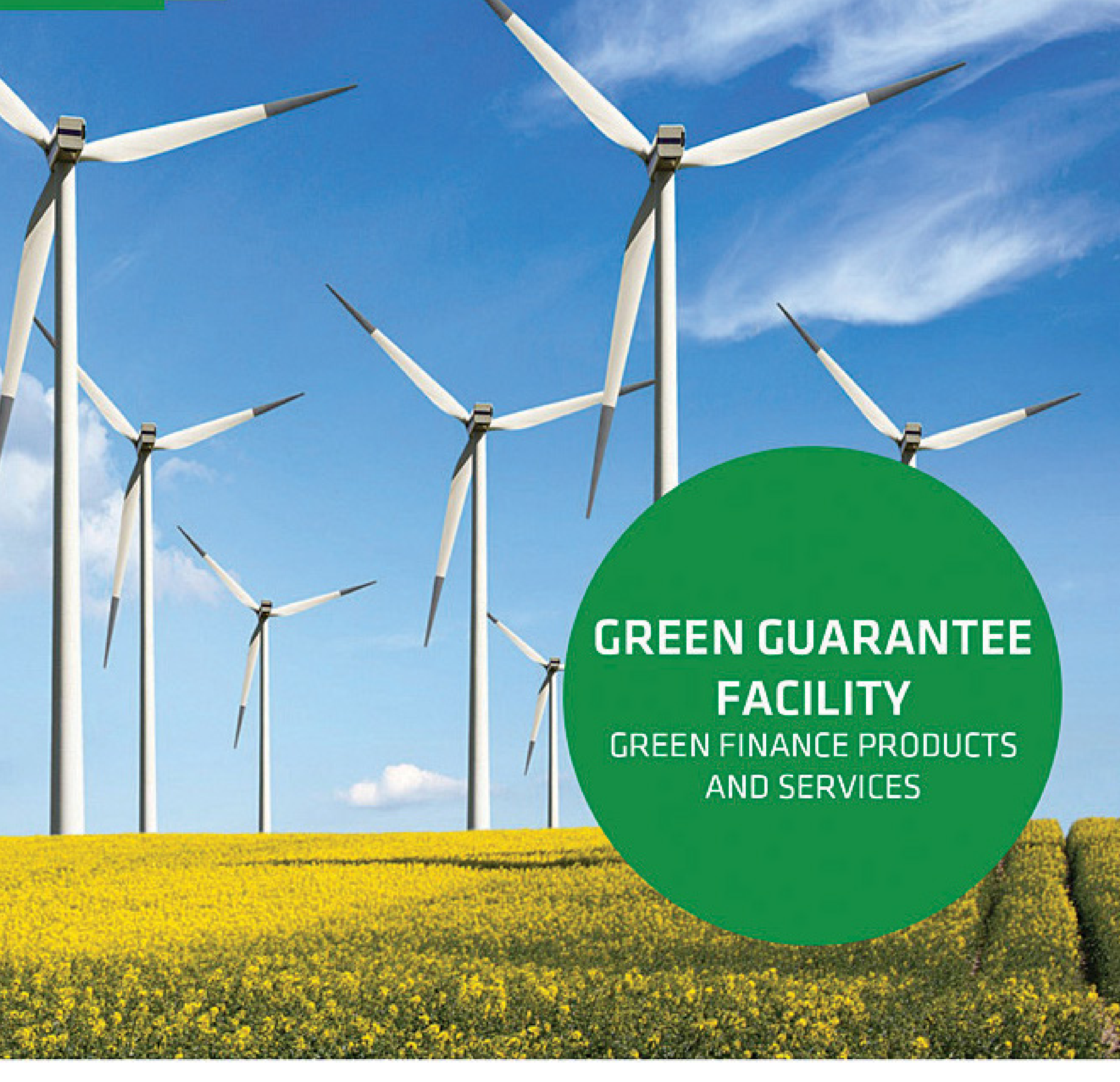
AFRICAN GUARANTEE FUND
FOR SMALL AND MEDIUM-SIZED ENTERPRISES

GREEN GUARANTEE FACILITY


GREEN GUARANTEE FACILITY
GREEN FINANCE PRODUCTS AND SERVICES

What is Green Financing?

Green finance comprises Climate finance and finance for other environmental objectives, with Climate finance being composed of Green energy and mitigation of greenhouse gases and Adaptation to climate change.

