

# **BUILDING CLIMATE RESILIENCE FOR FOOD AND LIVELIHOODS IN THE HORN OF AFRICA (BREFOL)**

Djibouti, Ethiopia, Kenya, Somalia, and South Sudan

## **Annex 26. BREFOL Eligibility Criteria under The Line of Credit Facility**



## 1.1 Introduction

A critical component of BREFOL (**Building Climate Resilience for Food and Livelihoods in the Horn of Africa**), is to leverage additional private sector capital into climate-sensitive sectors in the Horn of Africa (HoA) region. One way to attract private capital into climate-sensitive sectors is to provide the right incentive and enabling environment suitable for private sector operations. To this end, BREFOL through GCF concessional resources, will support the establishment of a Dedicated Direct Credit Window (BDCW) to provide PFIs in Djibouti (**Djibouti Economic Development Fund – FDED**), and Ethiopia (**Development Bank of Ethiopia – DBE**), with stable lendable resources to adequately meet the financing needs of smallholder farmers, pastoralists, Agribusiness MSMEs, FBAs and other MSMEs such as Cooperative Societies, with vested interest in green/circular economy development.

However, in order to be eligible for the line of credit facilities from FDED and DBE, BREFOL has identified a number of criteria for the selection of sub-project beneficiaries under the credit line facility (LoC).

## 1.2 Criteria for the selection of sub-project beneficiaries under the LoC facility

- **Definition of Smallholder Farmers:** The definition of smallholder farmers varies from one country to another. For this programme, the mostly widely used definition of smallholder farmers was adopted, which is farmers with a low asset base and operating in less than 2 hectares of cropland. Alternatively, as farmers operating under structural constraints such as access to sub-optimal amounts of resources, technology, and markets or with limited resource endowment compared to those of other farmers in the sector. Who farm less than 2.0 hectares of land.
- **Farmer-based Association (FBA):** These are association or organization established within a given territory to address the common needs of its members (smallholder farmers).
- **Agricultural Cooperative Society (ACS):** Defined as a business association into which farmers pool their resources, and by doing so, they can increase their revenues, reduce costs or share risks, depending on the type of cooperative.
- **Agro-dealer (AD):** Defined as a locally based entrepreneur who sells seeds, fertilizers and agro-chemicals to poor farmers in rural areas.
- **Producers Organization (PO):** In this context, a PO is defined as any legal entity formed by primary producers within the AFOLU and energy sectors, which provides for sharing of profits/benefits among its members. This may include for example, any farmers association (FBAs, WABEs, YABEs, fishermen, poultry, livestock, milk, vegetable farmers, palm, oil producers, weavers etc.), cooperative society, and ESCOs etc.
- **Micro, Small & Medium Enterprises (MSMEs):** The definition of MSMEs varies from one country to another. However, for this programme, the definition for MSMEs proposed by Afful-Koomson et al. (2014)<sup>1</sup> is used. This is based on the following quantitative variables described in the Table 1.2 below:

---

<sup>1</sup>Afful-Koomson et al. (2014). Economic and Financial Analysis of Small and Medium Food Crops Agro-Processing Firms in Ghana. United Nations University Institute for Natural Resources in Africa, Accra, Ghana.

**Table 1.2: Quantitative Variables for Defining MSMEs**

Category	Quantitative Aspects
<b>Medium Enterprise</b>	Employs between thirty and hundred people; has a total annual turn-over in the range of US\$ 20,000 to \$ 50,000 and with fixed assets not exceeding \$1,000,000.
<b>Small Enterprise</b>	Employs between ten to twenty-nine people; has a total annual turn-over in the range of \$2,000 to below \$20,000, and with fixed assets not exceeding more than \$100,000.
<b>Very Small and Micro Enterprises</b>	Employs between one to nine people; has a total annual turn-over between \$500 and \$2,000, and with fixed assets not exceeding \$10,000.

