



RISK SHARING FACILITIES: MOBILIZING FINANCE FOR WOMEN-LED MSMEs

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PURPOSE OF THE TOOLKIT

The purpose of this toolkit is to assist AFI member institutions to conceptualize and design risk sharing facilities (RSF) to encourage the formal financial institutions to finance women entrepreneurs and women-led MSMEs.

The toolkit also highlights the benefits of RSF for women-led MSMEs, participating financial institutions and the government, and describes different structure of RSF that can be considered by members, as well as the principles and success factors for such facilities. It further guides users in designing RSF, including definition of outputs and performance indicators, activities, inputs, governance, targets, and effective implementation.

WHO IS THE TOOLKIT FOR?

This toolkit is intended for policymakers, regulators, supervisors and other stakeholders involved in the formulation and implementation of policy and regulation that advance access to finance for women-led MSMEs. It is also useful for financial institutions who aim to expand their MSME portfolios or enter the market of women-led MSMEs.

HOW IS THE TOOLKIT STRUCTURED?

The toolkit begins by introducing the concept of RSF. The sections that follow gives an overview of the different models of RSF based on the nature of financial risks that these facilities cover, and the parties involved in its design and implementation.

The toolkit starts by defining RSF and explaining its rationale for women-led MSME finance. It then points out the differences between RSF and Partial Risk Guarantees, followed by highlighting the benefits of the RSF for governments, discusses women-led MSME access to finance, and for financial institutions, and the way RSF works. The toolkit then outlines the principles and success factors for RSF and provides details to the steps involved in its preparation and effective implementation. The toolkit ends with some illustrative examples on how actual cases work.

WHAT IS A RSF?

The RSF is a financial mechanism that guarantees a portion of a portfolio of newly-originated loans, up to a maximum portfolio amount during a given ramp-up period (usually two to three years,) through a bilateral loss-sharing agreement

It can be set up by government agencies (e.g. central banks) or a multilateral financial institution (such as the World Bank Group's IFC, regional development banks, or foreign government agencies, such as GIZ or AFD, etc.), or both, and extend portfolio guarantees to an originator of assets (a financial intermediary such as a bank, finance company or microfinance institution) for a given amount of newly-generated assets (loans) to an underserved market (e.g. women-led MSMEs). Third-party guarantors (such as multilateral development banks or bilateral agencies) can join the RSF and typically offer grants or concessional capital to cover a small portion of the portfolio risks.

A key advantage of the RSF is that, by sharing the risks of a given target group (in our case women-led MSMEs) with the Participating Financial Institutions (PFI), they build on the expertise, network and corporate structures and incentives of private sector PFI, which already have existing and potential future operations with the MSMEs.

A guarantee coverage can be pari-passu, meaning that the RSF compensates the PFI for losses on the portfolio on identical terms and conditions. Such pari-passu risk sharing would normally be defined as a percentage of a specifically defined portfolio of eligible loans (e.g. 20 percent, 30 percent, 50 percent, etc. of new women-led MSME loans). Finally, RSF can be 'funded' (linked with a longer tenor funding to the PFI) or 'unfunded' (provided as a pure guarantee). Unfunded RSF are appropriate when the PFI has ample funds of the required tenor for women-led MSMEs.

Unfunded RSF can also facilitate lending to women-led MSMEs in local currency, since the local PFI will normally have access to deposits and can manage the associated funding risk.

BOX 1: WHAT IS A RISK SHARING FACILITY?

1

Bilateral agreement between the government/ international Financial Institution and an originator of financial assets (e.g. bank).



2

Government reimburses originator for a portion of principal losses incurred on a portfolio of new assets (joint guarantee element).



3

Eligibility is based on pre-agreed criteria; the government does not review individual assets at origination.



4

First-loss retained by originator or covered by third-party.



RATIONALE FOR RSF: HOW DO THEY ADDRESS CONSTRAINTS TO WOMEN-LED MSME FINANCE?

Access to finance for MSMEs remains a core issue in many emerging and developing economies. The provision of financing to women-led MSMEs is often less than optimal reflecting a market failure.



Women-led MSMEs may be perceived as too small or too risky to attract finance at any given time on terms, which would be conducive to motivate investment in new technologies and equipment, services, training or other productive activities. Access is not necessarily a function of price; at the very least, it depends as much on (i) the risk appetite of banks to lend to MSMEs - this in itself is very much dependent on external business environment factors, such as bankruptcy and collateral regimes; (ii) the ability of the bank to provide the funding required for the women-led MSME project (e.g. long tenor and local currency); and (iii) the MSMEs' ability to formalize and structure their project proposals and operations.¹

There are several reasons why women-led MSMEs would have difficulties in accessing finance (refer to policy framework document):

- > Higher perceived risks and actual costs associated with lending to this market segment.
- > Limited knowledge among the banks of how to successfully engage with women-led MSMEs.

- > More attractive opportunities for banks in other market segments, e.g. corporate sector.
- > Limited skills of women-led MSMEs to effectively apply for bank finance and to demonstrate necessary levels of managerial and financial expertise to successfully utilize bank funds.
- > Lack of assets that can be pledged as collateral for bank loans.

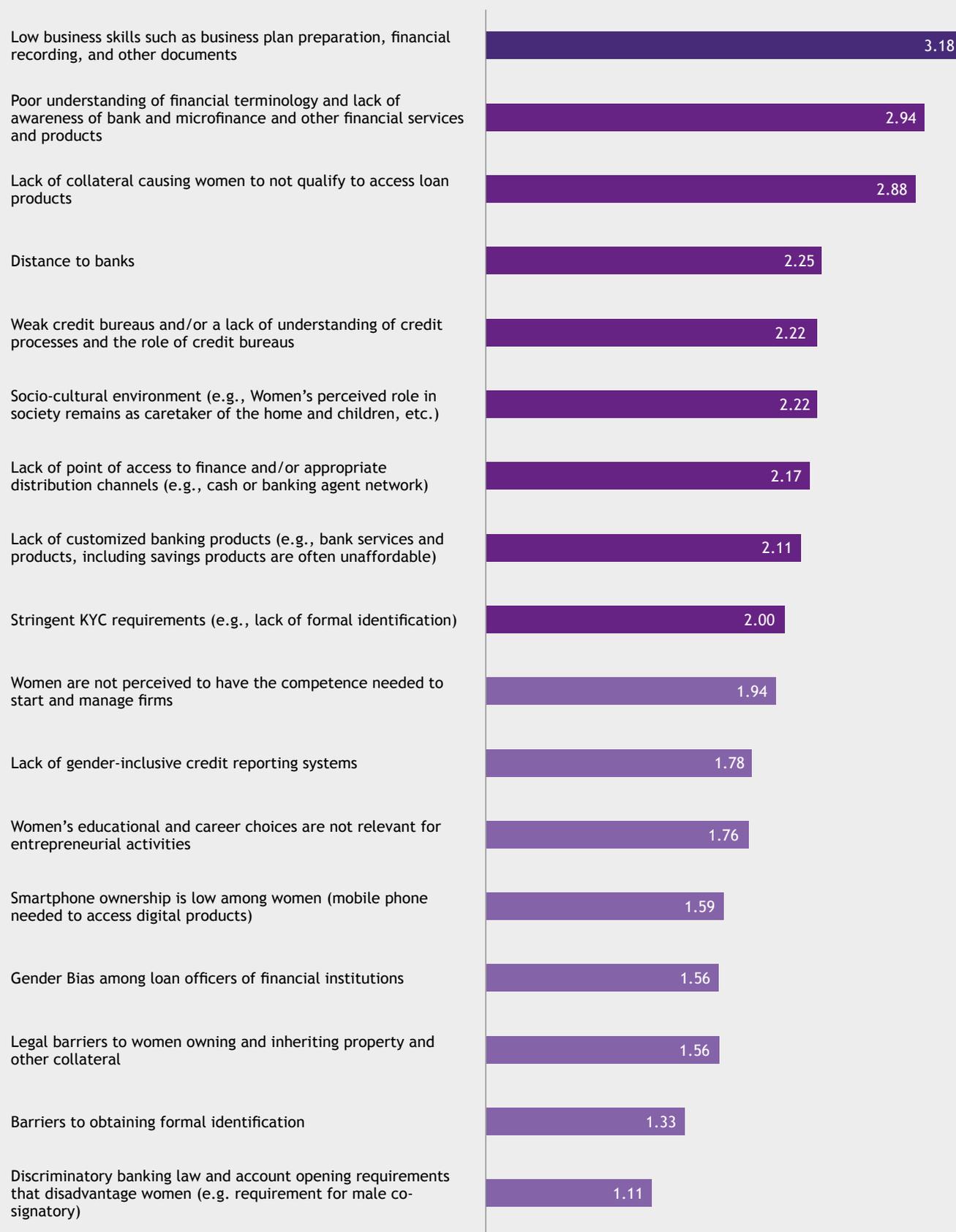
Figure 1 summarizes the ranking of constraints to women-led MSME access to finance from a survey of 24 AFI SME Finance Group institutions conducted in 2020.

RSF can reduce the perceived and real risks of lending to women-led MSMEs, who are underserved by the formal financial sector and can be launched in response to a resulting gap that remains in the ability to mobilize domestic credit in support of women-led MSME development. Where banks are liquid and funding is not an impediment to lending, RSF would especially be useful in mobilizing finance to women-led MSMEs. The traditional credit lines address only the funding needs of PFI and do not necessarily help in increasing their risk-taking capacity. However, many PFI are interested in expanding their lending if, at the same time, they could also “de-risk” their new and existing credit exposure.² This opens an opportunity for the RSF to develop and offer its clients a risk transfer (or risk sharing) instrument.

RSF typically serve three purposes: they enable to segregate an investment or financing between riskier and less risky components, thereby lowering the required threshold for private financiers in terms of risk appetite. By transferring existing risk away from financial intermediaries, they also encourage banks to re-commit their capital to second portfolio of new women-led MSME loans. And by offering to share new risks they encourage financial intermediaries to grow in that field.

¹ RSF are among the instruments that can reduce adverse effects of financial crises and pandemics on MSMEs, including women-led MSMEs, which tend to be more vulnerable to such crises, compounded by constraints of weak creditor rights, informal economy, and weak collateral registries.

