Catalysing Growth: Improving the Effectiveness of Guarantees

Final Report

February 2025

Open Capital

UKaid from the British people

Shell Foundation

Photo by Leah Newhouse, Link

Contents

List of acronyms and abbreviations

AFFM	African Fertilizer Financing Mechanism
AGF	African Guarantee Fund
Agri-SME	Agriculture Small and Medium Enterprises
DCA	Development Credit Authority
DFC	Development Finance Corporation
DFIs	Development Financial Institutions
FCDO	Foreign, Commonwealth and Development Office
FIs	Financial Institutions
FMO	Dutch Enterpreneurship Development Bank
GGC	Green Guarantee Company
KPIs	Key Performance Indicators
LPG	Liquefied Petroleum Gas
Ltd	Limited
M&E	Monitoring and Evaluation
MDBs	Multilateral Development Banks
MFIs	Microfinance Institutions
MIGA	Multilateral Investment Guarantee Agency
NBFIs	Non-banking financial institutions
NIRSAL	Nigeria Incentive-Based Risk Sharing System for Agricultural Lending
OCA	Open Capital
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PCT	Preferred Creditor Treatment
RBF	Results-based financing
SDGs	Sustainable Development Goals
SHFs	Smallholder farmers
Sida	Swedish International Development Cooperation Agency
SMEs	Small and Medium Enterprises
SocGen	Societe Generale Bank
SSA	Sub-Saharan Africa
TA	Technical Assistance
UN	United Nations
USAID	United States Agency for International Development
USD	United States Dollar

Photo by Valeria Boltneva: Link

Executive summary

Research objectives and methodology

Development finance alone cannot fill the financing gap in the agriculture sector in developing economies. Increasing capital flows to this perceived risky sector and population is critical to sustainable development. Two key objectives of this research:

1. Geared for a primarily donor audience, this research explores how to use guarantees to effectively catalyse additional funding and the roles of ecosystem players in supporting lending in the agriculture space
2. Address the knowledge gap that might hinder the ability of funders to catalyse capital. The knowledge disseminated will aid in unlocking new investment for the agriculture sector

The methodology included both primary and in-depth secondary research as follows:

- **Literature review:** reviewed 15+ industry reports including OECD's report on the role of guarantees and Convergence's wide selection of reports on blended finance
- **Stakeholder consultations:** interviewed 30+ stakeholders across five major categories, guarantors, donors, lenders / investors, fund managers, and ecosystems experts

Geography

Sub-Saharan Africa

Sector / impact focus

Agriculture

Women-led SMEs

Introduction

- The key role of guarantees is **to crowd in investors and open new markets**. This is achieved by: i) solving collateral deficiency challenges, ii) closing the gap between perceived and actual risk, and iii) absorbing portions of risk so that lenders can enter new markets with lower risk
- However, guarantees are not a **silver bullet to bypass credit processes** e.g., business documentation (registration, business plans, financials, etc), nor do they serve as an exemption to finance unbankable deals
- Measuring the effectiveness of guarantees is not standardised and the context of the guarantee (e.g., sector, region, lender) must be considered when comparing metrics such as utilisation, catalysed capital, or additionality
- While the ultimate aim of guarantees is to be made redundant, this goal is unlikely to be met in the short term for agriculture as a sector and in SSA given the sector's profile i.e., mainly fueled by **smallholder farmers** who are deemed risky because of informality, largely non-commercial farm models and the sector's vulnerabilities resulting from climate risk
- There are several **opportunities for donors to support lending to agriculture** across the value chain to build the market using an ecosystem approach to increase agri-lending

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Overview

Stakeholder landscape

- **Guarantors:** bilateral & multilateral donors, DFIs (including MDBs) and specialised guarantee providers
  - Development guarantees are generally issued to enhance financial inclusion and meet development goals
  - The concessionality of fees depends on the guarantors' requirement for financial returns and the expected risk of the guaranteed portfolio
  - Guarantors are required to balance sheet leverage with an appropriate rating requirement
  - Specialised guarantee providers have high technical expertise and capacity to design and manage guarantees
- **Donors/funders:** issue capital to unlock private capital. They can fund other guarantee providers, set up their own guarantee facilities, subsidise interest rates, and provide research funding to build new markets bridging technical and operational gaps
- **Lenders:** banks, impact investors, MFIs, NBFIs and consumer finance companies use guarantees to unlock finance. The type of guarantee they will utilise will vary depending on the borrower and risk appetite of the lender

Ecosystem approach

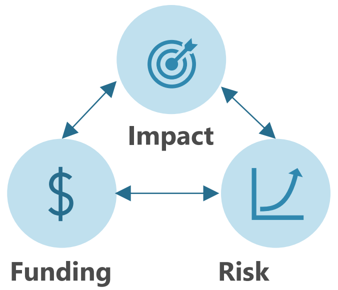
A holistic ecosystem approach is required to enhance the sustainability and additionality of guarantees.

- For lending to be effective, the sector requires a market system approach that can strengthen the entire value chain.
- Guarantees can be utilised across that value chain and should be appropriately structured for the targeted borrower

Guarantees landscape

- **Guarantees to banks:** portfolio guarantees are more widely utilised in this space as they are best for smaller transactions due to lower resource requirements, while individual guarantees are better suited for larger deals
- **Guarantees to investors:** at the **fund level**, guarantees encourage additionality by reducing interest rates required by investors based on the risk profile. At the **portfolio level**, guarantees are applied to investments that meet specific criteria, such as sector or country, allowing participation in additional transactions. At the **individual level**, guarantees are provided for specific investors or transactions

Risk profile



- **Project finance guarantees:** projects seek these guarantees to raise project financing for large infrastructure or capital-intensive projects to attract institutional investors. Guarantee providers must assess revenue stream reliability, demand forecasts, costs and regulatory impacts to appeal to investors and are usually individual guarantees
- **Non-commercial guarantees:** guarantees enhance financial capacity, enabling MDBs to increase liquidity to fund more projects. They transfer sovereign loan portfolio risks to private insurers and guarantee providers while retaining loan administration

Effective design of guarantees

Structures

Guarantees have varying structural considerations pegged to a deep understanding of the market and lender and borrower needs

- **Understanding the market:** guarantees are designed to accommodate bank / investor requirements while being administratively efficient to encourage venturing into new markets
- **Bespoke and flexible structuring:** guarantees cater to lenders' needs by providing the right coverage, type of loss covered, incentives, funding levels, and terms; borrowers' needs are accommodated by adopting relevant terms for maximum effectiveness

Guarantee structure components

- **Risk covered:** guarantees address three main risk categories, commercial (borrower defaults), trade, and political (regime and policy changes)
- **Loss coverage**: includes first loss (initial defaults), second loss (after first loss is exhausted), and pari passu (shared between guarantor and investor)
- **Financial instruments:** guarantees cover loans (most common for predictable returns and priority in insolvency) and equity (for long-term support)
- **Funding level:** funding structures are either unfunded (reserve expected loss) or funded (holding part of the guaranteed amount in escrow)
- **Guarantee coverage:** guarantees typically cover 30-80% of investments. Coverage rarely exceeds 80% to prevent moral hazard

Terms

Guarantee terms vary based on guarantor return requirements and lender and borrower needs

- **Guarantee costs:** fees are often calculated based on risk profiles and can be subsidised by guarantors that require little or no returns, or passed down to the borrower though with the risk of moral hazard
- **Currency:** the currency to use is based on the underlying transactions or borrower requirements, e.g., SMEs and SHFs* cash flows in agriculture are typically in local currency; currency risks should be priced upfront and borne by guarantors who have the capacity to through currency hedges
- **Interest on capital:** for lenders, guarantees often cover collateral inadequacy and do not reduce interest rates on underlying loans which are capped on the downside by government treasury rates. Additionally, guarantors do not stipulate interest on underlying loans to avoid market distortion

Blending guarantees

To more effectively meet guarantee objectives, guarantors and lenders deploy complementary finance instruments such as insurance, incentives, and results-based financing

- **Insurance:** used to cover well-defined risks e.g., climate change prevalent in agriculture to allow guarantees to concentrate on addressing commercial risks
- **Incentives:** origination incentives encourage lending to high-cost sectors while borrower incentives enhance financial access by improving risk-return profiles
- **Results-based financing:** support private investors in achieving better returns at lower risk by tying provision of finance to desired development outcomes

*Note: *SHFs stands for smallholder farmers, SMEs stands for small and medium enterprises*

Effective implementation of guarantees

Setup

International and local regulations can hinder guarantee usage therefore understanding the local context and realities is essential

- Internationally, guarantees have recently become an ODA-approved instrument enabling donors to use them for catalysing funding
- Local regulations determine the environment within which guarantees are deployed; reforms are needed to recognise guarantees as collateral enabling lenders to use them for developmental outcomes while easier formalisation of businesses and farms would enhance borrower access to capital

Guarantors need to ensure they clearly define guarantee objectives and have the required in-house capacity or external support, to deploy them

- Defining guarantee objectives is critical to enable appropriate design and structure for target markets and requires alignment across multiple stakeholders
- Utilising guarantees involves high levels of complexity and requires deep expertise and knowledge; leveraging specialised guarantee companies and facilities is a good avenue for funders wishing to participate in the space

Holistic and targeted technical assistance deployed alongside guarantees has been an effective means to support market building

- Technical assistance to lenders enables deep understanding of new markets and borrower business models; it also strengthens internal knowledge such as assessing and mitigating risks for effective deployment without violating guarantee terms
- Technical assistance also supports borrowers to strengthen their ability to repay loans e.g., through operational and financial management training and strengthening market linkages

Ongoing operations

Guarantors need to build good relationships with lenders to facilitate feedback on guarantee utilisation rates and any bottlenecks during deployment. For a smooth implementation process, the following stakeholder roles are key:

Guarantors: effectively manage the guarantee process by understanding the target market to structure and monitor guarantee performance through the claims and reporting processes

Lenders: understand the technicalities of guarantees offered e.g., guarantee terms and compliance with regulation, and provide regular (quarterly) reports to provide visibility on guarantee uptake

Borrowers: have ready materials to support loan requests and diligently make repayments to build a credit history

Post-guarantee deployment

Monitoring and evaluation (M&E) help determine guarantee effectiveness and sustainability post-deployment. M&E determines guarantee effectiveness in the following ways:

Development additionality: outcomes that result from using development guarantees e.g., credit access for underserved businesses

Financial additionality: the amount of capital mobilised by private investors that wouldn't have been mobilised without the guarantee and/or under terms that feasible for the lender

Financial sustainability: measure of reduced reliance on guarantees or ability of a guarantee scheme to sustain operations and defaults

Extent of reach: capacity of guarantees to meet demand measured through e.g., number of guarantees issued to eligible firms

Recommendations – Ecosystem approach

An ecosystem approach engaging all stakeholders to mitigate risks across the value chain can improve guarantees' effectiveness

It is necessary to provide support to all the stakeholders in the ecosystem to strengthen the guarantee offering and enhance effectiveness, including:

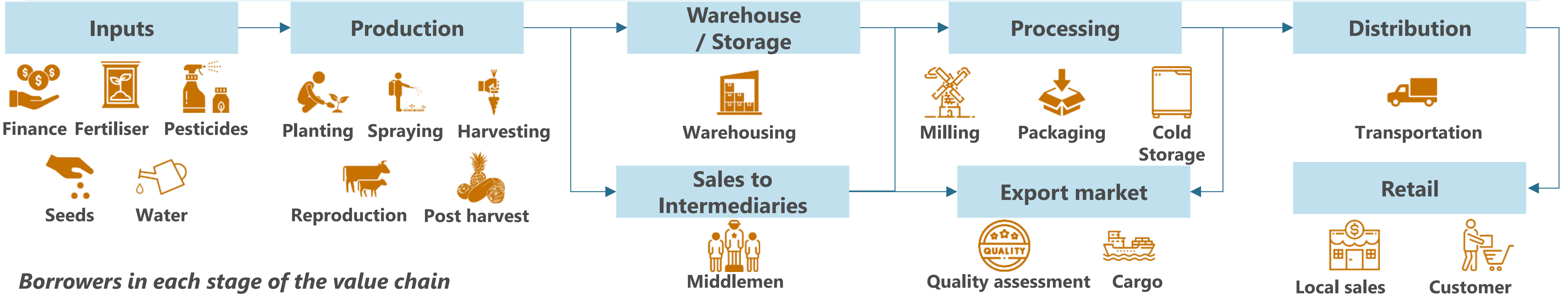
Donors / funders
Identify existing guarantees or partners that align with their goals as well as areas that require additional research (e.g. insurance) or funding (e.g. TA)

Guarantors
Analyse necessary terms and structures required to crowd-in certain investor types and establish areas of collaboration to fill existing gaps in the market

Lenders
Provide technical assistance to enhance the issuance of guarantees and disseminate additional market research to improve knowledge on lending into value chains

Borrowers
Provide technical assistance to increase the number of bankable companies, increasing their ability to absorb financing and strengthen their business

A holistic ecosystem approach can increase the effectiveness of guarantees by better mitigating the varying risks that occur across the value chain



Borrowers in each stage of the value chain

SHFs, agri-dealers, cooperatives, agri-tech / agri-SMEs	*Aggregators*	*Processors, exporters*	*Agri-companies, off-takers*

Source: OCA analysis

Recommendations – Donor interventions

Our core set of recommendations focus on the role of donors in developing the ecosystem and the interventions they can make in doing so effectively. We recommend donors actively participate through landscaping and strategically coordinating the ecosystem, providing technical assistance to lenders and borrowers and leverage market insights in developing targeted and effective guarantees.

There are seven key interventions for donors to consider …		… with the following expected outcomes
1 **Conduct a detailed ecosystem landscape** of the guarantee facilities or other risk mitigating mechanisms within a specific value chain or region	There are many existing guarantee funds addressing risks across agricultural value chains that donors can leverage to catalyse additional funding and various gaps in funding to be filled. A comprehensive mapping of the current market is required for donors to be able to identify relevant existing guarantors to support that are aligned with their objectives, or where there is a need to work with relevant players to build new facilities	Identify areas for collaboration between guarantors, reduce duplication and enhancing additionality for donors, and identify opportunities for lenders to leverage guarantees
2 **Analyse guarantee terms, structures and risk mechanisms** necessary to crowd-in varying types of investors	There is currently a significant lack of data and dedicated resources to collecting data on additionality, specifically the necessary requirements for guarantees to attract various investor types across different scenarios. Access to this data allows guarantors to more accurately assess terms and structures to tailor their products effectively and maximise additionality	Enhanced understanding of additionality, establishing effective guarantee benchmarks for different markets and regions
3 **Pilot a targeted integrated guarantee concept** within a specific set of value chain(s) and regions(s)	Many guarantee facilities cover the agriculture sector in silos, creating gaps that weaken their overall effectiveness of these instruments to holistically strengthen the sector. For instance, if a smallholder farmer (SHF) has a loan but their off-taker lacks funding to purchase from them, the guarantee's impact is diminished compared to if both had the necessary support	Expanded guarantee coverage to fill gaps in selected value chains and regions, test targeted coordination with the potential to scale if the pilot is successful
4a **Pre-investment TA facility to enhance capacity for lenders** before issuing guarantees	The uptake of new guarantees by lenders is often slow due to insufficient knowledge and inefficient systems / processes, or, lack of knowledge of specific markets that the guarantee is aiming the lender to serve. By providing this expertise before the guarantee is in place, these guarantees can be more effectively structured, utilised and deployed from the outset	Increased uptake and more effective use of guarantees from day 1

Recommendations – Donor interventions

There are seven key interventions for donors to consider …		… with the following expected outcomes
4b **Pre-investment TA facility to enhance capacity and borrowers** before issuing guarantees	Target borrowers, such as smallholder farmers (SHFs) and agri-SMEs face challenges such as business registration, financial record-keeping, and governance hinder their bankability, reducing their access to credit. Providing additional business development support services to target borrowers can increase their ability to absorb financing and build a pipeline for the lenders to serve.	Increasing number of borrowers that can access financing and providing a stronger pipeline for lenders to issue loans
5 **Fund market research in the insurance market** to identify necessary market and product development	Insurance can complement guarantees by mitigating well-defined risks like extreme weather allowing guarantees to cover commercial risks (as opposed to attempting to provide a "catch all"). However, the insurance market in SSA is underdeveloped and SHFs avoid insurance due to high premiums and limited education on its benefits	Deeper understanding of how to utilise and strengthen the insurance market alongside guarantees and develop relevant products
6 **Create a market study arm** to research the nuances of lending into specific value chains	Lenders and guarantors experience knowledge gaps on the nuances of lending within different value chains, countries and regions, therefore restricting their willingness to lend in these areas. Increasing this knowledge can close the gap between the perceived and actual risks of these sectors, encouraging more lending across different value chains	Improved risk assessment, increased lending to new value chains, enhanced financial product relevance and more competition between lending products
7 **Conduct deep-dive research and analysis** on the characteristics of an enabling environment	The policies and regulation within a market can influence the effectiveness of guarantees, e.g. how the central bank requires the lenders to account guarantees or the land registration requirements for SHFs to own their land. Identifying and providing recommendations to governments and regulatory bodies can improve the guarantee ecosystem's efficiency and effectiveness	Enhanced policy frameworks and understanding to create a supportive agriculture lending environment

*Note: *TA refers to Technical Assistance*

Recommendations - Best practices for guarantees

Additionally, our second set of recommendations are best practices for designing and implementing guarantees. While we cannot recommend one silver bullet for guarantee structures to support agriculture, we identified five key best practices that would support the success of a guarantee

Identify clear objectives
- Determine the desired outcomes of the guarantee
- Set measurable targets
- Align the guarantee with broader development goals

Conduct market research
- Assess the target market's financial landscape and the requirements from both the borrower and the lender
- Avoid market distortions by providing an appropriate level of concessionality

Tailor the guarantee
- Consider lender incentives when designing guarantee products
- Consider borrower market realities and financing needs
- Use blended finance to support guarantees in meeting lender and borrower needs

See next slide for specific examples

Set up appropriate structures
- Establish appropriate structures including approvals, reporting systems, and monitoring and evaluation
- These systems support wider participation in the guarantee programme and ensure sustainability by measuring effectiveness

Implementation
- Establish strong relationships and ensure consistent communication for continued review of guarantees to suit markets and meet objectives
- Provide technical assistance for effective deployment and market strengthening

*Note: *TA refers to Technical Assistance*

Recommendations - Best practices for guarantees

Guarantees should be designed to drive sustainable lending through innovative, flexible and supportive approaches

Utilise innovative guarantee structures to encourage lending or new market entry using a funded portfolio approach allowing lenders to leverage collected funds across their entire portfolio to cover defaults rather than focusing solely on coverage levels (e.g. 50% vs 75%) or loss types (e.g. pari passu vs first loss)

