIs to LCPs, given that LCPs are relatively small and work with smaller ticket sizes compared to DFIs. The question here is how to build 'platforms' to first aggregate finance and then disaggregate it to LCPs. Argidius has collaborated on this, notably with the Development Finance Corporation (DFI) and the Dutch Enterprise Development Bank (FMO), focusing on how to reduce transaction costs while increasing the distribution of finance in support of ecosystem development. We want to build out our early examples.

Finally, the Argidius Foundation recognises the potential significance of local capital, within banks as well as pension funds. At present, virtually none of this finance flows to SMEs. In Senegal, Argidius supports the creation of a vehicle that, for the first time, would enable its sovereign wealth fund to invest in SMEs.

Suggested DCED focus: To address the question of how public capital, particularly from bilateral donors, can help build up these financial institutions, help them innovate and build up their capacity, to get them to the point that they can receive commercial capital, not dissimilar to how support was provided to deepen financial inclusion. In other words, how to facilitate system change to deepen the emerging financial landscape/entrepreneurship ecosystems.

The Austrian Development Agency (ADA)

Facilitating access to finance is one of ADA's key priorities. However, as a donor agency, ADA does not have the mandate to offer loans or loan guarantees. In response to this challenge, ADA seeks to intensify cooperation with the Austrian Development Bank.

ADA considers this to be the key question at the international level:

- What should be the division of labour between donors and DFIs?
- What are effective areas of collaboration between donors and DFIs?
- How should joint projects look?

ADA is represented in the Austrian Development Bank's coordination committee, where loan projects are presented. There is a good dialogue at the project level, especially when supporting the same enterprises with a mix of loans and grants.

According to ADA, it is more complex to work together at the policy level. Here, one can observe different approaches and priorities. The banks' commercial interests play a role in this.

Suggested DCED focus: There is a need for structured dialogue between donors and DFIs to address the questions raised above, particularly within the DCED environment.

The Foreign, Commonwealth & Development Office (FCDO)

For FCDO, a key practical question is how to integrate its Technical Assistance (TA) programs with the support FCDO provides through various instruments (FCDO's focus here is on investment, which is broader than finance). This includes support through British International Investment (BII) as well as through funds, co-funded with others, i.e., dedicated platforms that provide financial products to specific market segments.

The Bridging the Gap report by Gatsby Africa contains good examples, but FCDo is keen to learn how to take this further, i.e., how to deliver an end-to-end investment offer. There are examples of early-stage SME support through grant-based expertise programming, with a focus on innovation, technology, business model development, and market shaping work. After consecutive rounds of support, these SMEs now receive investment from a DFI. How to organise the handover points between the different bits in FCDO's offer?

Finally, something the agency is struggling with is the complexity of coordinating this. A 'blunt' example of coordination would be an embassy representative approaching a DFI directly to support a specific SME. This may annoy the DFI, because they may not prefer such suggestions, which may also require significant due diligence. If you empower in-country programmes, including by providing funding for investment advisory support, such detailed in-country work could help originate deals for DFIs.

Suggested DCED niche: How can the technical assistance work within private sector development programming help originate deals for DFIs and impact investors? In a Venn diagram, this is the (overlapping) space between Market Systems Development (MSD), PSD and investment.

Related to this, the DCED could add value by facilitating dialogue between PSD and finance specialists, who struggle to look beyond the financial engineering aspect, and while donors in response may take the derisking approach too far. Donors should focus more on the demand side, creating investment opportunities. For DCED, this means we do not want to be 'bashing' development finance, but instead being a critical friend with a slightly different perspective would be helpful.

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

The sector program for financial systems development at GIZ has a specific mandate: to provide advisory and implementation support to the German Federal Ministry for Economic Cooperation and Development (BMZ) on Sustainable Economic and Financial Systems. This department leads the BMZ's global dialogue on various aspects of financial system development. The priorities include sustainable and transition finance (an overarching topic), private capital mobilisation, blended finance instruments, financial inclusion, digital finance, responsible finance, and SME finance. For GIZ, SME finance is a priority in its own right. For BMZ, as part of its global dialogue, the focus is more specifically on women's access to finance.