**Source:** Adopted and modified from Afful-Koomson et al. (2014)

Since BREFOL aims to reduce the gender gap in access to finance, 50% of the LoC facility will targets women-led MSMEs/FBAs, youth-led MSMEs/FBAs. Therefore, in addition to the criteria listed in Table 1.2 above, the following additional criteria will apply to women-led MSMEs/FBAs and youth-led MSMEs/FBAs:

- A formally registered agribusiness enterprise with the Ministry of Agriculture or any other relevant body, with more than 51% women's and youth's<sup>2</sup> ownership (more than 51% of the firm's assets holding or shares are owned by a woman or a youth. This will be assessed and validated against firm registration information from the relevant MDAs in charge, and the share of profits during the tenor of the sub-loans.
- Activities are mainly carried out along the agricultural and food systems value chains; including energy, or willing to carry out activities within these value chains under the programme;
- At least 30% women and youth on the Board of Directors or in senior management positions;
- Minimum firm size of about 5 employees of which, 60% are women and youths<sup>3</sup>;
- Track record of loan repayments;
- Operational bank account of more than 2 years;
- Sounds records and book-keeping procedures;
- Agriculture land holding of between 5 and 15 ha; and
- Any other characteristics deemed necessary by the Djibouti Economic Development Fund (FDED), and the Development Bank of Ethiopia (DBE).

Note that the major difference between MSMEs and FBAs is that while MSMEs may have other ownership structures such as sole proprietorship, FBAs are jointly owned and democratically controlled or managed by the members of the FBA. Thus, the criteria for selecting FBAs under the LoC Facility will be like that of the MSMEs as follows:

- A formally registered FBA/O with the Ministry of Agriculture or any other relevant body;
- The size of the Association must not be less than 5 members
- Activities are mainly carried out along the agricultural and food systems value chains, including energy;
- Track record of loan repayments;
- Operational bank account of more than 2 years;
- Records and book keeping;

<sup>2</sup> Defined as individuals between 18 and 35 years of age

<sup>3</sup>This is mainly to ensure that the benefits of the programme are widely felt by the most vulnerable groups of people at the district and administrative levels. The average employees for MSME are 40 and 30 for FBA.

- Any other characteristics deemed necessary by the Djibouti Economic Development Fund (FDED), and the Development Bank of Ethiopia (DBE).

### 1.3 Eligible Activities or Plausible Investments under the BREFOL Credit Line Facility

To ensure that the programme outcomes of: **1)** increased adoption of climate-resilient solutions. **2)** enhanced carbon sequestration and reduced greenhouse gas emissions of AVC; and **3)** strengthened adaptive capacity of vulnerable communities, are fully achieved, a proposed lists of activities or investments eligible under the LoC Facility as shown in Table 1.3.

**Table 1.3:** Eligible Activities or Investments under the Credit Line Facility

Sector and Value Chains	Initial list of activities for each value chain eligible for financing through credit lines	
	Adaptation	Mitigation
Sustainable livestock production	<p><u>The Program will support all Adaptation Investments in:</u></p> <ul style="list-style-type: none"> <li>• Water storage facilities for livestock applications</li> <li>• Production of feed mixer</li> <li>• Slaughtering equipment,</li> <li>• Feed production, manure management.</li> <li>• Rotational grazing.</li> <li>• Application of on farm and extension management, herd testing, artificial breeding.</li> <li>• Improvement in livestock nutrition such as feed supplementation and rumen manipulation, use of proper manure management, application of animal manures in the fields, and use of herbal extracts of selected indigenous plants to reduce internal parasite burden</li> <li>• Soil mapping to support fertilizer usage in the production of livestock feed.</li> <li>• On-farm demo trials using the Technologies for African Agricultural Transformation (TAAT) compact breeds technologies (Aquaculture -Tilapia, and Poultry).</li> <li>• Construction of Semiautotrophic Hydroponics technology (SAH) centres for rapid multiplication of seed and demo trials in sustainable livestock production</li> <li>• Uptake of IITA model of Business Incubation Platform (BIP) for sustainable livestock production.</li> <li>• Private sector processors in the poultry and aquaculture/fisheries value-added chains.</li> </ul>	<p><u>Mitigation Investments in:</u></p> <ul style="list-style-type: none"> <li>• Installation of solar mini grids, drip irrigation and post-harvest processing equipment for livestock processing Installation of cold smoke kilns for the processing of smoke-flavoured fish</li> <li>• Installation of improved cooking stoves.</li> <li>• Installation of biogas digesters</li> </ul>

