

ARIZ: AFD'S RISK-SHARING MECHANISM

To facilitate SME financing



ARIZ is a risk-sharing mechanism designed to give micro, small and medium-sized enterprises and microfinance institutions easier access to financing. It aims to support projects for micro-enterprise and SME start-ups and development by getting financial institutions more involved in their financing.

Small and medium-sized enterprises (SMEs) play a major role in the sustainable development process. SMEs are the backbone of the economic fabric in developing countries, as is the case in OECD countries. They play a vital role in job creation and innovation.

They provide an effective tool for sustainably reducing poverty and giving communities greater access to essential needs through the revenue they generate. In Sub-Saharan Africa, SMEs account for over 90% of the total number of companies, 70 to 80% of which are micro and very small enterprises.

However, business development and creation is hampered by the lack of access to financing. Financial institutions are often reluctant to offer loans to these entities, which they consider to be too risky. The inability of SMEs to provide guarantees is generally a major barrier to obtaining a loan and even when they have such guarantees, shortcomings in legal systems in many developing countries lead to particularly long and costly guarantee enforcement procedures for credit institutions.

This situation prompted AFD – as part of its strategy to support SMEs – to develop a risk-sharing tool to give SMEs easier access to financing from financial institutions: **ARIZ**. It stands for **l'Accompagnement du Risque de financement de l'Investissement privé en Zone d'intervention de l'AFD** (support for the risk of financing private investment in AFD's areas of operation).

ARIZ is part of AFD's program to support SME development, which firstly aims to increase financing opportunities and, secondly, to build the capacities of these businesses. Consequently, AFD Group offers grants, loans, credit lines, risk-sharing mechanisms, equity investments and technical assistance. The complementarity of these instruments allows it to tailor its support to the specificities of each counterpart, country and region.



Tyre renovation, Nablus

© AFD – Lidwine Maltête

Nablus, Palestinian Territories

ARIZ AND THE DEVELOPMENT OF A TYRE RENOVATION COMPANY

This small truck tyre renovation business with 9 employees was set up a year and a half ago. This company sells renovated tyres for a third of the price of new ones and is the only company in this line of business in the Palestinian Territories. It has taken out a 20-month loan, 50% of which is guaranteed by ARIZ, in order to buy tyres to renovate from Dubai. This has allowed it to launch its business, which is currently experiencing strong growth.

ARIZ: A RISK-SHARING MECHANISM TAILORED

ARIZ IN BRIEF

The ARIZ mechanism is a risk-sharing tool designed for financial institutions to partially cover their "SME risk" and thereby help them develop their equipment loan activity for micro-enterprises and SMEs.

ARIZ also guarantees loans to microfinance institutions (MFIs).

This mechanism allows:

- companies – from small craft enterprises to structured SMEs – to obtain investment loans more easily;
- banks:
 - to reduce the risk taken,
 - to increase their SME portfolio,
 - to improve their solvency ratio thanks to AFD's signature;
- microfinance institutions to gain easier access to bank resources.

With ARIZ, AFD provides financial partners with tools that are:

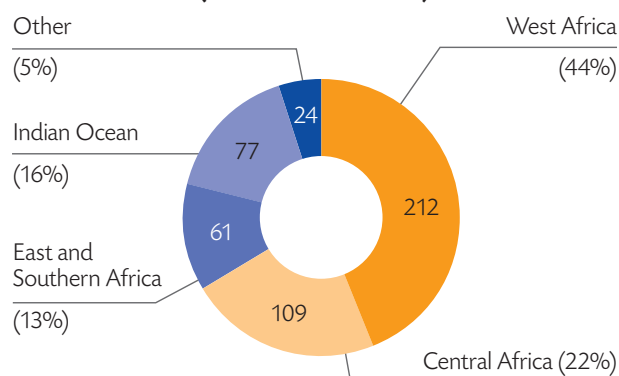
- tailored to risk securitization needs,
- rapidly available,
- in the desired currency (local currency, euros, dollars...).

ARIZ IN FIGURES

AFD has established an ARIZ partnership with over 80 financial institutions. The mechanism is available in 34 countries in AFD's geographical area of operation.

The geographical breakdown of ARIZ authorizations for the period 2008-2012 is shown in the following graph:

Geographical breakdown of ARIZ authorizations
(in millions of euros)



AFD's risk-sharing tool is mainly developed through partnerships with major banking networks, including the networks of Société Générale, BOA and Attijariwafa Bank Group.

