

# ARIZ: A DEDICATED RISK-SHARING TOOL FACILITATING ACCESS TO BANK CREDIT

Guarantees that improve business  
access to finance in the South



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AGENCE FRANÇAISE  
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## ARIZ: Guarantee for private investment financing risks.

ARIZ is one of the main mechanisms for France's Initiative for Growth and Employment in Africa launched by the French President in Cape Town, South Africa, on 29 February 2008. The Initiative aims to support economic growth and job-creating start-ups. ARIZ's intervention capacities have been scaled up, its range extended and is now available to new private sector actors thanks to the Initiative. Processing, decision-making and management procedures have, at the same time, been simplified.

IF YOU ARE A BANK WANTING TO DEVELOP YOUR RANGE OF CORPORATE FINANCE SERVICES

➤ **ARIZ PROPOSES A GUARANTEE PARTNERSHIP AND SOLUTIONS TAILORED TO YOUR ENVIRONMENT.**

IF YOU ARE A DYNAMIC COMPANY SEEKING EASIER ACCESS TO A BANK TO FINANCE YOUR PROJECT

➤ **CONTACT YOUR BANK. IT MAY ALREADY BE ONE OF THE FORTY ARIZ PARTNER ESTABLISHMENTS OR IT MAY SOON BECOME ONE.**

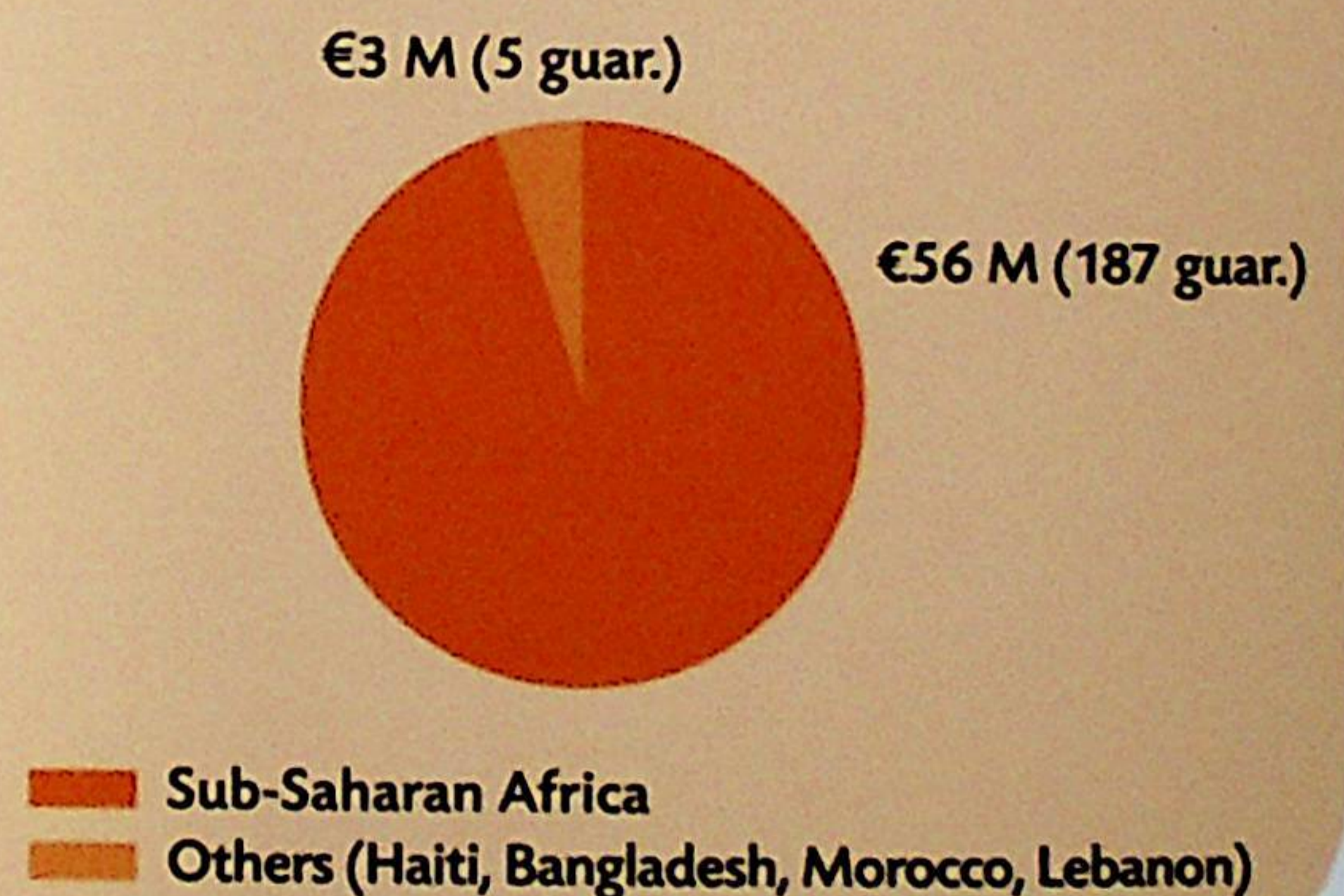
IF YOU ARE A PRIVATE EQUITY INVESTMENT COMPANY OPERATING IN THE SOUTH THAT SEEKS SOLUTIONS TO MITIGATE THE RISK OF INVESTING IN A COMPANY