	<ul style="list-style-type: none"> <li>• Risk Sharing Facility (RSF) to finance private sector participation in livestock production</li> <li>• Research on multiplication of high-performance breeds of animal and fish with enhanced yield and quality</li> <li>• Equipment for eco-friendly production equipment for production, processing and marketing of livestock</li> <li>• Water harvesting, efficient irrigation infrastructure, checking dams, flood management and drainage,</li> <li>• Livestock index-based insurance</li> <li>• Early warning systems (EWS) for livestock production and agro-advisory services</li> <li>• Processing livestock waste into compost</li> </ul>	
<p>Sustainable Horticulture and Vegetable Production</p> <p>(Onion, Tomato, Local Eggplant, Cabbage, Pepper, Carrot, Lettuce, Cucumber, and Okra)</p>	<p><u>Adaptation Investments in:</u></p> <ul style="list-style-type: none"> <li>• Changes in cropping patterns</li> <li>• Heat-tolerant, higher yield and disease resistant varieties and species Improved</li> <li>• Use of EWS and climate agro-advisory services to inform planting time</li> <li>• Precision farming</li> <li>• Research on multiplication of high-performance seedlings with enhanced yield and quality</li> <li>• On-farm demo trials using TAAT compact seeds</li> <li>• Construction of Semiautotrophic Hydroponics technology (SAH) centres for rapid multiplication of seed and demo trials in sustainable vegetable production</li> <li>• Uptake of IITA model of Business Incubation Platform (BIP) for sustainable livestock production.</li> <li>• Soil mapping to guide fertilizer use</li> <li>• Improved soil management practices to retain soil moisture and techniques to address low fertility and salinity (organic fertilizers, mulching).</li> <li>• Equipment for eco-friendly production equipment for production, processing and marketing of livestock</li> <li>• Crop insurance.</li> <li>• Use of recycled wastewater for irrigation</li> <li>• Use of dry processing and packaging methods</li> <li>• More efficient water management policies and water use regulations</li> <li>• Improved early warning system dissemination Establishment of soil conservation practices to reduce erosion</li> </ul>	<p><u>Mitigation Investments in:</u></p> <ul style="list-style-type: none"> <li>• Renewable energy technologies (RETs) for storage and processing facilities and efficient irrigation systems.</li> </ul>