Why Green Financing?

The African Guarantee Fund (AGF) believes the real engine of growth in Africa is the SME sector. With the continuous global discourse around climate change, it is vital that this economic growth be sustainable and environmentally friendly.

The insufficient supply of energy affects all aspects of development including social, economic and environmental, across the continent. Over 645 million Africans lack access to electricity while 700 million lack clean energy cooking options. Improvements in standards of living are manifested in increased agricultural and industrial outputs; the provision of efficient transportation; and adequate shelter, healthcare and other human services; all of which require access to reliable forms of energy.

This is why AGF decided to establish a Green Guarantee Facility (GGF) with the support of the Nordic Development Fund. This Facility, is intended to enhance access to finance for climate and green growth-oriented SMEs. Its Capacity Development component is to build knowledge and capacity of banks in Africa to scale up lending to the green economy. This is expected to bring direct benefits in terms of climate change mitigation and adaptation as well as sustainable employment, poverty reduction and gender opportunity.

Following the Paris Agreement which was a result of the COP-21 gathering, contributing to the reduction of CO_2 emissions is a shared responsibility of all nations.

GREEN ECONOMY DEFINITIONS

Green Energy and Mitigation of Greenhouses Gases

In relation to climate change mitigation, an activity that promotes efforts to reduce or limit greenhouse gas (GHG) emissions or enhance GHG sequestration.

Adaptation to Climate Change

An activity intended to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience. This encompasses a range of activities from information and knowledge generation, to capacity development, to planning, and the implementation of climate change adaptation actions and investments.

Opportunities in Green Finance

The Green Finance space offers growing opportunities for contributions from Commercial Financial Institutions (Banks, Private Equity and Venture Capital). No longer is it a preserve of aid-related development, green finance can present opportunities for commercial viability. Africa has the potential to achieve universal access to energy while reducing the carbon intensity of its growth. The continent has enormous solar, hydroelectric, geothermal potential. This translates into opportunities for African SMEs to turn environmental challenges into business opportunities.

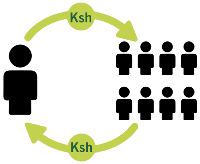
CLIMATE FINANCE FLOWS

Description (Amount in USD Billion)	FY 2014	FY 2013	Variance	%
Government & Agencies	15	16	-1	-6%
Development Finance Institutions	132	126	6	5%
Commercial Financial Institutions	46	21	25	119%
Private Equity & Venture Capital	3	1	2	200%
Project Developers	92	87	5	6%
Corporate Actors	58	46	12	26%
Households	43	34	9	26%
Total	**389**	**331**	**58**	**18%**

Source: International Development Finance Club

Challenges Around Green Finance

Lack of track record



Tenor mismatch between lenders and borrowers

Limited knowledge of the sector; including how to assess risks

Uncertainity of future repayments

Scarce and inadequate FX risk hedging options

AGF's Role in Green Finance

The overall objective of the Green Guarantee Facility is to enable financial institutions to finance African SMEs whose investments ensure sustainable growth and climate resilient development in African economies. In addition, the Facility has the potential to create employment across Africa through the SMEs accessing green financing.

The following are examples of qualifying projects:

Sustainable Energy

- Renewable energy
- Energy efficiency
- Sustainable transport

- Cleaner materials, technologies, systems and practices in product value chains
- Waste and wastewater management
- Waste and material recovery and re-use
- Recycling

Climate-Smart Agriculture and Natural Resource Management

- Climate-smart agriculture; crops, seeds, technologies and practices.
- Sustainable forestry and fisheries;
- Organic waste management
- Water protection, conservation and management;
- Protection of vulnerable ecosystem resources.

A PIPELINE OF GREEN PROJECTS UNDER REVIEW

Country	Product	Amount (USD Million)
Cameroon	EG	2.0
Egypt	EG	3.5
Kenya	EG	4.0
Kenya	LIG	2.5
Kenya	LIG	2.5
Kenya	LPG	2.3
Kenya	EG	0.5
Nigeria	LIG	10.0
Nigeria	EG	1.2
Pan Africa	LPG	3.5
Total		**32.0**

Capacity Development

To further help address these challenges, the Green Guarantee Facility is also coupled with a Capacity Development programme for both financial institutions and SMEs. AGF provides Capacity Development support, to increase awareness on the Green Economy to its partner Financial Institutions as well as to mitigate the risk associated with financing climate-friendly investment. A knowledgeable team at the FI level provides a better assessment of loan applications and a conducive business environment to SMEs. Likewise, capacity-enhanced SMEs provide confidence to FIs to lend them.

