Report

November 2023

Round table on the role of public finance in supporting the environmental transition of the private sector

Organised as part of
African Microfinance Week (SAM2023)

Summary

1. Introduction

1.1. Context of the round table

Through its intervention programmes, ADA supports, advises and provides technical support to various partners - in particular microfinance institutions (MFIs) but also institutional partners - in Africa, Asia and Latin America. In Africa, ADA is involved in a number of projects including:

a. Or it supports existing mechanisms for refinancing MFIs (for example, the FDIF, FISAN and FONAP in Niger, and soon the FNM and FNDA in Benin);
b. Or it advises its institutional partners (in particular the Ministries of Finance in Cabo Verde and Tunisia) on setting up MFI refinancing arrangements.

Against this backdrop, in 2023 ADA commissioned HORUS Development Finance to carry out a study on public mechanisms for refinancing microfinance institutions. The objective of this study was to strengthen ADA's support and advisory capacities towards stakeholders involved in the implementation or development of public schemes aimed at refinancing inclusive finance institutions, and in particular MFIs. In June 2023, the study was presented remotely by HORUS to ADA and the 13 funds that were the subject of in-depth case studies.

To promote this study, ADA organised a round table during African Microfinance Week, which took place in Lomé (Togo) from 16 to 20 October 2023. The aim of the round table was to initiate a dialogue between four funds (FNDA in Benin, FONAFI in Burkina Faso, FPM SA in the Democratic Republic of Congo and the Rwanda Green Fund) on the role of their financing in supporting the environmental transition of the private sector. HORUS Development Finance was asked to moderate the round table.

1.2. Introducing the participants

The round table brought together representatives of the four public financing funds mentioned above, several representatives of ADA, as well as a selection of other participants (partners of the funds on the panel, other refinancing funds). The full list of participants is presented in Appendix 2.

National Agricultural Development Fund (FNDA), Benin

The Fonds National de Développement Agricole (FNDA) was created on 21 June 2017. The FNDA is a public agricultural institution with legal personality and financial autonomy. It is placed under the supervision of Benin's Ministry of Agriculture, Livestock and Fisheries (MAEP).

The creation of the FNDA is a response to the constraints on financing the agricultural sector in Benin. The FNDA is at the heart of Benin's agricultural financing support strategy. As such, its purpose is to facilitate access to financing to promote private investment in the agricultural sector and to direct it, through targeted subsidies and appropriate financial instruments, towards activities that enable better exploitation of the country's agricultural potential and that contribute to improving farm incomes and food security by encouraging the promotion of agricultural sectors.

The FNDA's intervention policy combines two approaches: the commodity chain approach, which focuses on the development of Agricultural Value Chains (AVCs), and the financial sector approach. It is through this second approach that the FNDA supports financial institutions in financing agricultural projects.

National Fund for Inclusive Finance (FONAFI), Burkina Faso

The National Inclusive Finance Fund (FONAFI) was created by decree in 2020 and placed under the technical and financial supervision of the Ministry of Finance. Its creation is part of the implementation of the National Strategy for Inclusive Finance and reflects the Government's desire to make financial inclusion of low-income people a priority. It is a tool for facilitating the financing of productive projects, managing lines of credit and guarantees, and rationalising the management of financing funds in Burkina Faso.

FPM SA, Democratic Republic of Congo

The FPM was institutionalised in 2010 as a not-for-profit association (ASBL) under Congolese law. In 2014, another sister vehicle, FPM SA, was created to provide refinancing to financial institutions in DR Congo. The two entities have since complemented each other: the FPM ASBL provides technical assistance to financial institutions (Banks, Microfinance Institutions (MFIs) and Savings and Credit Cooperatives (COOPECs)) financing MSMEs, and the FPM SA is dedicated to refinancing the same financial institutions and dedicated to offering guarantee funds.

Rwanda Green Fund (Ireme Facility), Rwanda

The Rwanda Green Fund is a fund set up by the Rwandan government to support environmental transition. Ireme Invest is the private sector component. It is a strategic initiative aimed at filling the gaps in the local market for financing green projects that are resilient to climate change. It combines different financial tools to overcome existing barriers to access to finance for businesses, whatever their stage of maturity. The mechanism is designed to be agile and responsive to changing market needs. Ireme Invest has two components: a credit facility to provide financing to eligible projects, managed by the Banque de développement du Rwanda (BRD), and a project preparation facility (PPF) to support start-up projects, managed by the Rwanda Green Fund (RGF).

1.3. The environmental transition of private companies

The 2023 African Microfinance Week has placed the environment and climate at the heart of its concerns. Climate change no longer needs to be demonstrated, and projections by climatologists emphasise the need for large-scale transformations in our modes of production and consumption in order to put humanity on a more sustainable, low-carbon development path that is more respectful of natural resources and the environment.