Aceli deposits 2-9% of the loan value into reserve accounts, enabling lenders to address defaults across their portfolio

Provide origination incentives to encourage lending into new sectors, geographies or markets tailored to objectives such as supporting new borrowers, female-led businesses or climate-resilient SMEs, depending on the objectives of the guarantee

Aceli incentivised Tanzania Commercial Bank to lend to the cassava value chain in Kigoma by covering staff costs for fuel and time spent visiting SMEs, enabling them to bring bank services closer to agri-SMEs

Blend guarantees with other mitigation tools, such as crop failure insurance, concessional lending, or grant-funded technical assistance, to strengthen the ecosystem, improve repayment rates, and ensure sustainability

ABSA and Apollo Agriculture provide insurance to agricultural borrowers, while NIRSAL has developed five tailored insurance products to complement their guarantees

Reduce interest rates by negotiating concessional lending terms, such as interest rate caps or subsidies to enhance affordability for value chain players. Additionally, offer borrower-side incentives, such as reduced interest rates for meeting specific criteria like timely repayments or performance benchmarks

NIRSAL implements interest caps to ensure agribusinesses have access to affordable finance and introduces interest rebates for borrowers who pay on time

Subsidise guarantee fees to enhance the attractiveness of economics for lenders, hence incentivising additional lending, particularly in high-cost sectors like agriculture where the due-diligence costs are significant. Guarantee fees can be subsidised by donors to ease the burden on lenders

SIDA subsidises a portion of its guarantees with grants when necessary, ensuring lenders are supported while the benefits ultimately trickle down to borrowers

Agriculture value chain actors require flexible financing solutions due to the sector's cyclical nature. Guarantors can offer flexible payment terms, such as interest rate holidays in the case of an adverse weather event, and extend guarantees to cover working capital and revolving credit facilities

The AGRI3 Fund facilitates interest rate holidays during natural calamities to help borrowers avoid default

1. Research objectives and methodology

The goal is to assess how guarantees can be more effectively designed to unlock growth in agriculture

Introduction and project objectives

Shell Foundation

UKaid from the British people

Problem statement: the financing gap in the agriculture sector in developing economies cannot be fulfilled by development finance alone. Increasing capital flows to this perceived risky sector and population is critical to sustainable development

This research was commissioned by UK charity Shell Foundation, and co-funded with UK aid from the UK government with the objective to:

- Address the lack of capital available to support early-stage businesses focused on agriculture and explore how effective guarantees and other blended instruments have been in unlocking more capital
- Determine how guarantees have been used by stakeholders, including donors, guarantors and lenders to catalyse funding
- Provide recommendations on what could increase the effective use of guarantees from a development and donor perspective
- Support Shell Foundation's five-year strategy and their key stakeholders to unlock investment for the agriculture sector

Scope of assessment

Region: developing countries within Sub-Saharan Africa and Asia; leveraging Shell Foundation's networks in India

Sector: agriculture and agri-related themes and any learnings from agri-related sectors including energy access

Target customers: smallholder farmers, agri-SMEs* and overall applying a gender lens where possible

Report audience: donors and philanthropies, catalytic investors, and institutional investors; lower focus on the public sector

Guarantee risks: commercial risk, with a lower focus on trade and political risk

Guarantee recipients: developmental guarantees issued to investors and lending facilities, for both specific transactions and as part of a portfolio

Note: SMEs stands for small and medium enterprises

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We executed key tasks across three phases, completing specific deliverables including this final report

1 Inception	2 Research and analysis	3 Synthesis and dissemination
• Hold a kick-off call to introduce teams and align on scope, timelines and methodology • Prepare blended finance archetypes framework focusing on guarantees and consolidate existing guarantee and catalytic data and information • Develop key research questions & hypotheses, and a list of key informant interviewees	• Conduct desk research to develop an initial mapping of the catalytic capital landscape • Conduct stakeholder consultations with donors, investors, and guarantors • Develop case studies on how guarantees have been used by donors • Develop a preliminary insights report • Conduct a 2-hour workshop to discuss the findings	• Draft the final report • Conduct a final workshop with Shell Foundation to present the report; hold additional stakeholder (providers and recipients) working sessions • Incorporate feedback and finalise writing the report • Disseminate the report on an ongoing basis
• Archetypes framework • List of current literature • Key research questions & interviewees	• Literature review on guarantee usage, learnings • Preliminary insights report • 5-7 case studies	• Draft and finalise research report • Dissemination approach and activities

We developed research questions to guide our work; we will be sharing our findings and recommendations in this report

Overarching questions	Detailed research questions
1 **What are guarantees and what purpose do they serve?**	• What is **blended finance**? What is its purpose and what forms do structures take? • What are guarantees and how do they differ? – What are the possible **different use cases** for guarantees? Who is the target **beneficiary**? – How do **structures** of guarantees differ? How do **terms** of guarantees differ? – How are guarantees implemented and **what do implementers need** for effective implementation? • What **purpose do guarantees serve**? – How **effective are guarantees in bridging capital needs** in more nascent sectors?
2 **What is the current landscape of guarantees?**	• What **guarantee products have been deployed** to date and by whom? • How do **structures and terms differ** across different use cases and target beneficiaries? • What **other blended finance instruments** are used alongside guarantees?
3 **What are the key barriers and enablers of guarantees?**	• How do guarantors **define effectiveness and additionality**? • How do **utilisation and losses differ** across guarantees with different use cases / structures / terms? • What guarantees have been (un)successful and why? Does the **success of guarantees differ between sectors / regions** and why? • What are the **common critical success factors**?
4 **What are the key recommendations for effective guarantees?**	• What is the feedback from funders, implementers, and users **to improve the effectiveness of guarantees**? • How can these be **implemented in new guarantees** in the future? • Who is **responsible for implementing** these recommendations? • How do these recommendations **differ across different scenarios** (geography, customer group, gender)? • How can **guarantees be deployed effectively** as part of the broader blended finance toolkit?

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Our work was informed by in-depth desktop research and 30+ stakeholder consultations to derive insights

Literature reviewed

We reviewed 15+ industry reports with relevant information on guarantees and blended finance in SSA and Asia:

Stakeholder consultations held

We also held over 30+ consultations to gather insights from stakeholders across the ecosystem:

Guarantors

Banks

Funds

Donors

Other

2. Introduction

- Blended finance
- Guarantees as a catalytic tool

Blended finance has been essential in mobilising private capital investment in developing countries and enhancing development

Blended finance is the use of catalytic capital from public or philanthropic sources to increase private-sector investment in sustainable development.[1] It is a finance structuring approach that allows both development partners and private stakeholders to invest alongside each other by combining risk-tolerant capital and capital that seeks market rate returns[2]

- As of 2023, blended finance has mobilised ~**USD 231B in capital** towards sustainable development in developing economies driven by the UN 2030 Agenda and the need for climate finance to meet Nationally Determined Contributions towards reducing carbon emissions to climate change impact. **21% of these transactions were in agriculture**, however, this percentage is significantly lower for agriculture in developing economies

Blended finance transactions have three characteristics…

Contribute towards the Sustainable Development Goals (SDGs)
- The SDGs currently have a funding gap of USD 2.5 - 4T because development finance alone cannot fulfil the need; there are aligned investable ventures worth over USD 12T[3]

Provide a positive yield - market or concessional
- A positive yield motivates investors, impact or otherwise, to invest in a high-risk economy or sector. The role of blending instruments is to ensure that returns are received

Enable catalytic public or philanthropic participation
- There are various key stakeholders in the blended finance landscape including development financial institutions (DFIs), multilateral development banks (MDBs), donors, etc[4]

…with the aim of:

Incentivising development where financing gaps exist
- Guarantee providers offer specialised finance packages that create attractive investment propositions to bridge financing gaps, which for the agri-SME sector is USD 75B[5]

Reducing risk using commercial instruments
- Enhance private capital into perceived high-risk and lower-return sectors (e.g., agri-SMEs) in developing economies by leveraging instruments and complementary mechanisms (e.g., technical assistance) for effective capital deployment

Mobilising capital from a wide range of stakeholders
- Collaboration between private investors, donors, development partners, and governments enables public capital to leverage a larger amount of private capital

*Notes: *SDGs stands for Sustainable Development Goals*

Sources: 1) Blended Finance, Convergence, link; 2) Blended Finance, Better Society Capital, link; 3) Guaranteeing the Goals: Adapting Public Sector Guarantees to Unlock Blended Financing for the U.N. Sustainable Development Goals OECD, link, 4) The Role of Guarantees in Blended Finance, OECD, link ; 5), Agricultural financing in Africa: Trends and insights, SAFIN, link

Blended finance combines innovative financing instruments to enhance investment in risky environments

One or more instruments are used to improve access to private investments such as debt and equity. These following instruments enhance the likelihood of successful capital raise while increasing impact in various sectors and sustainable development

Results-based financing (RBF)
Funding offered to a company or investor after pre-agreed results are achieved.[3] RBF has been instrumental in extending finance but it is complex and only shows up in **2% of total blended finance transactions**[2]

Concessional finance*
Investment offered at below market rate to reduce the burden on the borrower; this can also include repayment grace periods and longer tenors. **Integral to 72% of total transactions,**[2] this is the most popular instrument in blended finance

Others
These could include insurance, currency hedging etc.,

Grants
Can be used for various use cases including:

- To support blending capital which could include providing funds for guarantee issuance, origination incentives or subsidising guarantee fees
- To provide business development services or technical assistance, for example, streamlining of operations, preparation of investor materials or integration of climate resilience / gender policies etc.

Grants have been part of **9% of the total blended finance transactions and 25% of the transactions have TA**[2]

Guarantees
Often third-party instruments used to facilitate lending or project execution; these take on many forms and structures. These show up in **26% of the total blended finance transactions.**[2] Of this, **11% focused on the agriculture sector**[4]

Key: Focus of this study

Note: also commonly referred to as patient capital

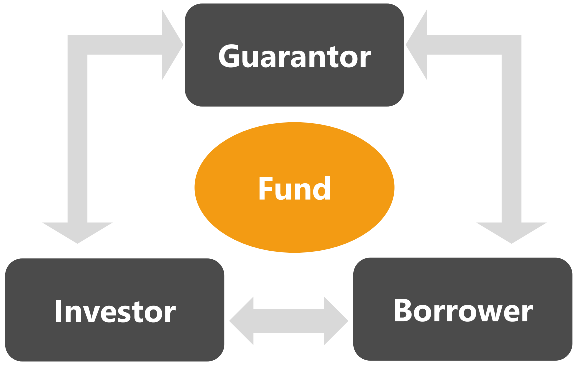
Sources: 1) When to use which instrument?, University of Zurich & Initiative for Blended Finance:, link; 2) Blended Finance 101, Convergence, link; 3) Results-Based Financing, Global Partnerships for Results-Based Approaches, link; 4) Blending with Guarantees, Convergence, link

Guarantees are used to derisk investments and unlock additional private capital in risk-perceived markets

Guarantees as a catalytic instrument

- **Definition**: a risk mitigation instrument in which the guarantor promises to repay all or some of the invested amount in the case of default[1]
- Guarantees have been **used in a wide range of transactions that are perceived to be riskier**, from small-scale projects, such as asset financing for farm equipment, to large-scale public infrastructure investments
- Implemented correctly, development guarantees can be an effective tool for catalysing private capital, however, they face **efficacy challenges and require careful design and execution** (*see later slides*)

Key stakeholders in guarantee transactions:



Guarantor: extends guarantee based to mobilise additional capital for transactions with higher perceived risk

Investor / lender: leverages guarantee to participate in transactions with higher perceived risk at market or concessional rates

Borrower: accesses finance that may not have been available without the guarantee

Purpose of guarantees[2,3]

Guarantees unlock private capital by:

1. **Developing financial markets in areas which are underserved** by reallocating risk from capital providers onto the guarantor
2. **Creating a crowding-in effect** i.e., to encourage lending into sectors and countries where investors would usually not invest due to risk
3. **Reducing the need for collateral** which increases the availability of finance for SMEs in developing countries who have limited collateral

- Our report focuses on **development guarantees** that **aim to create additionality in the agriculture sector** while providing positive returns for private investors and institutions
- Guarantees can either cover a particular transaction (**individual guarantee** to either a lender or a borrower) or a portfolio of qualifying transactions (**portfolio guarantees** to a lender). (*See more information in the next slides*)

Sources: 1) Initiative for Blended Finance: When to use which instrument?, University of Zurich, link; 2) Guarantees and Other Risk Sharing Mechanisms For Nutrition Financing, GAIN, link; 3) The Role of Guarantees in Blended Finance, OECD, link

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Guarantees have a mix of components such as type of risk, types of loss, funding levels and instruments covered

Risk covered

Guarantees cover three broad categories of risks :

- **Commercial:** associated with borrowers defaulting often due to the business environment.
- **Trade:**[1] associated with financial loss arising from fluctuations in the value of goods or services traded between different countries
- **Political:** this is associated with regime, policy and regulatory changes. MIGA is the key issuer of political risk development guarantees

Type of loss covered

Loss coverage comes in three forms:

- **First loss:** guarantee covers the first losses incurred due to defaulting up to a set amount[2]
- **Second loss:** guarantee only comes into effect once the first loss support is exhausted; it reduces the guarantor's exposure and the moral hazard
- **Pari passu:** the guarantor and the investor or co-guarantors agree to share the risk of default

Financial instruments[2]

Two key instruments are covered by guarantees in blended finance:

- **Loans:** most common instrument covered because they tend to provide more certain timelines for returns and are prioritised in case of insolvency
- **Equity:** commonly used when businesses need long-term management support and more concessional terms

*Approximately **80% of the development guarantees** in blended finance transactions **cover commercial debt**.**12% of guarantees cover debt and equity as a mixed vehicle** and the rest covers other vehicles*

Funding level

There are two funding structures[3,4]

- **Unfunded**: requires the guarantor to hold the determined expected loss in reserve. These have more significant mobilisation potential given the limited impact on the guarantor's balance sheet
- **Funded:** requires the guarantor to hold part of the dollar value of the guaranteed amount in escrow* throughout the guarantee's life; usually offered by governments and DFIs

Coverage

Guarantees cover ~30-80% of the investments made

- Coverage often doesn't **exceed 80%** due to the moral hazard that could befall the lender and the borrower

The larger the coverage ratio, the more likely an institution will lend to risky clients

Sources: 1) Allianz Trade, link; 2) World Bank Glossary, link; 3. OECD Library, link; 4. Profiling SIDA's Guarantee Programme, link
Note: This escrow is held can be held by the financial institution or the guarantor*

The effectiveness of guarantees hinges on the key objectives set out by the guarantors and the partners involved

Guarantees aim to mobilise capital…

Crowd in investors

Development guarantees can mobilise from 6 to 25 times more financing than compared to traditional debt for example African Development Bank provided a partial risk guarantee of EUR 20M which attracted a further EUR 436M in senior credit facilities.[1,2,3] De-risking investments that are considered high-risk creates a more attractive risk-return profile for lenders or investors.

Open up new markets

Development guarantees aim to increase lending or investment into riskier or less well-known sectors (e.g., agriculture) or regions that are perceived as too risky. By taking on some of the commercial risk of a transaction, guarantees can increase willingness to venture into these markets, with the aim for lenders to become comfortable with the risk themselves as they become more familiar with the market[4]

…by taking on risk from the lender

Reduce need for collateral

Development guarantees serve as additional security for viable transactions where the borrower or investee has limited financial history or collateral, enabling lenders to extend credit in situations where traditional risk assessments or collateral requirements fall short[4]

Absorbing risk

Development guarantees cover or absorbs a portion of the potential loss for a lender or investors, which can increase the confidence in participating in transactions that may have otherwise been too risky. The guarantee should ensure that the transaction risk is reduced to a level where the investor or lender feels comfortable participating which will vary across lenders or investors

Changing perception of risk

Guarantees can be effective in sectors where the perceived risk is much higher than the actual risk. Guarantees can close this gap by encouraging investors or lenders to participate in new markets which leads to an increased knowledge and understanding of the actual risks

Sources: 1) Better Guarantees, Better Finance, Blended Finance Taskforce, link; 2) "AfDB convenes lenders to secure Kenya's largest private sector investment", African Development Bank website, link; 3) State of Blended Finance 2024, Climate edition, Convergence, link; 4) Evaluation of Sida's use of guarantees for market development and poverty reduction, Sida, link;

Despite their ability to unlock capital, guarantees are not a silver bullet to enhance the underlying credit of a borrower

Guarantees are a risk sharing mechanism that can:

Manage risk: cover risk of default or losses that would result from dealing with high-risk sectors or borrower types e.g., SMEs and SHF[1]

Reduce requirement for borrower collateral: replace the need for collateral as a qualifying factor to access funding[2]

Mobilise capital: attract further investment from private sector lenders by creating a more attractive risk-return profile[1]

However, guarantees do not reduce the underlying risk of a transaction or borrower, or enhance the underlying credit

To qualify for any loan, regardless of whether it is guaranteed, a business or project must:

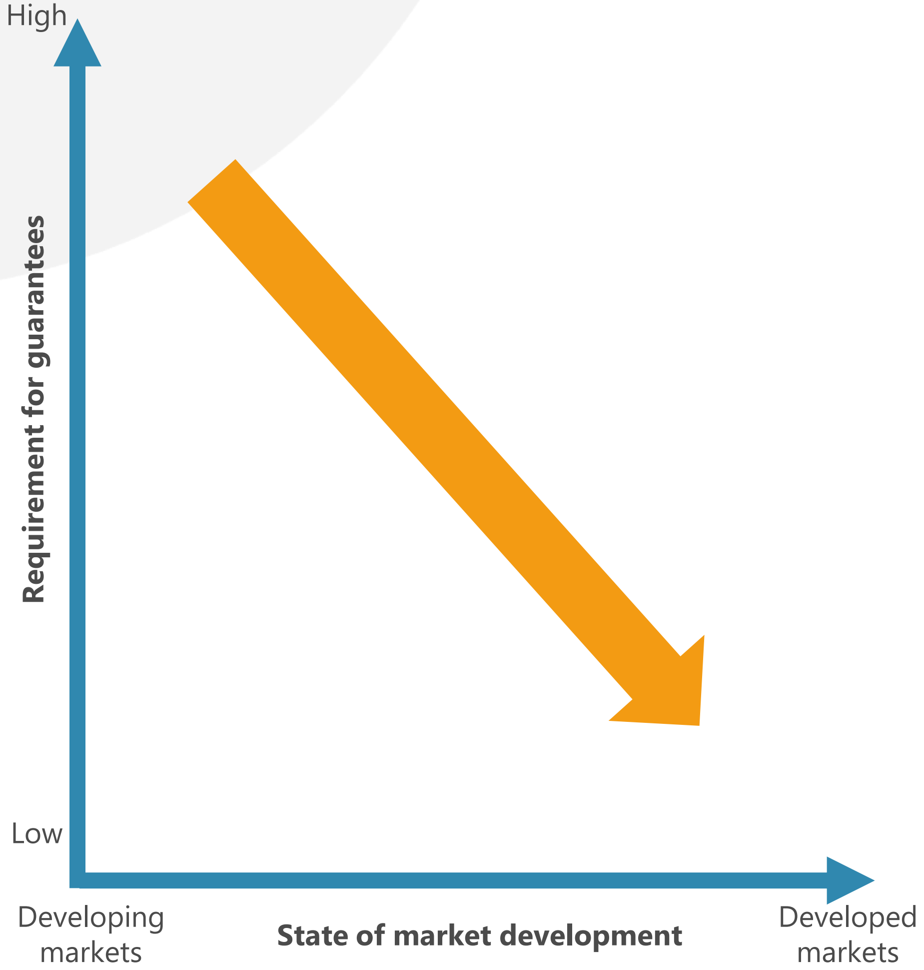
Meet basic criteria: most banks or lenders will have basic criteria that must be met to lend to that person or entity. Examples include being a registered business or having an identification card or number

Have a certain level of creditworthiness: the lender still needs to have comfort that a borrower can pay the interest rates of the loan. In addition, a bank or loan officer is not incentivised to provide a loan to a borrower that they think will not repay and therefore, regardless of a guarantee, the lender requires a certain level of comfort that the borrower will not default. This comfort can be gained through having a viable business model with consistent and reliable cash flows, a strong team, effective business management, and a route to an end market

Meet the legal / regulatory requirements: even if a bank has comfort that a borrower is creditworthy and will repay a loan, there are often regulatory requirements to ensure a Financial Institution is not taking too much risk. Therefore, if there is a 50% guarantee provided but a regulator requires an institution to have 100% collateral, then they will not be able to lend to borrowers that cannot cover the remaining 50% collateral requirements

Note: SMEs stand for small and medium enterprises while SHFs stand for smallholder farmers
Source: 1) Better Guarantees, Better Finance, Blended Finance Taskforce, link; 2) Evaluation of Sida's use of guarantees for market development and poverty reduction, Sida, link; 3) OCA consultations

Guarantees unlock financing of underserved or new markets, with a theoretical aim of becoming redundant as the market matures



In theory, as a market becomes more mature, investors have a higher understanding of the risks, products are created to service the market and the dependence on guarantees should decrease.