➤ **ARIZ CAN BE YOUR PARTNER VIA AN EQUITY INVESTMENT GUARANTEE.**

### ARIZ: KEY FIGURES

- Present in over 20 countries, mainly in Africa
- Some 40 partner banks worldwide
- A steadily rising number and volume of guarantees allocated (up 80% annually over the past 3 years)
- An increasing number of companies (almost a hundred in 2008) have been able to develop each year and thousands of jobs have been supported or created

### ARIZ – COMMITMENTS SINCE 2000 (IN MILLIONS OF EUROS)



### ARIZ: COMPLETE SOLUTIONS FOR FINANCIAL ACTORS' LOAN AND EQUITY GUARANTEE REQUIREMENTS



ARIZ is a guarantee mechanism designed to give small and medium enterprises (SMEs) and microfinance institutions (MFIs) better access to financing. It aims to support business start-ups and development projects by scaling up banks' participation in their financing.

Thanks to the ARIZ range of guarantees AFD provides financial actors from South countries with tools that are:

- flexible (simple procedures),
- easy to mobilize,
- responsive (rapid responses and processing),
- in local currency or euros,
- tailored to risk securitization needs, including political risks or climate hazards.

ARIZ aims to be a lever for economic growth thanks to partnerships built with banks, financial institutions and private equity investment entities in developing countries.





## A NEWLY-DESIGNED RANGE OF GUARANTEES TO PROMOTE:

- Financing for business start-ups and development projects (from small-scale microenterprises to exporting SMEs) via medium and long-term credit.
- Access to refinancing for microfinance institutions.
- Equity injections by mother companies into their subsidiaries and private equity investment entities' equity participations in local small and medium enterprises.
- Financing to enhance energy efficiency.



## INTERVIEW WITH FANJA RALAIVO Corporate Director at the BNI in Madagascar

Fanja RALAIVO manages a team of 14 client advisors for a portfolio of over 300 companies.

■ **When did you learn about the ARIZ guarantee?**  
I began to get the "ARIZ reflex" in 2005. Since then we have used the guarantee about fifteen times.

■ **Why do you use the ARIZ guarantee?**  
It is flexible and practical to use and has competitive response times. The reasons for using it vary enormously depending on the projects. Some companies seek to share the risk with AFD so that our bank's commitment in the company does not rise to excessive levels. Others seek an additional guarantee when the company's financial base is relatively limited. The guarantee can also give credibility to projects where AFD has recognized competence, with microfinance for instance.

■ **What kind of relationship does your bank have with AFD?**  
Beyond the ARIZ guarantees, we have very useful exchanges with AFD (or PROPARCO, its private sector financing arm) on certain sectors or projects. These exchanges have helped us hone our approach to activity sectors such as shrimp farming or tourism in Madagascar.

## ARIZ LOAN GUARANTEES

Thanks to this mechanism:

- borrowers can obtain loans more easily, particularly medium and long-term loans,
- banks can reduce both their risks and their need for additional guarantees which are often costly and uncertain (mortgages, securities...),
- economic growth can be supported by promoting the development of a range of small equipment loans (mesofinance) with the portfolio guarantee.

The mechanism includes two additional tools available to lending establishments:

- the single deal guarantee,
- the portfolio guarantee.

## ARIZ SINGLE DEAL GUARANTEE

It supports the lending establishment project by project by:

- securing local currency or euro risks with maturities of up to 12 years,
- a guarantee for an exchange value of up to 2 million euros (i.e. 50% of a maximum 4 million euro loan),
- swift processing and decision-making by AFD's local agencies (5 business days maximum after reception of complete application).