**FIGURE 1: RANKING OF BARRIERS TO WOMEN-LED MSME ACCESS TO FINANCE
 (1: LEAST SEVERE TO 4: MOST SEVERE) 24 RESPONSES**



Source: 2020 Survey

DIFFERENCE BETWEEN PARTIAL CREDIT GUARANTEES AND RISK SHARING FACILITIES

PARTIAL CREDIT GUARANTEES

A Partial Credit Guarantee (PCG) represents a promise of full and timely debt service payment up to a predetermined amount. Typically, the sum that the guarantee facility pays out under the guarantee covers creditors irrespective of the cause of default. The guarantee amount may vary over the life of the transaction based on the borrower's expected cash flows and creditors' concerns regarding the stability of these cash flows. Guarantees could be structured to reduce the probability of default of the debt instrument and increase the recovery if default occurs. In general, the objective is to offer the minimum amount of guarantee necessary to facilitate a successful transaction.

PORTFOLIO RISK SHARING FACILITIES

A RSF, on the other hand, allows a PFI to sell a portion of the risk associated with a pool of assets (a portfolio of new women-led MSME loans). The assets typically remain on the PFI's balance sheet and the risk transfer comes from a partial guarantee provided by the RSF. In general, the guarantee is available for new assets (new loans to women-led MSMEs) to be originated by the client (PFI) using an agreed upon underwriting criteria, but in certain situations may also be used for assets that have been already originated. Typically, the client's purpose in entering into a RSF is to help the client increase its capacity to originate new assets within an asset class in which the government wants to promote, in our case, women-led MSME access to finance.

WHO BENEFITS FROM THE RSF?

When designed and implemented based on principles and steps outlined in the next sections, a RSF can benefit women-led MSMEs, the financial institutions, and the government.

1. **RSF benefit women-led MSMEs by addressing some of the key constraints to these firms' access to finance** and reducing the banks' perception of risk for this group of enterprises by sharing a portion of this risk with the banks (see above).
2. **RSF benefit client originator (e.g. PFI) in several respects.** RSF allows an originator to introduce a new business line, new market or expand an originator's target market to increasingly include women-led MSMEs. Financial institutions usually benefit from new products and financing structures to support their lending activities. RSF designed to facilitate access to finance by women-led MSMEs can do so through:
 - a. Partial coverage of credit risk for women-led MSMEs.
 - b. Flexibility for banks to take collateral security.
 - c. Possibility that financial regulators assign a lower risk weight for loans guaranteed under RSF, which translates into lower provisioning required and lesser capital requirement for banks.
 - d. Availability of more capital, which becomes free for extending loans and enhancing business portfolio.
3. **It benefits the government by facilitating access to finance for women-led MSMEs,** thereby increasing their participation in the economy, and contribution to economic growth and job creation.

2 The PFI can offer more financing to the underserved while "de-risking" - risk transfer to the third-party (i.e. govt)

WHEN IS THE RSF APPLICABLE AND HOW DOES IT WORK?

The RSF becomes applicable when losses are realized on a portfolio of new loans (to women-led MSMEs). For a pre-determined portfolio of new loans/assets to women-led MSMEs, the RSF reimburses an originator for a fixed percentage of incurred losses that exceed a predefined threshold (or first-loss).

Servicing procedures for performing, delinquent, and defaulted assets will be agreed upfront. All newly-originated assets will be added to the facility portfolio during a ramp-up period that generally lasts two to three years or until the portfolio reaches a predefined maximum volume. After the ramp-up period, no new assets may be added, but the RSF will continue to share losses with the originator in the amortizing portfolio until the last asset has been repaid or the RSF termination date has been reached.

In some cases, the first-loss is covered by concessionary loans or grants from other institutions, such as the International Development Agency (a member of the World Bank Group), which offers concessional loans and grants, or regional development banks and other institutions to further reduce the government risk sharing coverage and to incentivize banks to service women-led MSME sector.

PRINCIPLES AND SUCCESS FACTORS

A STRONG REGULATORY AND SUPERVISORY SYSTEM THAT ENSURES COMPETITION

Among financial institutions enhances the likelihood of the RSF success; so do business environment reforms to facilitate MSME creation and growth.

TRANSPARENCY AND FAIRNESS IN THE SELECTION OF PFI IS IMPORTANT

PFI should be selected through a one-step seal bid and based on clearly defined selection criteria.

MINIMIZING MORAL HAZARD

By ensuring that the originator has incentive to carefully assess and manage the risk of the portfolio over time. This requires that the portion of the RSF coverage of risk be carefully assessed and typically, the RSF should not guarantee more than half of potential default of a portfolio of new loans to women-led MSMEs. Provided that 'moral hazard' is controlled, the PFI themselves ensure necessary market discipline and avoid market distortions, especially if the risk-sharing product or guarantee is offered to many competing PFI in any given market.

REINFORCING AND CREATING MARKETS

This should be the prime objective of RSF. RSF should be a catalyst to allow financial institutions (both those who participate in the RSF and those who do not, through demonstration effect) to understand the risks and potential of the women-led MSME markets. Market distortions should be avoided. The RSF guarantees should be kept at the minimum level (in terms of coverage and time) required to achieve the development objectives, while at the same time providing the necessary technical assistance (see below). The RSF is expected to encourage lending into these new markets and establish a performance track record and pricing experience that will inform future lending, demonstrate the commercial viability of lending in this sector, and avert the need for a guarantee in the future.

ADDITIONALITY

The RSF guarantees should not be aimed at replacing (crowding out) private sector funding or other government programs and financial interventions. Instead, they should attract additional finance (from the formal financial sector, and from third-parties in initial roll out stages of the RSF) and not replace it. Demonstration effect of RSF for the banking sector is

also an important consideration. The RSF, with its risk sharing arrangements (e.g. first-loss coverage) should be able to mobilize financing from other sources. RSF do not eliminate risk but share risk in a reasonable manner to catalyze investment and benefit women-led MSMEs.

COMMERCIAL SUSTAINABILITY

Investment policies and financial controls of the PFI must be aligned with best practice and should follow the principle of minimizing market distortions.

PROMOTING HIGH STANDARDS

RSF should require PFI to ensure commitment with responsible investment principles (including social and environmental and other standards, transparency, money laundering, etc.).

MONITORING AND EVALUATION

The RSF should be established based on an ex-ante evaluation, which establishes a set of appropriate performance indicators for the Facility and specify the expected output, results and impact. The evaluation shall determine the most efficient mode for delivering the risk sharing mechanism and shall assess the size of the identified funding gap, the expected leverage effects and also examine additional qualitative effects. Portfolio performance will be monitored by the originator and reported to the RSF administrator on a regular basis.

TECHNICAL ASSISTANCE

In addition to sharing the risk of loss associated with the covered portfolio of new women-led MSME loans (assets), the RSF can often arrange for the provision of technical assistance designed to expand a bank's capacity to originate, monitor and service women-led MSME loans. RSF are in fact often more effective when combined with technical assistance to support the PFI expansion into new business lines such as women-led MSME market. However, the technical assistance would need to be specific to the development of systems and products for women-led MSME finance, as opposed to general capacity building. Technical expertise could also be targeted to women-led MSMEs, both clients and potential clients of the PFI (in the form of technical assistance or joint training campaigns) to enhance project formalization and implementation. Assistance in packaging/marketing of goods produced by the MSME and channels for selling if the MSME has no established market yet

- > An example of Terms of References for capacity building for PFI and women-led MSMEs are provided in Annex 1 and Annex 2 for illustration purposes.

VARIATIONS OF THE RSF STRUCTURE

Different structures can help attract additional public and private investors to provide debt and equity finance for MSMEs in riskier operating environments. The challenge is to carefully structure the corporate governance of such a vehicle and to ensure professional management. A strong management team must manage the RSF and sufficient remuneration should be considered to motivate and attract such team. This can be a hinderance for members and should be covered by the revenues generated by the operations of the RSF or financial intermediary.

The structure of RSF can vary depending on the needs of the originator, participation of third-parties in risk coverage, and the nature of assets to be covered by the facility. Examples of possible structures are given below, but they are by no means exhaustive. There are many variations in the structure of RSF.

In figure 2 we present some graphic examples. In these examples, the boxes indicate the whole portfolio of new women-led MSME loans/assets, and the labels refer to:

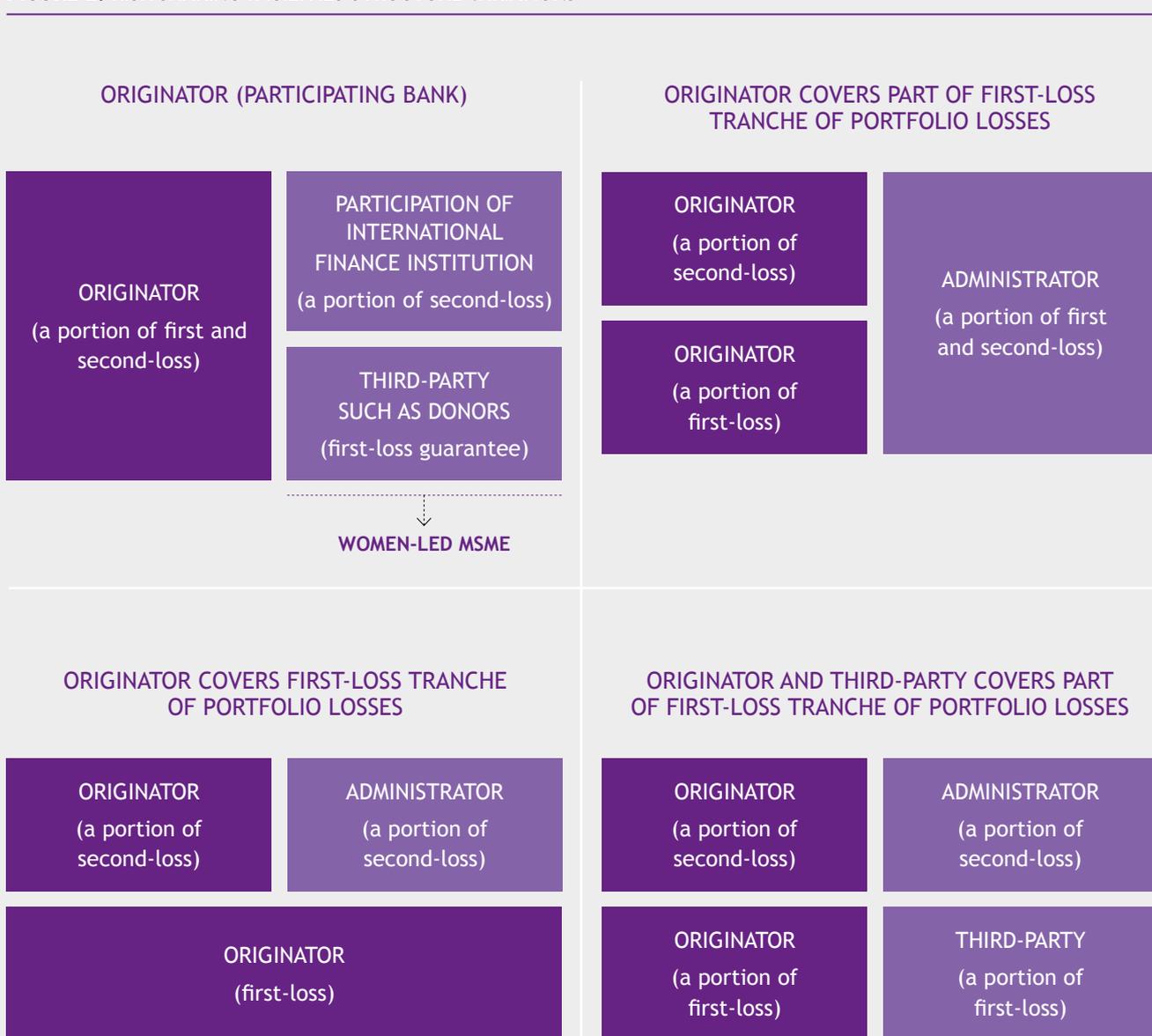
- > **Administrator:** Government agency (such as the central bank), or multilateral development bank (such as the IFC, EBRD, etc.), who administers/ manages the RSF.
- > **Originator:** Bank or finance company or microcredit institution, who usually covers the first-loss of the new portfolio of women-led MSME loans.
- > **Third-Party:** Other multilateral development agencies offering grant support or cheap loans (such as the World Bank's International Development Association).
- > **First-Loss Tranche:** The portion of loan portfolio which presents the liability that the originator will incur prior to the commencement of loss sharing (Second Loss) and is expressed as a percentage of the book value of assets covered by the RSF. A portion of the first-loss tranche can also be guaranteed by third-parties who become part of the RSF. Normally the first-loss tranche can be much smaller than the

supported portfolio. For example, a 10 percent first-loss can significantly reduce the probability of loss to the originator on a portfolio, which historically may have non-performing loans of eight to 10 percent. first-loss tranches are not normally provided on a commercial basis as they have a high probability of loss. Consequently, they are more regularly provided by public institutions and third-parties on a grant or highly concessional basis and has a positive effect on the size of the portfolio that can be covered under the RSF.

> **Second-Loss:** The proportion of the loan portfolio after the first-loss tranche is fully covered.

The expertise could be targeted to the intermediary (in the form of technical assistance or joint training campaigns for MSMEs and awareness raising initiatives) or to the MSMEs themselves (in the form of support to increased professionalization and project formalization and implementation).

FIGURE 2: RISK SHARING FACILITIES STRUCTURE VARIATIONS

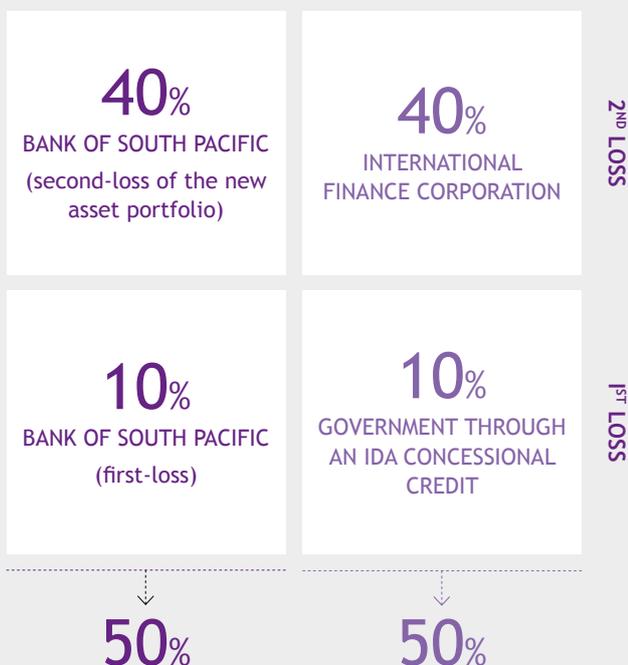


PAPUA NEW GUINEA

The example below shows the case of Papua New Guinea, where the government together with a multilateral development bank (International Development Agency, IDA, and International Finance Corporation, IFC, as part of the World Bank Group) entered into a risk-sharing agreement with a PFI (Bank South Pacific). The structure of the RSF is presented in the following figure:



DEFAULT RISK COVERAGE OF A NEW PORTFOLIO OF NEW SME LOANS GOVERNMENT AND MULTILATERAL DEVELOPMENT BANK RSF



The PNG case is further detailed on page 16. Other examples are provided on pages 17 to 21.

STEPS AND CONSIDERATIONS FOR THE DESIGN AND EFFECTIVE IMPLEMENTATION OF RSF

OBJECTIVES AND EXPECTED OUTCOME

Objectives and expected outcome of the RSF portfolio should be clearly defined at the outset. Objectives could include:

- > **Increasing access** to finance by women-led MSMEs.
- > **Mitigating and diversifying default risks** (for example through technical assistance and capacity building for the target women-led MSMEs, as well as the participating financial institutions).
- > **Encouraging banks** and FIs to grow their women-led MSME loan portfolios.
- > **Catalyzing and leveraging** lending by banks to women-led MSME segments ‘perceived as risky’.
- > **Helping women-led MSMEs** mobilize resources to grow their businesses.

Performance indicators should also be set to monitor the achievement of the objectives and measure the impact. On successful completion of the RSF (usually two to three-year term or when the maximum of the agreed portfolio is reached), a key outcome to be achieved is increased lending, both in terms of number and value of loans, to women-led MSMEs by PFI on market terms.

TARGET GROUP

The primary RSF target groups are women-led MSMEs in each country implementing the RSF. The target group number of new borrowers, as well as the amount of new commercial bank lending to women-led MSMEs needs to be pre-determined to give a sense of market size that the RSF is supporting. The secondary target groups are the participating financial institutions providing credit, who meet the RSF selection criteria (see below). The facility will help these institutions to build a portfolio and a client base in the targeted activities.

ELIGIBLE PFI

The RSF management team would select PFI that meet eligibility and selection criteria acceptable by the financial regulators and authorities (see below). Banks

that do not meet these criteria and appraisal standards could not be retained for the RSF. Those banks retained for the RSF (the 'PFI') would be matched with selected TA providers, should the banks and the RSF mutually agree that such support is warranted and useful.

SELECTION OF PFI

Selection of PFI for the RSF should be done through a transparent one-step process, using criteria that will identify successful banks and finance companies with an interest in expanding their women-led MSME loan portfolio, and willingness over the longer term, to lend to women-led MSMEs without guarantee support. Before initiating this process, PFI should be pre-selected based on size, nationwide outreach, financial strength and corporate governance. Upon selection, each PFI should come to an agreement and sign a Mandate Letter with the government and international agency, which will outline the rights and obligations of both/all parties (including the need for the PFI to pay inter alia for certain standard processing and administrative fees) for proceeding to the due diligence process.

PFI PRE-SELECTION/ELIGIBILITY CRITERIA

1. Bank or finance company licensed to operate in the country.
2. Meets all Central Bank and other financial regulatory requirements for commercial banks or finance companies; is current with all required Central Bank & other filings and reporting requirements and is not in breach of any laws/regulations.
3. Majority private sector owned.
4. Regarding its operations - as of end of the last balance sheet date/period:
 - > Had a minimum shareholder equity (share capital, plus retained earnings) of an amount determined by financial regulators.
 - > Had a minimum outstanding portfolio of SME loans or leases.
 - > Achieved a minimum Return on Average Equity (ROAE) (e.g. 20 percent).
 - > Achieved a minimum Return on Average Assets (ROAA) (e.g. 1.5 percent).
 - > Had a minimum Capital Adequacy Ratio proxy (CAR = Equity/Total Assets) (e.g. 7.5 percent).
 - > Had a defined maximum non-performing loan portfolio.

5. Operates registered offices in at least two commercial centers outside capital city.
6. Other factors to be taken into consideration will include:
 - > Senior management commitment to SME lending, with a demonstrated track record of booking SME assets, as well as a strong pipeline of prospective SME loans.
 - > Significant experience of medium-term and long-term lending, extending beyond two years is desirable and should be demonstrable in the bank's current loan portfolio.
 - > Demonstrated commitment to expanding loan portfolio volumes while maintaining high portfolio quality.
 - > The presence of information systems that can provide a detailed analysis of the existing portfolio performance; and
 - > Have strong credit review and credit monitoring systems, which can be relied upon to ensure continued high quality of the asset book.

GUARANTEE COVERAGE

The guarantees issued under the RSF will cover up to a pre-determined share (e.g. 50 percent) of net outstanding principal amount of a portfolio of new loans originated by the PFI, on a pari-passu basis. As women-led MSMEs are perceived to be higher-risk borrowers and often lack sufficient collateral needed to obtain loans and leases, the RSF would provide banks with the credit protection needed to mitigate the perceived high risk of SME lending. The approximate 50-50 pari-passu risk sharing, under which PFI would also be exposed to borrower default, is intended to ensure that PFI conduct proper borrower credit appraisal and apply strict loan underwriting criteria (including taking proper security) in establishing the loan portfolio. The following hypothetical example illustrate the extent of risk coverage under different scenarios.