At the end of 2015, 196 countries adopted the Paris Agreement, a legally binding international treaty on climate change, which came into force in November 2016, with the aim of limiting the increase in the average global temperature, the disastrous consequences of which on living conditions on earth have been proven by scientists. Implementing the Paris Agreement requires an economic and social transformation based on climate action plans submitted by each signatory country for 5-year periods, the Nationally Determined Contributions, or NDCs.

But it's not just a question of limiting man's impact on the environment: climate change is here to stay, many people on Earth are already suffering from it, and the people of Africa are among the first to be affected, particularly those in the most vulnerable sections of society and those living off agriculture in general. The transformation that is needed must therefore also focus on the resilience and adaptation of these populations to climate change.

It is clear that a fundamental transformation of production and consumption patterns and the increase of resilience on a large scale require a substantial commitment from the private sector to act on the two aspects of Nationally Determined Contributions: promoting more sustainable patterns of production and consumption and reducing vulnerability and building resilience in communities. The private sector, whether it is an individual micro-enterprise, an agricultural production unit, an SME or a large company, is subject to climate change. Investing in adaptation and climate resilience actions is therefore not an option.

There are two ways in which private sector companies can become involved in the environmental transition:

1. Ensure the sustainability and resilience of their operations by adopting environmentally-friendly practices
2. Developing products or services that promote environmentally-friendly lifestyles and/or make populations more resilient

However, such a transition is not without cost or risk. While in the long term it is clear that the transition is necessary for companies to survive, in the short term the barriers to entry for private companies and financial institutions are high. Targeted and proactive incentives from the public sector are needed to encourage the environmental transition of the private sector.

ADA is convinced that public sector private finance funds, and in particular those targeting vulnerable populations, have a pivotal role to play in this environmental transition of the private sector. Because of their mixed positioning, they are the transmission belts between the public authorities and the private sector, capable of placing the right incentives in the private financial sector to catalyse the financing of the environmental transition.

But how do you go about it? How can we move from a "*do no harm"* approach to a proactive one? How do you get the private sector and financial institutions on board? These were the questions addressed during the round table, attended by four public funds with different initial positions and mandates, but whose contribution to the environmental transition is essential. The discussion focused on their objectives, their ambitions, and the tools and partnerships that need to be put in place to make their respective roles a reality in this necessary transition.

The round table was organised around three main themes:

1) The positioning of funds with regard to the environmental transition;
2) The specific tools to be put in place to finance it; and
3) The necessary partnerships.

This note provides a summary of the lessons learned and good practices identified, as well as recommendations for public funding to encourage the environmental transition of the private sector.

A report on the discussions is appended to this document.

2. Lessons learned and conclusions on the positioning of public financing funds in supporting the environmental transition of the private sector

Sharing the experience of the funds taking part in the panel first of all enabled us to identify the levers for action of public refinancing funds in the environmental transition of the private sector. These are summarised below:

1. Give "green" companies[1] , in all sectors, access to financing, particularly those that develop and distribute innovative solutions for mitigation or adaptation;
2. To have an incentive effect on the greening of the private sector (reinforcing environmental requirements within companies), in particular by reinforcing requirements vis-à-vis partner financial institutions and developing a credit portfolio earmarked for "green" activities;
3. Supporting the adaptation and resilience of the private sector to climate change, particularly vulnerable populations;
4. Have a catalytic effect on the mobilisation of private funds for environmental transition (mitigation and adaptation).

It was then noted that the first step for a finance fund wishing to invest in the environmental transition is to adopt its own environmental and social (E&S) management framework. Such a framework ensures that the environmental dimension is taken into account in all aspects of the scheme. In particular, the key elements of an E&S management framework are the eligibility or exclusion criteria for the companies financed, as

[1] There is no single definition of a "green" company. The term here refers to companies that produce and/or supply environmentally-friendly products or services or have environmentally-friendly production processes.

well as the criteria for analysing their environmental and social risk. At the time of the round table, all the funds on the panel had adopted or were in the process of adopting an E&S management framework.

However, over and above these approaches aimed at limiting the risks of funding having harmful effects on the environment, few E&S management frameworks identify "positive" projects, aimed at limiting greenhouse gas emissions and/or biodiversity loss, or promoting the adaptation of populations to climate change. The framework put in place by the FNDA sets out a list of 'favourable' projects, but the way in which this list will be used has not yet been fully clarified. The RGF, on the other hand, was created specifically to support projects promoting environmental transition. Assessing whether projects are "favourable" is a key aspect of the funding appraisal process, for which the fund calls on specialist technical expertise.