## EXAMPLES OF PROJECTS SUPPORTED BY ARIZ

**Madagascar:** BIONEXX is a Malagasy company that grows and purifies artemisia, a plant from which an active ingredient that can fight malaria is extracted. The activity includes a far-reaching program whereby a large community of small-scale farmers work for the company. The project is emblematic due to its positive social and environmental spillover effects. The company obtained a 5-year loan from a local bank with a 50% ARIZ guarantee and was consequently able to pursue its development. BIONEXX grows around 450 ha of artemisia and has already created 700 jobs. The company should eventually provide employment to 2 000 people.

**Senegal:** PATISEN (Senegalese confectionery company) is an SME with 75 employees. It is specialized in the local production of powdered stock (it is the market leader in Senegal), spreads, chocolate drinks, inputs for bakeries, seasoned tomato paste, mayonnaise, oil and powdered milk. Its products are generally inexpensive, are extremely successful in Senegal and are exported in the sub-region to Guinea, Mali, Gambia and Burkina Faso. In 2008 ARIZ supported a sizeable development investment in a product processing unit.

**Cameroon:** KETCH SARL with its 412 employees is one of Cameroon's biggest SMEs specialized in road works. Growth in activity led the company to make investments in both equipment and human resources by recruiting young Cameroonian executives. In 2008 ARIZ guaranteed financing for equipment.

**Haiti:** ACME began its microfinance activities in Haiti's urban areas 10 years ago. In 2008 ARIZ guaranteed a line of bank financing to this microfinance institution (MFI). The MFI was consequently able to improve its operational capacities, develop its credit portfolio and acquire an information and management system. ACME has allocated some 100 000 loans over the past ten years via its network of 15 agencies, mainly in Port-au-Prince. It is one of Haiti's biggest MFIs.

## ARIZ PORTFOLIO GUARANTEE

- This is a new guarantee mechanism for banks with recognized expertise in credit analysis wanting to develop their mesofinance activities and SME loan portfolio.
- The guarantee is formalized by an AFD guarantee agreement.
- The guarantee envelope automatically covers 50% of the risk on individual loans allocated by banks with unit amounts ranging between 10 000 and 300 000 euros (or the equivalent amounts in local currency).
- Decision-making and management for each guarantee allocated from the contractual ARIZ envelope is delegated thanks to the trust relationship between AFD and the partner bank.

## MESOFINANCE: THE MISSING LINK

Mesofinance refers to a segment of corporate financing that has generally not been widely developed or is not provided by microfinance institutions or banks. The segment can be defined as being situated between the upper limit for microfinance loans and the lower limit for bank loans. There is a missing link between these two limits which means small and medium enterprises lack access to financing and consequently cannot develop. AFD implements a Mesofinance Program that combines a number of actions designed to boost the growth of these companies. The Program specifically contributes to building the entrepreneurial capacities of these small structures. It helps them manage their future development, establish what financial support they require and supports them in their development projects. This component also includes support to the financial actors themselves to help them get a better understanding of this client base and to build on its success by providing tailored financial services.

## ARIZ EQUITY INVESTMENT GUARANTEE

One of the main stumbling blocks when companies seek balanced financing for their growth is the level of capitalization required.

ARIZ guarantees up to 50% of risks and thus promotes equity or quasi equity investments.

- by companies in their subsidiaries (when they are the majority shareholders),
- by private equity investment entities' in SMEs.

## DANONE COMMUNITIES FUND (DANONE GROUP ETHICAL INVESTMENT FUND SET UP IN 2006)

A partnership has been built between the Danone Communities Fund and ARIZ for projects with significant social components.

Example of Laiterie du Berger – 2008: Laiterie du Berger is the biggest industrial dairy in Fulani countries. It collects milk from 600 semi-nomad Fulani cattle farmers from the arid areas of northern Senegal. This gives them an outlet for their milk production. The milk is treated and packaged at a plant built locally and is marketed in Dakar as fresh products (fresh pasteurized milk, yoghurts and fresh cream). ARIZ guaranteed 50% of the Danone Communities Fund's equity investment in Laiterie du Berger.