Key challenges within these various topics include, first, private capital mobilisation, and then local capital market development (as referred to by Argidius), i.e., how to broaden the pool of local currency capital available for sustainable investment projects in partner countries. Very important forGIZ in this regard is to see how to remove or overcome regulatory and legislative barriers, for instance, the investment regimes of pension funds or other institutional investors, as well as how to hedge against local currency risks, providing solutions that can stimulate private capital mobilisation. In the area of sustainable finance, we are also examining how we can contribute to the standardisation of sustainability reporting standards, making them more interoperable and widely accepted, particularly in relation to the International Sustainability Standards Board (ISSB) standards, but also more broadly. Finally, in the area of financial inclusion, GIZ is interested in identifying innovative approaches to responsible finance, focusing on the qualitative dimensions of financial inclusion beyond the quantitative ones, particularly for women, thereby broadening their access to services (in line with Germany's feminist development policy).

Increasingly, BMZ prefers structural policy-level approaches to financial system development, with the rationale that only such high-level changes can achieve sustainable and systemic change.

Suggested DCED niche: DCED could commission studies reflecting the donor perspective vis-à-vis the technocratic perspective of other organisations operating in this space for a long time. Members and the Secretariat should carefully study what the Unique Selling Proposition of the DCED could be.

International Development Research Centre (IDRC)

As a development research funder, IDRC does not have its own investment capital or vehicles; it does not provide loans, but partners with others who have, to offer technical assistance or conduct action research, capturing the knowledge or evidence generated from their activities.

In terms of priorities, we are thematically divided. One priority is private climate finance, specifically building and strengthening the investment ecosystem around private climate finance. This does not entail working with companies directly but focuses on strengthening intermediaries such as project preparation facilities (so that these can work with local grassroots ideas or very small companies, particularly in forest preservation) and climate finance vehicles (what are their needs and impact potential).

Another thematic area is around the care economy, to recognise, redistribute and reward women's care work. This also focuses on ecosystems, but primarily on how to influence them. What is the business case for investing in this sector by looking at the 'investability' of firms, and how can IDRC influence capital allocators to view this sector as viable to invest in?

The third priority is still crystallising and is more sector-agnostic. This is around local capital mobilisation. What are the different entry points, or how might IDRC strengthen this? This could be achieved through national advisory boards (building on our past work) and experimenting with new instruments for raising and deploying local capital. A new initiative is being launched in West Africa, focusing on the Inclusive Bonds Concept, to be sold to regional investors, including pension funds. The capital raised will be deployed to

banks, credit unions, and other financial institutions to finance SMEs. This addresses liquidity issues and intends to reach underserved markets.

The main challenge for IDRC is scaling and influencing, given its small size (projects rarely exceed 1.5M). How do we design them to capture learnings and connect experiences to influence the ecosystem effectively?

Suggested DCED niche: IDRC views DCED's niche as a convening platform that fosters collaboration between organisations with different mandates to work out how they can complement each other. Exchanges such as these are helpful as well as deeper thematic or cross-cutting exchanges or collaborations.

International Labor Organization (ILO)

For the ILO, the entry point is the labour market, with a focus on creating more, better, and increasingly greener jobs, and how to make this work through private sector development and market system development. What is relevant for ILO is how to achieve better system alignment between private sector development, i.e., developing markets for non-financial services and developing value chains, and financial sector development.

This is also where the DCED could play a value-adding role in relation to other financial sector coordination bodies. At many levels, this alignment between private sector development and finance could be improved, for instance, at the meso or institutional level, i.e., between individuals working on value chain development and those working on enterprise support services and financial services. There is a significant learning agenda here that is not well covered. People operate in parallel systems, both at the international level (e.g., the World Bank, IFC, UN system) and within donor agencies. DCED could work to close this gap.

Other areas in which there is potential for greater alignment include investment promotion and the development of more inclusive financial systems to reach underserved markets.

Specifically, ILO works on, or would like to work on, six topics that could help address some of the alignment problems referred to. Evidence on what works and what does not, could help identify the most promising development approaches.

1. Digitalising value chains helps make the information of the business in that value chain more transparent, and this, in turn, can help access to finance. Banks are better positioned to assess cash flows.
2. Digitalisation of wage payments by SMEs to their workers can support financial inclusion and also offer more protection for workers. ILO is trying to determine 'how low can you go' in terms of business size, which is beneficial. ILO is discovering that it might be less about digitalising wages and more about digitalising the SME itself, receiving digital payments and having a better overview of its finances. Digital human resource management can also be considered.
3. Enterprise formalisation is often imposed upon SMEs through policies; ILO aims to determine if financial service providers can incentivise SMEs to adopt this approach. This could also serve as an agenda for others to work on.
4. Considering enterprise resilience is necessary due to client change. ILO has started working on insurance, but this is certainly not the only means to achieve this. Again, there is much to explore.
5. Regarding blended finance, the question is how guarantee funds can make blended finance more impactful, in ILO's case, about jobs and working conditions.
6. Embedding entrepreneurship training in financial institutions is something ILO would like to do much more of. This is how it was done several decades ago. Then, microfinance institutions realised they could be sustainable if they invested in training and capacity development for entrepreneurs. However, microfinance institutions now claim that they cannot always have a significant impact.