Furthermore, as the funds participating in the panel all act in partnership with the financial sector, they also have levers to "green" national financial institutions. As illustrated by the FPM SA, this involves improving the environmental and social management frameworks of partner financial institutions by (i) integrating this dimension into the analysis of partnership applications, (ii) restricting eligibility criteria for access to all or part of the range of financial tools, and (iii) building the capacity of partner financial institutions.

Secondly, the discussions showed that the funds had the flexibility to offer a wide range of financial tools, some of which appeared particularly relevant for stimulating the environmental transition of the private sector:

- **Making long-term resources available to** support transitions over appropriate periods (lines of credit, possibly concessional, equity capital, subsidies): to this end, the FPM SA is negotiating a "green" line of credit with KfW.
- **Establishment of conditions to encourage transition**, in connection with certain financing objectives such as light mechanisation, which is particularly important for the agro-ecological transition, or the acquisition of green energy production equipment: partial subsidies for equipment, rate subsidies, following the example of the FNDA in the agricultural sector.
- **De-risking of green investments**, through guarantees (proposed or envisaged by all the funds on the panel), blended finance, strengthening companies' equity or subordinated debt.
- **Proposing financial tools specifically designed to finance innovation**, such as grants, reimbursable grants[2] or equity capital, which will both support companies in the early stages of their development and catalyse private commercial financing: the RGF's testimonial provides a good illustration of the range of tools that can be mobilised and their relevance depending on the stage of development of companies and sectors of activity. It also shows us that repayable grants are a good alternative to equity capital when the market is not yet familiar with this financial tool.

In addition, due to their specific positioning and proximity to public sector financing mechanisms (the FNDA and the RGF, for example, have both public and private sector windows), the funds also appear to be well placed to support the establishment of public-private partnerships, which are well suited to renewable energy production or "low carbon" mobility projects[3]. In the past, the RGF has been able to use the complementary nature of its two facilities to encourage the emergence of this type of project.

[2] Reimbursable grants, set up in particular by the RGF, are funds offered to companies without any transfer of property rights and without interest, but with a commitment to reimburse subject to the achievement of a certain level of profitability or other conditions defined in advance by a contract.

[3] The RGF pointed out that in the transport sector, it is possible to create PPPs where the government would bear the high cost of the investments linked to the transition and leave it to the private sector to manage the company's operations, as has been done in certain South American cities such as Bogota or Lima.

Almost all the funds taking part in the discussions are offering capacity building as a complement to their financial tools, which also appears to be very relevant for catalysing the environmental transition of the private sector:

- **Raising awareness and training financial institutions so** that they are better able to understand the risks associated with climate change, recognise climate-friendly projects and analyse the risk (training to come for the FNDA).
- **Awareness-raising and training for end beneficiaries**: public funds can play a role in giving the private sector access to the knowledge and skills needed to reduce its impact on climate change and adapt/become more resilient. The aim is to give end beneficiaries the keys to limiting their impact on the environment, but also to adapting to climate change and becoming more resilient. Financial education, as proposed by FONAFI, which raises awareness of savings in particular, is recognised as a key factor in resilience.

We can therefore see that the tools and actions identified as relevant to the environmental transition, although varied, for the most part require subsidised resources, including for private companies. This has implications for the financial resources to be mobilised, and requires safeguards to ensure that these resources are used wisely. The panel provided an opportunity for the RGF to detail some good practice in this area.

Finally, the specificity of public finance funds is that they can combine financial instruments, most often offered in partnership with the national financial sector, with capacity building for financial institutions and support for final beneficiaries. The funds participating in the panel adopt this holistic approach, which seems particularly relevant for supporting environmental transition, since it enables coordinated action to be taken on different levers of action and/or bottlenecks. This approach is taken either autonomously or in coordination with other types of public and private structures. FONAFI, for example, works in conjunction with development projects and regional chambers of agriculture.

3. Recommendations

The following are some recommendations for public private sector financing funds wishing to encourage the environmental transition of the private sector:

Public financing funds must reflect on their objectives and their action strategy for the environmental transition, in direct liaison with the ministries concerned.
All public funds have a role to play in the environmental transition, but not all have the vocation to act on all the levers of action (see paragraph 2.). Each fund should therefore identify its own position with regard to each of the four levers in order to clearly integrate the environmental aspect into its mission and theory of change, and to tailor its policy and tools accordingly. At the same time, good inter-ministerial cooperation is key to ensuring that the four levers are activated at national level.

African public finance funds must lead the way in financing adaptation to climate change.
Today, climate finance is focused primarily on mitigating the effects of climate change[4] . This financing is essential. However, the main challenges for climate finance in Sub-Saharan Africa lie not in mitigation but in adapting to climate change and building the resilience of vulnerable populations. This is particularly true in the agricultural sector, which employs the majority of the continent's population. African public finance funds have a role to play in setting up financial tools to support this adaptation.

