



SWITCH Africa Green Regional Sector Meeting

November 29, 2019

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Agenda



1. About AGF
2. Financing Mechanisms for Sustainable Agriculture:
 - 2.1 Introductions
 - 2.2 Challenges
 - 2.3 Solutions
 - 2.4 Summary of Models

1. About AGF - Background 1/7

Established in 2011

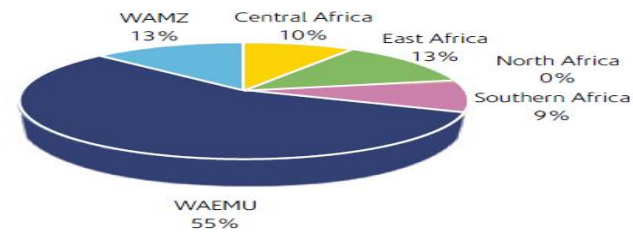
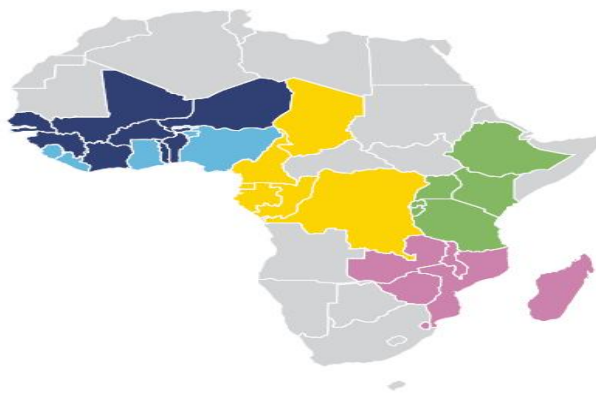
AGF's key mandate is to assist financial institutions increase their financing to African Small and Medium Sized Enterprises (SMEs) through the provision of partial financial guarantees and capacity development assistance.

3 Key Strategic Sector: Agriculture, Infrastructure and Energy (Green)

Key Population Segments: Youth and Women

AGF serves and supports its partner financial institutions across the continent
With active guarantees in place in more than 38 African Countries