CAPITALIZATION

RSF should be backed by a capitalized fund held in trust at the central bank and governed by an independent Board of Trustees. The RSF will follow a portfolio guarantee approach and will cover women-led MSME loans extended only for income and employment generating activities up to a maximum per obligor. Women-led MSME borrowers will not be informed that their loan is under guarantee.

BOX 2: HYPOTHETICAL EXAMPLE: CARRYING THE COST OF LOAN LOSSES IN RSF

In this illustrative case, the risk on the women-led MSME portfolio of new loans is to be written under the RSF by the PFI (originator) and will be shared between the originator and government and an international financial institution (IFI), for example the World Bank Group’s IFC or EBRD.

The originator will carry 50 percent of all losses on the portfolio and the government and IFI the other 50 percent. So as far as the originator is concerned, they are covered for 50 percent of any losses generated on this new portfolio, which essentially means they can incur twice their normal loss levels and realize the same cost and also allocate more funding to women-led MSMEs.

This example will demonstrate the apportionment of loan losses under four scenarios. In the scenarios outlined below we ignore the value of collateral and if this was taken into account it would reduce the amount of the losses to be shared out. It is assumed in all scenarios that the total portfolio of new loans US\$100 million.

SCENARIO 1

The risk on up to US\$50 million (50 percent) of this portfolio is covered by the government and IFC for the originator. However, the government funds will be first called upon to cover any loss on a first segment of the portfolio. Since the banks usually confine the majority of their lending to the corporate market and have been careful in taking on any undue risks, their non-performing loans usually represent a small percentage of their financing (e.g. two percent). Women-led MSME loans would probably have a higher default level (e.g. five percent of the portfolio). If this level of losses were projected for the RSF facility the losses would be shared as follows:

PFI	US\$ 2.5 million (50 percent of the new portfolio x 5 percent default rate)
Government	US\$ 2.5 million

Under this scenario an originator has reduced the level of potential loss to 2.5 percent on its women-led MSME portfolio.

SCENARIO 2

In this scenario we assume that the level of default increases to 10 percent as the originators expand their involvement in this sector and take on some newer women-led MSMEs projects. In this scenario the overall loss of US\$ 5.8 million (10 percent) would be shared as follows:

PFI	US\$ 5.0 million
Government	US\$ 5.0 million

Under this scenario originators have doubled their level of risk to the SME sector but incurred a loss level equivalent to the position prior to the implementation of the RSF. This should provide encouragement for originators to become more active in this sector.

SCENARIO 3

In this scenario we make the assumption that the level of losses increases to 15 percent of the portfolio, which is at least three times the current level and is quite unrealistic when account is taken of the credit and risk processes at the originators. However, if the losses were to reach 15 percent (US\$ 15.0 Million) they would be apportioned as follows:

PFI	US\$ 7.5 million
Government	US\$ 5.0 million (first-loss)
IFI	US\$ 2.5 million (second-loss)

SCENARIO 4

Under this scenario the losses on the portfolio are greater than 15 percent, which is extremely unlikely but could arise due to unforeseen local or international crises or pandemics such as COVID-19. In this scenario there is no ceiling to the level of losses and the sharing would be as follows:

PFI	US\$ 50.0 million (50 percent of the new portfolio of women-led MSME loans)
Government	US\$ 5.0 million (10 percent of half of the new portfolio of women-led MSME loans)
IFI	US\$ 40.0 million

CONCLUSION

The above four scenarios provide examples of how the potential losses on loans under the RSF could be shared and how the governments/regulators can leverage the funds from multilateral agencies. The overriding objective of the RSF is to encourage the banks to become more active in women-led MSME sector, which has a higher level of risk than the sectors that banks have traditionally concentrated on. The sharing of the risk between the government and the multilateral development bank helps to reduce the overall cost of both the government and multilateral bank guarantees.

RSF DURATION

The ramp-up period is usually between two to three years within which the RSF can have a revolving period where the portfolio is open to new loans for a fixed period and with a possible trigger to “close” the portfolio linked to the performance of the portfolio or other agreed criteria.

PORTFOLIO GROWTH

By shifting a portion of the risk associated with a portfolio of new women-led MSME loans to the administrator, the RSF may allow an originator to introduce or expand new or existing lending products and attract new clients and generate additional fee income.

TECHNICAL ASSISTANCE (TA)

Technical assistance arranged through the RSF should focus both on (a) capacity building support for women-led SME borrowers and potential borrowers under the RSF; and (b) capacity building support for the originator on a performance-based cost sharing arrangement, to help implement specialized and proven MSME lending methodologies and products. Working closely with the PFI, the TA Provider would develop an appropriate, tailored, TA program for the bank. This could include areas such as credit scoring techniques, interviewing techniques, loan structuring, collateral valuation and registration, environmental risk assessment, and problem loan management, as well as basic accounting and cash-flow analysis. If mutually deemed appropriate, the TA Provider could also advise and assist in the creation of an SME department, if not already present.

Assistance in packaging/marketing of goods produced by the MSME and channels for selling if the MSME has no established market yet.

TA COST-SHARING

TA to the originator would be available for two years or a date agreed with the administrator. The originator would be expected to cover at least 50 percent of associated total costs and overheads. The TA would be performance-based and after an initial period (12 months, for example), would continue if agreed performance thresholds have been met (i.e. SME lending volume, quality, etc.).

THIRD-PARTY GUARANTORS

In cases where multilateral banks (IFC, EBRD, regional banks, etc.) administer the RSF, as in the example of Papua New Guinea, their role in structuring and sharing the credit risk of an asset portfolio may attract third-

party sponsors. These sponsors often work together with the administrator and potential originators in designing the RSF.

APPLICATION PROCESS

Pre-selected banks and finance companies that wish to be considered for the RSF will be requested to submit appropriate documents, which would include audited financial statements and annual reports, an organizational chart, and relevant data concerning the size, composition and quality of the current overall portfolio, and MSME portfolio in particular, staff numbers & composition, branch networks, average cost of funds & lending costs, etc. Specifically, in respect of the MSME portfolio, the following data would be required:

- > Volume (in local currency)
- > Numbers
- > Location
- > Sectors/industries
- > Loan/lease terms (range & average)
- > Portfolio quality indicators
- > Projections (volumes, numbers)

Information would also be required on current organizational processes, systems, etc. with respect to MSME lending, along with potential interest in technical assistance support.

ADMINISTRATION AND IMPLEMENTATION ARRANGEMENT

- a) **RSF Administration:** Each guarantee under the RSF would cover a portfolio of women-led MSME loans originated by the PFI. The administrator would manage the guarantee issued under the RSF, subcontracting, as necessary, part of its functions to an agent to be selected. The agent could be a local accountant, who would have primary responsibility for verifying the documentation submitted by PFI in cases of a call being made and would also audit the RSF and PFI regularly. Approval of individual loans/ leases would be the responsibility of PFI, with neither administrator nor its agent involved in this process.
- b) **Guarantee Agreements:** Guarantee Agreements would be entered into with each PFI and the administrator, to define the terms and conditions of the RSF. This would include issues such as calls (see below), eligibility criteria, and other matters of relevance. Upon a guarantee call made by a PFI in compliance with the terms and conditions of the agreements, the administrator would, if required, honor the call on its own behalf and would issue a

funding request (to an Escrow Agent) who would use the funds (in the Escrow Account) to finance the payment obligation under its share of the RSF.

c) Umbrella Agreement: An agreement governing the operation of the RSF would be concluded between the government and the administrator defining among other things, roles and responsibilities of the administrator and operational mechanics for the RSF (Escrow Account) and payments there from.

LOAN DEFAULT AND GUARANTEE (RISK SHARING) CALL

The PFI should call on the guarantee no more than once a quarter, or any other period agreed with the administrator, to pay amounts equivalent to the aggregate of defaults net of all amounts recovered by the PFI. Typically, Risk Sharing Agreements will provide that guarantee calls can be made: (a) no fewer than an expected period of 180 days after the occurrence of such loan default, during which the PFI will be obliged to make recovery efforts to cure such default; (b) with a written guarantee call notice with documents required under the Guarantee Agreements, including certification of the amount of loan principal guaranteed and due but unpaid and evidence that the demand notice has been made to the borrower and due efforts have been made to demand payments. Once losses exceed the first loss threshold (covered by the government and/or third-parties), the RSF will reimburse the originator in accordance with the agreed risk-sharing arrangements. As long as the RSF disbursements are outstanding, any recoveries of the defaulted assets by the originator will be shared between the originator and the RSF-based on the same risk-sharing arrangements. The amount to be paid under the RSF will be the product of the amount of such loan loss multiplied by about 50 percent (if this portion is the agreed aggregate of guarantee coverage ratio), subject to the necessary allocation between the first-loss and the second-loss respective maximum guaranteed amount.

RSF GUARANTEE PRICING

The final pricing and size of the guarantee will be contingent on the detailed appraisal of the PFI once they have been selected and fully appraised by the administrator (see above eligibility criteria). This appraisal will take into account the performance of the PFI's MSME loan portfolio (as an indication of their capacity to service women-led MSMEs), and other matters relevant to appraise the risk of the product and PFI, which in turn would indicate the size of the first-loss guarantee. Guarantee charges (up-front

fees, commitment fees, guarantee fees, etc.) will be payable by PFI at levels to reflect market conditions, the RSF management expenses to be incurred and the development nature of the RSF.

REMEDIAL ACTIONS

It is contemplated to include safeguard provisions in the Guarantee Agreements with each PFI to define triggers, in terms of cumulative amounts paid to meet guarantee calls to require remedial action plans by the PFI, which may include (a) the reduction of the unused facility amount, and (b) the suspension of the issuance of new guarantees under the RSF.