© Bernard Bouché, CEO, Laiterie du Berger



## AFD GROUP AND THE PRIVATE SECTOR

The private sector, by creating sustainable employment and raising incomes, is a key actor in fighting poverty and supporting economic growth. The economic fabric of very small enterprises and SMEs accounts for the bulk of employment in developing countries. The response to the challenge of financing SMEs lies in the need to encourage financial institutions to provide more services to this client base, to improve the business climate and the reliability of financial information and to develop the competitiveness of companies. In order to boost private sector investment, AFD and PROPARCO, its private sector financing arm, have designed a wide range of financial products tailored to the needs of companies, whatever their size: equity, long-term loans, lines of credit, guarantee tools, private equity investment. AFD has been meeting South companies' needs in terms of financing, training and technological evolution for many years via an upgrading program comprising a full range of services. The program helps entrepreneurs face international competition and find their place within globalization. Support for private sector development is a cornerstone of AFD and PROPARCO operations.

## ARIZ MECHANISMS - TECHNICAL INFORMATION

### ARIZ SINGLE DEAL GUARANTEE (FOR SME LOANS)

**Purpose:** to guarantee any type of equipment loan requested by (i) SME start-ups, business development and transmission and (ii) Microfinance Institutions (MFIs).

**Term of guarantee:** 2 (1 year for MFIs) to 12 years maximum.

**Quota:** maximum guarantee of 50% of the loan (75% for MFIs) with an upper limit of 2 million euros.

**Cost:** annual fee on the outstanding principal amount guaranteed.

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

**Extent of risks covered:** principal amount plus the outstanding interest at the rate of the loan at the date the guarantee is called in, with a one year limit on interest.

**Guarantee requests:** banks must submit guarantee requests to AFD's local agency. They include a guarantee request form and the complete project document compiled by the bank for its decision-making process.

**Procedure and time-scale:** the local agency processes guarantee requests. Depending on the degree of delegation, the decision is either taken at the local level or at AFD headquarters on average within five business days on receipt of the complete application by the agency.

### ARIZ PORTFOLIO GUARANTEE (FOR SME LOANS)

**Purpose:** to guarantee a whole pre-defined target loan portfolio for SME start-ups, business development and transmission.

**Time period allowed for building-up of the target portfolio:** 2 years - renewable once.

**Amount of portfolio guarantee:** to be defined on the basis of the bank's guarantee requirements for the annual portfolio envisaged. The amount matches the outstanding amount to be guaranteed for individualized loans allocated in local currency. Maturity of the loans covered: between 1 and 5 years.

**Amount for unit guarantees:** 5 000 to 150 000 euros (i.e. 50% of individual loans for unit amounts ranging between 10 000 and 300 000 euros).

**Cost:** the pricing scheme is selected by the partner bank:  
- an annual fee based on the guaranteed outstanding amount. It is assessed every six months during the first two years, with payment at the expiry of this period of a discounted fee for the guaranteed residual outstanding amount,  
or  
- a reduced fixed fee based on the amount of the portfolio guarantee envelope.

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

**Extent of risks covered:** principal amount plus the outstanding interest at the rate of the loan at the date the guarantee is called in, with a one year limit on interest.

**Guarantee requests:** banks must submit portfolio guarantee requests to AFD's local agency. Requests are transferred to AFD headquarters for processing and decision-making.

### ARIZ EQUITY INVESTMENT GUARANTEE

**Purpose:** to guarantee all private equity investments in South companies.

**Beneficiaries:** mother companies or private equity investment companies.

The subsidiaries or partners targeted for the equity investment must have their headquarters in a country within AFD's intervention area. In addition, they must have proven growth potential.

**Quota:** maximum 50% guarantee for an eligible base of 2 million euros, i.e. an upper limit of 1 million euros per operation.

**Term of guarantee:** 10 years maximum.

**Cost:** the level of fees is defined on a case-by-case basis.

**Guarantee requests:** investors may submit requests to the local agency or to AFD headquarters in Paris.





Agence Française de Développement (AFD) is a public establishment with a mission defined by the French Government. It has been combating poverty and promoting development in South countries for over 60 years.

AFD is active in the field in over 60 countries and Overseas France and finances and supports projects to improve living conditions for populations, boost economic growth and protect the planet: getting children into school, supporting farmers and small companies, providing water supply, preserving tropical forests, combating climate change...

In 2008, AFD earmarked 4.5 billion euros to finance operations in South countries and Overseas France. Thanks to this financing 7 million children were able to go to school and 4.4 million people gained access to water supplies. Energy efficiency projects for the same year will save 3.3 million tons of CO<sub>2</sub> annually.

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