Since 2000, ARIZ has guaranteed loans to **over 2,000 companies**, which represent some **190,000 jobs**.



Aquaculture project, Côte d'Ivoire.

Abidjan, Côte d'Ivoire

ARIZ AND THE CREATION OF AN INDUSTRIAL AQUACULTURE CENTER

This FCFA 3bn project comprises 24 basins and is based on the technique of intensive closed circulation.

This aquaculture center breeds carp and catfish. The production cycle lasts 6 months and the promoters have an average monthly production target of between 200 and 220 tons, i.e. 350,000 to 370,000 fish, each weighing 600 g (annual production capacity of 3,100 tons).

The bulk of the production will be sold on the local market. The project will create 50 jobs.

TO THE NEEDS OF FINANCIAL INSTITUTIONS

The ARIZ mechanism comprises two complementary tools

ARIZ Single Deal Guarantee: risk sharing allocated on a loan-by-loan basis

- risk securitization in local currencies or euros, with maturities ranging between 2 and 12 years;
- risk sharing up to a counter value of EUR 2m;
- swift appraisal and decision-making by AFD's local agency;
- a guarantee percentage of up to 50% (75% for MFI refinancing).

ARIZ Portfolio Guarantee: risk sharing allocated for loan portfolios

- an instrument for banks seeking to develop their mesofinance activity and loan portfolio for micro-enterprises and SMEs;
- coverage of the credit risk on a loan portfolio of up to 50%;
- eligible loan amounts ranging between EUR 10,000 and EUR 300,000 or their counter value in local currency.



Hospital upgrading, Kampala

Kampala, Uganda

ARIZ AND THE DEVELOPMENT OF A PRIVATE CLINIC

The company has a 110-bed capacity and is one of the 5 largest hospital establishments in Kampala.

Thanks to ARIZ, this company has benefited from a USD 1.6m bank loan with a 5-year maturity, which has been used to upgrade its facilities. This investment has thereby contributed to improving healthcare services in the Ugandan capital.

Acquiring modern high-tech equipment and improving working conditions can also provide an incentive for Ugandan doctors and specialists trained abroad to return to their home country.



INTERVIEW WITH PIERRE MAHÉ,

CEO
of BICEC

"Contrary to common belief, all Cameroonian banks are interested in financing SMEs and there is tough competition.

Back in the early 2000s, AFD – via the ARIZ mechanism – established a dynamic partnership with BICEC and our counterparts, SGBC, SCB and ADVANS. The aim was to scale up the number of financing operations in this sector, which is naturally risky.

ARIZ helps banks take risks in supporting SMEs that they would not be in a position to take alone.

Since 2009, this partnership has been reinforced with the signing of agreements with BICEC and SGBC delegating the appraisal of part of the applications to them. This has increased our flexibility and responsiveness, while maintaining the quality of our risks. These agreements were renewed in January 2012 by raising the overall amount of guaranteed outstanding loans.

We are – like our clients – satisfied with this partnership. SMEs, ARIZ and its partner banks form a winning trio for the development of Cameroon."



INTERVIEW WITH Mrs TRAORÉ,

International Bank
for Trade and Industry
in Côte d'Ivoire

"This mechanism to reduce our risks allows us to be more open to requests that we would usually consider to be not sufficiently complete or covered, or in sectors where the rate of return remains uncertain."

ARIZ MECHANISMS – TECHNICAL DETAILS

METHODS FOR ARIZ GUARANTEE TOOLS – TECHNICAL DETAILS

ARIZ targets financial institutions that comply with international standards for credit risk management and the fight against money laundering and the financing of terrorism. ARIZ's operating methods are as follows:

- **Geographical area:** AFD countries of operation.
- **Financial intermediaries:** all lending institutions.
- **Eligible final beneficiaries:** SMEs under local law, natural persons and associations.
- **Economic sectors:** all sectors, apart from those on the exclusion list.
- **Eligible currencies:** all.
- **Extent of risks covered:** final losses after recuperation of the securities taken on the borrower, calculated on the principal amount plus the outstanding interest at the interest rate of the loan, with a one year limit on interest.
- **Trigger events:** default declared by the lending institution or opening of insolvency proceedings against the borrower.
- **Activation procedure:** activation request made by the lending institution following a trigger event, with an advance payment made by AFD calculated on the basis of the estimated final loss.