However, the **state of market development**, and hence the **reliance on guarantees,** can **depend on the country and the sector**

- While some sectors in developed countries do still rely on guarantees (e.g. SMEs and agriculture), developing countries generally have a higher reliance on development guarantees to address the challenge of perceived and real higher risk stemming from **informal sectoral structures, inadequate data, poverty** and sometimes**, political instability**
- The nature of sectors determines the level of risk entailed due to the predictability and consistency of cash flows
  - Even in developed countries, the **agricultural sector is still highly reliant** on **government subsidies** due to its **exposure to climate change** and its **importance in food security**, highlighting the ongoing need for some level of risk mitigation
  - This becomes even more of a challenge in developing markets, particularly when considering providing **lending to smallholder farmers** at the **bottom of the pyramid**

Therefore, while the ultimate aim of guarantees is to be made redundant, this is an unlikely objective in the short term in the context of agriculture in developing countries

Source: OCA consultations

While guarantee utilisation and impact may be tempting to use to measure effectiveness, more nuances need to be considered

There are various metrics considered to measure the effectiveness of a guarantee:

Funding catalysed: additional $s that has been deployed due to the guarantee

Utilisation: guarantee use as a % of the total available guarantee capacity

Claims rate: claims made as a % of the total number of guarantees issued

Underlying impact: e.g., number of farmers reached by funding catalysed or income increase due to aggregators access to finance

Additionality[1]: the extent to which having a guarantee results in additional capital mobilisation that would not have happened otherwise

Sustainability: continued funding to target beneficiaries after the guarantee

However, comparing these metrics across situations can be tricky given the varying characteristics of sectors, countries and lenders / investors:

The maturity and underlying risk of the sector or country:

- Large infrastructure energy projects are generally relatively well understood, given the functioning capital markets in more developed countries. Therefore, guarantees can catalyse funding and become redundant in a relatively short period of time
- However, agriculture in SSA is much less mature and the underlying risk is higher so there is more need for training various stakeholders. Therefore, you would expect to see longer periods for utilisation to increase and less potential sustainability, however, the additionality of these guarantees is likely to be higher

The sophistication and existing knowledge of the lender or investor:

- You would expect to see a much lower utilisation when the objective of the guarantee is to encourage lenders into new markets given that it takes time to build internal capacity and risk appetite. In addition, if you are dealing with a large global bank, they may have more internal capacity to go into a new sector vs a smaller bank

And some metrics are negative if they are too high or too low

Guarantors often monitor claims rates:

- Very low claim rates could mean that the guarantee is not encouraging the lender or investor to take adequate risk. However, if the objective of the guarantee is to move the perceived risk of the market towards the real risk, very low claims rates could indicate to the lender that the guarantee is no longer required
- Very high claim rates could indicate that lenders are not undertaking effective lending due diligence

While these metrics can be used as an indicator of whether the effectiveness of a guarantee, situational nuances must be considered when measuring the effectiveness of guarantees.

Source: "About Norfund", Norfund website, link

Photo by EqualStock IN, Link

3. Landscape

- Roles of the stakeholders across the chain
  - Guarantors roles
  - Donors and funders roles
  - Lenders roles
- Guarantee types
- Ecosystem approach to using guarantees

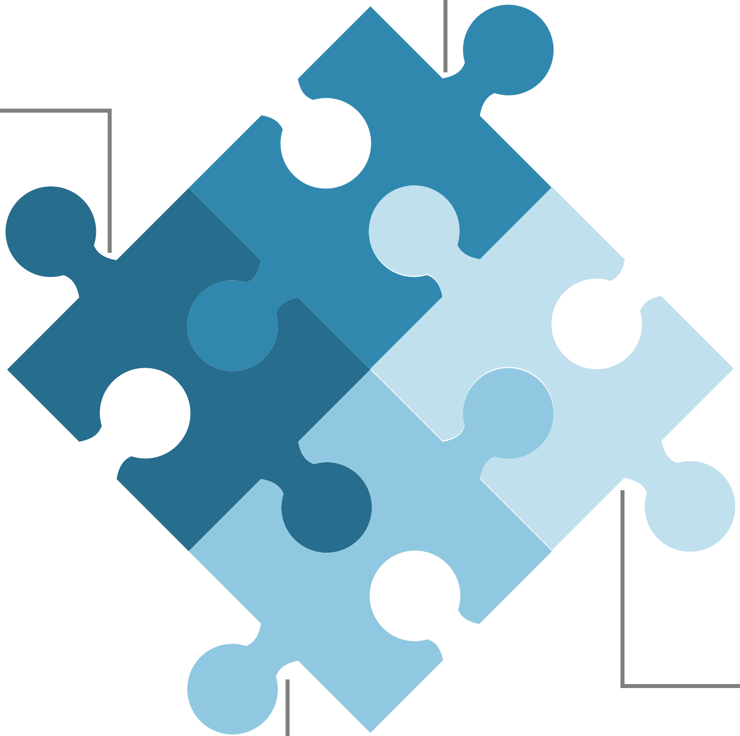
Guarantees must consider all of the stakeholders in the ecosystem and ensure aligned objectives to be effective

Guarantors

- **DFIs and bilateral agencies:** to increase financial inclusion, they develop and deploy guarantees but not as a speciality for most except SIDA and USAID DFC
- **Specialised providers:** these providers create and deploy guarantees to unlock finance as the main mission e.g., African Guarantee Fund (AGF), GuarantCo, and AGRI3 Fund

Lenders

- These can **be banks, impact investors, micro-finance institutions, NBFIs** or **companies** offering consumer finance
- There are also instances of guarantees issued to MDBs*** funds for lending



Donors / funders*

- Examples include USAID, Mastercard Foundation, Shell Foundation, FCDO, FMO etc. who **provide capital to guarantee funds** such as AGRI3 Fund and AGF
- Their key objective is to **issue global capital to help unlock private (local) capital**

Borrowers

- Borrowers are the beneficiary of a guarantee, although they are not always aware of it given issues with moral hazard

*Notes: *Some of these donors issue guarantees and mostly funded guarantees as it ensures that money leaves their accounts to support beneficiaries; **NBFI - non-banking financial institutions; *** MDBs - Multilateral Development Banks*

The role of guarantors varies depending on the organisation type and the goals of the guarantee issued

		Examples
Bilateral / donor agencies	• Issue guarantees to meet development goals such as financial inclusion and access to services • Subsidise guarantee fees to promote (concessional) lending to new and riskier markets, while preventing market distortion	USAID, Sida
DFIs including MDBs	• DFIs and MDBs have a dual mandate to achieve development goals and provide returns to the institutions. This allows them to operate in riskier markets but only to the extent that they meet investor return requirements[1] • Of the DFIs, MDBs have the most experience issuing guarantees but they are restricted in how much risk they can take on due to the requirement to maintain a high credit rating • Sovereign-backed DFIs such as BII and FMO have more freedom to lend to riskier markets as they are backed by the country's credit rating but tend to have less internal capacity.[1] Therefore, most DFIs have restrictions and tend to spend a significantly less percentage of their budgets on guarantees	ADB, KFW, African Development Bank, African Development Fund, FMO Entrepreneurial Development Bank, British International Investment, DFC U.S. International Development Finance Corporation
Specialised guarantee providers	• Offer various types of guarantees to lenders, funds, or directly to borrowers accordingly • These players often have a high level of technical expertise to design guarantees and the internal capacity to implement them (e.g., deal with claims) • Unlike donors and DFIs, specialised guarantee providers are not held to the same restrictions and can leverage their balance sheets to offer unfunded guarantees and unlock more capital.[1] However, this leverage must be balanced to ensure that the guarantee provider can obtain a suitable credit rating to provide comfort for a lender utilising the guarantee • Fees charged to lenders, if any, vary depending on the returns required by the funders and whether they have been subsidised	ACELI Africa, The Green Guarantee Company, African Guarantee Fund, GuarantCo, AGRI3 Fund, MIGA Multilateral Investment Guarantee Agency, aBi Finance Ltd

Sources:1) OECD: The Role of Guarantees in Blended Finance, link
Notes: DFIs – Development Financial Institutions; MDBs – Multilateral Development Banks

Funders play a key role in financing guarantee funds and could play a major role in building ecosystems for effective guarantees

Donors and funders

- There are two types of funders, **commercial and non-commercial**. Commercial funders require a return on their investment while for non-commercial funders, a return is secondary to impact
- Until 2024, guarantees were not considered official development assistance (ODA) eligible. This led to the **creation of multi-donor guarantee funds such as GuarantCo** as alternative channels to unlock capital with guarantees. Donors have mainly been funding these providers, allowing them to seek funds on the international market.[1,2] Therefore, donors have been able to fund guarantees without having to build technical expertise
  - With guarantees becoming ODA-eligible, we expect more donors to participate in issuing and/or funding guarantees
- On the other hand, some donors such as Sida and USAID have been issuing guarantees for decades and have gained a high level of technical expertise and operational capacity. They have played a critical role in unlocking capital in risky markets
- Donors also support the guarantees ecosystem with 'softer' money for **targeted sectoral and geographic research and market development** through TA; this is essential for building new markets[1]
  - This 'softer' money can also be used to fund the operational costs at guarantee facilities, especially those that are providing concessional or no fees
- Some donors prefer funding origination incentives or results-based financing to encourage lending as an alternative or complement to guarantees

Examples

USAID FROM THE AMERICAN PEOPLE

Foreign, Commonwealth & Development Office

Sida

GREEN CLIMATE FUND

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

mastercard foundation

CONRAD N. HILTON FOUNDATION

Ministry of Foreign Affairs of the Netherlands

Global Affairs Canada
Affaires mondiales Canada

Sources: 1) The Role of Guarantees in Blended Finance, OECD, link; 2) State of Blended Finance, Convergence, link

Specifically, donors can fund the scaleup of specialised guarantee funds or set up new guarantee funds

Donors play a critical role in the guarantee ecosystem, **subsidising guarantee fees and providing funding for support services** such as TA, which we have seen being done in two ways: **(1) by funding existing guarantee providers or (2) by issuing guarantees directly**. Donors can design and issue guarantees, however, donors without the internal capability often **work with institutions that have the required technical expertise and operational capacity** to deploy and manage guarantees; these include MDBs who issue guarantees or specialised guarantee facilities / companies

Funding an existing guarantee provider

Funding an existing guarantee provider frees up donor resources to focus on impact without the complex task of setting up or managing a guarantee. **This is highly recommended for donors that do not have the required technical expertise and operational capacity in house to design, deploy and manage guarantees.** If funding an existing guarantee provider, there are two ways to approach it:

1. **Fund an existing guarantee programme** that has succeeded at unlocking capital in target markets and is aligned with the donor's objectives for the programme
2. **Co-create a new guarantee programme** with an existing guarantee provider

When partnering with an existing guarantee provider, the donor should:

- **Define and align on the governance structure, ownership and objectives** of the guarantee fund with all parties involved when designing the facility
- Partner with guarantee providers who **understand the target market** and have the necessary **sectoral or regional expertise**
- Identify the elements of the guarantee facility they would like to fund. For example, donors can provide for actual **issuance of the guarantees**, **subsidise the guarantee fees**, **cover the origination incentives**, **fund technical assistance (for lenders & borrowers)** or **contribute towards the operational costs** of the guarantee fund

Issue guarantees directly

To directly issue guarantees, a donor requires the **internal capabilities to design and deploy guarantees:**

- **Technical expertise:** an experienced team who have technical knowledge on how to design guarantees, including assessing terms and structures for specific markets and lenders
  - We would encourage building this capacity by working with expert teams or consultants to effectively assess the risks to be mitigated (e.g., Sida collaborates with the Swedish National Debt Office to calculate its fees and assess risk[1])
- **Operational capacity:** a dedicated team to monitor guarantees including effectively managing and paying claims to lenders and approving transactions (if relevant)
  - This is critical as lenders are discouraged by poor claims management, which leads to low utilisation

Sources: 1) OECD: The Role of Guarantees in Blended Finance, Link

Lenders are a conduit for finance; their knowledge of the target sectors supports the goals of both donors and guarantors

		Examples
Banks	• Banks are the main lenders using guarantees to unlock finance in agriculture; this has been due to their extensive branch networks and organisational capacity to handle guarantee operations such as claims and reporting • Banks can lend using both individual and portfolio guarantees	Societe Generale Ghana, absa, Equity, Co-operative Bank, Ecobank
Impact investors	• Impact investors use guarantees at three levels; **fund, individual and portfolio:** – Fund level: allows the investor to crowd in additional investors when raising funds – Portfolio level: allows the investor to use the guarantee on specific transactions when they meet a set of criteria, which administratively increases the transactions can support – Individual level: allows investors to fund larger deals but this kind of guarantee takes longer to get approved	Oikocredit, KCV, Mirova, SunFunder
Microfinance institutions	• MFIs are critical in lending directly to farmers as their business model allows them to offer microloans which are well-suited to serve farmers, farmer groups etc. • Generally, MFIs have access to portfolio loans that have limits on the size of the loan that can be guaranteed to manage risk	Samunnati, Avanti Finance, UGAFODE Microfinance Limited (MDI)
Companies	• Ag-finance companies offer a more targeted approach to reach end-users; for example, the African Fertiliser Financing Mechanism has been working with companies such as Apollo Agriculture and Meridian Zimbabwe to extend input finance / credit to farmers • These companies also tend to use scalable platforms such as apps and distributor networks to reach farmers and other target groups of a given guarantee	Apollo Agriculture, meridian

Guarantees vary in size and underlying risk with those targeted at the agricultural sector carrying the highest risk

We reviewed the wide range of guarantors to understand the nature and amounts of guarantees they provide to mobilise capital (*illustrative*)

Level of risk covered: High / Moderate / Low

Guarantees to banks* to lend to Agri-SMEs / SHFs
This could be direct lending or through aggregated bodies such as cooperatives or off-takers

Guarantees to impact investors to invest in Agri-SMEs
These can be at the fund level, for a specific portfolio within the fund or using individual guarantees

Each of these guarantees have varying characteristics and are deployed to achieve varying goals. However, there are key themes and consistent learnings that can be applied throughout

**While these guarantees are normally issued to banks, they could also be issued to companies that are providing e.g., inputs for farmers through consumer financing mechanisms*

Project finance guarantees
Large project finance deals, e.g., wind farms, that use guarantees from e.g., GuarantCo, GGC, to crowd in additional institutional lenders

Non-commercial guarantees
e.g., FCDO providing a guarantee to AFDB so they can leverage their balance sheet for additional lending