PERFORMANCE CRITERIA

Utilization and underlying portfolio performance will be the benchmark for the successful implementation of the RSF. In particular, the PFI will require to collect and provide information on the following: (a) number and aggregate volume of MSME loans extended; (b) composition of borrowers and loans to women-led MSMEs, new borrowers, the share of follow-on loans, size distribution among women-led MSME borrowers including women-led MSMEs, location & business sector, and tenor of loans/leases; (c) guarantee claims made and paid, the default performance of the loan portfolio, determined as the ratio of performing loans (portion of outstanding loans with current payments on due dates); default ratio (the cumulative loan loss amount vs. cumulative loan amount in the guaranteed loan portfolio), ratio of principal loss claims and recovery; etc. The administrator of the RSF will also prepare annual supervision reports and quarterly credit risk assessment reports. If the utilization will not reach a benchmark measure, the amount unused by a PFI could be reallocated to other PFI/s to maximize utilization during the remaining availability period.

ELIGIBLE WOMEN-LED MSME LOAN PORTFOLIO

Only new loans extended by the PFI to women-led MSMEs upon the effectiveness of the Risk Sharing Agreements, and those loans that would not benefit from any other third-party guarantees, will be included in the loan portfolio to be guaranteed under the RSF. Eligibility criteria for loans to be included in the portfolio under the RSF will be defined in detail under the Risk Sharing Agreement. All loans meeting the eligibility criteria will be covered by the guarantee. Consumer loans would be excluded from the RSF, as well as loans to sectors deemed to be of high environmental & social risk, or to entities not registered or operating in compliance with existing laws.

COUNTRY EXAMPLES

PAPUA NEW GUINEA SME ACCESS TO FINANCE PROJECT



BACKGROUND

To help increase the size and economic contribution of the domestic private sector, which consists mainly of SMEs, with a focus on generating employment, the government of Papua New Guinea (PNG) developed the RSF in collaboration with the World Bank Group in 2011.

Despite large external investments in PNG's resource sector, private-sector activity in the formal economy is low. Women and young people are especially dependent on small-scale informal businesses for their livelihoods. There are significant constraints to SME growth and investment, primarily access to credit, despite sufficient liquidity in the banking sector. There are two main reasons for this. First, as in many other countries, MSMEs often lack the collateral, information or guarantees to meet commercial bank requirements for lending. Second, banks perceive high levels of risk in lending to SMEs. Addressing these impediments was important in enabling SMEs to engage more actively in economic growth, job creation and poverty reduction across PNG.

With the support of the World Bank Group's International Development Association (IDA) and International Finance Corporation (IFC), the government of PNG established a risk sharing facility and technical assistance mechanism for SMEs, commercial banks involved in SME lending and relevant government agencies that support the growth of SMEs.

ABOUT THE PROJECT

For the government of PNG, the primary objective of the Small and Medium Enterprise Access to Finance Project is to provide access to sustainable credit for SMEs, and thereby contribute to growth in SME employment and incomes, with particular attention to women entrepreneurs, and to enhance the capacity of commercial banks to manage credit risks.

There are four components to the project:

1. Developing a RSF in partnership with local financial institutions - This will partially guarantee a portfolio of new loans from commercial banks to SMEs for up

to USD 116 million. This is expected to immediately accelerate commercial bank lending to emerging and established SMEs. The government of PNG (through the IDA credit) and the IFC will cover 50 percent of all principal losses in the portfolio of new SME loans.

2. Technical assistance for financial institutions

- Performance-based technical assistance will be provided to private banking institutions. It is expected that this will allow commercial banks to develop long-term procedures for sustainable lending to SMEs.

3. Capacity building for MSMEs

- This will consist of four sub-components: (a) training SMEs in management and financial skills; (b) focused mentoring and coaching for SMEs; (c) targeted training for women entrepreneurs; and (d) training for provincial government commerce division staff.

4. Capacity building for the government of PNG

- This will improve the government's capacity to implement and monitor the project, and to develop an updated SME strategy and policy.

The RSF, which became effective in June 2011, was successfully implemented and closed on Oct 2017 when the RSF closed. Through the RSF with Bank of South Pacific Ltd (BSP):

- > PGK 491,914,434 new loans were committed.
- > More than 1800 loans underwritten under the RSF as of Dec 2016.
- > 65 percent of the RSF portfolio were Smart Business loans, the new SME lending product targeted at small business with smaller loan size and shorter loan term, without collateral).
- > The loans under the RSF were given to SMEs in almost every province in PNG, with NDC, Morobe, New Ireland and West Highlands Provinces receiving highest number of loans.
- > About 25 percent of the new loans were lent to women businessowners (including joint ownership with women as the principal partner).
- > The usage of loans consisted of working capital, investment, leasing.
- > NPL: 2.5 percent on average.

NEW SME PRODUCT DEVELOPMENT

- > Bank of South Pacific, Ltd (BSP); the first bank to sign on the RSF, developed a new SME lending strategy and SME lending product (Smart Business loans) to target micro and small business in PNG. Credit officers and relationship officers have been trained

in all branches. An updated SME lending strategy to mainstream services and products to SMEs has been approved by BSP Board and is to be implemented in 2018.

- > BSP, with the support of the Performance-based Grant under the project, developed the automated loan origination platform, which speeds up the credit review process and improves the credit risk management.
- > Environmental and Social Safeguards Framework has been established and implemented for the RSF portfolio.

CAPACITY BUILDING FOR MSMEs

- > Designed and delivered customized training programs targeted at newly-established SMEs and designated program for women entrepreneurs on improving business management skills.
- > The training program was designed and delivered by a team of local and international training professionals.
- > 810 participants from local SMEs in more than 10 provinces took the trainings, including 391 women entrepreneurs.
- > 86 percent of the participants found the program satisfactory.
- > About six percent of the SMEs participated in the training also obtained loans from FIs.

SUPPORT MSME POLICY AND PROGRAM DEVELOPMENT

- > First SME Baseline Survey delivered: A demand side survey on local SMEs.
- > Provided useful information for financial institutions on demand for financial services and products.
- > Provided inputs to policymakers in drafting the SME Development Strategy and Policy, and Mid-term Development Plan.
- > Made available to the public via different media (workshops, local news, print) and is available online now (www.pngsmersf.com).
- > Knowledge-sharing on international practice on credit guarantee through workshops and study visits.



AFFIRMATIVE FINANCE ACTION FOR WOMEN IN AFRICA (AFAWA)

BACKGROUND

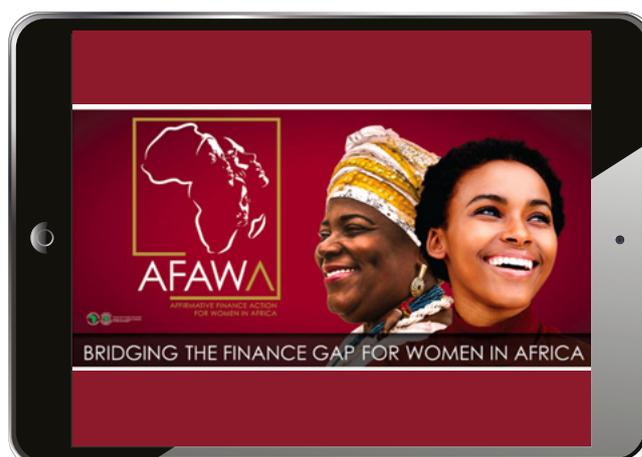
AFAWA is a pan-African initiative launched by the African Development Bank at its Annual Meeting in Lusaka, Zambia in May 2016 to promote gender-inclusive financing and unlock the women entrepreneurship potential in Africa.

Through AFAWA, the Bank seeks to bridge the \$42 billion financing gap faced by women-empowered businesses (WEBs) by deploying financing instruments better suited to addressing their finance needs for the growth of their businesses.

These financial instruments are coupled with technical assistance to financial institutions to better address the needs of WEBs as well as capacity building for women entrepreneurs to increase their profitability and bankability. AFAWA also includes a business-enabling environment component to ensure regulation is conducive to enhancing the ability of financial institutions to lend to women. Through AFAWA, the Bank aims to unlock up to \$ 5 billion in the next five to six years.

AFAWA adopts a holistic approach through three pillars.

- > AFAWA finance leverages the African Development Bank's financial instruments and has two innovative solutions to drastically transform the banking and financial landscape in Africa and to create incentives for lending to women in business:
 - A \$300 million risk-sharing instrument to unlock \$3 billion in credit for women businesses and enterprises in Africa. This mechanism will build upon the existing



network of commercial banks and microfinance institutions to create structural change and lasting impact for women.

- A rating system to evaluate financial institutions based on the share and quality of their lending to women, and their socio-economic impact. Top institutions will be rewarded with preferential financing terms from the African Development Bank.

- > AFAWA technical assistance provides advisory services to financial institutions to ensure successful implementation of their product portfolios for women and strengthens the capacity of women entrepreneurs through training to enhance business productivity and growth.
- > AFAWA enabling environment engages with African governments and other key stakeholders to support legal, policy and regulatory reforms and strike down the structural barriers impeding women in business.



KEY HIGHLIGHTS

- > **AFAWA finance:** in 2018, the African Development Bank dedicated \$50 million in lines of credit to women through financial institutions such as Fidelity Bank and Kenya Commercial Bank. It also made an anchor investment of \$12.5 million in Alitheia IDF Managers (AIM), the first-of-its-kind private equity fund managed by experienced female fund managers that invests in high-growth women-owned and -led SMEs in Africa. AIM aims to raise \$100 million and targets 10 countries in Southern and Western Africa.
- > **AFAWA technical assistance:** in 2018, AFAWA provided technical assistance to various banks and partnered with Entreprenarium Foundation to train 1,000 women entrepreneurs across the continent in business model development and financial planning.
- > **AFAWA enabling environment:** AFAWA engaged policy dialogue with central banks and government entities in various countries. In addition, the 50 Million African Women Speak digital platform is being developed to connect women entrepreneurs across the continent.



PAKISTAN: SME RISK SHARING FACILITY

The Pakistani government (the State Bank of Pakistan (SBP)) has allocated 30 billion rupees (about 188 million U.S. dollars) under a credit risk sharing facility with banks for the banks offering financial loans to support SMEs during the COVID-19 crisis.

Through this four-year RSF, the federal government will share the risk of losses due to default. Under this risk sharing arrangement, the Federal government will bear 40 percent first-loss on principal portion of disbursed loan portfolio of the banks. The aim is to incentivize banks to extend loans to collateral deficient SMEs and small corporates with sales turnover of up to two billion rupees (about 13 million U.S. dollars) to avail financing under the SBP refinance scheme.