Therefore, the question is whether we can make entrepreneurship training sustainable by embedding it into financial institutions in a light-touch and technology-savvy manner.

Suggested DCED niche: Alignment between private sector development and financial sector development and fostering learning and collaboration on these critical topics.

International Trade Centre (ITC)

ITC focuses on SME internationalisation, and through this, we often facilitate trade and supply chain finance, working closely with fintech for SMEs. ITC focuses less on the investment side.

In terms of priorities, ITC would like to explore ways to reduce due diligence and finance costs, as these remain extremely expensive. ITC helps SMEs prepare for loan applications, but in the end, they may still not take them out because they cannot earn enough to repay them. ITC's perception is that digital solutions may 'save' us here, but this has not materialised yet.

In addition, ITC is interested in unlocking value chain financing, systemically, at scale andhow to reduce barriers and enhance collaboration with DFIs, commercial banks, insurance providers, guarantee providers, and other stakeholders to create seamless financing systems? Also, ITC observes regulatory rigidities that drive up financing costs (and limit access). How can the link be made with this financial sector work, which is not ITC's work, but seems to dictate in many ways the costs and terms against which ITC's partner SMEs operate?

Suggested DCED niche: ITC suggests that DCED's niche is to, first, share cases on the topics people have mentioned. Secondly, how do we find ways to connect and pilot new initiatives? Thirdly, how do we measure whether we are having a systemic effect—DCED should be well-equipped to do this.

Irish Aid

Ireland is a relatively small player in finance; Ireland does not have a DFI. All of Ireland's international assistance is grant-based. However, Irish Aid utilises a range of financial instruments to leverage private capital and funds several programs to engage the private sector in our partner countries, particularly in the agri-food sector. This includes both Irish companies and companies from partner countries. Another critical focus is women's economic empowerment and access to financial services, especially in rural and agricultural contexts. Irish Aid welcomes learning from others engaging in this space about the challenges and gaps faced by women in these areas. For instance, what are the trends in SME financing, especially for smaller actors, and what is their impact on development, including both the positive and perhaps negative changes this brings?

Suggested DCED niche: Private sector engagement, financial instruments are enablers of development outcomes. A better understanding of the connection between enabling and achieving development outcomes is a key agenda item. Similarly, when considering key DCED topics such as SMEs and Women's Economic Empowerment, what financial instruments are most suitable for these areas? The issue of access continues to arise frequently, and this is not a new concern. What have we learned in the last 10 to 15 years to improve access to finance? What has improved for whom, and who continues to miss out? Finally, what is also essential in this context is the aspect of monitoring and learning. Some of these discussions are not new. It could be worthwhile to take stock, but from a perspective of private sector development and engagement, about SME growth and its contribution to development.

The Netherlands Ministry of Foreign Affairs (Netherlands MOFA)

Netherlands MOFA creates access to finance in the form of credit, equity and more through various funds in which blended finance is used to mobilise private capital, but also focuses on financial inclusion, through savings and more, targeting the most underserved groups such as women and rural communities. Netherlands MOFA is also particularly interested in implementing system change, working on pipeline development, or origination, to ensure enough bankable projects for DFIs and the financial sector to invest in.

One of the Netherlands' MOFA's main questions is: What are the conditionalities for access to finance to reduce poverty and inequality? At the macro level, there is some evidence to support this. In a specific context, examining the details of what works/does not for women in that context becomes less clear. Also, the Netherlands MOFA would like to know more about how to measure systemic change in financial sector development, including pathways to achieve system change. The Netherlands MoFA believes that it is possible to create demonstration effects, to signal to the private sector that investing in Africa is a profitable endeavour. How can they measure that this demonstration effect works, or how can we improve this to work better? Finally, the Netherlands MoFA would like to learn more about best practices in technical assistance for finance, specifically how to ensure that this assistance is always additional, so that they can measure the impact of technical assistance separately from the impact of loans, guarantees, and other related services.

Suggested DCED niche: The Netherlands MOFA suggests that it would be beneficial for DCED, being in the private sector space, to lean into the finance space, thereby making a connection between private sector development work and financial sector development. The reason is that they have a DFI, as well as impact investors who are very skilled in finance. However, making the connection between private sector development and market systems development expertise, for instance, to strengthen pipelines, is essential.