ARIZ SINGLE DEAL GUARANTEE

The lending institution can contact AFD's local agency on a case-by-case basis to request a guarantee of up to 50% of an investment loan allocated to an SME, or a guarantee of up to 75% of a loan allocated to an MFI. The request is appraised by the local agency on the basis of the interest and quality of the application.

Purpose: guarantee any investment loan requested by (i) SMEs or (ii) Microfinance Institutions (MFIs).

Maturity of loans guaranteed: 2 (1 year for loans to MFIs) to 12 years.

Maximum guarantee amount: counter value of EUR 2m.

Quota: up to 50% of the loan (75% for loans to MFIs).

Fees: twice-yearly fee on the guaranteed outstanding principal amount. The rate is defined on the basis of the country risk.

No claims-waiting period: the guarantee covers the loan as soon as the latter is allocated.

Submission of applications: the lending institution must submit a guarantee application to AFD's local agency. It includes a guarantee request form and the complete appraisal file compiled by the bank for its own decision-making process.

Procedure and time-scale: the local agency appraises guarantee requests. Depending on the degree of delegation, the decision is taken either at the local level or at AFD headquarters, within a short period on receipt of the complete application by the agency.

ARIZ PORTFOLIO GUARANTEE

This guarantee mechanism targets banks seeking to develop their lending activity to SMEs and micro-enterprises with risk sharing for an entire business segment.

The portfolio guarantee agreement allows 50% of the loans allocated by the bank to be systematically guaranteed. These loans are required to meet the eligibility criteria defined in the agreement. The bank informs AFD of the situation of its portfolio of guaranteed loans every six months.

Purpose: guarantee an entire pre-defined loan portfolio to support SME start-ups, development and transfers.

Maturity of loans guaranteed: 1 to 5 years.

Amount of portfolio guarantee: defined on the basis of the bank's guarantee requirements for the annual target portfolio.

Amount of eligible loans: EUR 10,000 to EUR 300,000 or their counter value in local currency.

Quota: up to 50% of the loan amount.

Choice of pricing scheme: fee based on the guaranteed out-standing amount or lump sum fee.

No claims-waiting period: the guarantee covers the loan as soon as the latter is allocated.

Submission of applications: the lending institution must submit a portfolio guarantee request to AFD's local agency.



Laiterie du Berger Dairy © Bagoré Bathily

Agence Française de Développement (AFD) is a public development finance institution that has been working to fight poverty and foster economic growth in developing countries and the French Overseas Communities for seventy years. It executes the policy defined by the French Government.

AFD is present on four continents where it has an international network of seventy agencies and representation offices, including nine in the French Overseas Communities and one in Brussels. It finances and supports projects that improve people's living conditions, promote economic growth and protect the planet, such as schooling for children, maternal health, support for farmers and small businesses, water supply, tropical forest preservation, and the fight against climate change.

In 2011, AFD approved nearly €6.9 billion to finance activities in developing countries and the French Overseas Communities. The funds will help get 4 million children into primary school and 2 million into secondary school; they will also improve drinking water supply for 1.53 million people. Energy efficiency projects financed by AFD in 2011 will save nearly 3.8 million tons of carbon dioxide emissions annually.

AGENCE FRANÇAISE DE DÉVELOPPEMENT (AFD)

5 rue Roland Barthes
75598 Paris Cedex 12 – France
Tél. : +33 1 53 44 31 31
Fax : +33 1 44 87 99 39
www.afd.fr

GUARANTEES DIVISION (GAR)

PRIVATE SECTOR, BANKS AND LOCAL AUTHORITIES DEPARTMENT (EBC)



www.proparco.fr

PROPARCO, AFD's subsidiary dedicated to private investment, promotes private investment in emerging and developing countries in order to boost growth, promote sustainable development and reach the Millennium Development Goals. Its financing is tailored to the specific needs of investors in the productive sector, financial systems, infrastructure and private equity investment.



Fonds Français pour
l'Environnement Mondial

www.ffem.fr

FFEM is a bilateral public facility set up by the French Government in 1994 following the Rio Summit. It aims at promoting global environmental protection via sustainable development projects in developing or transition countries. The French Global Environment Facility supports physical projects in recipient countries. Its operations are learning-based and support experimental, innovative or exemplary approaches.



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