The screenshot shows a webpage from the State Bank of Pakistan. The main content is a circular letter titled 'Risk Sharing Facility for SBP Refinance Scheme to support employment and prevent layoff of workers'. It includes a table with 7 rows detailing key features like Eligibility, Risk Coverage, Security Requirements, etc.

S.No	Particulars	Key features
1	Eligibility	The financing extended to businesses with maximum sales turnover of Rs 2 billion, under SBP refinance scheme to support employment and prevent layoff of workers is eligible for Risk Sharing Facility by the GOB.
2	Risk Coverage	GoP will bear 40% first loss on disbursed portfolio (principal portion only) for eligible borrowers. Note: In case of non-employment, after being classified as 'Loser' (as per the classification criteria laid down under respective SBP Prudential Regulations), credit loss subsidy claim will be paid by the GOB.
3	Security Requirements	Security arrangements will be as per executing agency's own credit policy after taking into account the factor of this risk sharing facility, hence, banks are encouraged to facilitate collateral deficient borrowers. In any case, banks will not be asking for additional collaterals over and above 60% of the principal amount and markup thereon.
4	Executing Agency	Banks and DFIs assigned limits under SBP scheme will be eligible Executing Agencies (EAs).
5	Additional Measures	EAs shall develop and implement robust mechanism to ensure that the loans are utilized for intended purpose only.
6	Administration	Development Finance Support Department (DFSD), SBP BSC will manage operational aspects of the risk sharing facility. DFSD will submit data under the risk sharing facility on quarterly basis to the Finance Division.
7	Subsidy Payment	EAs shall submit credit loss subsidy claims to DFSD on quarterly basis within 15 working days after the end of each quarter. DFSD after scrutiny of the claims shall submit the same to Finance Division. GOB FD will release payment against submitted claims within 15 working days. Upon receipt of subsidy from GOB, SBP BSC Karachi will credit the account of EAs with the subsidy amount.

NIGERIA: WOMEN-LED MSME RSF

The International Finance Corporation (IFC), a member of the World Bank Group, has entered a risk sharing agreement of up to a \$25 million local-currency risk sharing facility aimed at expanding Union Bank's lending to small and medium enterprises (SMEs) in Nigeria, with a focus on women-led MSMEs.

According to a recent World Bank survey, only 15 percent of SMEs in Nigeria have a bank loan or line of credit. Also, more than half of the women-managed firms surveyed, named access to finance as a major obstacle to growth. With the risk sharing facility, IFC will cover as much as 50 percent of the risk of Union Bank's loans to SMEs in the country, particularly women-owned businesses in Nigeria's conflict-affected Northern and Niger Delta regions. This group of business owners face more difficulty accessing finance, and more than half the population in these regions are excluded from the financial system.

The new facility is part of IFC's Small Loan Guarantee Program (SLGP), used in easing local-currency lending to SMEs in frontier markets. SLGP is backed by the International Development Association's (IDA) Private Sector Window, which the World Bank Group uses to catalyze private sector investment in the poorest and most fragile countries. IFC's investment in Union Bank is also supported by the Women Entrepreneurs Finance Initiative (We-Fi), which seeks to unlock financing to tackle the barriers facing women entrepreneurs.

Union Bank recently unveiled Alpher (α), a proposition aimed at uplifting Nigerian women through customized financial services, capacity building opportunities and competitive interest rates on loans. Three years ago, the bank introduced an innovative business acceleration program, 'Start up Connect' that enables Nigerian businesses creating technology-based solutions to be more competitive in the rapidly-expanding African technology market.

IFC said the partnership with Union Bank underscores its growing commitment to Nigeria. The country has been one of IFC's fastest-growing country portfolios, making it one of the organization's top 10 country exposures. IFC has invested in several projects in the country, including in manufacturing, technology and financial services, amongst other key sectors in the country.

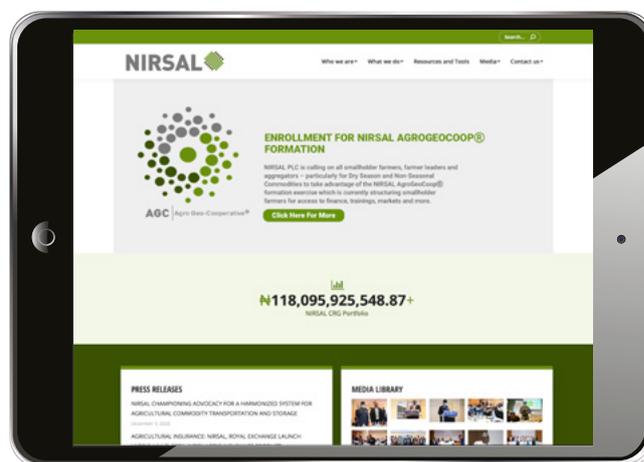
Source: <https://bricsaevents.com/detailblog/ifc-and-union-bank-to-support-nigerian-smes-and-women-led-businesses>

NIGERIA: NIRSAL



Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) is a state-owned Nigerian institution Incorporated in 2013, it is a USD 500 Million public-private Corporation that is wholly-owned by the Central Bank of Nigeria. It is designed to define, price and share agribusiness-related credit risk. It is the primary platform for managing agribusiness risk in Nigeria.

- > It includes the following facilities: a) Risk sharing Facility, b) Insurance Facility, c) Technical Assistance Facility, d) Bank Rating Mechanism and e) Bank Incentives Mechanism. The Risk sharing Facility (USD 300 million) is a credit guarantee-based mechanism under which NIRSAL shares the potential losses that commercial banks might incur in the process of lending to local agriculture beneficiaries.
- > NIRSAL is an initiative of the following partners:
 - > Central Bank of Nigeria (CBN)
 - > The Bankers Committee (CEOs of deposit money banks, specialized banks, and discount houses)
 - > The Federal Ministry of Agriculture & Rural Development
 - > NIRSAL mobilizes financing for Nigerian agribusiness by using credit guarantees to address the risk of default. It is a flexible financing tool designed to change the behavior of financial institutions.
 - > The NIRSAL Facility covers all crops and livestock activities in Nigeria, while driving improved investment outcomes and job creation.



Source: Central Bank of Nigeria



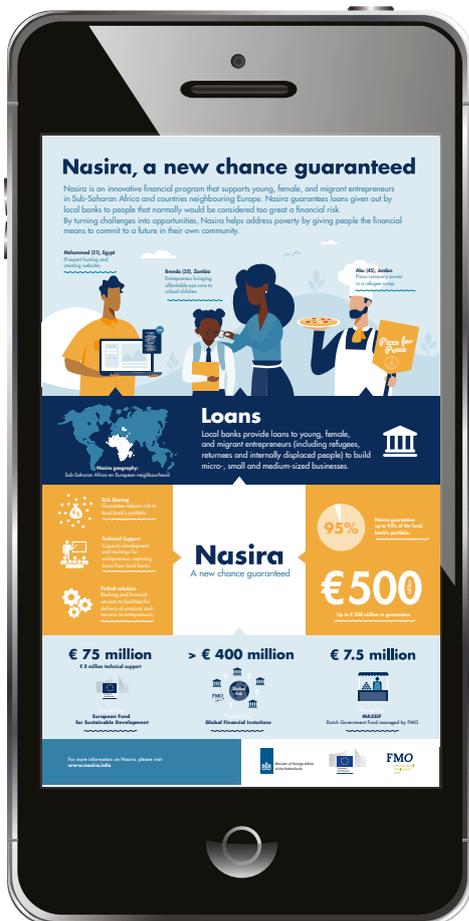
**RISK SHARING FACILITY NASIRA
— FOR THE UNDERSERVED
ENTREPRENEURS**



NASIRA is a financial program that supports young, female, and migrant entrepreneurs in Sub-Saharan Africa and countries neighboring Europe.

It uses guarantees to allow local banks to on-lend to underserved entrepreneurs. It targets portfolios consisting of loans to young, female and migrant entrepreneurs (including refugees, returnees and internally displaced people). The goal of these guarantees is to allow local banks to provide loans to groups they normally perceive as too risky.

Through ‘risk sharing’, NASIRA reduces the perceived and real risks of lending to vulnerable and underserved parts of the population. It enables and stimulates financing needed for people who want to grow their (micro) business.



Source: <http://www.nasira.info/#:~:text=NASIRA%20is%20an%20innovative%20financial,on%2Dlend%20to%20underserved%20entrepreneurs.>

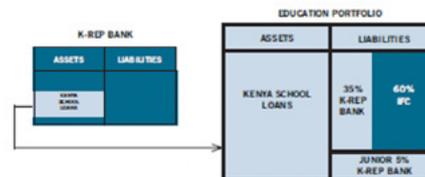
KENYA EDUCATION FACILITY

Partnership with a private bank to support the private education sector in Kenya. Increasing demand for education has put pressure on public school system in Kenya.

To meet this demand, many private entrepreneurs have started to provide academic and vocational education to various economic segments. Despite significant gains in private school enrolment, the supply-demand gap has continued to widen. It was determined that to fill this gap and maintain the quality of education, private providers need financing to expand land, build new facilities and acquire modern educational material. Local banks can play an important role in providing such financing.

Understanding the business potential of private education, K-Rep bank has decided to build a portfolio of local currency loans for the private school sector. As such, the IFC and K-Rep bank have entered a RSF agreement. The ability of sharing potential costs of the private school portfolio with the IFC, has enabled K-Rep Bank to expand its support and extend the tenor of its education loans to meet the longer-term funding needs of its education sector clients. Some details of this RSF are given below.