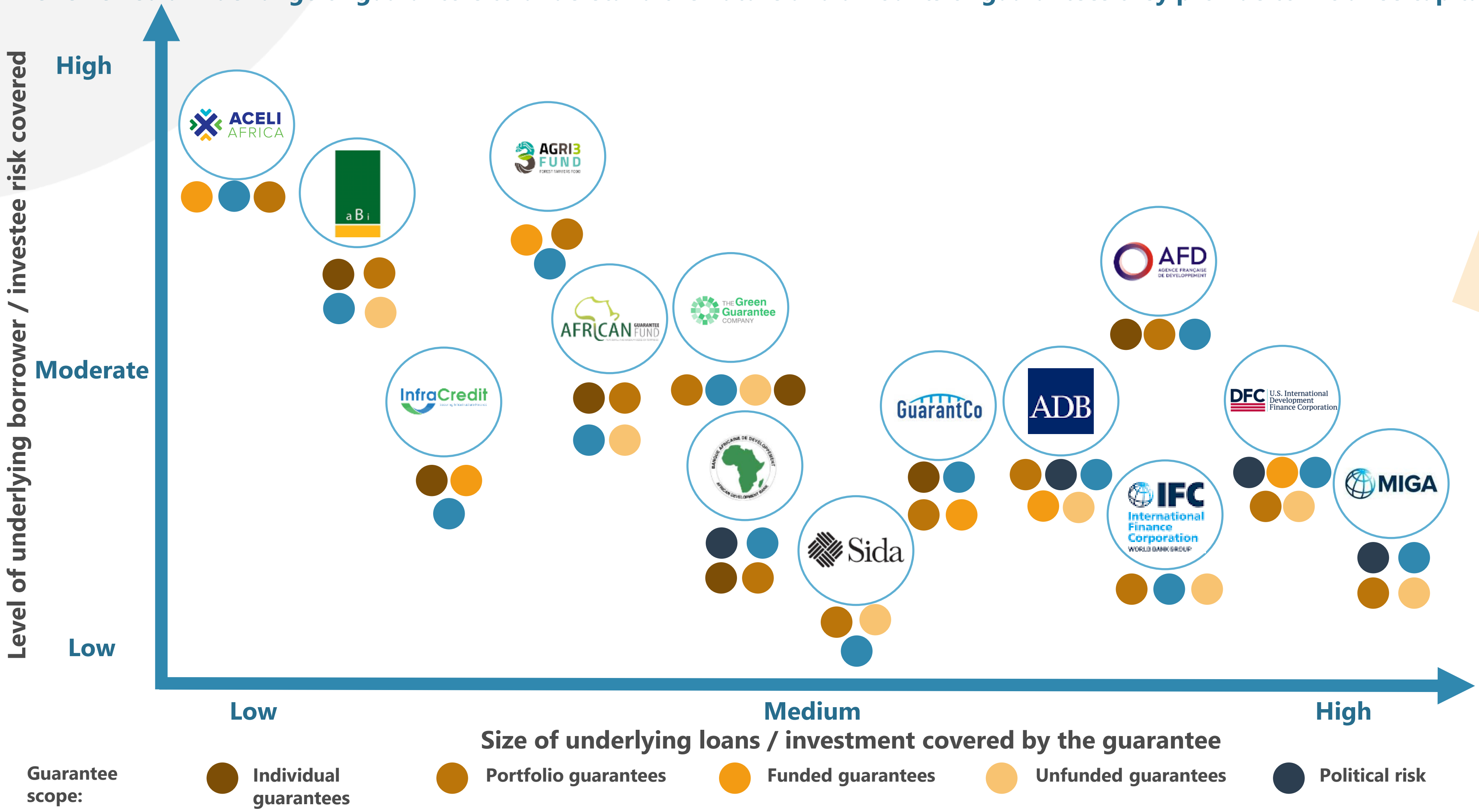
Low / Medium / High
Scale of funding provided

Source: OCA analysis

Open Capital

Few guarantors focus solely on the agri-SME sector as majority provide credit risk guarantees through portfolio loans

We reviewed a wide range of guarantors to understand the nature and amounts of guarantees they provide to mobilise capital (*illustrative*)



Some guarantors such as Sida work across this spectrum, providing guarantees for large infrastructure projects as well as to banks or investors to lend smaller amounts to agri-SMEs

Source: OCA analysis

Project finance and non-commercial guarantees target relatively lower risk borrowers by addressing distinct risk factors

Non-commercial guarantees[2]

Non-commercial guarantees can be used to enhance financial capacity and reduce risks associated with lending, empowering MDBs to fund more projects

- Transfers risk of a sovereign loan portfolio to private insurers and guarantee providers while allowing the MDB to retain loan administration on their books
- MDBs get preferred creditor treatment which ensures they are rarely left in permanent arrears, allowing them to price their guarantee affordably
- Risk transfer should maintain alignment with MDB-defined goals and prevent undue influence from donor agencies. Pricing should reflect MDB sovereign loan safety to avoid inadvertently subsidising investors

Example

- The AfDB transferred their risk on a USD 2B portfolio of AfDB loans to a group of private London-based insurers and the UK's Foreign, Commonwealth and Development Office (FCDO)[3]

Project finance guarantees

Project finance guarantees are typically associated with large infrastructure or capital-intensive projects. These guarantees aim to attract international and local institutional investors to opportunities in regions or technologies considered too risky

- Institutional investors need to consider their leverage over the fund to secure a favorable rating, ensuring their investment aligns with desired risk-return profiles
- Typically, they are individual guarantees pursued by a sponsor looking to raise project financing[1]
- Guarantee providers must assess the reliability and predictability of the project's revenue stream, including future demand forecasts, cost projections, and regulatory impacts to ensure the guarantee is attractive to private investors[2]

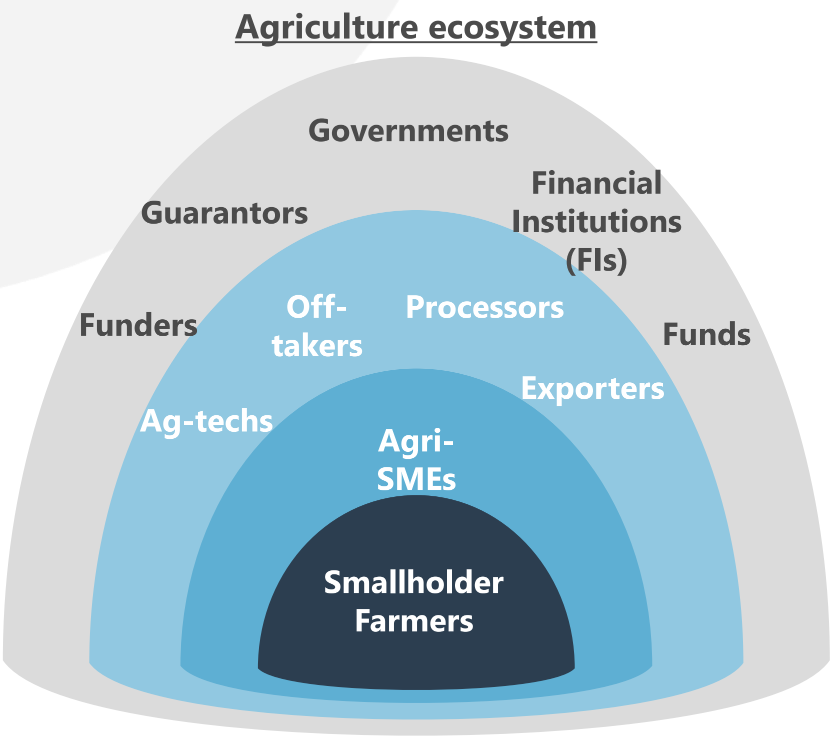
Example

- GuarantCo provided a 75% partial credit guarantee on a bond issued by Quantum Terminals, a Ghanaian fuel and energy company. The guarantee improved the credit rating of bonds, attracting local institutional investors[4]

Sources: 1) OCA consultations; 2) Key Issues in Developing Project-Financed Transactions, World Bank Group website link; 3) AfDB's new Room2Run highlights opportunities and questions about MDB risk transfer, ODI link; 4) GuarantCo & Quantum Terminals' Credit-Enhanced Corporate Bond, Convergence link

Open Capital

A holistic ecosystem approach is required to increase access to finance and impact for smallholder farmers



Effective lending into agriculture occurs when ecosystem stakeholders collaborate and a market system approach is taken

- **Smallholder farmers (SHFs) and agri-SMEs:** often the end beneficiaries of guarantees deployed. They require financing support to carry out agricultural activities e.g., purchase of inputs. Agri-SMEs could receive guarantees directly to support SHFs given their close contact
  - SHF financing includes short-term loans / lines of credit based on agricultural cycles and loans with interest payments tailored to seasonal crop cycles
  - SME financing differs given that repayments work better when tailored to working capital cycles; pricing of the loans needs to consider price spikes in raw materials e.g., when farmers' produce fails due to climate risks
- **Ag-techs, off-takers, processors and exporters:** can be the borrower or the lender benefiting from a guarantee. They provide market linkages to agri-SMEs and smallholder farmers, enabling livelihood generation
  - Agri-tech could play the role of data aggregation which is key for M&E and decision-making as well as planning by smallholder farmers
- **Lenders / FIs**: receive guarantees to on-lend into the agriculture space. They can provide market information for relevant contributions to policy development and funding of the right initiatives
  - Operational and technical capacity to effectively utilise guarantees is helpful to deploy guarantees while considering market realities
- **Guarantors:** provide guarantees. They can provide the relevant market knowledge and learnings to enable the design and structuring of guarantees for better product-market fit
- **Government:** can create an enabling environment for guarantees and lending to be more effective. They can develop an enabling environment that attracts investment (e.g., guarantees), supporting the catalytic growth of markets e.g., through agricultural incentives

Agriculture ecosystem players must be engaged and considered when building the market system, rather than trying to fix one element

4. Insights on effective guarantee use

- Design
  - Structures
  - Terms
  - Blending guarantees
- Implementation
  - Setup
  - Ongoing operations
  - Post-guarantee

Guarantors have varying structural considerations for guarantees deployed to support on-lending to agriculture

Understanding the market

A deep understanding of the market, from both the lender and borrower side, is required to design and tailor a guarantee appropriately

- **Lender:** understanding the pain points and the requirements of the bank / investor is crucial to ensure the guarantee supports them, rather than becoming more of a burden. For example:
  - The economics should be considered; if the deal being guaranteed is not profitable, the lender will not participate, regardless of the risk-sharing offered
  - If the guarantee is too arduous in terms of reporting, claims and other paperwork or admin, then it will become a hindrance to the lender and likely be underutilised
  - It is also important not to coerce lenders into uncomfortable markets; if they fail, they become reluctant to consider lending to that market with or without guarantees[1]
- **Borrower:** market studies allow lenders and guarantors to create the right financial products for target borrowers, and can reduce the gap between the perceived and actual risk if the lender better understands the risks of the borrower

Bespoke and flexible structuring

Based on the understanding of the market, guarantees should be structured to adequately meet the needs of both the borrower and the lender

- **Lender:** providing the right coverage, incentives, products and terms to the lender is required to ensure that the guarantee is crowding in capital without distorting the market
  - Incentives: for higher-cost sectors, origination incentives might be necessary
  - Products: in the agriculture sector, being able to cover credit lines and other relevant products is important given the nature of the borrower's cash flow
- **Borrower:** working with the lender to provide relevant terms for the borrower is crucial e.g. having the flexibility to provide interest rate holidays in the event of a drought or flood

While guarantors are required to set conditions for the use of guarantees, it is important to remain flexible in both structuring and adapting guarantee terms to ensure maximum effectiveness

Sources: 1) OCA consultations

The structure should be based on what is required to catalyse the transaction while balancing any disincentives

Coverage

- The level of coverage and what it covers (i.e., principal or interest) can be **determined by what is required to catalyse a transaction.**[1] There is need for a portfolio or sector risk assessment and investor analysis to understand their required coverage
- **Newer and riskier markets likely require higher coverage**. For example, we have seen coverage under the same guarantee increase if the underlying credit is female-owned or a climate-related venture[2]
- **100% coverage is rare to avoid moral hazard on the lender side;** lenders taking on some risk ensures that appropriate due diligence is performed on the underlying credit. However, 100% coverage can be offered in specific deals, often when working with more sophisticated investors, such as pension funds
- Coverage levels for individual projects **can be adjusted** throughout the lifespan of the guarantee, e.g., as the deal de-risks through cash flows

Type of loss covered

- We have observed that many commercial banks are more comfortable with **first-loss** structures, particularly when lending to smallholder farmers and agri-SMEs.[2] On the other hand, guarantees to investors generally offer **pari-passu** coverage. Ultimately, stakeholders need to negotiate for what strategically makes sense for them to participate in the deal
- **Second loss** can be used to ensure that lenders or investors are still taking some level of risk (given that it is their business) and the development money can then be used to ensure that the potential losses are capped. However, **this may not be robust enough for some lenders**
- Some stakeholders have **enhanced the coverage structure** for ag lending by offering credit origination incentives for lenders and interest rebates for borrowers to increase repayment rates[3,4]

Most portfolio loans issue a certain coverage on each loan within the portfolio, which can cause moral hazard. However, it is also possible to issue a smaller coverage % on each loan but allow the lender to use the funded guarantee to cover its whole portfolio, e.g. in the case of Aceli

Funding level

- Unfunded guarantees have **more capital mobilisation potential** given that it allows the guarantor to leverage its balance sheet[5]
- Balancing the leverage (i.e., the ratio of funds raised vs funds that can be deployed) and credit rating is crucial for a guarantee provider. Increasing leverage increases the potential impact, but will likely bring down the credit rating and reduce the ability to raise funds[6]
- For funded guarantees, some lenders preferred **cash guarantees** (i.e., the risk being covered sits in an escrow account with the lender from day 1) **as it reduces the admin and time for claims**. However, paper guarantees (i.e., where a guarantee agreement is in place, but no money is exchanged until the event of a default) are more common

Sources: 1) Evaluation of SIDA's use of guarantees for market development and poverty reduction, link; 2) OCA consultations; 3) Approach, Aceli Africa, link; 4) Who we are, NIRSAL, link; 5) Profiling SIDA's Guarantee Programme, Convergence; 6) GuarantCo website, link

Terms of the guarantee and the underlying loan vary based on return requirements as well as lender and borrower needs

Guarantee cost

- **Fees are often calculated based on the risk profile of the guarantee.** Guarantee providers that require lower or no returns **can subsidise this fee** while ensuring that the operational costs of the fund are still covered. However, it is important to ensure that the subsidised fee is not distorting the market[1]
- For individual guarantees, **the fee from the guarantor can be passed onto the borrower**. However, this means that the borrower is aware of the guarantee which **can cause moral hazard issues**

Currency

- The currency that a guarantee will cover is **dependent on the underlying transaction and what the borrower needs**
- Local currency guarantees **are critical for unlocking lending in agriculture,** given that the cash flows of agri-SMEs and SHFs are more often in local currency*[3]
- The **guarantor should take the currency risk** as the borrower can not afford that risk and local lenders will often not accept the risk. Utilising currency hedging can reduce that risk for the guarantor but should be priced in at the start[3]

Interest on capital

- **Guarantees for lenders often do not reduce the interest rate of the underlying loan**. The guarantee covers the collateral requirement to make the loan. In addition, banks often do not have the flexibility to reduce interest rates, particularly if they receive funds from the central bank or capital markets
  - However, **lenders have been seen to strategically provide concessional rates** e.g., to grow market share in a particular sector[3]
  - Providing guarantees to impact investors at the **fund level can reduce the returns required given fund investors consider risk-based returns**, which can be reduced if the guarantee is effectively mitigating the risk
  - **Guarantors do not often stipulate the interest on the underlying loans** to avoid distorting the market. However, lower interest rates can be achieved if central banks recognise guarantees as collateral and regulate the capital required by banks to be set aside for guarantees, providing clear guidance on how these can be reported
- Rates are often **capped on the downside by the government treasury rates** which tend to be quite high across developing countries

Sources: 1. Evaluation of Sida's use of guarantees for market development and poverty reduction, link; 2. The Role of Guarantees in Blended Finance, OECD link; 3. OCA consultations
*Notes: * This is except ag processors and exporters*

Guarantors and lenders can deploy instruments such as insurance, incentives, and RBFs to support the objectives of the guarantees

Blended finance instruments can **complement** guarantees to support **additional investment** into **risk-perceived** sectors and markets. It is important to understand the underlying risk of the borrower / investee and concerns of the lender / investor to identify the most relevant and appropriate instrument(s) to catalyse additional investment.

Instrument	Insights	Examples
Insurance (crop, machinery / assets etc.)	**Insurance can play a crucial role in addressing well-defined risks**, such as climate-related risks which are particularly prevalent in the **agriculture** sector. By offering coverage for risks such as drought or floods, insurance can reduce the risk of a lender or investor, while still covering that risk for the borrower.[1] This allows guarantee mechanisms to concentrate on addressing the commercial risks, rather than external environmental factors	The World Bank funded APIIAT Project aims to enhance agricultural productivity and climate resilience for agri-SMES in India. Partial credit guarantees (50%) are paired with insurance to achieve this [2]
Origination incentives	Origination incentives can be effective in **encouraging** financial institutions to lend, particularly into high-cost sectors such as agriculture, through partial coverage of origination costs or through **subsidies** to reduce financial barriers	Aceli uses origination incentives to encourage lenders to finance agriculture SMEs[3]
Borrower-side incentives	Borrower-side incentives can enhance access to finance by improving the **risk-return profile** of a transaction for lenders. For example. through lower interest rates, while also encouraging borrowers to meet certain key performance criteria	NIRSAL, in Nigeria, provides interest rebates for borrowers who make timely repayments to low defaulting risk
Results-based financing	Results-based financing supports private investors in achieving better returns at a lower risk by making the provision of finance **contingent on measurable outcomes and specific results**. RBFs are commonly deployed in development projects to ensure that financial resources are effectively used to deliver specific social, environmental, or economic impact. This combination aligns financial incentives with desired development outcomes	A commercial bank in Kenya uses an RBF as a key enabler for lending to water and sanitation services that are extended to low-income communities. The RBF is used alongside a 50% partial credit guarantee from USAID[4]

Sources: 1) OCA consultations; 2) Projects & Operations, World Bank Group website link; 3) Approach, Aceli Africa website link; 4) Banking on Impact: What you need to know about Results-Based Financing, World Bank Group website link

Local and international regulations can hinder guarantees usage and guarantors require sufficient capacity and clear objectives

Enabling environment

- For funders to ensure the highest impact can be made, **there is a requirement to understand the realities on the ground**
  - Some blanket policies can be detrimental to development and growth if the local context is not considered, e.g., a policy to not invest in oil and gas can impact the ability to participate in LPG deals which could be impactful in achieving cleaner cooking
- Local regulatory reform can also be important in enabling the environment for investment, both for the borrower and the lender:
  - **Borrower:** policies should support the easy formalisation of businesses and farms to enable access to private capital. In addition, land tenure laws can impact a borrower’s ability to use land as collateral
  - **Lender:** recognition of guarantees as collateral needs to be resolved to increase the catalytic power of development guarantees
- **Guarantees have recently become an ODA-approved financial instrument**, meaning that donors are more likely to look to use guarantees as a means for catalysing funding

Guarantors

- There is a high level of complexity involved in issuing guarantees so guarantors should ensure they have the **required in-house capacity or external support** to effectively structure, deploy and manage guarantees
  - We have seen an **uptake of specialised guarantee facilities and companies** who have deep expertise and knowledge of these products. They are able to design, deploy and manage guarantees effectively. Funders who have less internal capacity and expertise but wish to participate in guarantees have worked with such companies
- **Identifying and defining clear objectives for the guarantee** is critical to the design and structuring of a guarantee. As previously discussed, **guarantees are required to be tailored** to the market, sector, country or lender type they are looking to serve
  - Implementing KPIs can help a guarantor monitor its effectiveness in unlocking capital and assess additionality; ensuring flexibility if the objective is not being met is critical
  - Issuance of guarantees often involves multiple stakeholders, therefore ensuring alignment on these objectives is key

Sources: 1) OCA consultations

Technical assistance deployed alongside guarantees has been an effective means to support building the markets

Lenders

Financial institutions require strengthened sector capacity, particularly in high-risk sectors such as agriculture.

