Le financement mixte : investissements innovants pour atteindre les ODD

Blended Finance: Ecosystem Investments to Accomplish the SDGs

SAM 2019 OUAGADOUGOU

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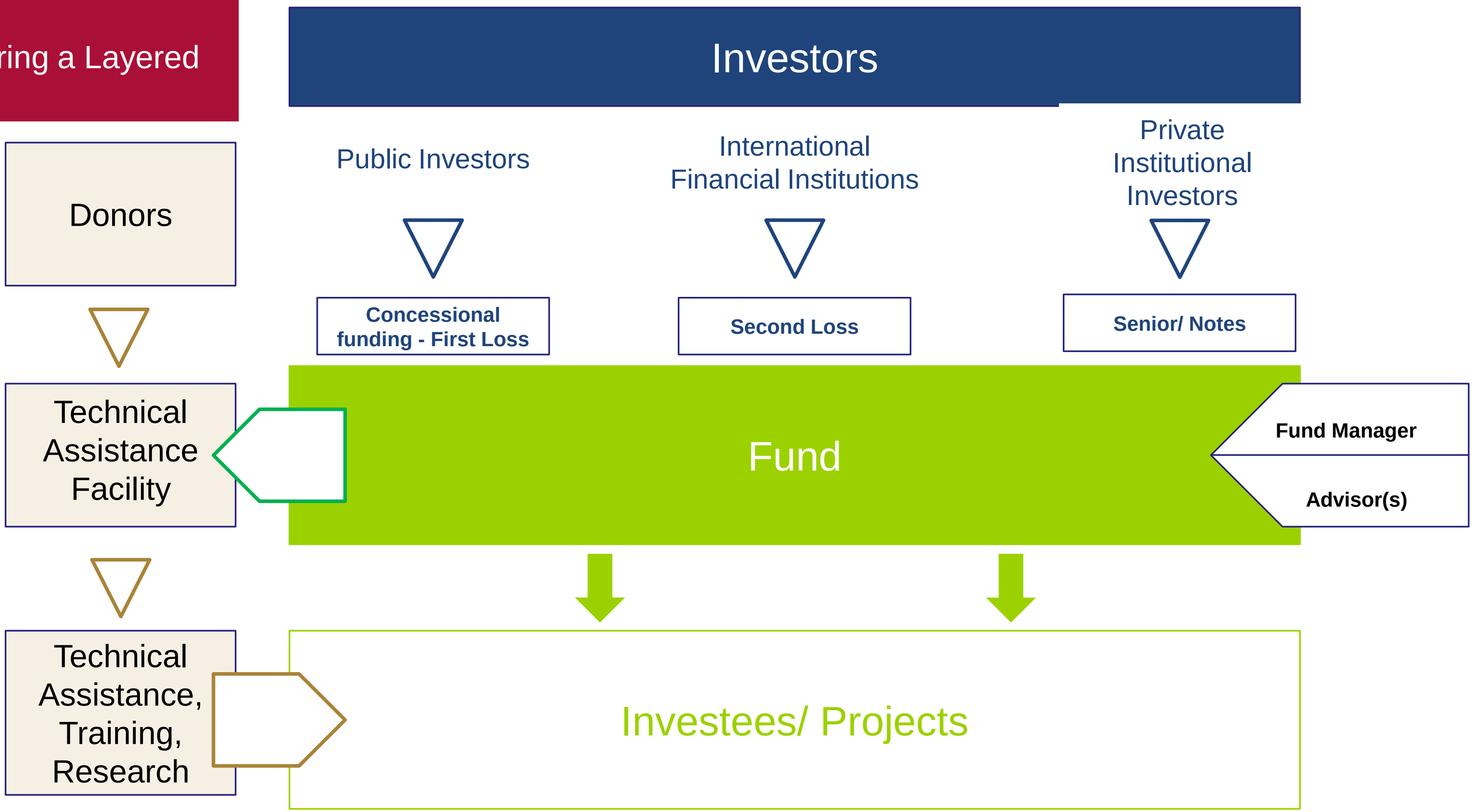
Layered Structure

Structuring a Layered Fund



Roles of the different risk return profiles

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		Protection	Return	Roles
Notes	**Debt**	+++	+	**Notes reduce cost of capital** - Low risk associated low cost - Create wider participation in impact
Senior Capital	**Senior**	++	++	**Redeemable capital** - Preservation of mission and objectives - Reduced level of risk - Lower cost than pure equity - Allows for DFI funding
Second Loss Capital	**Mezzanine**	+	+++	
First Loss Capital	**Junior**	–	+	**Critical role** - Catalyst role - Sustainability of vehicle - Efficient use of donor money - Take initial credit and local currency risk - Development oriented
Technical Assistance	**Grants**			**TA essential to increase** - Efficiency of investees' activities - Market maturity - Impact

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Specificities of impact investment funds