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[4] *CPI's report on the global panorama of climate finance in 2021 shows, for example, that of the $632 billion raised annually for climate change, only $46 billion is for adaptation purposes.*

Public finance funds are well placed to support central banks and finance ministries in implementing their green finance strategies.
Because of their selection criteria and the support they offer, public funds can encourage financial institutions, including the smallest, to better integrate environmental concerns into their activities. What's more, identifying 'favourable' projects (for both mitigation and adaptation) at the level of a public fund can have a knock-on effect and harmonise them across the sector, thereby creating the beginnings of a taxonomy.

Financial innovation is needed to promote the emergence of green businesses and provide adequate funding for environmental innovation.
The environmental transition requires a transformation of our production and consumption patterns, and therefore the emergence of "low-carbon" technologies and services. Financial tools such as equity investment, subsidies or repayable grants are necessary for the development of these innovations. There is an opportunity to enhance the range of financial tools usually offered by public funding funds to better meet this specific need for environmental transition. These subsidised offers need to be combined with more traditional credit tools. In addition, the combination of different instruments (e.g. subsidies, credit lines and equity) makes it possible to offer a tailor-made package depending on the company's stage of development and/or the degree of maturity of its sector of activity.

Flexible approaches need to be put in place to encourage transition without excluding. However, incentives should focus on projects that promote environmental transition.
To support the private sector in the environmental transition, it is necessary to adopt a flexible and gradual approach, in particular to create a demand for financing for favourable projects, which is still in its infancy. However, subsidised resources should be mobilised as a priority for projects in favour of the transition. For example, offering reduced interest rates or more favourable guarantee ratios for projects that contribute to the environmental transition of companies, or offering interest rate rebates in the event of proven progress by the borrower in its transition could be ways of encouraging private companies to make the transition.

Financing the environmental transition of the private sector requires the mobilisation of subsidy resources.
The nature of the tools to be promoted raises the question of the financial resources to be mobilised by public funding. The decompartmentalisation of funding for financial inclusion and funding for the environment, as well as greater flexibility in the mobilisation of subsidies for the private sector, are recommended. In addition, beyond government budgets and concessional credit lines from international development banks, public finance funds could explore the mobilisation of alternative financial resources such as philanthropic resources or "climate" funds.

The mobilisation of subsidised resources for the private sector makes it essential to ensure that funding is properly managed and that a robust monitoring/evaluation system is put in place.
The mobilisation of subsidies for the private sector requires a framework to be put in place to ensure optimal allocation of resources: eligibility criteria, conditionality of disbursements (based on "*result-based finance"* principles) and a reinforced monitoring and evaluation system. Transparent *reporting* is essential to win the confidence of development partners, investors and governments.
However, a good balance needs to be struck between accurate *reporting* and a reasonable administrative burden for the private sector, at the risk of players becoming discouraged and demotivated: digitalisation is probably opening up interesting opportunities in this respect.

Partnerships with other support structures are essential for coordinated and effective action.
A good link between access to financial resources and the training/coaching of private sector players is essential to create a strong demand for financing for the transition, but also to reassure financial institutions about the level of risk associated with this financing. While public funds for financing the private sector can play a key role in mobilising financing, they must work in coordination with public and private support structures to mobilise the most appropriate intermediaries to provide this training and support.

4. Appendix 1: Summary of the discussion

4.1. Current positioning of funds with regard to the environmental transition

How are the funds currently positioned in relation to the environmental transition of the private sector at national level? What are their ambitions for the future?

FONAFI

The environment is a priority issue in Burkina Faso. A dedicated ministry oversees all actions at national level relating to environmental protection issues. As a state structure and a tool of the government, FONAFI also attaches great importance to these issues.

FONAFI has therefore undertaken to adopt an environmental and social policy during 2023. On the basis of a study drawn up in collaboration with the Ministry of the Environment, FONAFI has identified activities that have a negative impact on the environment and whose weight in its refinancing portfolio should be restricted or eliminated altogether.

FNDA

The FNDA's positioning as a tool for financing Benin's agriculture and its objective of enabling better exploitation of the country's agricultural potential naturally lead it to include environmental issues in its mission. The FNDA is also in line with national directives on environmental protection, which stem from commitments made by the Beninese government as part of its climate action plans. Since 2022, the FNDA has had an Environmental and Social Management System (EMS) with an Environmental and Social Policy that is currently being put into operation.

