Le financement mixte : investissements innovants pour atteindre les ODD

Blended Finance: Ecosystem Investments to Accomplish the SDGs

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Layered Structure

Structuring a Layered Fund

Investors

Donors

Technical Assistance Facility

Public Investors

Concessional funding - First Loss

Technical Assistance, Training, Research

International Financial Institutions

Second Loss

Private Institutional Investors

Senior/ Notes

Fund Manager

Advisor(s)

Fund

Investees/ Projects
### Roles of the different risk return profiles

<table>
<thead>
<tr>
<th>Notes</th>
<th>Protection</th>
<th>Return</th>
<th>Roles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>+++</td>
<td>+</td>
<td>Notes reduce cost of capital</td>
</tr>
<tr>
<td>Senior Capital</td>
<td>++</td>
<td>++</td>
<td>Redeemable capital</td>
</tr>
<tr>
<td>Mezzanine</td>
<td>+</td>
<td>+++</td>
<td>Critical role</td>
</tr>
<tr>
<td>Senior Capital</td>
<td></td>
<td></td>
<td>TA essential to increase</td>
</tr>
<tr>
<td>Second Loss Capital</td>
<td></td>
<td></td>
<td>Efficiency of investees' activities, Market maturity, Impact</td>
</tr>
<tr>
<td>First Loss Capital</td>
<td>0</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Technical Assistance</td>
<td></td>
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</tbody>
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- Low risk associated low cost
- Create wider participation in impact
- Preservation of mission and objectives
- Reduced level of risk
- Lower cost than pure equity
- Allows for DFI funding
- Catalyst role
- Sustainability of vehicle
- Efficient use of donor money
- Take initial credit and local currency risk
- Development oriented
- Efficiency of investees' activities
- Market maturity
- Impact
Specificities of impact investment funds

<table>
<thead>
<tr>
<th>Layered Fund Structure</th>
<th>Simple Fund Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pros</strong></td>
<td><strong>Cons</strong></td>
</tr>
<tr>
<td>» Significant amount of donor money available can constitute basis for long term investment</td>
<td>» More complex structure</td>
</tr>
<tr>
<td>» Leverage of structure allows fund to offer different risk/return profiles to investors</td>
<td>» All investors <em>pari passu</em></td>
</tr>
<tr>
<td>» Interesting to varied categories of investors</td>
<td>» Lack of leverage may lead to risk/return profile that is not attractive to target investors – commercial / DFI investors</td>
</tr>
<tr>
<td>» May lower Fund’s cost of funding due to the presence of donor <em>money</em></td>
<td>» Cost and time to potentially transfer to a structured fund</td>
</tr>
<tr>
<td>» Successful example of PPP</td>
<td></td>
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</tbody>
</table>
Blending combines concessional investors and private investors to enable an increased risk taking capacity.

More and more MFIs “institutionalised” over time, possibly leading to:
- Increased MFIs leverage and volume capacity
- Controlled risk acceptance

Some MFIs might be more reluctant to finance the most vulnerable groups, perceived as too risky, in order to maintain their financial standing.

Portfolio guarantees, backed by concessional investors’ funds, could support the MFIs’ increased risk taking capacity with underserved vulnerable groups.

Ultimately, the guarantee should incentivise the MFIs to support the underserved client groups independently from the guarantee.
First loss portfolio guarantees provide protection to an MFI against credit losses

- For eligible loans supporting the vulnerable groups (at a defined guarantee rate)
- Up to a maximum aggregated cap amount
- For a pre-defined period of time

Concessional investors would bear the ultimate credit risk associated with the capped guarantee, in order to enhance support to the vulnerable group
Group Work Questions

Questions for MFIs:

- Which groups could be considered as vulnerable in your country? Are you already financing them? If not, why?
- Would the guarantee be sufficient to enable an increased risk taking capacity with vulnerable groups?
- Would you need additional financial support (e.g. lending, technical assistance, etc.)?
- What would be an acceptable guarantee fee?
- What are the strengths and weaknesses of the guarantee mechanics?
- How long should the guarantee last? What would be the ideal exit strategy?
- Can you specifically monitor the eligible vulnerable groups?

Questions for concessional investors:

- Would you be prepared to use such a solution to achieve your SDG targets? At what conditions?
- What would be your eligibility requirements for the portfolio to be covered?
- Would you have any return expectations from such a investment?
- What are the strengths and weaknesses of the guarantee mechanics?
- What type of reporting would you expect from the MFIs?
- Do you expect an exit strategy?
Overview

1. Introduction
2. Nature of Agribusinesses in Africa
3. State of Microfinance Institutions
4. Transforming MFIs to Leverage Commercial Capital for Agribusiness

Conclusion
Introduction

Need for Blended Finance for SMEs, including MFIs & Agribusinesses. SMEs face a financing gap ($1 Trillion). Since Maputo declaration -11 countries meet target 10% or more.

Nature of Agribusinesses in Africa

- Seen as risky; There exists production; finance & Knowledge gaps
- Weak-linked Value Chain approach, Lack of innovation

State of Microfinance Institutions in Africa

- Progress made by MFIs but structural weaknesses still remain at several levels: policy, governance, portfolio management, internal control, human resources, financial sustainability.

How do we transform them?

- Governments to put in place enabling policy
- Embrace innovation to deliver credit; eg. adopt Value Chain Approach, etc.
- Structure financial products to suit needs of agribusinesses
- Leverage government, stakeholder initiatives to upscale activities
- Improve MFIs governance, get qualified staff/train them
Blended Finance:

- Use of catalytic capital from public & philanthropic sources to mobilize additional private sector investment.
- Tool for creating project financing structures (i.e., investment opportunities) that are attractive to investors.
- Catalysing private capital for MFIs and agribusinesses must factor in Investor motivations.

How do you do that?

- Use concessional funds (Public & Philanthropic) to address the main investment barriers for private investors, namely (i) high perceived and real risk and (ii) poor returns for the risk relative to comparable investments.
- Provide credit enhancement through guarantees or insurance on below-market terms, eg. FinGap, NIRSAL, GIRSAL, TIRSAL, PROFIT, etc.
- Leverage technical assistance grants for pre or post-investment to strengthen MFIs commercial viability and developmental impact.
- Source transaction or design-stage grants for agribusiness & MFIs.