- TA can be provided to lenders when they are looking to move into new sectors to strengthen their internal knowledge to assess and mitigate risks
- It is also important for lenders to have a deep understanding of the business models presented by borrowers, aiming to bridge the gap between the perceived risk and the actual risk of a borrower[2]

There should also be **targeted training for loan officers and responsible stakeholders on the technicalities of guarantees**, including the use cases, objectives and terms of the guarantee

- Ensuring the lender understands how to utilise guarantees effectively can decrease situations where the terms of the guarantees are unintentionally violated[1]

TA to lenders should be holistic and recurring

- Training needs to be provided both at head office and to the loan officers in the field
- Providing recurring training is important to mitigate the high attrition rate often witnessed in loan officers[2]

Borrowers

Technical assistance can support businesses to strengthen their ability to repay a loan

- Operational and financial management can increase sustainability and additionality by making companies prepared for absorbing and utilising a loan[2]
- **Offering market linkages and network opportunities** can be extremely helpful for borrowers, particularly for women-led SMEs[1]
- **Providing businesses with necessary tools e.g. ag-tech** can support better understanding of their businesses and can provide the guarantor or lender with reliable data on their performance[1]

A market approach to support lenders and borrowers can be effective in strengthening the ecosystem. Market research for example can enhance guarantors' comfort with deploying the guarantee, provide lenders with value chain information to manage their portfolio effectively, and support borrowers' capacity to absorb the loan and grow their business by providing the right technical assistance[1]

Source: 1) OCA consultations; 2) How to do Loan Guarantees, IFAD, link

Setting expectations for the key operations makes it easier for lenders to serve the target customers

Stakeholder roles	Training	Claims and reporting
Guarantors	Require capacity to manage the guarantee process and understand the target end market to effectively structure and monitor guarantees	• Straightforward and simple reporting systems are required to reduce lenders time commitment. However, there should be a balance between simplifying reporting and ensuring relevant data points are being collected that can enhance the effectiveness of guarantee deployment • Timely claims process are crucial to encourage utilisation and reduce lender frustration.[1] Long claims processes can deter high utilisation given lenders have to provision and write off the bad loan well before they receive payment on their claims which can affect their capital adequacy ratios and deter them from allocating more capital into, e.g. agriculture, even if they are ultimately able to claim losses that are guaranteed
Lenders	Capacity building is important for both the technicalities of guarantees and the markets the lenders are servicing	To ensure that the guarantors can fulfil the requests promptly, lenders are required to submit claims in a timely manner. Lenders with designated teams to create quarterly reports and claims tend to be more effective, and can let the credit team focus on increasing uptake of the guaranteed loans
Borrowers	Training to the borrower can be co-funded by the lender, guarantor or a donor	
Enabling environment	Local regulations are important for enabling guarantees; capacity building and advocacy can support the use of guarantees	

The relationship between the guarantor and the lender is very important and can impact the utilisation and impact of the guarantee. Ensuring good communication during the operation of the guarantee has helped lenders share utilisation rates and challenges in a timely manner with guarantee providers, improving performance

Sources: 1) Guarantees and Other Risk Sharing Mechanisms For Nutrition Financing, Link;

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Effectiveness of guarantees can be tested through regular M&E to determine additionality and sustainability post-deployment

Importance of monitoring and evaluation[1]

1. **Transparency and accountability:** ensures all parties to a guarantee are well-informed on progress and achievement of objectives initially set out
2. **Risk mitigation:** helps avert unforeseen challenges or ensures flexibility to tackle issues that arise from guarantees deployment in different contexts
3. **Resource allocation:** informs future funding allocations, especially in nascent markets where pricing is difficult to determine due to lack of data, and how to use unused funds if the guarantee is underutilised
4. **Continuous learning:** learnings from deploying guarantees creates a body of knowledge that is helpful for stakeholders willing to venture into similar industries or regions
5. **Informed decision-making:** discussions among stakeholders enable adjustments in policies and approach to enhance effective guarantees uptake
6. **Determine impact:** M&E help keep track of guarantees effectiveness e.g., by reviewing additionality i.e., extent activities create positive outcomes due to interventions

How to determine effectiveness of guarantees[1,2]

Development additionality
Outcomes that result from using development guarantees including credit access for underserved businesses. Guarantors can assess how beneficiaries of guarantees achieve impact e.g., improved economic performance and new jobs created

Financial sustainability
Measure of reduced reliance on guarantees e.g., number of businesses that can take up commercial capital afterwards or ability of a guarantee scheme to sustain operations and defaults e.g., using net loss ratio and leverage ratios

Financial additionality
Extent to which capital is mobilised by private investors that would otherwise have not taken place and/ or extent entities can access financing in quantities and terms that they would have been locked out of without guarantees. Guarantors can implement M&E processes to determine this

Extent of outreach
Capacity of guarantees to meet demand measured through e.g., the number of guarantees issued to eligible firms and/or amount of outstanding guarantees

Notes: Net loss ratio is measured through payment of claims/ outstanding guarantees while leverage ratio is the measure of the outstanding guarantees to equity
Source: 1) Impact evaluation of credit guarantee schemes in agriculture, FAO, link; 2) Profiling SIDA's Guarantee Programme, Sida, link

5. Case studies

- Commercial guarantees
  - African Development Bank – Apollo Agriculture partial trade credit guarantee
  - Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)
  - Aceli portfolio first loss cover and loan origination incentives
  - USAID & Rabo Foundation bank guarantee for climate-smart agriculture

- Non-commercial guarantees
  - FCDO's Room2Run partial guarantee to AfDB for on-lending

AfDB extended Apollo Agriculture a partial credit guarantee to enhance smallholder farmers' access to fertiliser financing

AFFM Africa Fertilizer Financing Mechanism

Under the Africa Fertilizer Financing Mechanism (AFFM)*, the African Development Bank (AfDB) approved a USD 2M partial trade credit guarantee and a USD 219K grant for technical assistance for Apollo Agriculture (Apollo) in 2023.[1] Apollo paid USD 25K as a fee to access the guarantee. **The project's four support components include**: i) access to finance, ii) increased availability of fertilisers, iii) soil health management and extension services, and iv) data collection and analysis of agricultural productivity

Company profile[2]

- Apollo is a tech agribusiness founded in 2016 and based in Nairobi. It provides and finances agri-inputs for smallholder farmers; these include fertilisers, certified seeds and crop failure insurance
- It centres access to finance for SHFs and hopes to help them commercialise their farms through inputs and other services
- Apollo has a large distribution network of agro-dealers and agents that will support AFFM's goals in Kenya

This guarantee has the following features:[3]

- The credit risk is shared with the supplier of fertiliser (Apollo) instead of a financial institution to provide consumer financing
- The guarantee covers risk at an agreed-up rate **under pari-passu**
- The guarantee will be leveraged **at least five times** to increase the supply of fertiliser
- The supplier will have to **target at least 50%** women in the portfolio

Expected outcomes**

- **USD 10M** worth of additional credit will be made available for SMEs through the partial credit guarantee[3]
- Improved access to finance for **~50,000** smallholder farmers and distributed fertiliser to **over 100,000** small holder farmers[3,4]
- Support the distribution of **over 7,000 MT** of fertiliser through the programme[4]
- **Empower ~150** agro-retailers through increased access to finance[3]

Learnings

- **Agribusinesses** that are closer to the beneficiaries can be effective in extending affordable financing, bypassing bank restrictions
- **Grants alongside guarantees in agriculture** allow stakeholders to provide additional services such as soil health training and other extension services; this **maximises the impact of the guarantee**
- **Tech-enabled solutions are scalable** not only for providing access to finance to remote farmers where a bank cannot justify opening a new branch but also for distributing inputs and extension services

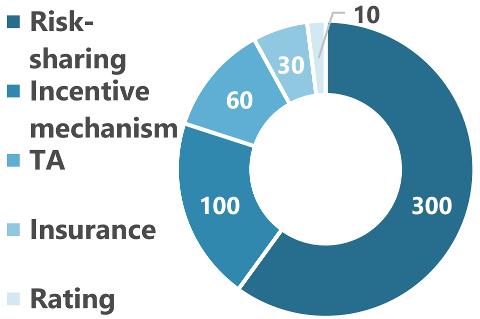
*Notes:*AFFM is a specialised AfDB fund that has three credit guarantee schemes (portfolio, partial, and trade credit guarantees) for financing fertilizers in Africa, there have been similar guarantee deals in Uganda and Mozambique; ** The actual results of the project have not yet materialised and expected in 2026*

Sources: 1) Kenyan Farmers Get Fertilizer Boost with $2 million Africa Fertilizer Financing Mechanism Credit Guarantee, link; 2) Apollo Agriculture, Link; 3) Fertilizer Financing for Sustainable Agriculture Management Project in Kenya, Link; 4) AFFM press release, link

NIRSAL uses a guarantee with TA, insurance, and incentives to increase capital flows to agriculture while building value chains

NIRSAL

- The Central Bank of Nigeria created the **Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL),** a non-bank financial institution, in 2013 to stimulate the flow of affordable finance and investments into the agriculture sector[1]
- NIRSAL de-risks the ag finance value chain, integrates ag value chains, builds capacity, and institutionalises incentives to reward value-addition value chains. They achieve these objectives using blended finance tools including **guarantees, tailored ag insurance, and technical assistance (TA)**; it also provides incentives to borrowers and rating services that assess the effectiveness of lenders in ag-lending
- NIRSAL is a **USD 500M fund** spread across five pillars:



NIRSAL **dedicates 60% of the funds** to risk-sharing using the credit risk guarantee (CRG) **and 20%** to the **incentive mechanism program.**[2] The CRG is a transparent, **individual guarantee** issued to FIs upon client request*; it covers **nine beneficiary categories e.g.,** SHFs and farmer groups, integrated farms, and agro-dealers, with these terms:

- Costs **1% of the loan value**** in an upfront payment and on the outstanding loan amount annually[4]
- Provides coverages from **30% - 75% depending on** the borrower's riskiness and the value chain activity[4]
- Caps interest rates for financial institutions and incentivises borrower repayments through interest drawbacks (**20% - 40%**)[4]

Outcomes[1]

- **Over N 211B (~USD 140M[5])** facilitated for agriculture and agribusinesses from banks and other financing sources
- **Over 229K** farmers, extension agents, bankers, and other actors have received training
- NIRSAL co-created **five innovative insurance products** that have recorded over **1.9M subscriptions** indicating high demand[1]
- Borrowers have saved **over N 1.7B (~USD 11M[5])** through incentives by making timely repayments, improving their profit margins

Learnings

- **NIRSAL showcases the importance of incentives in supporting agri-lending** and how tailored insurance products and TA also support the effective use of the guarantees for agriculture[2]
- It is an example of how an independent organisation can provide more comprehensive ecosystem solutions than time-bound projects. The system has over time supported farmers in forming cooperatives that are then linked to FIs to access finance for various value-chain activities[3]
- NIRSAL's success and impact have made it a benchmark for other countries such as Ghana and they are called on to train other countries

*Notes: *The loans are for all stakeholders across the agriculture value chains from inputs, primary production, aggregation, processing to exporting; **this is charged to the borrowers*

Sources: 1) NIRSAL: Who we are, link; 2) OCA analysis; 3) A technical review of select de-risking schemes to promote rural and agricultural finance in sub-Saharan Africa, link; 4) NIRSAL company profile, link; 5) XE exchange rates, link

USAID and Rabo Foundation set up a bank guarantee programme to support climate-smart agriculture in India

Note: given recent developments with USAID, this programme may be discontinued

USAID FROM THE AMERICAN PEOPLE

Rabobank

Since 2018, the 10-year partnership between **USAID and Rabo Foundation (Rabobank's social fund) in collaboration with Ananya Finance for Inclusive Growth and the Samunnati Financial Intermediation and Private Services**, seeks to provide up to **USD 15.3M** in local financing to small and medium private enterprises engaged in sustainable and low emission land use in India.[1] This climate-smart agriculture supported by the Government of India to ensure a flourishing agricultural sector and healthy forests

Background

India's forests are under increasing pressure from the agriculture sector, despite being **vital for biodiversity and the livelihoods of millions**

- Forest cover in India is 20% of the surface area, supporting biodiversity and income generation (paper, gum, spices) for around 130 million smallholder farmers[2]
- Sustainable landscape development is seen as a solution to balance crop production and forest conversation

Problem and solution pursued[3]

Sustainable landscape development requires smallholder farmers to adopt climate-smart agriculture, however, many banks view the **long ROI as too risky**, limiting access to necessary financing

The bank guarantee programme is intended to **encourage financial institutions to provide loans** for climate-smart agriculture

Proven outcomes and learnings[2]

Increased risk appetite for financial institutions which has enabled institutions to take on greater risks, expanding their focus on climate-smart agriculture, exploring new markets, and issuing larger loan sizes

Greater focus on climate-smart agriculture, through raising awareness and building dedicated teams within FIs

Access to loans for SMEs and co-operatives, impacting many businesses and co-ops, some receiving first-time finance

- The **guarantees** were **found to be effective**, as they provided the necessary room for financial institutions to **offer credit** to previously underserved groups, allowing the smallholder farmers to **adopt new methods** like agroforestry by accessing necessary inputs and acquiring relevant equipment
- **Agricultural financing firms** like Ananya and Samfin play a crucial role in the success of such programs, as their **close relationships with farmers** and **understanding of market challenges** help shape and implement **effective solutions**, enabling the transition to climate-smart agriculture

Sources: 1) USAID Announces Partnership with Rabo Foundation to Sustainably Invest in Asia's Future, USAID website, link 2) Case study: bank guarantee stimulates climate-smart agriculture in India, Rabobank website, link

Aceli Africa provides loan origination incentives and portfolio first loss covers to mobilise capital for underserved agri-SMEs

ACELI AFRICA

Aceli Africa seeks to **bridge agricultural SMEs' capital demand and supply gap** which stands at ~USD 65B[1] in SSA in three ways: i) increasing capital supply by providing **development guarantees** (portfolio first-loss cover) **and loan origination incentives**, ii) **technical assistance** for agri-SMEs for both pre-and post-investment stages, and **capacity building** for lenders to expand their agri-SME portfolios creating deeper impact, iii) building **evidence through data collection** to inform policy and strengthen the enabling environment, and determine how similar models can be applied in other sectors

Company profile[1,2]

- Aceli is a market incentive facility that mobilises private capital for agricultural SMEs in East Africa (Kenya, Rwanda, Tanzania, Uganda and Zambia) informed by data on the economics of agri-SME lending, typically considered high-risk and expensive
- Aceli provides guarantees to commercial banks, non-bank financial institutions, and international social lenders incentivising lending to the missing middle i.e., agricultural SMEs in both formal and informal value chains

Aceli's incentives vary depending on new vs returning customers and the impact bonuses earned, which have the following characteristics:

- **Portfolio first-loss cover**: for loans that qualify range between USD 15K - 1.75M[2] Aceli deposits 2-9% of the loan value into reserve accounts to cover lenders' portfolio[1]
- **Loan origination incentives:** Aceli compensates lenders for the high costs of serving agri-SMEs for loans that range between USD 15K – 500K[2]

Outcomes and learnings

- **Issuance of USD 20M in incentives**, mobilising USD 240M in capital across 2,760 approved loans to agri-SMEs. These SMEs work with over 1.1. million smallholder farmers and creating employment for 39,000 full-time employees[2]
- **Lenders open new markets** through the use of incentives e.g., Family Bank diversified its agricultural portfolio away from tea which in 2022 accounted for 92% of its portfolio, into new non-tea value chains (dairy and staple grains) enabling a 79% growth in the overall portfolio
- **Improved loan terms** enabled SMEs to access funding e.g., a Ugandan bank reduced collateral requirements by 50%, several lenders reduced interest rates by 1- 5%, another lender reduced loan sizes to below USD 50K ticket sizes, some lenders offered warehousing receipt loans where collateral was not available
- **Adjusting the loan minimum** to $15K for women- and youth-owned businesses which, after the adjustment, increased women-owned businesses from 8% to 22% and youth-owned businesses from 4% to 14%, supported by reinvesting a portion of origination incentives

Source: 1) Bridging the finance gap and unlocking the growth and impact potential of agricultural SMEs in Africa., Aceli Africa website, link; 2) OCA consultations

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Private investors and FCDO provided partial guarantees to AfDB increasing lending capacity by USD 2B for its portfolio loans

Foreign & Commonwealth Office

The African Development Bank (AfBD) launched the Room to Run initiative in 2018 as an innovative financing instrument that would enable participation of various stakeholders including multilateral development banks and private investors to unlock capital for increased lending without increased shareholder capital. The initiative involves the securitisation of AfDB sovereign loans and credit risk transfer to private investors enabling the redeployment of new loans to address developmental challenges and ultimately enabling fulfilment of balance sheet optimisation, improved risk metrics, crowding in investors, and increased lending

Background

In 2022, the UK's Foreign, Commonwealth and Development Office (FCDO), AfDB, and three globally recognised insurance companies (AXA XL, Axis Specialty, and HDI Global Specialty) partnered in a sovereign transaction to unlock USD 2B climate finance

- The three insurance companies provided USD 400M first-loss tranche, while FDCO provided a further USD 1.6B second-loss guarantee to insure current and future USD 2B portfolio of sovereign loans from 11 countries; the risk share between FCDO and the insurance companies was split at 20% / 80% respectively
- AfDB in return paid **undisclosed insurance premiums** to the insurance companies and a guarantee fee to FCDO

Outcomes and learnings

Increased lending capacity: portfolio risk transfer transactions enhance MBD's lending capacity while providing fair pricing given sovereign loans are safe because governments rarely default but delay payments

Involvement of institutional investors: commercial investors are more comfortable investing in high-risk sectors (e.g., sustainable infrastructure) and geographies (i.e., low-income countries) where risk perceptions are high and typically discourage investment

Quicker execution times: participation in more risk transfer transactions has enabled improved structuring which enables efficiency and optimises costs across stakeholders involved including MDB staff, commercial investors, ratings agencies and shareholders

Pricing: Multilateral Development Banks (MDBs) have strong loan performance as sovereign borrowers are treated with preferential creditor treatment (PCT). Thus, with such low risks, MDBs need to ensure risk transfer fees are minimal and they retain PCT even when risk is offloaded to private investors

Source: 1) "AfDB's new Room2Run highlights opportunities and questions about MDB risk transfer", ODI website, link; 2) " African Development Bank, United Kingdom and London Market Insurers enter new risk transfer partnership for climate action", AfDB website, link; 3) "African Development Bank, Mariner Investment Group, and Africa50 Price Landmark $1 Billion Impact Securitization", AfDB website, link