In addition to defining a list of exclusions, the FNDA's Environmental and Social Policy has also identified a series of projects with a positive impact, to be encouraged because of their "gender" and "environmental" dimension. These include, for example, projects that enable responsible agricultural mechanisation, projects that enable better control and rationalisation of water use (drip systems), organic agricultural production projects, drainage projects using photovoltaic systems, etc.

From 2024, all microfinance institutions (MFIs) and partner financial institutions (PFIs) that benefit from refinancing lines will have to comply with the exclusion list and will be encouraged to identify positive projects. Tools (checklists) will be made available to them to help them categorise their own financing projects. To achieve this objective, the FNDA will raise awareness and help build the capacity of financial institutions (FIs) and companies in the agricultural private sector on environmental and social protection issues.

FPM SA

The FPM SA stresses that, generally speaking, the legal and regulatory framework for climate finance in the DRC still needs to be improved, despite the fact that the DRC is one of the countries in the world with the most forest reserves. In particular, the regulations could help financial institutions to better integrate the environment into their objectives and activities.

The nature of FPM SA's shareholding (State, international development players) leads it to place the environment at the heart of its actions. As soon as the company was created, the shareholders, through the Board of Directors, demanded that a responsible finance policy be put in place. The exclusion list of activities not to be financed or supported was adopted. In addition, a system for measuring the environmental and social impact of the FPM SA's actions has been put in place, along with tools. Lastly, the analysis criteria used by partner financial institutions to grant financing include the existence of an environmental and social management system.

In 2018, FPM SA was able to raise funds from the Belgian investment company BIO to provide a technical assistant to set up environmental and social (E&S) risk management frameworks within PFIs. Most commercial banks in the DRC, particularly subsidiaries of international banking groups, already have E&S

management frameworks, as do the MFIs that are members of international microfinance groups. On the other hand, local MFIs, which are smaller in size, still have an embryonic level of control over their social and environmental risks. As part of this support, 6 partner institutions benefited from an audit of their E&S systems and the implementation of an E&S policy. As well as improving their understanding of risks, this has enabled them to meet the standards set by international donors, making it easier for them to raise funds.

The challenge of environmental transition is seen by the FPM SA as an opportunity to develop its activities. The FPM SA is in discussion with several partners to increase the environmental dimension of its activities:

- It is in discussions with KfW to set up an "energy line" to support sustainable rural electrification. As well as encouraging the marketing of "green" credit products, the line will provide technical assistance to increase understanding of environmental issues among financial institutions and Congolese green energy suppliers.
- It is in discussions with the African Development Bank for a line of financing and a line of technical assistance for young entrepreneurs operating in agricultural value chains, with a focus on the fight against deforestation. The FPM SA is also a member of AFRACA (African Rural and Agricultural Credit Association), which has also made sustainable agriculture and the fight against deforestation its priorities.

Rwanda Green Fund - Ireme Facility

Environmental transition is the raison d'être of the Rwanda Green Fund, which was created to support Rwanda in its ambition to become carbon neutral. There are three specific reasons why the Ireme Investment Facility was created:

1. Advancing Rwanda's Sustainable Development Goals: The presence of this investment facility is helping to advance Rwanda's sustainable development initiatives;
2. Enhancing the attractiveness of climate finance: This facility will enhance the attractiveness and use of climate finance, thereby promoting Rwanda's commitment to climate action;
3. Tackling financial market barriers to green investment: An important objective of this facility is to address and overcome challenges in the green investment sector, facilitating growth and sustainability.

Point 1:

The Government of Rwanda is actively pursuing a multi-dimensional approach to achieving low-carbon, climate-resilient growth that is aligned with its national development plans. This commitment is illustrated by the integration of national strategies such as NST1 (National Strategy for Transformation), GGCRS (Green Growth and Climate Resilience Strategy) and CDN (Nationally Determined Contribution), among others. Rwanda's Green Action Plan provides a comprehensive roadmap, encompassing a range of mitigation and adaptation measures covering key sectors such as power generation, construction, agriculture, manufacturing, clean transport, water conservation, waste management and land management. To effectively translate these strategies into reality, it is imperative to have a solid portfolio of projects and initiatives. Even within the framework of existing strategies, the implementation of specific programmes in these priority areas is essential. For example, the priority areas and programmes described by the GGCRS require a dedicated entity to drive their update and impact.

Point 2:

Rwanda has set itself clear financial targets: $5.7 billion to be mobilised for adaptation funding and $5.3 billion for mitigation funding by 2030. To diversify and strengthen the mobilisation of climate financing, Rwanda is moving away from conventional sources such as development partners and agencies. The focus is on exploring innovative ways to attract cost-effective financing from foundations, philanthropies and similar entities.

Point 3:

In 2019, a market study revealed that around 1% of Rwanda's GDP was allocated to combating the effects of climate change through adaptation and mitigation efforts. Increasing emphasis is being placed on involving the private sector.