Restoring Degraded Land and Agroforestry	<u>Adaptation Investments in:</u> <ul style="list-style-type: none"> <li>• Carbon credit generation</li> <li>• Selection and reproduction of native genetic materials.</li> <li>• Agro-dealers, Seed Companies, and POs</li> <li>• Nurseries of improved seedlings and varieties</li> <li>• Firebreaks around forested areas</li> <li>• Soil mapping to guide fertilizer use in agroforestry plantations</li> <li>• Agroforestry M&amp;E awareness and protection activities</li> <li>• Intercropping of agroforestry plantation with horticulture and vegetable production</li> <li>• Storage of seeds and harvesting tools</li> <li>• Water conservation and efficiency measures</li> <li>• Index-based insurance</li> <li>• Improved pruning practices, integration of other trees in agroforestry systems.</li> <li>• Low emission technologies and practices for efficient water use, such as drip irrigation</li> <li>• Indigenous species integrated with other tree species and seeds adapted to future climate change conditions (e.g., drought tolerant trees)</li> <li>• Forest restoration with other trees that provided carbon sink and income to smallholder farmers (Mango, Cashew and Shea)</li> <li>• Forest restoration with other trees that provided NTFPs (Nere, Acacia Seyal, Acacia Nilotica, Acacia Radinia, Commifora Sp, Acacia Albida, Balanites Egyptiaca, Bauhina Rufescens, etc.)</li> <li>• Promote woodlots for climate-resilient production of fuelwood to avoid deforestation.</li> <li>• Preservation of coffee, shea, Cashew, Native Mango Species in agroforestry parklands, which serves as a carbon sink</li> </ul>	<u>Mitigation Investments in:</u> <ul style="list-style-type: none"> <li>• Adoption of RETs for lighting of warehouses, storage, irrigation, processing and marketing.</li> </ul>
Sustainable Staple Crops Production	<u>Adaptation Investments in</u> <ul style="list-style-type: none"> <li>• Sustainable intensification of <b>TAAT compact</b> adapted cassava, maize, rice, and soya seed varieties.</li> <li>• Use of other improved short-cycle/heat and drought tolerant rice, cassava, maize, and soybean varieties</li> </ul>	<u>Mitigation Investments in:</u> <ul style="list-style-type: none"> <li>• Adoption of RETs for lighting of warehouses, storage, irrigation, processing and marketing.</li> </ul>

	<ul style="list-style-type: none"> <li>• Production of early generation seeds (EGS)</li> <li>• Developing standards for a cassava-wheat bread flour blend</li> <li>• Private sector processors in the cassava, rice, millet, maize, soybean value-added chains.</li> <li>• Use and storage of climate resilient seeds</li> <li>• EWS and climate agro-advisory services</li> <li>• Innovative business model for sustainable staple crops production</li> <li>• Staple crops processing tools and equipment</li> <li>• Intercropping</li> <li>• Efficient irrigation and water-saving technologies</li> <li>• Management of soil salinity (drainage, flooding and organic matter addition).</li> <li>• Building Semiautotrophic Hydroponics technology (SAH) centres for rapid multiplication of seed and demo trials.</li> <li>• Mapping of agricultural soil to guide fertilizer use</li> <li>• Facilitate urea, phosphate, and potassium fertilizer manufacture by engaging private sector fertilizer manufacturers and facilitating feasibility studies.</li> <li>• Organic fertilizers</li> <li>• Precision farming</li> <li>• No tillage practices</li> <li>• Innovative financing such as Risk Sharing Facility (RSF) attractive to the private sector</li> <li>• Crop insurance schemes</li> <li>• Integrated rice-based farming &amp; cultivation system</li> <li>• Integrated rice crop management system</li> <li>• Weather-proof farming equipment and post-harvest facilities</li> <li>• Climate forecasting and monitoring system using remote sensing</li> <li>• SRI for its contribution to reducing GHG emissions from flooded rice fields Short-cycle production Use of rice cultivars with low methane emission potential</li> <li>• Develop standards for a cassava-wheat bread flour blend</li> <li>• Irrigation facilities to support large scale agriculture and high productivity of staple crops</li> </ul>	
--	--	--



## 1.4 Eligibility Criteria for Selection of LPFIs

**Local Private Financial Institutions (LPFIs)** are Intermediary Financial Institutions (IFIs) to be selected by the relevant Executing Entity following the Accredited Entity's procedures, and criteria and loans will be provided to such LPFIs in accordance with all relevant requirements stipulated in the AMA and the FAA. Under the Programme, LPFIs will include:

- **Commercial Banks (CBs):** Broadly defined as a [financial institution](#) that accepts deposits, offers [checking account](#) services, makes various loans, and offers basic financial products like [certificates of deposit](#) (CDs) and savings accounts to individuals and small businesses. A commercial bank is where most people do their banking. CBs make money by providing and earning interest from loans such as mortgages, auto loans, business loans, and personal loans. Customer deposits provide banks with the capital to make these loans.
- **Microfinance Institutions (MFI):** Broadly defined as legally registered local-based financial institutions (associations, NGOs, cooperatives, producer organization etc.), which provides credit with size smaller than those granted by the CBs. These small loans are known as microcredit. Also, the clients of a **MFI** are often micro-entrepreneurs in need of economic support to launch their business. This type of client is considered too risky by traditional banks because they cannot provide real collateral and because they tend to work in the informal sector of the economy.