Photo by Raphael Rychetsky on Unsplash

6. Recommendations for donors to increase effectiveness of guarantees

Donors can support the guarantee ecosystem through issuance of guarantees, landscaping & coordination, TA and market research

Recommended donor interventions

1. **Ecosystem landscape:** conduct a detailed landscape of the guarantee facilities within agriculture to understand the objectives of the facilities available, the risks they are covering and the lenders they are serving, to understand the gaps in the market and where new guarantee facilities are required
2. **Additionality data collection:** analyse guarantee terms, structures and risk-sharing mechanisms necessary to crowd-in diverse types of investors across carious sectors and regions to increase additionality
3. **Targeted integrated guarantee concept:** dedicate resources to strategically coordinate between the existing guarantee providers to facilitate communication and collaboration on deals to cover various risks that affect actors across the value chain
4. **Pre-investment TA facility:** support lenders and borrowers to build the required capacity before a guarantee is issued, providing specific and tailored capacity building to ensure that lenders can effectively issue guarantees and borrowers can effectively absorb lending
5. **Insurance market and product development:** fund market research to understand relevant market and product development required to support insurers to offer affordable and effective insurance products that can be used alongside guarantees
6. **Value chain market research:** create a market study arm to support research on the nuances of lending into specific value chains, segmented by country or region, for lenders and guarantors to leverage when assessing risk and creating products that support these value chains
7. **Enabling environment market research:** conduct further deep dive research and analysis on the characteristics of an enabling environment to understand how policies can enhance the use of guarantees and agriculture lending more broadly

Guarantee best practices: for donors looking to set up a new guarantee facility, there are a number of best practices to be followed when designing and implementing a new guarantee fund to ensure the fund can be as effective as possible

An ecosystem approach engaging all stakeholders to mitigate risks across the value chain can improve guarantees' effectiveness

It is necessary to provide support to all the stakeholders in the ecosystem to strengthen the guarantee offering and enhance effectiveness, including:

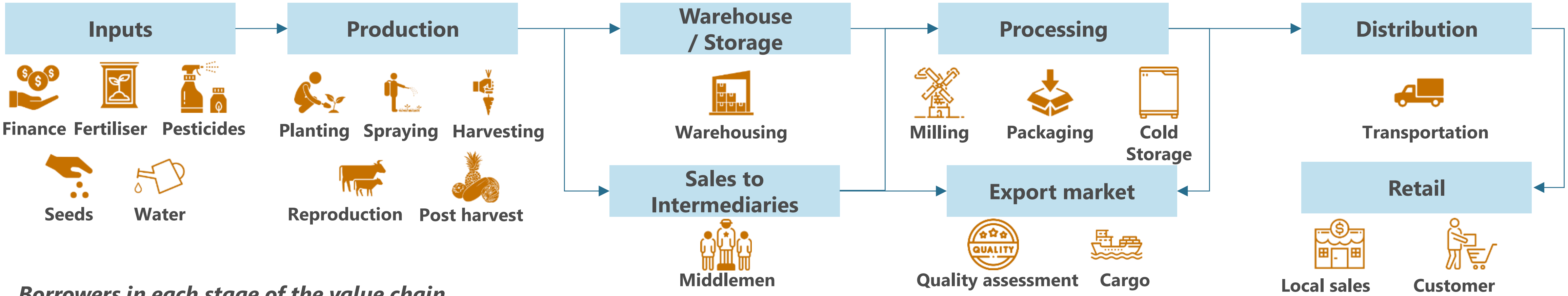
Donors / funders
Identify existing guarantees or partners that align with their goals as well as areas that require additional research (e.g. insurance) or funding (e.g. TA)

Guarantors
Analyse necessary terms and structures required to crowd-in certain investor types and establish areas of collaboration to fill existing gaps in the market

Lenders
Provide technical assistance to enhance the issuance of guarantees and disseminate additional market research to improve knowledge on lending into value chains

Borrowers
Provide technical assistance to increase the number of bankable companies, increasing their ability to absorb financing and strengthen their business

By promoting collaboration between these parties, guarantees can appropriately support players across the value chain to strengthen the entire ecosystem



Borrowers in each stage of the value chain

SHFs, agri-dealers, cooperatives, agri-tech / agri-SMEs

Aggregators

Processors, exporters

Agri-companies, off-takers

Source: OCA analysis

Open Capital

1 Conduct a detailed ecosystem landscape to understand the existing guarantees available across value chains and regions

There are many existing guarantee funds covering various risks along the agriculture value chain (see previous slide) that can be leveraged by donors and some gaps that may need to be filled through new guarantee funds. However, the market lacks a comprehensive mapping and database of these options and an understanding of the objectives and risks, value chains and regions that are currently being covered

Intervention overview

- **Conduct a deep guarantee landscaping analysis** to map the existing guarantee providers and lenders across regions or sub-sectors in agriculture to establish how the existing guarantee providers can be leveraged within agriculture. This will include working with:
  - Existing guarantee funds to understand the risks they are currently covering and opportunities for increasing coverage
  - Lenders to understand the value chains and regions they are lending into and the guarantees they are utilising to increase their reach
  - Funds to understand utilisation at the fund, portfolio & individual level
  - This database should be updated on an annual basis to ensure its continued value
- **Identify gaps in the guarantee market**, highlighting where specific risks are not sufficiently covered and provide recommendations on relevant structures to fill these gaps
  - Examples where gaps exist include currency risks, counterparty risk (e.g., government change) and contractual risks
- **After this work has been completed, hold a convening with core guarantors** for instance as a virtual roundtable or side event at a conference to discuss the next steps and how the landscaping can inform better coordination and complementarity in the issuance of guarantee
- **To take this one step further, compare terms** like coverage and risk-sharing structures, and linking findings with additionality measurement to understand the optimum structures for different situations

Expected impact

- Support donors to understand where they can leverage and fund existing guarantee providers to reach specific objectives which can be considered before starting a new guarantee fund / facility
- Support guarantors to understand opportunities to co-guarantee and collaborate with other providers
- Support lenders to understand the guarantee options available in the market to support increasing their lending in this sector
- Reduce duplication and increase additionality of new guarantee funds

Immediate next steps

- Define priority regions or sub-sectors (if any) and draft scope of work
- Select relevant research partner(s) to conduct research
- Discuss with guarantee providers before conducting research to ensure the relevant metrics are included

2 Analyse terms / structures required to crowd in varying types of investors across sectors / regions to increase additionality

There is a significant lack of data and dedicated resources to collecting data on additionality, including what is required from a guarantee to be able to crowd-in types of investors across different situations. This lack of data can significantly hamper a guarantors' ability to assess the necessary terms for additionality in deals and tailor their products to effectively catalyse funding

Intervention overview

- **Conduct in-depth research** to understand structure and term requirements for different types of investors and varying levels of risk of borrowers within the sector and the key factors that will enable investment. This will include working with:
  - Existing guarantee providers to define and acquire additionality data, discuss current insights and learnings on required structures and terms for catalysing investment from different lenders / investors and analyse current systems and processes to track and analyse data
  - Lenders and funds to understand their needs and requirements to increase lending and investment in the space
  - Other investors, such as insurers and pension funds, to understand what they need to invest in an agriculture fund in SSA and the key areas of focus
- **Analyse insights and data** to determine the terms and structures required for different investor types and provide insights on the factors that might affect the requirements changes, including for different sub-sectors, regions and other situational factors
- **Provide recommendations to guarantors on the** uptake of data collection tools and processes, emphasising the importance of appropriate data governance i.e., data quality, data privacy, data management etc. to enhance the ability of stakeholders to share granular data
- **Organise and co-fund working groups** to discuss insights and disseminate learnings

Expected impact

- Enhance the understanding of additionality within the ecosystem to guide guarantors in designing tailored products that effectively crowd-in capital. Establish benchmarks for effective guarantee terms specific to different markets and regions
- Strengthen the data collection within the ecosystem by sharing insights and learnings to more effectively collect and analyse additionality data

Immediate next steps

- Define the scope of research and priority investor types, sub-sectors or regions
- Select relevant research partner(s) to conduct research
- Gain buy-in from relevant guarantee providers / investors to ensure access to the relevant data required to conduct the research

3 Pilot an integrated guarantee concept to identify opportunities for co-guarantors and TA within a specific value chain and region

Currently there are many guarantee facilities providing coverage across the agriculture sector in silos, however there are gaps in the chain which reduces the effectiveness of each of the guarantees on holistically strengthening the sector. An example is that if a SHF has access to a loan, but their off taker is not able to access finance to support purchasing from the SHF, then the guarantee on its own is less effective than if both players had the relevant and required funding.

Intervention overview

- **Develop a pilot for an integrated guarantee concept** within a specific set of value chain(s) and region(s) over a 2-3 year period to increase the effectiveness and impact of guarantees by facilitating a fully guaranteed value chain, providing holistic financial and capacity building support
  - **Conduct an in-depth landscaping of the specific value chain(s) and region(s)** to understand exactly who is present throughout that value chain. This will include both guarantors and lenders / investors
  - **Identify areas for collaboration** to support and strengthen the value chain
  - **Identify gaps within the value chain** and provide recommendations for products and players that can fill those gaps, including the provision of technical assistance and guarantees required within the value chain
  - **Work with the relevant providers (either financing, guarantors or TA) and funders** to fill the gaps within the value chain
- **Collect and analyse data on the additionality** of conducting the ecosystem approach and disseminate learnings with the ecosystem
  - **Collect baseline data on relevant metrics** at the start of the pilot. This could include catalysed funding but also the income of SHFs and the amount produced
  - **Bi-annual data collection** to analyse the impact of the coordination efforts
  - **Disseminate learnings from the pilot** to the wider ecosystem and if the impact is high, provide recommendations on how to apply the approach more broadly

Expected impact

- Expand coverage of guarantees to fill any gaps within the selected value chain(s) and region(s), while avoiding duplicative efforts, and encouraging holistic strengthening of the ecosystem
- Testing the possibility of targeted coordination within this space, with the aim to increase effectiveness in financing and technical assistance across the value chain(s) / region(s)
- Potential to scale up if the pilot is successful and share learnings that can be applied to other sectors for holistic financial and capacity-building support

Immediate next steps

- Identify the pilot value chain(s) and region(s)
- Identify relevant parties for the design and implementation of the pilot
- Agree on relevant metrics to collect throughout the pilot

There are varying risks across the value chain that require different parties to collaborate to provide appropriate mitigation

Inputs

Finance, Fertilizer, Pesticides, Seeds, Water

Risks:
- Unpredictable weather patterns reducing demand for inputs
- Damaged soil
- Price fluctuations
- Supply chain disruptions

Production

Planting, Spraying, Harvesting, Reproduction, Post harvest

Risks:
- Seed / crop failure
- Harvest loss
- Extreme weather conditions
- Labour shortages
- Theft

Warehouse / Storage

Warehousing

Risks:
- Fire
- Pests / other spoilage
- Theft

Sales to Intermediaries

Middlemen

Risks:
- Breach of contract / side-selling
- Limited market access

Processing

Milling, Packaging, Cold Storage

Risks:
- Inconsistent access to energy
- Equipment failure
- Defective products

Export market

Quality assessment, Cargo

Risks:
- Currency risk
- Market price fluctuations
- Supply chain disruptions

Distribution

Transportation

Risks:
- Spoilage due to poor transportation infrastructure
- Supply chain disruptions
- Theft
- Vehicle breakdown

Retail

Local sales, Customer

Risks:
- Market price and demand fluctuations
- Inventory damage
- Supply chain disruptions
- Spoilage

Borrowers in each stage of the value chain

SHFs, agri-dealers, cooperatives, agri-tech / agri-SMEs	*Aggregators*	*Processors, exporters*	*Agri-companies, off-takers*

Source: OCA analysis

4 a Pre-investment TA for lenders can increase their effectiveness in absorbing guarantees from day 1

The uptake of new guarantees is often slow due to internal capacity gaps within the lender's organisation, including insufficient knowledge on effectively utilising guarantees and inefficient systems and processes to integrate them into lenders workflows or, when a guarantee aims to encourage lending in new sub-sectors or markets, lenders may lack the specialised knowledge of specific markets. Without this expertise, entering a new market can lead to loan defaults, which may discourage lenders from ever engaging in that sector again

Intervention overview

- **Engage with guarantors** to understand their specific requirements and objectives
- **Conduct a needs assessment** with the lender to understand the current state of the lender and identify the support required (e.g., technical or market). This could include assessing:
  - Internal knowledge on utilising guarantees
  - Current processes and platforms that support the effective use of the guarantees
  - Possibility for adapting lending guidelines and policies
  - Internal knowledge or capacity for the target market of the guarantee scheme
- **Provide tailored capacity-building support** to the lender based on the needs assessment so the lender is ready to absorb and better utilise the guarantee. This TA facility may include:
  - Training sales agents on how to assess borrowers in a new market / specific terms
  - Working with the middle office team to streamline processes and systems for reporting, M&E or issuance of loans using the guarantee
  - Providing market-specific support to set up a team and train employees to build relevant knowledge for lending into a new market
  - Providing banks with internal tools and evaluation frameworks to more effectively assess guarantee proposals to understand the most appropriate structures and terms for them
- **Produce a learnings report from the TA** to highlight which support has provided the most impact. This will include agreeing on metrics to collect from the start of the programme

Expected impact

- Increased uptake and more effective use of guarantees from day 1
- When working with more flexible and adaptable FIs, there is a possibility to support a transformation of lending behaviour by influencing lending policies which can increase the effectiveness of the guarantee
- Gain a better understanding of what TA is required and most effective for lenders

Immediate next steps

- Work with guarantors to identify relevant lenders for Technical Assistance Facility
- Design a needs assessment to be able to collect the key data points that would support decision-making
- Hire TA providers who understand the technicalities of guarantees

4 b Pre-investment TA for borrowers increases the # of bankable deals available for lenders to issue guarantee-backed loans

Smallholder farmers (SHFs) and agri-SMEs often lack access to critical business development support, which restricts their eligibility for formal lending. Challenges such as business registration, financial record-keeping, and governance hinder their bankability, reducing their access to credit. Furthermore, even with a guarantee, a bank will lend to borrowers that meet specific bankability criteria, and building a strong pipeline of such deals remains a significant challenge

Intervention overview

- **Engage with multiple lenders to identify a pipeline** of borrowers who require capacity building to access loans and to understand the eligibility criteria across those lenders
- **Conduct a needs assessment** with potential borrowers to assess the support they need to increase their eligibility for loans and bankability
- **Fund targeted business development support** to support borrowers to become investment-ready. This support could include:
    - Business formalisation
    - Financial management and record-keeping
    - Farming practices
    - Integrating technology to increase yields
- **Share pipeline with multiple partner financial institutions** to ensure ease of assessment for the guarantee-backed loans
    - By sharing pipeline with more than one lender, this can create competition which in turn could drive down the interest rates on offer

While the funding for this programme can be tied to the guarantee, borrowers in this segment should not be aware that the capital they would be accessing is guaranteed, in order to prevent the moral hazard

Expected impact

- Increase the number of borrowers that can access finance from banks, resulting in higher utilisation of guarantees and greater impact
- A stronger pipeline for lenders to issue loans, increasing lending in the space by reducing due diligence costs, actual and perceived risk

Immediate next steps

- Select specific value chains and regions to support
- Work with lenders to identify a pipeline of borrowers who require capacity building to access loans
- Hire TA providers to provide business development support for borrowers e.g., investment readiness

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5 Fund research to support the development of insurance products to cover the climate risk that can undermine guarantees

Insurance can be used alongside guarantees to mitigate well-defined and specific risks such as extreme weather conditions and crop failure, allowing guarantees to effectively cover commercial and less well-defined risks. However, the market in SSA is underdeveloped and the most vulnerable value chain actors such as SHFs are not using insurance due to a lack of education on the product as well as the high cost of premiums and lack of relevant products

Intervention overview

- **Fund market research** to support the relevant market and product development that would enable insurers to provide affordable and effective products for the target beneficiaries
- **Conduct pilots in target markets** to assess the impact of insurance on the ability to make loan repayments
- **Partner with organisations to strengthen product and market development** which could include**:**
  - Working with national agriculture development agencies and insurers to develop tailored insurance products. Examples include NIRSAL's tailored insurance products and the Uganda Agricultural Insurance Scheme (UAIS) which has up to USD 1.35M to subsidise insurance products for farmers
  - Channelling funds to private insurers to develop and combine insurance with guarantees[1]
  - Subsidising existing ag-insurance premiums for the bottom of the pyramid e.g., SHFs
- **Work with insurers and/or ag-techs** to scale the distribution of insurance, ensuring that TA is available to support the education of beneficiaries on how to use insurance and what it covers
- **Work with guarantors and lenders** to embed borrower possession of insurance in their risk assessment for SHFs, aggregators and other value chain actors while pricing guarantees and eventually lending

Expected impact

- A deeper understanding of how to utilise and strengthen the insurance market to allow guarantees to focus more on commercial risks
- More relevant and affordable insurance products across the value chain, allowing guarantees to mitigate other risks
- Higher uptake of insurance to protect farmers against poor-quality seeds and unpredictable climatic extremes

Immediate next steps

- Draft the scope of work and define priority regions
- Select relevant research partner(s) to conduct research
- Conduct market landscape for current ag-insurers to understand their challenges in insuring SHFs

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There are opportunities for insurance to be used for well defined risks to improve guarantees that are covering commercial risks

While we anticipate that insurance can be leveraged more effectively to improve the use of guarantees, this is an area and market that needs to be explored in more depth to better understand the specific challenges and opportunities. The page below highlighted where there are potential opportunities for the insurance product to be leveraged.

Inputs

Finance, Fertiliser, Pesticides, Seeds, Water

- **Guarantees** can cover the commercial risks for input providers that may arise from price fluctuations, supply chain disruptions or reduced demand for products

Production

Planting, Spraying, Harvesting, Reproduction, Post harvest

- **Insurance** can cover harvest loss due to extreme weather conditions and theft
- **Guarantees** can cover the commercial risks of the farmers such as labour shortages, limited demand for products or seed / crop failure

Warehouse / Storage

Warehousing

- Warehousing facilities can be **insured** against fire or theft

Sales to Intermediaries

Middlemen

- Limited market access can be covered by a **guarantee**

Processing

Milling, Packaging, Cold Storage

- **Warrantees or insurance** can cover equipment failure or defect
- **Guarantees** can cover energy shortages due to external factors (such as grid blackouts)

Export market

Quality assessment, Cargo

- Currency can be **hedged**
- **Guarantees** can cover market disruption and supply chain disruptions

Distribution

Transportation

- **Guarantees** can cover spoilage due to poor road infrastructure and supply chain disruptions
- Theft from the vehicle can be **insured**

Retail

Local sales, Customer

- **Guarantees** can cover market disruption, supply chain disruptions and inventory damage or spoilage

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6 Conduct in-depth market research on target value chains by country and 7 assess the impact of their enabling environments

6 Lenders and guarantors experience knowledge gaps on the nuances of lending into varying value chains, countries and regions, which can discourage them from lending into this space.