Although green businesses existed before the Fund's recent focus on their inclusion in mobilising climate finance for Rwanda, these businesses face particular difficulties in accessing finance: The scarcity of projects perceived as bankable, the limitations of a relatively small banking system, a restricted pool of project developers, insufficient track record in securing loans or equity, There is a lack of long-term financing, a decline in commercial banks' confidence when it comes to investing in green businesses, and a lack of well-defined methods to mitigate the risks of these businesses, high collateral requirements and finally a lack of local banks' project finance skills.

The aim is for the success of Ireme Invest to act as a catalyst, not only by stimulating the increased mobilisation of climate finance, but also by actively involving the private financial sector in these efforts.

4.2. Financial and non-financial tools available

What are the financial tools offered by the funds, and how do they appear to be particularly appropriate for financing the private sector's environmental transition?

FONAFI

FONAFI, which focuses on financing the activities of specific target groups in disadvantaged rural and urban areas, with an emphasis on agricultural producers, is a specialised instrument for managing lines of credit and setting up financial and non-financial mechanisms. FONAFI uses a "make-do" strategy: it makes the financial resources it mobilises available to Financial Service Providers (FSPs) in the form of lines of credit at subsidised rates to enable the target populations to be financed on favourable terms.

More specifically, the financial tools offered by the fund are as follows:

1. **Refinancing lines**, made available to financial institutions (mainly microfinance institutions), recruited through calls for expressions of interest: offered at a concessional rate of 0.5% to 3% per annum, they must be on-lent at an exit rate not exceeding 10%.
2. **Facilitation fund**: FONAFI provides a financial guarantee to a bank to enable the refinancing of microfinance institutions.
3. **Training** on specific themes: for financial service providers (training in rural finance, value chain financing) and end beneficiaries (financial education).

FNDA

The FNDA intervenes through its window 3: "Access to financial services".

This counter offers three facilities:

1. **Refinancing of partner financial institutions:** The FNDA offers refinancing lines to microfinance institutions at a rate of 2% per annum, which must be on-lent at a maximum rate of 12% per annum. Each institution undergoes a risk analysis to determine the amount of refinancing that the FNDA will be able to allocate to it. The maturity of the line is aligned with the longest term of the loan to be refinanced.
2. **Guarantee for access to credit for agricultural promoters/entrepreneurs:** The FNDA's credit guarantee facilitates access to credit from banks and decentralised financial systems (SFD) for agricultural promoters/entrepreneurs. It covers 50% of the risks taken by credit institutions in granting loans to agricultural promoters/entrepreneurs. It is a bank guarantee issued by the FNDA as part of the financing of players in the sectors promoted within the PDAs (local agricultural development centres) to meet their financing needs. This guarantee can be individual or apply to a bank's loan portfolio.

3. **Interest rate subsidy:** The aim is to relieve the burden on agricultural promoters by limiting the exit rate to 2% p.a. on investment loans, intended for family farmers or agricultural businesses operating in one or more sectors selected by the PDAs.

The FNDA also plays a complementary role between its branches:

- Window 1 ("Subsidies for agricultural investments") subsidises structural investments: these subsidies can be supplemented by loans.
  Window 2 ("Access to non-financial services"), which offers applied research extension services, training and support for market access, is mobilised to (i) provide capacity-building for partner FIs in agricultural finance, (ii) support players in submitting their funding applications, and (iii) offer financial education to agricultural producers.

FPM SA

FPM SA provides loans to financial institutions with maturities of up to 5 years, enabling them to offer financial products and services to excluded populations, particularly in rural areas.

As guarantees to cover loans in rural areas are not sufficient, the FPM SA is also proposing a "portfolio guarantee" type risk-sharing mechanism, based on several principles: automaticity (any loan that meets the criteria is automatically included in the portfolio), silent guarantee, and exclusivity principle (a loan already included in the guarantee portfolio cannot benefit from a similar guarantee offered by another organisation). This mechanism is part of a partnership between the FPM SA, the Congolese government and the World Bank. Together with KfW, FPM SA is also in the process of setting up a line of guarantee funds covering, in particular, loans disbursed in the energy sector.

In addition, FPM SA works with its partner, FPM ASBL, which provides technical assistance to partner financial institutions and may also subsidise some of their equipment (in particular to encourage their penetration in rural areas).

Rwanda Green Fund - Ireme Facility

The Facility has the following financial instruments, designed to fill the various financing gaps in the market and bring about a catalytic change in the green sector through the financing of innovation:

- Non-refundable grant
- Repayable grant
- Shareholders' equity
- Bank guarantee
- Line of credit

This range of instruments is likely to fill all the market gaps identified in access to finance for "green" businesses.