TERMS AND CONDITIONS	
Amount of the Portfolio	KES 200mn (US\$ 2.8mn equivalent)
Currency	Kenya Shillings
Issue Date	December 07, 2006
Origination Period	3 years
Termination Date	December 6, 2015, or the date on which the sum of all disbursements under the Guarantee has reached the Maximum IFC Guarantee Amount
Maximum Reference Portfolio Balance	KES 200mn (US\$2.8mn equivalent)
Maximum IFC Guarantee Amount	KES 120mn (US\$1.7mn equivalent)
Enhancement	IFC will reimburse K-Rep Bank for 63% of the principal-only credit losses that are in excess of a 5% first loss threshold



Source: IFC

EASTERN PARTNERSHIP SME FINANCE FACILITY (€15M FOR EBRD, EIB AND KfW FROM NIF IN 2010)

Combines European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB) and KfW (Kreditanstalt für Wiederaufbau, or Reconstruction Credit Institute) loans with EU grant resources, to support SME lending in the Eastern Partnership region.

Countries covered: Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine.



There are two windows under this Facility: The EBRD/KfW window and the EIB's window:

- > This Facility was designed to cover losses of up to 10 percent on the portfolio of sub-loans made by local partners, with a cap of 50 percent on any single loan amount. The project provides credit enhancement support for SMEs lending in EaP countries/regions, where lending to SMEs has decreased considerably or even stopped due to a heightened risk aversion of the PFI resulting from the crisis.
- > Under the EBRD/KfW window, the Credit Enhancement support takes the form of loss risk sharing cushion for PFI, provided for the portfolio of sub-loans funded under the EBRD/KfW credit lines. Partner Financing Institutions can obtain up to a 50 percent recovery, capped at the limit of 10 percent of the disbursed amount of their respective credit lines.
- > In addition, the project provides technical assistance to participating Partner Financing Institutions, on a case-by-case basis in order to maximize the ability of the PFI to service the needs of the SME sector, as well as to expand their SME financing to new areas and to develop new products for the target group, particularly in key, underbanked regions of the eligible countries.

EIB's window includes, on top of a similar first-loss guarantee, the provision of an interest-free loan co-financing of up to 10 percent on SMEs sub-projects financed through EIB credit lines.

WESTERN BALKANS ENTERPRISE DEVELOPMENT AND INNOVATION FACILITY (WB EDIF)



WB EDIF is a €20m Guarantee Facility providing guarantees to local financial intermediaries to expand lending to SMEs.

Guarantees up to 70 percent of each loan and up to 25 percent of the SME loan portfolio. Through the leverage effect of this product the EU contribution is expected to mobilize more than €114m of new lending to SMEs.

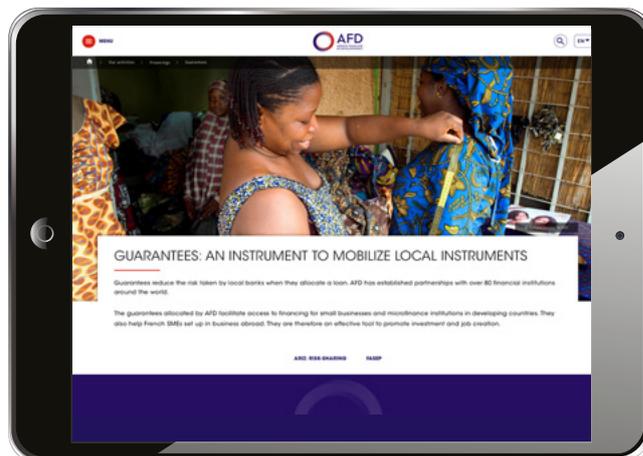
Source: <http://www.wbedif.eu/>

ARIZ MODEL OF THE FRENCH DEVELOPMENT AGENCY



ARIZ is a risk sharing mechanism designed to facilitate access to finance for small and medium-sized enterprises and microfinance institutions.

28 April 2014, AFD and BCI signed a risk sharing agreement for the 2014 credit line for women entrepreneurs. The intervention concerned Mozambique in order to facilitate SMEs' access to bank loans. Indeed, AFD has committed to insure up to 50 percent of the credits granted by the BCI to SMEs managed by women entrepreneurs in dollars or metical between USD 12,000 and USD 350,000 up to a guaranteed maximum of two million dollars (ARIZ).



ANNEX 1

Women-led MSME Risk Sharing Facility Sample Terms of Reference for Technical Capacity Building of Participating Financial Institutions

BACKGROUND

This section should give a summary of the purpose of the RSF, i.e. facilitating access to formal private finance to women-led MSME sector.

OBJECTIVES OF THIS ASSIGNMENT

The purpose of this technical assistance is to provide PFI with the outside expertise necessary to address the main barriers to efficient women-led MSME banking. The overall aim of this project is to support PFI to create an MSME banking unit, including the implementation of systems and methodologies for MSME banking operations, or any other areas where both the PFI and the RSF feel that advisory services can add most value. The technical assistance would at a minimum include the following components:

- > Conduct a market study of the demand for banking products from women-led MSMEs in the country.
- > Using data from this study and bringing together the priorities and experience of all pertinent departments of the PFI, develop a clear and detailed women-led MSME Banking strategy for the PFI.
- > If necessary, establish a separate MSME Banking Unit in the PFI with a focus on women-led MSMEs, and ensure streamlined approval procedures to reduce processing time and costs - as well as facilitating more cross-selling through close interaction with branches and the marketing team.
- > Draw up a credit scoring system for small business lending, based on pertinent examples elsewhere together with available historical data - ensuring that this system is constantly back-tested, and updated to reflect results, its role growing with its predictability.
- > Adjust application forms, policies for meeting women-led MSME clients, and underwriting policies to optimize the productivity of time spent with women-led MSME clients by professional staff.
- > Identify and train the loan officers and manager(s) that will be dedicated to the MSME Banking Unit, with only those that pass the initial course being allowed to join the team.

- > Conduct a detailed assessment of the IT/MIS systems, compare them to the requirements of the women-led MSME team and its systems, and identify any further IT/MIS needs that may be outstanding in order for MSME banking operations to be optimal.
- > Provide PFI's marketing and product development teams with the training and tools to perform segmentation analysis, product demand trend analysis, new product development as well as improved cross-selling and product bundling.
 - Conduct a broad marketing campaign to make the population aware of PFI's new women-led MSME banking products and policies.
 - Provide constant, in-house mentoring and support for the duration of the RSF - this has been proven to be a far more effective way of internalizing and institutionalizing the types of changes needed to perform best practice small business banking in general.

APPROACH AND INDICATIVE STAFFING FOR THIS ASSIGNMENT

It is proposed that this project to establish a small business banking unit have an initial duration of 24 months. The Resident Advisor and the Local Banking Specialist would be in place in PFI for the full 24 months, and a Credit Scoring expert, a banking MIS expert, as well as a Marketing/New Product Development expert would be flown in for shorter-term missions.

The **Resident Advisor (RA)** is the most important position in the advisory services team. The RA particularly be strong in credit risk management for small business lending, as well as in structuring new small business banking units. The RA will also play an important project management role, overseeing the other components listed above, in some cases helped by highly-specialized experts who will support project through short-term missions.

It is highly recommended that the RA also be seconded by a Local Banking Specialist. This Banking Specialist may be relatively junior at first, as she/he should be trained by the selected consulting group to fully grasp the details of that group's methodology and approach to small business lending. The Local Banking Specialist is crucial in allowing the RA to fully understand how implementation is progressing, and what PFI staff are really saying about the new processes. This Specialist also allows the team to cover many more branches and for the new methodology to be absorbed faster. It is

important that this role be carried out by somebody who is objective and does not fear the reactions of PFI managers, hence it should not be filled by a PFI staff member.

Market Demand Analysis Team will be required to conduct an incisive analysis of the demand for women-led MSME Banking products in the country, as well as to fully understand what the current offerings are, both in terms of business and retail products, and both from the formal and informal sectors.

One **women-led MSME Banking Trainer** will be required to support the RA in the initial training of the small business banking unit and other staff who will in some way be involved in the small business banking. This training course is normally five to eight days in duration. Including some preparation time, this trainer might be expected to contribute 40 days of effort (assuming three training sessions).

Credit Scoring Expert(s) (this may either be an individual or a team) is/are likely to be needed as well, for about 12 weeks of work overall. It is unlikely that a RA who is an expert in setting up small business banking units, as well as overall risk management will also be fully conversant in how to create a top-quality credit scoring tool. As well as spending time at PFI, the Credit Scoring Expert should also be retained for long-distance reviews of the scoring tool as time evolves, to help guide PFI's staff on how to adjust it to reflect the growing historical data. Furthermore, it is likely that the Credit Scoring Expert(s) would be called upon to help ensure that MIS upgrades fully cater to the requirements of the Credit Scoring Tool, such that it can be back-tested and adjusted regularly and easily.

Banking Management Information Systems Specialist is expected to ensure that the bank's MIS, either in its current form or in the near future - based on proposed improvements, will fully reflect the needs of the emerging women-led MSME Banking unit. This could involve ensuring that the broader set of data points (not only from POM but from all relevant branches) required for credit scoring is adequately collected and stored, or that information on products used or profitability per product can easily be reported and accessed, etc. Ensuring that all reporting not only covers the requirements of the MSME Banking management team, but also the requirements of the financial regulators.

Marketing, Segmentation and Product Development Specialists (this work is likely to be split among two/three experts, if need be) will also play an important role and are expected to be involved for up to 20 weeks of work. There will be a need to take the information from the market study and translate into market segmentation priorities for PFI's MSME Banking unit. Once the target segments are identified, consultants should assist PFI's product development team in assessing what products are most in demand among these market segments, and how they would best be delivered. Once products have been identified, the consultants' focus should then be on how best to market and advertise the new offerings. During each of these exercises, it would be expected that the consultants would also train PFI's staff to understand the processes used, and how they could be replicated in the future. For example, in new product development, consultant(s) would be expected to teach PFI's marketing/product development staff on how to use focus groups, as well as a better understanding of both the risks and rewards of each product in order to design and price new offerings.

EXAMPLE OF REQUIREMENTS FOR CONSULTANCY TEAM

The consulting group should have:

1. at least 10 years' experience in managing women-led MSME banking advisory service projects in a few different countries.
2. proven expertise in projects that focus on establishing new MSME banking unit and strengthening women-led MSME credit risk management.
3. a network of specialized experts that the Resident Advisor can rely upon for support and to leverage international experience.
4. Demonstrable success in producing detailed and accurate reports on the demand for banking products in other emerging markets.