Also, DCED's experience in monitoring, evaluation, and learning (MEL) can help improve the measurement of development impacts in financial sector initiatives. This includes better alignment and harmonisation between the two worlds, so what applies to the implementation side also applies to the measurement side.

Organisation for Economic Co-operation and Development (OECD)

OECD is updating its Blended Finance guidance which was last approved by the Development Assistance Committee four years ago. This is a significant piece of work that encompasses changes to their work on standards, impact, and lessons learned related to the mobilisation agenda. The guidance discuss why we have not been as successful in mobilising private capital, in terms of volume, as we had hoped to be, to drive the agenda moving forward.

As part of this, OECD has worked on capital markets, particularly focusing on the aggregation of projects through the issuance of bonds, including green, social, and sustainability-linked bonds (bonds linked to underlying assets that can be issued with the support of donors). OECD has seen transactions in Rwanda, Mongolia and Kenya, which support this. This is a big part of the mobilisation agenda that OECD wants to push and unpack.

The other topics OECD is examining are whether it is feasible to issue local currency bonds and, through this, create and develop local capital markets. As part of this, OECD is working on SMEs and infrastructure, specifically addressing how SMEs need access to local capital and longer-term funding for significant infrastructure projects. Thus far, support to countries has typically been provided in hard currency, which creates significant hedging costs for the balance sheets of DFIs. How would the financing capacity of the development system look like when including more local currency capital? This feeds into the whole mobilisation agenda of the World Bank and the Multilateral Development Banks, i.e., the reform of the financial architecture. This is noted by the OECD, which sees the strong interest of the private sector in being

mobilised, particularly in terms of blended finance for sectors and countries they had not previously considered.

Finally, not all donors may be so comfortable with using mobilising instruments like DFIs. We are examining the role that technical assistance and grants can play in this space, for instance, in project preparation, by catalysing change in laws and regulations to facilitate private mobilisation and offering capacity development in this area.

Suggested DCED niche: The OECD views DCED's niche as coordination on the SME side, for instance, about the use of local currency, as well as how donors can support mobilisation using more traditional instruments. This includes, on the grants side, collaborating with the private sector to pool activities and resources. But, as mentioned, SME also need access to local currency to stimulate expansion and job creation. Additionally, DCED could help bring donors together and make them more comfortable with the mobilisation agenda. Some donors feel tepid, the private sector prefers big amounts, so more coordination is functional.

State Secretariat for Economic Affairs (SECO)

SECO has a strong focus on the financial sector, resulting in a broad portfolio of activities. The main area of work in framework conditions for the financial sector is building and strengthening the credit infrastructure (enabling more secure transactions by strengthening credit bureaus, collateral registries, etc.), as well as developing local capital markets (through policy work, creating demonstration effects). In terms of digital finance, SECO supports local financial institutions in developing their capacity in this area and building up their infrastructure. In terms of sustainable finance, SECO focuses on corporate reporting, incorporating the ISSB standard, as well as helping partner countries adapt international taxonomies, such as the Environmental, Social, and Governance (ESG) standards, to their local context.

Additionally, SECO applies some investment instruments to support and increase the impact investing market (through blended finance) as well, to strengthen the ecosystem for impact investing itself. In all this, SECO has a strong SME focus.

In terms of key challenges and questions, two stand out. First, the overall macroeconomic context is quite challenging. Over the past few years, considerable attention has been given to using blended finance to mobilise private capital. This can become quite costly. At the same time, policy reform has received less priority. This should be given priority again, with a renewed appreciation for this enabling work (as opposed to the catalytic, mobilisation work).

Secondly, about the mobilisation agenda, it is essential to focus on the efficiency and quality of finance. Efficiency refers to utilising effective instruments, such as guarantees, green bond working and participation in international and local credit enhancement facilities. SECO does the latter, among others, through the Private Infrastructure Development Group (PiDG), with a focus on local currency solutions (we see this as a quality aspect of finance). Efficiency also refers to collaboration (as also emphasised by the OECD), as well as foundations, and concerns the DFIs for mobilisation. SECI recently launched the SDG Finance Initiative to join forces, pool funding, and provide risk capital, such as first-loss equity investments, in impact funds. Additionally, SECO provides technical assistance to strengthen impact finance pipelines and contribute to the broader impact investing ecosystem.

Suggested DCED niche: DCED's niche could be to strengthen the feedback loop between the policy work and the mobilisation work, for instance, through meta-studies, to capture learnings and impact more effectively.