Intervention overview

- **Create a market study arm** to support research on the nuances of lending into specific value chains segmented by country, and value chain actors in target regions. This research would analyse how socio-economic, agricultural, regulatory and infrastructural factors influence value chain dynamics in each target country and provide insights on how lending can be more effective and specific to each scenario
- **Lenders and guarantors can leverage this research to assess risk and create products that support target segments**, with the potential for additional TA for lenders to enhance effectiveness of the research and connections for lenders to high potential value chain actors to support to strengthen the broader ecosystem

Expected impact

- Better risk assessment for both effective guarantee designing and interest pricing by lenders
- More lending to new value chains
- Enhanced financial product relevance and uptake
- Strengthened market competitiveness

Immediate next steps

- Select relevant partners including extension officers to gather value chain insights
- Develop comprehensive research framework

7 There are currently limited insights into the impact of the enabling environment on the optimal design and implementation of a guarantee

Intervention overview

- **Conduct further deep dive research and analysis on the characteristics of an enabling environment** to understand how policies can enhance the use of guarantees, e.g. central bank policies can inadvertently restrict lending to agri-SMEs due to stringent risk assessments and capital requirements, and enhance agricultural lending through adjusted policies or specific initiatives e.g., supportive land ownership processes
- **Analyse the enabling environment to guide guarantee structuring** and determine the need for structural adjustments within specific regions based on the regulatory framework / enabling environment

Expected impact

- Enhanced policy frameworks can be developed to support agricultural lending
- Contextualised understanding of a market's risks and opportunities
- Supportive lending environment for agriculture

Immediate next steps

- Define the scope of research and priority areas or regions
- Identify research partners
- Commission pilot case studies in target regions

Best practices for guarantees

When setting up a new guarantee, a process can be followed to ensure alignment & appropriate structuring

While setting up a guarantee involves many steps, we have identified the key success factors and best practices that can ensure the issuance of effective guarantees. These best practices are relevant for both guarantors and lenders. These support the entire ecosystem while considering lender, and borrower needs alongside guarantor objectives

Identify clear objectives

- Determine the desired outcomes of the guarantee
- Set measurable targets
- Align the guarantee with broader development goals

Conduct market research

- Assess the target market's financial landscape and the requirements from both the borrower and the lender
- Avoid market distortions by providing an appropriate level of concessionality

Tailor the guarantee

- Consider lender incentives when designing guarantee products
- Consider borrower market realities and financing needs
- Use blended finance to support guarantees in meeting lender and borrower needs

Set up appropriate structures

- Establish appropriate structures including approvals and reporting systems, as well as monitoring and evaluation
- These systems support wider participation in the guarantee programme and ensure sustainability by measuring effectiveness

Implement guarantees

- Establish strong relationships and ensure consistent communication for continued review of guarantees to suit markets and meet objectives
- Provide technical assistance for effective deployment and market strengthening

Key: Guarantors Lenders

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Before considering structuring, guarantors should ensure they have identified clear objectives and have alignment with lenders

In designing effective guarantees, providers must ensure they are driven by clear objectives and must possess a deep understanding of their target market for both lenders and borrowers. These two pillars—clear objectives and market knowledge—are essential for tailoring guarantees that catalyse additionality, positive impact and sustainable development.

Identify clear objectives → Conduct market research → Tailor the guarantee → Set up appropriate structures → Implement guarantees

Identify clear objectives	Examples
Determine the desired outcomes of the guarantee to help design effective guarantees, including the specific sector, region and risk within the value chain that the guarantee is covering**.** Other objectives may include making lending more affordable or closing the gap between perceived and actual risk which will require different considerations when tailoring the guarantee	NIRSAL has an objective to ensure that finance remains affordable. When they designed their credit guarantee, they capped interest rates for financial institutions participating in its scheme, in which banks have been able to lend over USD 132M to the agriculture sector across priority value chains
Set clear and measurable targets such as the number of loans to be issued, or SHFs supported and allow for continuous monitoring and evaluation. These should align with broader development goals, such as increased support for women-led enterprises or climate resilience	Through AFFM, AfDB set the target number of SHFs (106K) that would access fertiliser financing through Apollo Agriculture and projected the quantity of fertiliser that could be sold and backed by the USD 2M guarantee they issued. They also set a target for Apollo to aim to have at least 50% of the financing go to female farmers to ensure gender is considered when unlocking capital
Choose lenders who align with the objectives and motivations of the guarantee by creating an alignment framework to assess the viability of working with a lender	Examples of things to consider include: past performance in a particular sector e.g., if lender experienced high % of bad loans, the guarantee is unlikely to be effective; lender's internal capability e.g., digital capability to reach farmers at a lower cost; strategic direction of the lender and internal values / strategies e.g., financial inclusion to women or youth

Guarantors should also conduct in-depth research to understand the lender and target market before creating a guarantee

In designing effective guarantees, providers must possess a deep understanding of their target market, including both lenders and borrowers. Guarantors should identify the specific needs and challenges faced by borrowers and lenders as there is no one-size-fits-all. It is also important to understand the other factors influencing the market such as macro trends and the broader enabling environment in the target region or country that could impact lending to the target sector

Identify clear objectives → **Conduct market research** → Tailor the guarantee → Set up appropriate structures → Implement guarantees

Conduct market research	Examples
Create a framework for discussion with the lender to understand their return requirements, other competing priorities, challenges they face in a certain sector and other guarantees that they are utilising to appropriately design the right blended finance structure	Aceli conducted in-depth research on the lender challenges in serving certain value chains such as the cassava value chain in Tanzania to understand how to solve these pain points using the guarantee and other blended instruments
Identify the level of risk mitigation required by the lender and provide the appropriate level of coverage and concessional terms *(see donor recommendation 2 for more detail)*, while ensuring the guarantee avoids any market distortions or moral hazard, which will differ between the lenders and borrowers	FSD can provide 100% guarantees to more sophisticated lenders (e.g., pension funds) as they know that they are bound by other regulatory and governance that ensures that there will be no moral hazard
Conduct research into the borrower to understand the cash flow cycles and potential risks to repayment to ensure the guarantee is designed to set the borrower up for success	AGRI3 fund has worked with lenders to understand the key pain points of SHF borrowers so that they can be flexible in providing an interest payment holiday in the event of an extreme weather event that ruins crops

Ag-lending requires tailored guarantees and financial products that support lenders and the needs value chain actors (1/2)

Tailoring guarantees will vary between different regions, sectors, lenders and objectives, requiring specific terms, structures and blending. Below are some best practices for guarantees and blending instruments in agriculture specifically, although these might change across the value chain and for the context of the target value chains, region or country

Identify clear objectives → Conduct market research → **Tailor the guarantee** → Set up appropriate structures → Implement guarantees

Tailor the guarantee	Examples
Utilise innovative approaches to structuring guarantees that can more effectively encourage increase of lending or entry into new markets by providing a funded portfolio approach that allows the lender to use the funds collected across its portfolio to cover any defaults that may occur rather than only considering coverage (e.g., 50% vs 75%) and type of loss covered (e.g., pari passu or first loss)	Under its portfolio first-loss cover, Aceli covers only 2-9% of the loan value (dependent on new / existing customers), which is lower than most guarantees. However, they deposit this amount into reserve accounts so the lender can cover defaults across their whole portfolio, eliminating long claims processes and providing flexibility and additional comfort to lenders to increase lending
Provide origination incentives to encourage lending into a new sector or geography or market which can be increased (e.g., for new borrowers, female-led or climate resilience SMEs) depending on the objectives of the guarantee. These incentives can also cover the banks' high cost of lending to the agriculture sector	Aceli provides origination incentives, e.g., in Tanzania, when they wanted to motivate Tanzania Commercial Bank to lend to the cassava value chain in the Kigoma region, Aceli compensated the bank's staff for fuel and time spent visiting SMEs. The bank subsequently brought services closer to the agri-SMEs[1]
Blend the guarantee with other mitigation tools (e.g., insurance for crop failure, concessional lending for lower interest rates or grant funding for TA) to strengthen the ecosystem, support repayment rate and the sustainability of guarantees	Most guarantee providers complement the guarantee with some level of TA. Some lenders, such as ABSA and Apollo Agriculture, offer insurance to borrowers in agriculture, and NIRSAL has tailored five insurance products to complement their guarantees

Sources: 1) act Profile: Cassava Cluster, Kigoma Region, Tanzania, link

Ag-lending requires tailored guarantees and financial products that support lenders and the needs value chain actors (2/2)

Tailoring guarantees will vary between different regions, sectors, lenders and objectives, requiring specific terms, structures and blending. Below are some best practices for guarantees and blending instruments in agriculture specifically, although these might change across the value chain and for the context of the target value chains, region or country

Identify clear objectives → Conduct market research → **Tailor the guarantee** → Set up appropriate structures → Implement guarantees

Tailor the guarantee	Examples
Reduce interest rates by (a) **negotiating concessionary lending** rates to increase affordability for value chain players through agreed interest rate caps or subsidies to lenders to cover lower interest rates or (b) **providing borrower-side incentives** to reduce the interest rate if the borrower meets certain criteria.	NIRSAL's interest caps ensure that agribusinesses get affordable finance and they introduced interest rebates for the borrowers to encourage timely repayments and reduce default risk
Subsidise guarantee fees to ensure the economics are attractive for the lender and therefore incentivise additional lending, particularly in agriculture where the cost of lending is already high due to high due diligence costs. The fees of the guarantee depend on the return requirements of the guarantor and can be subsidised by donors	When deemed necessary, a portion of Sida guarantees are subsidised by grants. This is to support lenders, but the benefits ultimately should trickle down to the borrowers
Agriculture value chain actors require flexibility and revolving credit given its cyclical nature. Guarantors can **provide flexible payment terms** (e.g. interest rate holidays in the event of an adverse weather event or bi-annual payment terms, rather than monthly) and **extend the guarantee cover** to working capital and lines of credits	AGRI3 Fund facilitates interest rate holidays during natural calamities to support borrowers in avoiding default. Lenders also mentioned that they can only use the guarantees that cover revolving credit facilities for their agriculture portfolio given the demand from the borrowers in this sector

There are many opportunities to increase guarantee uptake by solving some pain points and defining additionality (1/2)

Approvals and reporting, as well as M&E are essential components through which guarantors and lenders can establish appropriate structures. These measures ensure effective implementation and management of guarantees, facilitating improved financial outcomes and enhanced support for targeted sectors

Identify clear objectives → Conduct market research → Tailor the guarantee → **Set up appropriate structures** → Implement guarantees

Ensure simple, clear and automated approvals & reporting

Clearly outline procedures and requirements upfront to reduce back-and-forth to obtain additional information. This could include conducting orientation sessions or workshops with lenders and guarantors to ensure clarity on expectations

Streamline reporting metrics across guarantees by aligning them with regulatory data lenders already collect by collaborate with regulatory bodies to identify common data requirements and harmonise reporting formats

Implement digital systems to screen high-potential leads, flag qualification gaps, and integrate existing data to streamline the application process while offering training programs for lenders on using the systems to maximise their utility

Establish dedicated support teams to repay claims, address challenges and resolve bottlenecks quickly, with guarantors committing to clear timelines for settling claims to avoid lender frustration. If a lender must provision and write off a loan well before they receive payment on the claim, it affects their capital adequacy ratio and deters them from allocating more capital under the guarantee

Adopt portfolio-level approvals by providing criteria to help lenders assess borrowers, reducing the need for individual loan approvals and support lenders with risk assessment tools and borrower evaluation training

Source: 1) OCA consultations

There are many opportunities to increase guarantee uptake by solving some pain points and defining additionality (2/2)

Approvals and reporting, as well as M&E are essential components through which guarantors and lenders can establish appropriate structures. These measures ensure effective implementation and management of guarantees, facilitating improved financial outcomes and enhanced support for targeted sectors

Identify clear objectives → Conduct market research → Tailor the guarantee → **Set up appropriate structures** → Implement guarantees

Set up appropriate monitoring & evaluation mechanisms

Develop a comprehensive M&E framework that measures whether guarantees are achieving their intended goals and informs necessary adjustments. Identify specific KPIs to track performance such as uptake rates, claims settlement timelines, and impact on borrower access to credit. Implement regular review cycles to evaluate findings and share lessons learned with stakeholder

Conduct assessments on active guarantees to understand the reasoning behind metrics collected in the M&E process. While the M&E process is important, low uptake or high claims could be due to different factors across scenarios, so it is important to understand the nuances behind the numbers to increase the effectiveness of that guarantee

Incorporate relevant feedback loops that allow for collection of relevant data to measure the effectiveness of the guarantees. This feedback should be used to inform onward design and implementation of guarantees for the guarantee provider, the lender and the wider ecosystem

Source: 1) OCA consultations

Guarantors should create strong relationships with lenders and provide technical assistance for effective guarantee use (1/2)

During guarantee deployment, guarantors should establish good relationships with lenders to ensure guarantees are continuously reviewed and/or tailored to meet the set objectives. Technical assistance is incredibly important to ensure that the guarantee can be utilised effectively and can be used to increase the internal capacity to utilise the guarantee facility as well as increase lending into the target markets

Identify clear objectives → Conduct market research → Tailor the guarantee → Set up appropriate structures → **Implement guarantees**

Communicate regularly & ensure flexibility

Set up clear communication channels and regular feedback loops to build trust and ensure effective collaboration among all parties in four steps:

- **Conduct pre-launch briefings to go through documentation** to ensure all stakeholders fully understand the terms of the guarantee
- **Assign dedicated points of contact** to facilitate open communication, address issues promptly, and maintain transparency throughout the relationship
- **Schedule regular monthly meetings** to discuss and address any issues with guarantee utilisation or implementation and review upcoming claims
- **Incorporate lender feedback**, particularly during the first phase of the guarantee, to refine terms and conditions, where appropriate and applicable. This may include adjusting terms or processes, depending on the market reaction and results

Note: TA stands for technical assistance
Source: OCA consultations

Guarantors should create strong relationships with lenders and provide technical assistance for effective guarantee use (2/2)

During guarantee deployment, guarantors should establish good relationships with lender to ensure guarantees are continuously reviewed and/or tailored to meet the set objectives. Technical assistance is incredibly important to ensure that the guarantee can be utilised effectively and can be used to increase the internal capacity to utilise the guarantee facility as well as increase lending into the target markets

Identify clear objectives → Conduct market research → Tailor the guarantee → Set up appropriate structures → **Implement guarantees**

Provide technical assistance

Identify and define the potential scope of the TA that the guarantee facility will provide and identify the parties that are most relevant and appropriate to provide the TA

Conduct a needs assessment with lenders to determine specific areas where TA is required, which could include increasing internal capacity to absorb the guarantee, such as data management, enhancing systems and processes or providing support for increasing their capacity to lend to the target market, such as sector-specific capacity building or risk assessment

- Identify the actors who require this TA (e.g., head office administrators or sales agents) and the cadence of the support (e.g., monthly or annual trainings)

Partner with TA providers to design and deliver targeted support based on the needs of lenders and other stakeholders. Align the content and focus of the TA with specific challenges

Note: TA stands for technical assistance
Source: OCA consultations


Photo credit: Inspira Farms

Appendix

Stakeholder consultation profiles

We consulted stakeholders in the blended finance ecosystem at various stages of the research to test hypotheses(1/4)

Organisation	Category	Participation in blended finance / guarantees	Geographical presence
aBi Finance (Agricultural Business Initiative)	Guarantor	aBi runs an Agriculture Loan Guarantee scheme to allow FIs to share losses due to defaults in Uganda. aBi also provides lines of credit (LoCs) to banking financial institutions for on-lending to agribusinesses across the entire value chain(tier III and IV FIs)	Uganda
Absa Kenya	Bank	Absa has received guarantees from various guarantors, from MIGA to AGF. Their lending to agribusinesses using guarantees has been through target sectors such as horticulture and pulses. They mainly lend to value chain actors who operate post-production. They also lend to 'anchor borrowers' who are mainly off-takers and have had success in the sector because of team structure and having agriculture experts	Kenya
Aceli Africa	Guarantor	Aceli is a market catalyst that mobilises finance for small- and medium-sized enterprises (SMEs) in the agriculture sector e.g. through partial credit guarantees. The organisation works in five African countries and also in Latin America. (*please see details of their work in the case studies section*)	Zambia, Uganda, Tanzania, Rwanda and Kenya
African Development Bank (AfDB)	Guarantor	AfDB uses development guarantees to unlock capital in agriculture through mechanisms such as the Africa Fertiliser Financing Mechanism. They have also used guarantees to support various projects for example USD 1B guarantee for South Africa's Just Energy Transition investment plan. AfDB is also a recipient of a guarantee from FCDO to support on-lending.	Africa
Agri Frontier	Impact investor	Agri Frontier is a private agri finance consulting firm that focuses on agricultural, agribusiness, and financial development projects in developing and frontier countries.	West and East Africa
AGRI3 Fund	Guarantor	AGRI3 is a blended finance fund providing partial risk guarantees and credit enhancement instruments to partner banks, to catalyse finance. They offer second-loss coverage and have flexible guarantees depending on the borrower needs	Global

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We consulted stakeholders in the blended finance ecosystem at various stages of the research to test hypotheses(2/4)

Organisation	Category	Participation in blended finance / guarantees	Geographical presence
Africa Venture Philanthropy Alliance (AVPA)	Network	AVPA is a pan-African network for social investors with a focus on increasing the flow of capital into social projects across Africa. They are collaborating with Convergence to roll-out an executive education programme on blended finance	Africa
Bank of Industry (BOI)	Bank	BOI's funding is either guaranteed or provided by the Central Bank of Nigeria or the Federal Government of Nigeria. They require up to 100% guarantee coverage to lend in lieu of collateral	Nigeria
British International Investment (BII)	Guarantor	Provides development guarantees to mobilize capital to support sustainable economic growth in developing countries. BII offers technical assistance alongside its financial products, like guarantees, to improve the effectiveness of investments by addressing specific challenges faced by businesses in emerging markets	Global
Cardano Development	Fund manager	Cardano runs GuarantCo and recently launched the Dhamana Guarantee	Global
Convergence	Research institution	Convergence is an industry research organisation that provides data to facilitate decision-making for stakeholders in the blended finance space	Global
Cooperative Bank	Bank	Coop has worked with various guarantors such as IFC, AGF and USAID to extend loans to MSMEs in agriculture and renewable energy sectors. They experimented with concessionary interest rates to build market share in healthcare	Kenya
Dutch Ministry of Foreign Affairs (MFA)	Donor	IFC and MFA launched a USD 17.5M blended finance investment facility to help de-risk and improve the financial viability of high-impact projects benefitting Forcibly Displaced Populations and their host communities. The Kingdom of Netherlands partnered with Sida, FCDO, GAC, the IFC, the EU, AGRA and AfDB, UNIDO, Danida, BMGF, Syngenta and Australia's Foreign Affairs to create the African Enterprise Challenge Fund (AECF)	Kenya
Equity Bank Uganda	Bank	Equity has extended finance to agriculture using guarantees from Aceli, aBi, Mastercard Foundation, and AGF	Uganda