The full-time international Resident Advisor should have:

1. At least 10 years' experience in banking.
2. At least five years' experience in MSME banking.
3. Proven success in establishing MSME banking units in financial institutions.
4. Proven success in improving credit risk management systems for women-led MSME lending.

The women-led MSME Banking Market Analysis Team Leader should have:

1. At least 10 years' experience in conducting market studies, including some experience in emerging markets.
2. At least one successful market survey for financial products.
3. Proven experience at using polling techniques and solid statistical methodologies to assess market potential.

Credit Scoring expert should have:

1. Experience at designing and implementing MSME credit scoring systems in at least three different banks.
2. Experience at designing credit scoring systems that are specifically targeted at women-led small businesses.
3. Ability to demonstrate the efficiency of scoring tools that she/he has designed with real NPL, volume and turn-around time figures.
4. Ability to identify requirements for the linking of the scoring system to the banks upgraded MIS.

Marketing and Product Development expert(s), should have (between them if necessary):

1. At least five years' experience in marketing and product development.
2. Proven experience in designing new banking products, both from the perspective of client preference and that of risk-based pricing.
3. Proven experience at cross-selling, up-selling and bundling of banking products.
4. Proven experience at market segmentation and analysis and linking conclusions to marketing strategies.

The women-led MSME banking training expert should have:

1. At least five years' experience in the field of women-led MSME training and consultancy.
2. At least two years' experience training for this particular consulting firm.
3. A strong track record and proof of trainee satisfaction.

Full-time local banking specialist should have:

1. Graduate degree in finance, economics or related topic.
2. At least five years' banking or other finance experience.
3. Strong spreadsheet and word processing skills.

ANNEX 2

Women-led MSME Risk Sharing Facility Sample Terms of Reference for Technical Capacity Building for Women-led MSME clients of PFI.

WOMEN-LED MSME TRAINING ACTIVITIES

In most member countries, there is general recognition that women-led MSMEs face a number of related constraints to access to finance. While some cultural factors explain part of this situation, there are a variety of other issues impacting women, in terms of starting and operating businesses,³ including:

- > Difficulty in accessing collateral.
- > Inadequate basic financial literacy.
- > Gender-specific investment climate constraints.
- > Lack of knowledge and confidence in approaching financial institutions.
- > Training and supporting programs that, in terms of timing, duration and location, make it difficult for women to actively participate.

When there exist capacity building programs to enhance financial and business skills of women entrepreneurs, these programs are usually of general nature and their effectiveness in many cases may not be adequate:

- > Much of the training has been of a general nature and not tied to access to finance.
- > Related to the above, outcomes are likely to be better where training is specifically linked to gaining access to finance and to better utilizing approved finance.
- > Much training is delivered either by trainers who lack substantive relevant skills and experience, and/or who lack local experience and credibility.
- > Limited practical follow-up mentoring.
- > Training that is managed and delivered by government agencies often suffers from institutional weaknesses and inefficiencies.
- > Programs that are driven and implemented by the public sector often ignore the presence and capacity of existing private sector service providers.
- > Participants are usually not required to contribute to costs, which is both an important indicator of commitment and a measure to increase the pressure on service providers to deliver good quality and relevant work.

CONSULTING ASSIGNMENT

Training for informal and established formal sector women-led MSMEs

The first part of this assignment would focus on established formal sector SMEs that are already operational, and which would benefit from support aimed at strengthening the business and obtaining finance via the RSF (either as new borrowers or repeat borrowers). Participants in the program would be required to:

- > Demonstrate their commitment to the training program, e.g. by making a contribution to costs.
- > Be referred by: (a) a FI participating in the RSF; (b) the relevant Chamber of Commerce or business organization.
- > Provide adequate information relating to their current business (sector, location, employee numbers, turnover, and current sources and amounts of external financing).

Topics to be covered would likely be:

- > Business planning
- > Cash flow management
- > Budgeting
- > Inventory control
- > Logistics and supply-chain management
- > Basic bookkeeping & management information systems
- > Financial products; and how to work with FIs
- > Sales & marketing
- > Legal & tax issues

Several groups and subjects would be excluded so as to maintain focus on the Project's core target market segment, and because other existing programs are active in these areas. These will be:

- > Courses on general entrepreneurship.
- > Sector-specific courses.

³ See for example: World Bank, 2016, How Can Training Be Made More Effective for Women-Led Small and Medium Enterprises? Preliminary Findings from Mexico and Peru, Sep 27.

MENTORING/COACHING

Aside from classroom type group training, international experience indicates that follow-up, more intensive, one-on-one mentoring can deliver high impacts if appropriately structured and delivered.

1. While there is a general agreement on the positive impacts of such one-on-one mentoring, there are some practical challenges in delivering it to any significant scale:
 - > A pool of skilled and experienced businesspeople with relevant local business knowledge, people-skills and credibility is required.
 - > It is time intensive. A full-time mentor could, at most, probably handle a maximum of 10 clients at any one time. A part-time mentor could perhaps handle only one client at a time. Experience suggests that each women-led MSME operator requires a structured mentoring program of at least six months.
 - > It is expensive compared to other forms of capacity building support. Any significant subsidy needs to be transparent and closely monitored and justified on the basis of 'public benefits', such as incremental employment generation.

Notwithstanding the above issues, and because of the potential high impacts, the Project will incorporate a significant one-on-one mentoring program, with the following key features:

- > Restricted to participants who have obtained a loan under the RSF and who have been referred by the relevant participating FI.
- > Restricted to participants who contribute XXX amount to the costs of the mentoring program.
- > Participants will need to agree to providing appropriate data on business turnover and employment for 24 months after completion of the mentoring program.

CONTENTS

- > Emphasis on core financial literacy, starting a business, business planning, and how to approach and work with FI's.
- > Participation restricted to women.
- > Shorter in total duration (i.e. three to four days) and delivered on weekends.
- > Participants would need to be already operating a business (though not necessarily a formal MSME) and would need to be referred by a registered FI, a Chamber of Commerce or other business

organization, or a recognized and registered women's business forum.

- > Participants would need to pay a part of training costs to show commitment.
- > Participants, who successfully complete the program, would subsequently be eligible to participate in the general women-led MSME mentoring program, provided they met the eligibility criteria for the program.

RESULTS MEASUREMENT

- > Participants completing the programs, with initial targets being: (a) formal sector women-led MSME training (target: XXX); (b) SME mentoring (target: XXX) and (c) informal sector women-led MSMEs (target: XXX).
- > Participants' ratings of programs; with target of at least 70 percent satisfactory/very satisfactory rating.
- > Numbers of women-led MSMEs subsequently obtaining a loan via the RSF; with a target of XXX.
- > Incremental employment generated by participants in the mentoring/coaching program (this will require effective monitoring, e.g. over a 24-month period following completion of mentoring assignments); with a target of XXX incremental full-time equivalent jobs.
- > Numbers of women subsequently starting a formal business; with target of XXX.

ANNEX 3

Sample list of indicators to be measured as a baseline for women-led MSME

INDICATOR	MEASUREMENT
Net Profits from women-led MSME Lending	True net profits, taking into consideration a share of indirect costs
Net Profits from women-led MSME clientele	Net profits from all financial products enjoyed by women-led MSMEs, including deposits, taking into consideration a share of indirect costs
No. of active loans/credit lines	Total no. of active loans (excluding write-offs) to women-led MSMEs, broken down between small and medium firms, and disaggregating majority women-owned enterprises
Total Portfolio Outstanding	Total volume of loan principal outstanding to MSMEs, broken down between loans and credit lines, and disaggregating women-led MSMEs
Average loan/credit size	Average loan size for MSME portfolio overall, also broken down between small and medium firms, loans and credit lines, and disaggregating women-led MSMEs
Average tenor	Average loan/credit tenor for MSME portfolio overall, also broken down between small and medium firms, loans and credit lines, and disaggregating women-led MSMEs
PAR>30 (no. of loans)	Total no. of loans and credit lines that have repayments more than 30 days late, also broken down between small and medium firms, loans and credit lines, and disaggregating women-led MSMEs
PAR>30 (value)	Total principal outstanding of all loans and credit lines that have repayments more than 30 days late, also broken down between small and medium firms, loans and credit lines, and disaggregating women-led MSMEs
Jobs created by women-led MSME borrowers (if obtainable)	Increase in no. of staff employed by MSME borrowers, over the last year, which can be attributable to the loans/credits obtained; also broken down between small and medium firms, loans and credit lines, and disaggregating women-led MSMEs
Write-offs	Number and percentage of write-offs (compared to loans and credits disbursed) for the previous 12 months
Average loan processing time	Average no. of working days needed from receiving a completed loan application to disbursing, for women-led MSME loans, also broken down between small and medium firms, loans and credit lines, and disaggregating majority women-owned enterprises
No. of financial products offered to women-led MSMEs by partner banks	Total number of different products offered to women-led MSMEs, including all asset and liability products.
% of first-time borrowers	No. of borrowers that are borrowing at the partner bank for the first time, also as proportion of borrowers for the period (e.g. last year). If possible, also the no. and % of borrowers borrowing for the first time from any formal FI.
% of collateralization for loans	Average market value of the collateral secured, as a proportion of loan value, on loans to MSMEs, also broken down between small and medium firms, loans and credit lines, and disaggregating women-led MSMEs
Breakdown of loan/credit portfolio into three sectors: retail/wholesale; services; production	No. and % of MSME loan/credit portfolio, classified per principal area of activity of the borrower. Also broken down between small and medium firms, loans and credit lines, and disaggregating women-led MSMEs
Average real and annualized interest rate	Average real interest rate on loans/credits to MSMEs, also broken down between small and medium firms, loans and credit lines, and disaggregating women-led MSMEs
% of loans/credits outside the NCD	Proportion of principal outstanding of all loans and credit lines made to borrowers who will use a majority of the funds outside the National Capital District, also broken down between small and medium firms, loans and credit lines, and disaggregating women-led MSMEs
No. of staff employed by women-led MSME borrowers (if obtainable)	Total no. of staff employed by the MSME borrowers, also broken down between small and medium firms, loans and credit lines, and disaggregating women-led MSMEs

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