However, the RGF has noted a number of obstacles to the implementation of the investment tool: the market is not familiar with equity investment and companies are reluctant to open up part of their ownership to other players. Furthermore, as venture capital in Rwanda is still in its infancy, the market lacks references in terms of start-up valuations.

Repayable grants (see definition in 2.) also present a risk because start-ups are often illiquid and need to invest: considerable financial discipline will be required to ensure that the funds are available when they fall due. This is necessary to ensure that the funds circulate properly, and therefore that the resource has a multiplier effect.

In addition, to ensure that this reimbursable subsidy tool is used effectively, the following conditions must be met:

- The project funded must have a clear and measurable environmental impact.

- The methodology for selecting projects must be effective and robust in terms of their environmental performance, and the projects selected must be monitored. This requires the use of cutting-edge technical expertise.
- Projects must also be analysed from the point of view of technical risk, financial risk and market risk, to ensure that the effects produced by the subsidies mobilised are sustainable and that they have a leverage effect.

The various financial instruments are mobilised according to the level of development of the projects and their size.

- In the energy sector, a hydroelectric project requiring substantial investment will be directed towards the credit facility, which offers long maturities and large amounts, well suited to this type of project. A more innovative solar mini-grid project in the pilot phase will have more limited investment requirements and could make good use of the repayable grant.

Gaseke hydroelectric power station

In 2015, the fund invested in Novel Energy to build the Gaseke hydropower plant in the Gakenke district of northern Rwanda. The investment was made through the fund's line of credit facility in collaboration with the Banque de développement du Rwanda, BRD.

The construction of the Gaseke hydroelectric power station has made up for the lack of electricity in the region. The plant is now providing clean energy to local communities and demonstrates the potential of small-scale renewable energy to meet the country's electrification targets.

The Gaseke hydroelectric plant has an installed capacity of 500 KW and is connected to the national grid. It has created more than 400 green jobs for the local community, produces 3.3 million KwH of electricity each year and avoids the emission of more than 3,000 tonnes of CO2-eq into the atmosphere each year.

- In the field of electric mobility, most companies are looking for working capital to improve their battery technology and set up recharging infrastructures. The financial instruments targeted by these market players are mainly lines of credit and repayable grants.

Ampersand

In 2019, Rwanda Green Fund invested in Ampersand (then an electric mobility start-up) to test, demonstrate and improve an electric motorbike taxi and grid-powered battery charging system in Rwanda.

The Fund's investment in electric motorbikes with Ampersand was aimed at reducing air pollution and greenhouse gas emissions by replacing petrol motorbikes with zero-emission electric motorbikes powered by clean energy.

Thanks to the RGF investment, the company has built two recharging stations with a battery depot at the main recharging station, assembled 25 e-motorbikes and built 44 batteries adapted to local conditions.

Today, Ampersand is stepping up its action by building electric vehicles and affordable recharging systems for the five million motorbike taxi drivers in East Africa.

The company now has more than 1,000 e-motorbikes on the road and has opened 8 battery exchange stations in the city of Kigali.

- In the sustainable construction sector, there is significant interest in the "equity" financial instrument, mainly because construction periods take a long time without any cash flow, and because property appears to be a safe investment.

- In the waste and circular economy sector, existing market players are ready to access commercial bank loans for expansion purposes, but they do not have sufficient collateral for their loan applications. Bank guarantees therefore offer good potential for this sector.
- Climate-smart farming projects also lack sufficient guarantees to access credit lines to modernise their equipment, and could also benefit from bank guarantees.

4.3. Partnership strategies

The funds' primary partners are the financial institutions with which they work. How can we motivate them to commit to financing the environmental transition? What other key partnerships need to be put in place?

FNDA

Through its refinancing scheme for financial institutions, the FNDA has set up a mechanism to encourage them to give priority to financing companies committed to environmental transition:

- Only projects that meet the FNDA's eligibility criteria, including an acceptable level of risk of negative impact on the environment, will be financed: a hierarchy of conditions is established according to the size of the projects and the amount of credit made available.
- Positive" projects will benefit from favourable conditions (to be specified).

A number of training and awareness-raising initiatives will be carried out over the coming months with partner financial institutions so that they are able to understand the environmental risks of an agricultural project and recognise a 'favourable' project.

The Territorial Agricultural Development Agencies (ATDA) and non-financial service providers will also be involved in the awareness-raising scheme with a view to environmental transition. It should be noted that under the FNDA scheme, agricultural promoters are required to draw up a form aligning their projects with the National Programmes for the Development of Agricultural Sectors, in order to benefit from the preferential conditions negotiated by the FNDA.