AGF is AA- rated by Fitch



1. About AGF – Current Shareholders 2/5



DANIDA
Danish
International
Development
Agency

*Danish International
Development Agency*



MINISTERIO
DE ASUNTOS EXTERIORES
Y DE COOPERACIÓN

aecid

*Spanish
Agency for International
Development Cooperation*



BANQUE AFRICAINE DE DEVELOPPEMENT
AFRICAN DEVELOPMENT BANK

AFRICAN DEVELOPMENT FUND
FONDS AFRICAIN DE DEVELOPPEMENT

*African Development
Bank*



afd
AGENCE FRANÇAISE
DE DÉVELOPPEMENT

*French Development
Agency*



NDF

*Nordic Development
Fund*



IFU INVESTMENT FUND FOR
DEVELOPING COUNTRIES



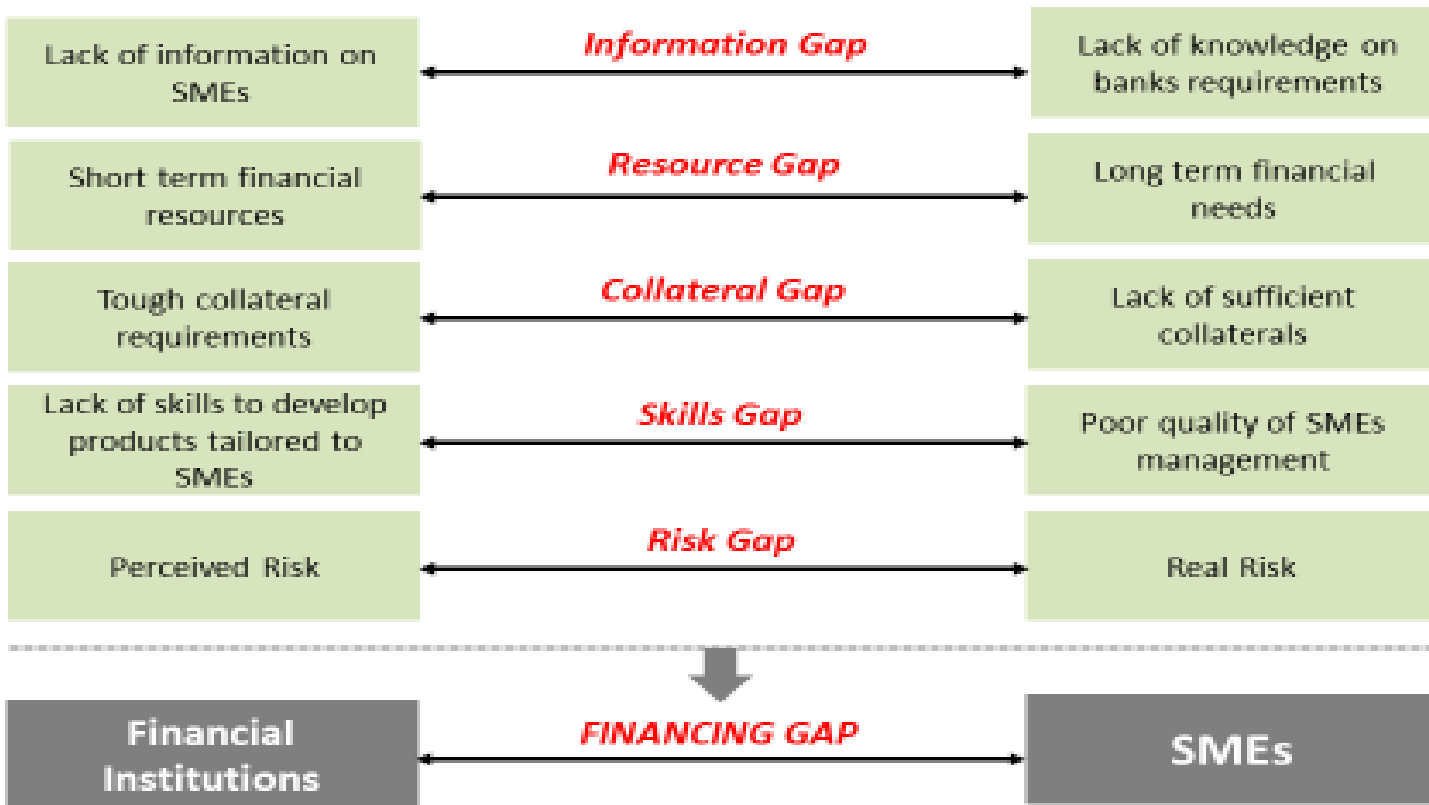
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1. About AGF – Product Offerings 3/5

- Loan Portfolio Guarantee
- Individual Loan Guarantee
- Fund-Raising Guarantee
- Equity Guarantee
- Capacity Development Facility

1. About AGF – Addressing the Gaps 4/5

WHICH GAPS?



1. About AGF – Some Partners 5/5



2. Financing Mechanisms for Sustainable Agriculture - Introduction 1/8



- ❑ Agriculture in Africa offers a pathway to economic development & inclusive growth
- ❑ It provides jobs & economic benefits
- ❑ It can successfully manage present and future climate risks
- ❑ Agriculture & climate change are critically interrelated:
 - ❑ agriculture is vulnerable to climate change,
 - ❑ Agriculture contributes to climate change-it accounts for 19% to 29% of GHG
- ❑ Good News: Climate change adaptation & mitigation in agriculture sector is feasible-technically & economically
- ❑ Sustainable agriculture therefore minimizes environmental impacts

2. Financing Mechanisms for Sustainable Agriculture - Challenges 2/8



Challenges of Inadequate Financing in Agriculture Sector:

- Perceptions of low profitability
- Low margins for Financial institutions (FIs)
- High Actual & Perceived Risks

The above Challenges leads to the following negative actions by FIs:

- Reduced Loan Exposure in Agriculture Sector/Reduced lending to MSMEs
- Increased Interest Rates
- Enhanced Loan Qualification Criteria/Requirements
- Shorter Loan Tenors
- Stringent Lending Terms
- Total neglect of the Agriculture Sector
- Lack of Innovative Financing Solutions

2. Financing Mechanisms for Sustainable Agriculture – Challenges 3/8



Additional Challenges faced by MSMEs in the Agriculture Sector

- Inadequate enabling environments,
- Insufficient capacity to manage exposure to specific agricultural risks, and
- High transaction costs.