U.S. Agency for International Development (USAID)

USAID works on all the topics mentioned thus far, but it has a particular strong focus on 'different colours' of SME finance (such as climate finance, biodiversity finance, and agri-finance, which has been a topic for decades). Also important is the inclusion aspect of this: out of the available finance, who gets what, and what is in it for women, youth, and indigenous populations. Overall, finance is seen as a means, not an end in itself.

A key challenge lies in measuring the impact of financial interventions, such as linking our involvement in a first-loss investment fund to changing household-level outcomes five layers removed. People are asking for this kind of information.

Secondly, questions have been raised whether grant monies can be used for first-loss investment facilities.

More generally, it is interesting to note that investors claim they lack an adequate pipeline of quality businesses to invest in. At the same time, you can meet businesses with so many ideas, which they cannot implement because the capital is too expensive, or they are deemed to be too small or too risky. How to bring this together? USAID struggles with the fact that the investment timelines do not align well with its project timelines. Additionally, USAID engagement tends to be very piecemeal, focusing on specific financial products. From a system's perspective, this does not get you very far. USAID has not addressed the systemic reasons why finance does not flow, specifically why certain products are not available. Project by project, USAID attempts to address 'something', such as providing loans to farmers, without having the time or resources to tackle the underlying systemic financial sector issues.

Related to this, there is a need to acknowledge that the issue is not a lack of capital, but rather that other investment opportunities are more attractive. How do you 'pull' people from lower-risk, higher-reward opportunities to something that is higher risk and is less rewarding? It is important to acknowledge the incentives in the system from a fully commercial perspective. How can donors pursue a less-than-fully commercial model? There will always better investment opportunities than something agricultural.

Finally, donors need to think more critically about exit strategies: how to create a better enabling environment, and where is local capital going? The lessons learned from microfinance (also emphasised by the Argidius Foundation) and the early research that showed poor households had a dozen different means to finance themselves and their incentives and strategies to manoeuvre with this reality—perhaps there is a need to do more of this first.

Suggested DCED niche: For DCED, USAID sees a niche in facilitating this kind of dialogue, allowing us to discuss how we can collaborate and leverage our resources. We recommend that DCED focus on systemic solutions, drawing lessons from microfinance for the SME space and driving coordination to address the challenges.

4. Summary

Member demand in terms of SME finance can be summarised as follows:

1. Systemic financial market development for SMEs (comparable to how the microfinance sector was built up). This includes:

- ✓ Support to banks to innovate, segment SME markets, develop last-mile products and processes (including regulatory reform required for this).
- ✓ Support to LCPs (to help diversify the ecosystem in terms of types of financial products such as equity, mezzanine) in terms of establishment and improving fund economics (by reducing the time to attract funds, standardising legal requirements, and thereby reducing costs, standardising social standards and reporting requirements and thereby reducing costs).

- ✓ Improving capital flow through local (currency) capital market development and reform (this includes strengthening local market actors such as credit rating agencies) and best practice use of (blended) financial instruments to reduce costs and risks.
- ✓ Support the establishment of finance (aggregation and wholesaling) platforms to match supply and demand for diverse investment sizes and risk appetites.
- ✓ Support the digitalisation of the value chain, including transactions and employment, to create transaction records that facilitate access to finance.
- ✓ Support for the financial inclusion of underserved market segments (women, youth, etc).
- ✓ Creating cost-effective access to business services (embedded, transacted, subsidised).

2. Bringing the gap between donors (and donor-funded PSD/MSD) and (developmental) finance. This includes:

- ✓ How PSD/MSD can originate deals, support pipeline development for DFIs and, vice versa, how DFIs can support PSD/MSD.
- ✓ How systemic private sector development and systemic financial sector development (as described above) can intersect and benefit each other.
- ✓ Coordination and exchange between the 'PSD/MSD world' and finance sector bodies and experts.
- ✓ How donors can more effectively leverage private capital by pooling resources, agreeing on instruments and conditions.

3. Good practices for measuring the impact of financial market development. This includes:

- ✓ Tracing the impact of financial instruments through several layers of actors on SMEs or households (this includes the notion that for some layers, information may be self-reported or 'lean').
- ✓ Assessing the positive and negative effects of financial inclusion of those previously underserved
- ✓ Measuring the effect of policy reform on financial market development.
- ✓ Measuring system change in the financial sector in support of SME financing.
- ✓ Understanding SME demand for finance (different SME segments, different gaps, different options).
- ✓ Sharing lessons learned: what worked, what did not, and why.

Further discussions will be organised with interested members to narrow down shared priorities from this list and agree on next steps.