We consulted stakeholders in the blended finance ecosystem at various stages of the research to test hypotheses(3/4)

Organisation	Category	Participation in blended finance / guarantees	Geographical presence
Financial Sector Deepening (FSD) Africa	Guarantor	FSD provides development grants to local banks in the agricultural sector (e.g., Kenya) to support lending to smallholder farmers and agribusinesses. FSD has co-created the Dhamana Guarantee Company alongside InfraCo and Cardano Development	HQ in Kenya but works in 31 countries in Africa
Green Guarantee Company (GGC)	Guarantor	GGC was launched to provide guarantees to mobilise climate finance in developing countries to achieve net-zero carbon economy and environmental sustainability	Global (TBC)
GuarantCo	Guarantor	GuarantCo is the guarantee arm of the Private Infrastructure Development Group (PIDG) that mobilises local currency financing into developing countries to promote local capital market development	Global
Hilton Foundation	Donor	Hilton Foundation provides development guarantees to support initiatives in areas such as water access, disaster recovery, and global health. They have provided guarantees for water infrastructure projects in sub-Saharan Africa to improve access to clean water, and support for community health systems in response to global health crises	Global
Kenya Climate Ventures	Impact investor	KCV uses blended finance to extend capital to agriculture in Kenya. The firm has invested in various agri-SMEs, supporting their growth and plans to use guarantees such as those from Dhamana to support more businesses	Kenya
NCBA Kenya	Bank	NCBA has received guarantees from Affirmative Finance Action for Women in Africa, an AfDB initiative, to close the USD 42B financing gap for women due to lack of collateral (land and other property), mentorship and other resources	Kenya
Oikocredit	Impact investor	Through a USD 43M loan guarantee with AGF, is using guarantees in Africa to extend capital. It also received a guarantee from USAID in India as Maanaveeya to support ag-tech companies, and clean energy for agriculture and farmer-producer organisations	Africa, India

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We consulted stakeholders in the blended finance ecosystem at various stages of the research to test hypotheses (4/4)

Organisation	Category	Participation in blended finance / guarantees	Geographical presence
Rabo Foundation	Donor	Rabobank has a few programmes across the continent to support farmers to increase financial inclusion. For example, through Rabo Foundation and the Rabo Rural Fund, they have invested in the self-sufficiency of farmer organisations all over the world	Global
Societe Generale Ghana	Bank	AGF through its subsidiary, AGF West Africa, signed a partnership agreement with Societe Generale Ghana to increase its financing support for Ghanaian SMEs through enhanced credit facilities. SocGen primarily supports the cocoa value chain	Ghana
Stanbic Bank	Bank	The bank has collaborated with the AGF to enhance financing for SMEs. This partnership features a Loan Portfolio Guarantee Facility of KES 1 billion and aims to provide guarantees that facilitate access to credit for SMEs, thereby boosting their growth and sustainability	Africa
SunFunder / Mirova	Impact investor	Mirova received a Sida loan portfolio guarantee to expand clean energy operations and improve access to finance especially in riskier markets e.g., the KOSAP Debt Fund supported by the World Bank and SNV Netherlands Development Organization	Global
Swedish International Development Cooperation Agency (Sida)	Guarantor	Sida has had a long track record of issuing development guarantees to mobilise capital for various sectors. For example, to support the Power Africa Initiative, they utilised partial guarantees for loan portfolios	Global
UGAFODE	Microfinance institution	With guarantees from organisations like the Bill & Melinda Gates Foundation, UGAFODE has been able to extend microloans to rural entrepreneurs in Uganda, promoting financial inclusion and local economic development. They also support refugee borrowers to access finance where they would have otherwise not	Uganda

Guarantor landscaping profiles

The following is a list of guarantee providers considered in the research, either through consultations or desk research (1/5)

Organisation name	Guarantee types issued	Lenders supported	End borrowers targeted	Ag-specific focus	Additional information
Aceli Africa	• Portfolio	• Banks • MFIs • Impact investors	• Agri-SMEs	Yes	Exclusively supports agri-SMEs using a distinctive portfolio-based approach that incentivises lenders to expand credit access while sharing risk across multiple loans
African Development Bank (AfDB)	• Portfolio • Individual	• Banks • MFIs • Financing companies	• MSMEs • Ag-value chain actors	Yes	Offers partial risk and partial credit guarantees to mobilise investments in sustainable development programmes
African Guarantee Fund	• Portfolio • Individual	• Banks • MFIs	• SMEs • Women-led businesses	Yes	Offers enhanced guarantee coverage for women-led businesses and climate-resilient businesses
AGRI3 Fund	• Portfolio • Individual	• Banks • Impact investors	• Farmers • Agri-businesses	Yes	Mobilises public and private capital to support sustainable ag and forest protection through guarantees
Agence Française de Développement (AFD)	• Portfolio • Individual	• Banks • MFIs • Financing companies	• SMEs • Corporates • Public entities	No	Provides guarantees to de-risk investments in climate resilience, biodiversity and urban development

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The following is a list of guarantee providers considered in the research, either through consultations or desk research (2/5)

Organisation name	Guarantee types issued	Lenders supported	End borrowers targeted	Ag-specific focus	Additional information
Alliance for a Green Revolution in Africa (AGRA)	• Portfolio	• Banks • Financing companies	• Smallholder farmers • Agri-SMEs	Yes	Provides guarantees to de-risk investments in smallholder farming
Asian Development Bank (ADB)	• Portfolio • Individual	• Banks • MFIs • Financing companies	• SMEs • Infrastructure developers	No	Provides partial risk and partial credit guarantees to mobilise private investment in various sectors
aBi Finance	• Portfolio • Individual	• Banks • MFIs	• Farmers • Agri-SMEs	Yes	Supports agribusinesses by providing Lines of Credit (LoCs) to financial institutions and running an Agriculture Loan Guarantee Scheme (ALGS) to share losses from defaulting loans, focusing on social inclusion and climate resilience
British International Investment (BII)	• Portfolio • Individual	• Banks • Impact investors	• SMEs • Women-led businesses	No	Provides credit guarantees to financial institution partners for up to 75% of the risk on SME loans
Development Bank of Japan (DBJ)	• Portfolio • Individual	• Banks • Corporates • Public entities	• SMEs • Corporates • Public projects	No	Offers partial credit guarantees to mobilise investment in infrastructure, renewable energy & dev projects

The following is a list of guarantee providers considered in the research, either through consultations or desk research (3/5)

Organisation name	Guarantee types issued	Lenders supported	End borrowers targeted	Ag-specific focus	Additional information
Development Bank of the Philippines	• Portfolio • Individual	• Banks • MFIs • Financing companies	• SMEs • Corporates • Public entities	Yes	Supports MSMEs, agriculture and infrastructure projects by providing credit guarantees
Dhamana Guarantee Company	• Portfolio • Individual	• Banks • Institutional investors	• Infrastructure projects	No	Provide guarantees exclusively to mobilise private investments in infrastructure projects
Dutch Development Bank (FMO)	• Portfolio • Individual	• Banks • MFIs • Impact investors	• SMEs • Corporates • Projects	Yes	Mobilises private investment in agribusiness, renewable energy and financial inclusion
European Investment Bank	• Portfolio • Individual	• Banks • MFIs • Financing companies	• SMEs • Corporates • Public entities	Yes	Provides a variety of guarantees to unlock financing for SMEs and mid-caps focusing on sustainable development
FinnFund	• Individual	• Banks • Impact investors	• SMEs • Corporates	Yes	Provides guarantees to mobilise private investments in renewable energy, sustainable agriculture etc.
Green Climate Fund	• Portfolio	• Accredited entities	• Climate projects	Yes	Mobilise financial resources to support climate change projects

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The following is a list of guarantee providers considered in the research, either through consultations or desk research (4/5)

Organisation name	Guarantee types issued	Lenders supported	End borrowers targeted	Ag-specific focus	Additional information
Green Guarantee Company (GGC)	• Portfolio	• Institutional investors	• Climate-focused projects	Yes	The world's first climate-focused guarantor, with a focus on green infrastructure, renewable resources
GuarantCo	• Portfolio • Individual	• Banks • Investors	• Infrastructure projects	No	Provides local currency credit solutions to mobilise private investment in infrastructure projects
KfW Development Bank	• Portfolio • Individual	• Banks • MFIs • Financing companies	• SMEs • Infrastructure projects	No	Provides guarantees that focus on infrastructure projects, poverty alleviation and economic growth
Multilateral Investment Guarantee Agency (MIGA)	• Individual	• Banks • Investors	• Private sector projects	No	Provides political risk insurance and credit enhancement guarantees to promote FDI
National Bank for Agriculture and Rural Development (NABARD)	• Portfolio • Individual	• Banks • MFIs • Cooperative banks	• Farmers • Agri-SMEs • Rural enterprises	Yes	Provides credit guarantees to enhance agricultural productivity, climate resilience and rural infrastructure
Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)	• Portfolio • Individual	• Banks • MFIs	• Farmers • Agri-SMEs	Yes	Reduces agri-business related credit risks by providing guarantees, insurance and TA to encourage lending to the ag sector in Nigeria

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The following is a list of guarantee providers considered in the research, either through consultations or desk research (5/5)

Organisation name	Guarantee types issued	Lenders supported	End borrowers targeted	Ag-specific focus	Additional information
Norfund	• Individual	• Banks • Impact investors	• SMEs • Corporates	Yes	Offers guarantees to businesses in renewable energy, financial inclusion
PASS Trust	• Portfolio • Individual	• Banks • MFIs • Financing companies	• Smallholder farmers • Agri-SMEs • Women-led businesses	Yes	Provides enhanced guarantee coverage for women-led businesses and supports green technologies
Small Industries Development Bank of India (SIDBI)	• Portfolio • Individual	• Banks • Financing companies • MFIs	• MSMEs • Startups	Yes	Facilitates MSMEs growth through guarantees focused on enhancing access to finance
Swedish International Development Cooperation Agency (SIDA)	• Portfolio • Individual	• Banks • MFIs • Impact investors • Financing companies	• SMEs • Underserved groups (women, youth)	Yes	Promotes sustainable development and gender equality through partnerships in agriculture and climate resilience
United Nations Capital Development Fund (UNCDF)	• Individual	• Banks • MFIs • Impact investors	• SMEs • Low-income households	Yes	Supports economic development in LDCs through guarantees and other instruments
USAID DFC	• Portfolio • Individual	• Banks • MFIs • Impact investors	• SMEs • Women-led businesses • Farmers	Yes	Provides partial credit guarantees focusing on agriculture, climate resilience and women-led businesses to promote sustainable development

Other guarantee information

Beyond structures, guarantees have terms to ensure that the end customers benefit from newly unlocked capital

	Term description and common uses	Implications
Interest rates	• Interest rates are often derived using the central bank rate and are adjusted based on the riskiness of the market segments; **when the rate is too high, it either locks out SMEs and farmers or increases the risk of defaulting** • **National development banks often lend at more concessional rates** than commercial banks, and are government-backed, however, this can lead to market distortion • **Some guarantee schemes will mandate a cap on the interest rates** to encourage inclusion[1]	• Exist to avoid market distortion or crowding-out of private capital • Guarantees are generally used to increase ability to lend to high-risk borrowers; caps on interest rates can also increase affordability of capital
Duration	• Portfolio guarantee agreements include **how long the guarantee will be valid**; investment should be structured and recovered within that period to remain compliant and eligible to call on the guarantee when needed. **The loan tenor can range from short to long-term depending on the transaction and the end-customers** • **Individual guarantees will generally match the tenor of the underlying** loan	• Portfolio guarantees usually take 12-24 months to gain traction; they often last between 5-8 years • Shorter durations are preferable to test effectiveness and additionality
Pricing	• **Pricing refers to the % a lender will pay to the guarantor** (periodically or a point in time) • Fees depend on several factors including (but not limited to) the **risk profile** of the borrower(s), **familiarity** of the lender to the market, the **maturity** of the market and **guarantor's IRR** • **Guarantors can use tiered or adjustable pricing**, increasing pricing as the market matures • Often a **portion of the fees are held in escrow to cover expected losses**, especially for unfunded facilities	• Higher fees can increase sustainability for guarantee providers although they reduce incentives for lenders to lend to riskier borrowers (e.g. Agri-SMEs)
Collateral	• **FIs usually determine the collateral requirements dependent on the cover of the guarantee,** but the guarantor could set guidelines as part of the guarantee • Collateral can be in the form of existing assets such as land, assets to be purchased by the capital extended, or future outputs such as crop yields and accounts receivables	• SMEs and farmers usually do not have collateral, lenders can be flexible given that the % of the loan is covered by the guarantee

Sources; 1. Afi and SMEF: Credit Guarantee Schemes: Facilitating MSME Financing in Africa during the COVID-19 Pandemic, Link

Portfolio guarantees cover a set of loans (and or equity) issued by a financial institution to borrowers who meet certain criteria

Portfolio guarantees are a **common use of guarantees for development partners and donors** to unlock capital for a larger number of companies:

- The **structure and terms need to be carefully designed** to ensure that the facility is creating an incentive for FIs / impact investors to invest without causing moral hazard or distorting the market
  - These guarantees will typically cover a portion of the portfolio either as first, second or third loss or at pari passu
  - While many portfolio guarantees cover a certain level of each loan within the portfolio, there is also a possibility for funded guarantees to provide coverage across the whole portfolio that can be used by the lender to cover any losses within the portfolio
- Guarantors can **provide multiple guarantees to FIs** working in the same space **to create competition**[1]
- The guarantee provider does not necessarily need to be only one entity. **Co-guarantees include multiple guarantors** (including potentially the fund itself) with aligned objectives for a specific sector or cross-cutting issue such as climate resilience

Portfolio guarantee

Guarantor → Lender → Borrower

Provides guarantee on a fund level with specific structure, terms and a criteria for investment

Chooses companies to provide capital and sets the terms, with a portion of the (or the entire) loan being covered by the guarantee facility

Examples of portfolio guarantees

In 2023, the African Guarantee Fund (AGF) extended a **USD 200M to EcoBank to lend to SMEs focusing on women and green finance across the bank's 27 markets**. This is the largest guarantee facility in Sub-Saharan Africa and represents a longstanding relationship between the two stakeholders[2]

USAID and DFC issued a USD 55M **credit guarantee to support India's agriculture sector.** Samunnati Financial, Maanaveeya*, and Avanti Finance will extend loans to **ag-tech companies, clean energy for agriculture companies, and farmer-producer organisations**[3]

Source: 1. OECD: The Role of Guarantees in Blended Finance, Link ; 2. Ecobank and African Guarantee Fund Sign Transformative USD 200 Million Risk Sharing Agreement, Link; 3. DFC and USAID Launches USD $55 Million Loan Financing Program As Part of COVID-19 Relief for Sustainable Agriculture Development in India, Link;

Individual guarantees can be split into guarantees to the lender or to the borrower and are used to support specific transactions

Individual guarantees are often issued to **high-impact or growth potential companies to support capital-raising activities**. There are two ways key use cases for this type of guarantee:

- **Individual guarantee to a lender:** Guarantee to a financial institution or impact investors to invest in a specific company; this guarantee can generally only be used by the specific bank / investor and is not portable for other investors
- **Individual guarantee to a borrower:** Guarantee to a company to encourage financial institutions / impact investors to participate in the fundraising due to the lower risk profile of the transaction; this is a flexible arrangement that allows a company to shop for the most favourable terms in the market

Individual guarantee to the lender

Guarantor → Lender → Borrower

Provides guarantee for a specific transaction to allow the FI to participate

Provides capital as part of the transaction, leveraging the additional risk cushion from the guarantee

Example: **GuarantCo co-issued a USD 2.8M guarantee with USAID to Kalangala Infrastructure Services to unlock USD 12M through NedBank.** The goal was to improve the road network that would support economic activities such as ag development, water and energy access[1]

Individual guarantee to the borrower

Guarantor → Borrower → Lender

Provides guarantee to a company for a specific transaction

Uses the guarantee to market the transaction and attract FIs / investors to participate in the raise

Example: **2008 - 2015, Grameen Foundation offered portable guarantees worth USD 32.5M to MFIs** which allowed them to shop for financing from in-country banks, in local currency, boosting their lending capacity. The guarantee other co-guarantors were **USAID DCA and Schwab Charitable**[2]

Source: 1., GuarantCo: Kalangala Infrastructure Services, Link; 2. GAIN: Guarantees and Other Risk Sharing Mechanisms For Nutrition Financing, Link

Guarantees can work more effectively when blended with other instruments, to fulfil needs-based and sector-specific objectives

Blended finance approaches are dependent on the **stage** of the project, the **risk appetite** of investors and the type of **risk mitigation** required. These structures can often be combined in creative ways to **attract diverse investors** into a single project

Serial blending

Concessional or donor financing is used to improve the bankability of an early-stage project before engaging more commercial or private investors. **Concessional capital** (e.g. grants or low-interest loans) is applied first to fund early-stage activities like feasibility studies to **reduce initial risk**.[1] This approach is effective for projects that need time to demonstrate viability before attracting market-rate capital.[2]

Vertical blending

Different layers or tranches of capital can be stacked within a single investment vehicle, each with varying levels of risk and return. First loss capital, often provided by donor or public funds, absorbs the first losses. More senior tranches have lower risk and generally are cheaper pools of capital. This structure **incentivises investment,** enabling projects to offer varying returns dependent on the risk profile of the investor[3]

Parallel blending

The use of de-risking instruments like guarantees **alongside the capital**, typically provided by a third party.[4] The guarantee helps reduce the perceived risk for all or some of the investors. This arrangement helps leverage private investment by reducing risk through an external layer of protection

Sources: 1) Making the most of concessional capital: The Lab's Blended Approach, Climate Finance Lab website link; 2) How Blended Finance Works, IFC / The World Bank Group website link, 3) Blended Finance – an underutilized approach with great potential?, KPMG, link, 4) Blending with guarantees: Hope or hype?, Convergence website link

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