Challenges of Inadequate Financing for Climate Finance

- Imbalanced Risk-Reward Profiles for Investments,
- Limited Capacity to identify Financial Needs for Adaptation & Mitigation purposes in Agriculture
- Inadequate capacity to identify most suitable Climate-smart practices & Technologies
- Lack of Tools for Impact Measurement of Climate-smart Intervention

2. Financing Mechanisms for Sustainable Agriculture - Solutions 4/8



Macro Level

- ❑ Improve Enabling Financing Environment for Agriculture MSMEs:
 - Appropriate policies, legislation
 - Favourable financial regulatory regime
- ❑ Identification & establishment of Strategic Partnerships e.g. Public-private, private-private, NGO-private etc
- ❑ Design & piloting of new Investment Vehicles to attract appropriate and additional capital
- ❑ Provision of Structured Blended Financing:
 - Patient/concessionary loans
 - CD/TA Grants etc

2. Financing Mechanisms for Sustainable Agriculture – Solutions 5/8



Financial Institution (FI) Level

- ❑ Access to Structured/Blended Financing from Investors/DFIs, Government etc. This includes:
 - ❑ Appropriate/Risk-Reward Capital for on-lending
 - ❑ Capacity Development/Technical Assistance Support
 - Market Research
 - Value Chain Financing/Product Development
 - Reinforcing Risk Management Mechanisms
 - Innovative Technology to enhance efficiency/reduce costs & manage real and perceived risks
 - Training of Staff
 - Capacity to capture data for Impact Measurement
 - Establish & integrate Environment & Social Risk Assessment (ESRA) in their Credit Analysis

2. Financing Mechanisms for Sustainable Agriculture - Solutions 6/8



MSME/Producer Farmer Level

- ❑ FIs to provide Structured Financial Solutions to MSMEs/Producer Farmers:
 - ❑ Access to Credit/Loans:
 - ❑ FIs need to understand the different Agriculture Value Chains, players, financing needs and specific financing solutions appropriate to the needs e.g. Warehouse Receipting, Factoring, Asset Financing, Leasing, Savings etc
 - ❑ Fair Loan Terms: Affordable, long term,
 - ❑ Innovative in terms collateralization
 - ❑ CD/TA Support for:
 - ❑ Making them Credit/Investment-ready: business plan preparation, systems establishment
 - ❑ Innovative Technologies to manage risks-production, market, price etc
 - ❑ Exposure Visits
 - ❑ Access to Information

 - ❑ Training/Financial Literacy & Mentorship

2. Financing Mechanisms for Sustainable Agriculture – Summary Models 7/8



- Creation of Financing Outfits with Different Capital Structures/Risk Levels/Return Levels
- Leveraging on Strategic Partnerships
- Capacity Development/Technical Assistance Grants
- Debt Instruments: senior, junior, concessional etc
- Bond Issuances e.g. Kenya's Green Bond
- Equity
- Performance-based Mechanisms
- Guarantees & Risk-sharing Mechanisms e.g. AGF, USAID DCA, Government-initiated etc

2. Financing Mechanisms for Sustainable Agriculture – Brief on Guarantees 8/8



- Guarantees transfer a portion of the risk from the originator of the loan (FI) to a third party (Guarantor) who is not the borrower.
- They vary in nature & coverage levels

Benefits of Guarantees to MSMEs in Sustainable Agriculture

- Used in overcoming entry challenges
- Used to target perceived risky sectors, geographies, risky population segments
- Are usually accompanied by CD/TA Grant Support
- If well structured, they lead to better loan terms to final beneficiaries such as MSMEs, Producer Farmers e.g longer repayment periods, lower interests, lower collateral requirements, customized financial products



Merci

Thank you