FPM SA

The FPM SA's main levers for mobilising partner financial institutions on the issue of environmental transition are:

- The inclusion of requirements relating to the implementation of environmental and social management frameworks at the level of partner financial institutions in the eligibility criteria for financial tools (notably guarantees). With the support of its advisor Incofin IM, the FPM SA has developed tools for assessing this E&S performance, which are used during the appraisal process for financial institutions and are in line with international standards.
- Building the capacity of FIs on this issue, with the support of its partner FPM ASBL.
- Setting up guarantee funds for specialised financing (energy, agriculture, gender and youth).

FONAFI

FONAFI includes environmental criteria in its selection process for financial service providers.

In addition, FONAFI notes that there are currently players in Burkina Faso's financial sector that offer environmentally-friendly financial products and services. FONAFI's refinancing lines could enable them to develop these activities through access to favourable financing conditions (term, rate) and capacity building (for financial institutions and end beneficiaries). This would involve setting up an appropriate monitoring and evaluation system, based on the existing system which uses performance indicators to measure the effectiveness of the loan, and evaluations of the impact of loans on financial inclusion and economic development.

Finally, FONAFI also works with development projects such as the IFAD-funded Programme for the Development of Agropastoral Potential in Eastern Burkina Faso (VALPAPE), and with the Regional Chambers of Agriculture to facilitate farmers' access to credit.

Rwanda Green Fund - Ireme Facility

The Ireme facility also works in partnership with financial institutions.

The Rwanda Green Fund has also developed a solid strategy of public-private partnerships, mobilising both the Ireme facility and the facility dedicated to public financing:

E-waste recycling plant: the RGF financed the construction of an e-waste recycling plant under the responsibility of the Ministry of Trade and Industry. Once the plant was completed, it was leased by the Ministry to Enviroserve for 10 years. This investment was made as part of Rwanda's national e-waste management strategy.

Nyandungu Ecopark: The RGF financed the construction of the Nyandungu Ecopark, which is now managed by a private entity.

4.4. Questions and discussion with the audience

- One participant stressed that it is not enough just to have good intentions, but that the players must have the right tools at their disposal to implement these good intentions. Today, engaging with the private sector to address environmental issues has become essential.
- It was also pointed out that change does not happen immediately; it is a process. We need to help the demand to emerge, because at the level of the private sector today, the demand for financing the transition is not very great.
- The guarantee fund tool does not yet seem to be used to its full potential. A good balance needs to be struck between efficient use of these guarantee funds, in particular through a guarantee quota that is sufficiently limited to make partner financial institutions accountable and/or a stop-loss system for portfolio guarantees, and real encouragement of risk-taking by the latter. Consideration should also be given to the economic model for these funds, to ensure that they do not add to the already high cost of credit for final beneficiaries. Finally, we need to think about innovative mechanisms that go beyond guarantee funds.
- The issue of funding start-ups that are bringing innovation to the transition was also raised.

5. Appendix 2: List of participants by name

Name	First name	Organisation	Function	Country
Juguet	Elise	Horus Development Finance	Associate Director	France
Abboud	Marina	ADA	Head of Access to Basic Services Programmes	Luxembourg
Soetens	Aurélie	ADA	Knowledge Management Officer	Luxembourg
Baron	Christian	ADA	Programme Advisor	Luxembourg
Nkongo mambu	Patrick	FPM SA	Managing Director	Democratic Republic of Congo
Mukadi	Magalie	FPM SA	Investment Officer	Democratic Republic of Congo
Djibril	Abdou Djalill	FNDA	Director of Operations, in charge of resource mobilisation	Benin
Thiombiano	Boubakar	FONAFI	Director of Operations and Monitoring & Evaluation	Burkina Faso
Hien	Hippolite	FONAFI	Management controller	Burkina Faso
Tapsoba	André	FONAFI	Director of Finance and Accounting	Burkina Faso
Gouba	Abel	Swiss Cooperation (technical and financial partner of FONAFI)	Programme Manager	Burkina Faso
Cisse Sawadogo	Saibata	Ministry of the Economy, Finance and Forecasting	Head of studies at the national inclusive finance fund	Burkina Faso
Shyaka	Tony	Rwanda Green Fund - Ireme Facility	Private Sector Investment Analyst	Rwanda
Ikirezi Mutabazi	Fabiola	Rwanda Green Fund - Ireme Facility	Climate Finance Specialist	Rwanda
Dagba	Carole	FNM	Director of the Cooperation and External Financing Unit	Benin
Sangi nzala	Son	Central Bank of Togo		Togo
Tchaba	Grandpa	Ministry for SMEs	TRANSFORM project representative	Democratic Republic of Congo
Gouba	Abel	Swiss Cooperation	Senior project manager	Burkina Faso

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