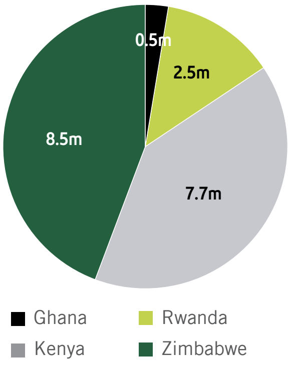
To date, AGF in partnership with the Nordic Development Fund and the International Trade Centre have hosted two of four expected Green Finance Conferences and subsequent trainings in Zambia (March 2017) and Kenya (June 2017). The additional events will be held in Accra (November 2017) and Cote d'Ivoire (Q1 2018).

Green Finance Conference in Nairobi - June 2017

Green Finance training session in Lusaka - March 2017

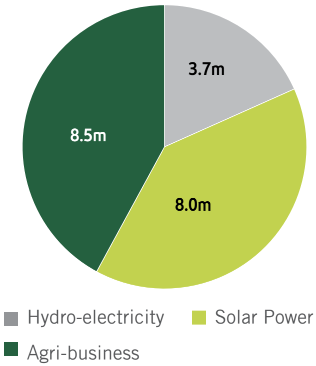
Measurable Indicators
Progress To-Date

Green Guarantees by Country



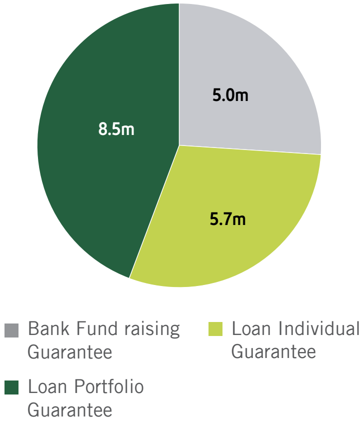
Total: USD 19.2 M

Green Guarantees by Sector



Total: USD 19.2 M

Green Guarantees by Product



Total: USD 19.2 M

Above: A mini hydro-electricity generation project on course to produce 6.6 MW of electricity financed by an AGF Partner Financial Institution in East Africa. The project is currently employing close to 1,000 part-time and 50 full-time staff.

Source: Courtesy

TRACKING PERFORMANCE OF THE GREEN GUARANTEE FACILITY

Performance Indicator	Status as at July 31, 2017	Comment
• Number of households expected to be connected to the ongoing green energy projects	200,000	These include solar energy and hydro-electricity
• Jobs created directly	3,000	About 4,000 more are expected to be created in agri-business.
• Jobs expected to be created indirectly	15,000	This estimation is based on the on-going projects.
• Number of people trained in green finance and promotion of climate-friendly initiatives.	552	
• Other positive social impacts	Reduction in river flooding, rapid growth in small village businesses, higher student learning outcomes, better security.	These are unintended positive social outcomes derived from the green finance guarantee.
• Green Finance made available	USD 68m	Guaranteed Green Finance loans.
• Green Guarantee requests (pipeline)	USD 42m	Requests are at different review and approval processes.
• Number of countries benefiting from Green Finance Guarantee	04	
• Number of SMEs benefiting from green finance guarantee	54	Most of the ongoing projects are Loan Individual Guarantees.

The Green Guarantee Facility – Products and Added Value

The aim of AGF is to reduce the risks assumed by the financial sector by sharing these risks through the provision of financial guarantees which will mitigate the inability of SMEs to provide acceptable collateral. The following types of guarantee products are offered for green finance:

Loan Guarantees

- To improve the availability of bank financing in situations where adequate collateral is a problem
- To improve the solvency ratios of banking partners with a better leverage on their capital;
- To provide partners with immediate liquidity in case of SME loan default

Equity Guarantees

- To improve the level of capital for African SMEs

Green Fundraising Guarantee

- To enable banking partners raise long term resources for SMEs' long term needs

Green Capacity Development

The primary rule of intervention of AGF is to have a balanced sharing of risks, rather than a transfer of most of the risks. This sharing translates into a guaranteed maximum coverage rate of 50% of the financing. In the case of the Green Guarantee Facility, the coverage can be up to 75%, depending on the expected social and environmental impact of the project to be financed.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