	Layered Fund Structure	Simple Fund Structure
Pros	» Significant amount of donor money available can constitute basis for long term investment » Leverage of structure allows fund to offer different risk/return profiles to investors » Interesting to varied categories of investors » May lower Fund's cost of funding due to the presence of donor **money** » Successful example of PPP	» Simplified legal structure: more easily understood by investors » Less complex structure leads to less administrative and legal work, etc. » Expected returns may not be sufficient to provide overall attractive return » Simplified waterfall
Cons	» More complex structure	» All investors *pari passu* » Lack of leverage may lead to risk/return profile that is not attractive to target investors – commercial / DFI investors » Cost and time to potentially transfer to a structured fund

Blending Through Portfolio Guarantees

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

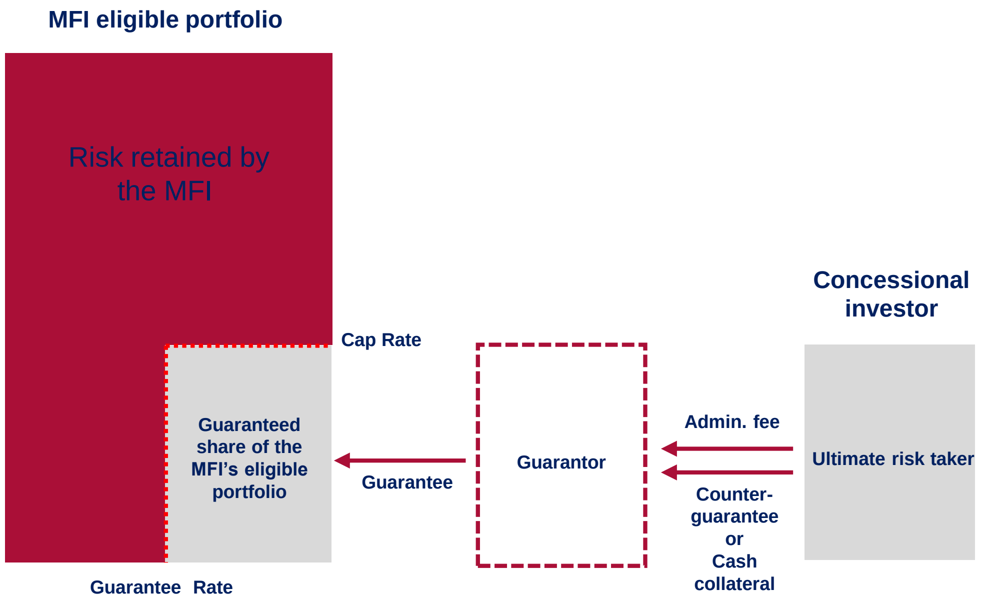
Ultimately, the guarantee should incentivise the MFIs to support the underserved client groups independently from the guarantee

Portfolio Guarantee Mechanics

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

Thomas Essel,
Secretary General

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

Introduction, Agribusiness and MFIs in Africa

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Empowering Rural Africa

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

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Blended Finance to transform MFIs, leverage commercial capital for agribusiness

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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.

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Organisateurs

LUXEMBOURG AID & DEVELOPMENT

ada 25 ans

African Microfinance Institutions Network (MAIN) – Transparency & Capacity Building

afraca (Depuis 1977) – Développer le Secteur Rural en Afrique

APSFD

FAPSFD UEMOA

Sponsors

GOLD

UNCDF – Unlocking Public and Private Finance for the Poor

SILVER

Banque européenne d'investissement – La banque de l'UE

HPS – ENABLING INNOVATIVE PAYMENTS

SIDI – SOLIDARITÉ INTERNATIONALE POUR LE DÉVELOPPEMENT ET L'INVESTISSEMENT

BRONZE

FONDATION GRAMEEN CRÉDIT AGRICOLE – Microfinance & Social Business

BNP PARIBAS

microfact – RENFORCER LA MICROFINANCE ET LA MICRO-ASSURANCE

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alterfin – Investissons dans le développement durable

PNUD – Au service des peuples et des nations

ProFeJeC – Entrepreneuriat-Innovation & Citoyenneté

R.C.P.B – Réseau des Caisses Populaires du Burkina

MicroAID

ADFinance

Sponsors - Foire aux investisseurs

CROWD CREDIT

Triple Jump

BIO – Development Through Investment

Sponsors - Village des innovateurs

CAGECFI – INFORMATIQUE & MANAGEMENT

satis

Partenaires

air burkina

ASKY – The Pan African Airline

FinDev Gateway – FINANCIAL INCLUSION FOR DEVELOPMENT – A PROGRAM OF CGAP

JEUNE AFRIQUE MEDIA GROUP

MicroCapital

ipa – INNOVATIONS FOR POVERTY ACTION

UO2 – UNIVERSITÉ OUAGA II

Alliance for Rural Electrification – Shining a Light for Progress

micro insurance network