

Proposals to Support Africa's Private Sector with MSME, Trade, and Agriculture Financing

In order to support the development of the African private sector, the IFC is proposing a set of initiatives specifically targeted towards MSME, Trade, and Agriculture financing. The initiatives related to MSME and Agribusiness have been shared and discussed with the EBRD, the EIB, Proparco and the EU Commission in the perspective of the Summit.

1. MSME FINANCE INITIATIVE

In Africa, financial institutions often overlook the continent's estimated 10 million small and informal businesses, resulting in a large financing gap that hinders growth and job creation. Limited financial sector competition, a lack of MSME-specific products, high risk aversion, and strict collateral requirements have raised financing costs, hurting smaller businesses. COVID-19 has exacerbated these inequalities.

IFC, with the support of other partners, is proposing an innovative initiative which has four components:

1. Providing new sources of MSME-focused finance through debt funds.
2. Developing a market for mezzanine lending to MSMEs.
3. Offering flexible risk mitigation tools to increase MSME inclusion.
4. Accelerating the digitalization of the SME lending market in MEA.

2. AFRICA TRADE RECOVERY SUPPORT INITIATIVE

COVID-19 has disrupted the world economy, hitting Africa hard. The withdrawal of foreign banks from certain markets has increased financing challenges. In some cases, confirming banks have reduced trade finance facilities and credit limits, threatening the poorest countries' ability to import and export. Many African businesses have suffered higher transaction costs and value chain disruptions.

The Trade Finance Initiative proposed by IFC aims to support trade flows of critical goods, including for MSMEs to (and from) Africa during the COVID-19 crisis recovery phase. It consists of six components:

1. Providing trade guarantees on a transaction-by-transaction basis.
2. Supporting the US\$ & Euro funding needs for trade transactions the banks.
3. Developing unfunded or funded risk sharing facilities to target sectors e.g. health.
4. Facilitating trade flows for green energy and climate smart agri.
5. Providing support to SME exporters/importers on a transaction-by-transaction basis.
6. Developing a receivables-backed facility benefiting mostly SMEs.

3. AGRIBUSINESS BLENDED FINANCE FACILITY INITIATIVE

About 70% of sub-Saharan Africa's workforce is engaged in agriculture. The region's food and beverage markets are projected to triple by 2030² to \$1 trillion. However, losses in SSA are estimated at about \$4 billion annually, due to a lack of cold chain facilities, unskilled farmers, and weak supply chain linkages. The COVID-19 crisis has underscored the importance of strong local and regional value chains.

This initiative would rely on a user-friendly, blended finance facility to support agribusiness activities, including MSMEs, in SSA with a three-year pilot. The facility will include components for investment and advisory support. The facility will support the following eligible agribusiness activities:

1. Development of medium-scale commercial farms (10-200) hectares with associated infrastructure
2. Establishment of agro-processing for value addition to primary products.
3. Agricultural equipment/machinery distribution, leasing, and servicing.
4. Warehousing logistics and transportation.

² World Bank 2013 <http://www.worldbank.org/en/news/feature/2013/03/04/africa-agribusiness-report>