The eligibility criteria for selection of LPFIs into the programme are as follows (“**LPFI Eligibility Criteria**”):

- Must provide at least **30 - 40%** as co-financing into the programme for the total loan amount received from the AE.
- Willing and able to carry out thorough credit-risks screening of potential beneficiaries of the sub-loan under the programme.
- Have extensive experience in deploying financing towards economic sectors that could potentially include adaptation and mitigation activities such as investing in RETs.
- Have a demonstrable track record of working with MSMEs, FBAs, ACSS, POs, smallholder farmers and pastoralists in the targeted countries.
- Have satisfactory experience working and collaborating with local MFIs.
- Must have a portfolio of programmes or interested in a portfolio of programmes dedicated to agriculture (agriculture, poultry, fishery, livestock, agroforestry), food processing and energy use.
- Must undertake financial services in the programme's target areas or work with subsidiaries operating in the programme target areas.
- Must have a monitoring system in place to track the flow of funds between MFIs, and the beneficiaries and operational track record of loan repayments.
- Must apply the same GCF conditions and lending terms as agreed upon.
- Willing to accept a wide range of investment portfolio under the programme in adaptation and mitigation.
- Any other characteristics deemed necessary by EE and aligned with the GCF.

**Sub-loans:** PFIs and private sector in general are not investing substantially in AVC business because of the highly risky nature of the sector. One way to attract private capital into climate-sensitive sectors is to provide the right incentive and enabling environment suitable for private sector operations. To this end, BREFOL through GCF concessional resources, will support the establishment of a Dedicated Direct Credit Window (BDCW) to provide PFIs in Djibouti (**Djibouti Economic Development Fund – FDED**), and Ethiopia (**Development Bank of Ethiopia – DBE**), with stable lendable resources to adequately meet the financing needs of smallholder farmers, pastoralists, Agribusiness MSMEs, FBAs and other MSMEs such as



Cooperative Societies, with vested interest in green/circular economy development. There will be a legal agreement signed at the level of the PFIs and the beneficiaries (Agribusiness MSMEs) that does not involve the EE. In Djibouti, FDED will provide a **50% matching fund (\$0.99 million)** to the tune of the requested loan amount to be received through the BDCW (**\$1.97million**). Also, that on-lending to BREFOL beneficiaries in Djibouti will not exceed **6%**. On the contrary, the **Development Bank of Ethiopia (DBE)** agreed to the following: 1) DBE will make a **20% co-financing contribution (\$4.5 million)** to the requested loan amount to be received through the BDCW (**\$22.5 million**); 2) smallholder farmers and micro enterprises will provide 5% matching funds to the tune of the requested loan amounts, while small-micro enterprises will match requested amount with a 10% contribution as applicable under the **DBE Direct Lending Window**; and 3) on-lending to BREFOL beneficiaries will not exceed **9%**. The two rates offered by the participating PFIs are relatively lower when compared to the official lending rates in both countries (Table 3). The establishment of this dedicated credit lines will not impact the business of the local IFIs because currently, they are not borrowing to this category of stakeholders and the eligibility criteria will limit access only to farmers and pastoralists groups, cooperatives and SMEs.

**Table 3:** Deposit vs. lending interest rates in participating countries

	Indicator	Deposit interest Rate	Lending Interest Rates by FDED & DBE	BREFOL Maximum Proposed Rates
Djibouti	Rate (%)	1.70%	12% - 15%	6.00%
Ethiopia	Rate (%)	7.70%	12% - 18%	9.00%