

**Summary of Investment:
Africa Rural Climate Adaptation Finance Mechanism (ARCAFIM)**

Project Name	Africa Rural Climate Adaptation Finance Mechanism (ARCAFIM)
Country	Kenya, Rwanda, Tanzania, and Uganda
Region	Sub-Saharan Africa (ESA)
Status	Pending Approval
Environmental Category	Substantial
Sector	Rural MSMEs and Smallholders
Industry	Financial Institution
Date of Disclosure	19 October 2023
Projected to be presented at the Board	November 2023

Project Description and expected development results

Kenya, Rwanda, Tanzania, and Uganda are heavily dependent on agriculture and more than 70% of the population live in rural areas where population growth continues and people rely heavily on climate-sensitive rainfed agriculture. Despite the sector's importance, it remains underdeveloped and unprepared for climate change due to a host of barriers including weak productivity and incomes, lack of climate change adaptation (CCA) knowledge and risk management capacity, and limited access to markets and financing. To address the transformational needs, with a total budget of USD 200 million, the Africa Rural Climate Adaptation Finance Mechanism (ARCAFIM) seeks to introduce a practical, scalable model that follows a comprehensive approach combining financial solutions, knowledge and policy advocacy in the four target countries.

ARCAFIM has two components, a loan facility and a Technical Assistance (TA). The blended finance loan facility leverages international concessional capital to crowd-in local private capital to finance CCA investments. IFAD, on behalf of international funders, namely the Green Climate Fund (GCF), the Government of Finland, and the Nordic Development Fund, will provide a loan of USD 90 million to Equity Bank (Kenya) Limited (EBK), the largest banking subsidiary of Equity Group Holdings PLC, to fund part of the first-loss tranche and the second-loss tranche of the loan facility. EBK will on-lend loans from IFAD to Equity Bank Uganda Limited, Equity Bank Rwanda PLC, and Equity Bank (Tanzania) Limited. Equity Group will contribute a matching amount of USD 90 million, hence bringing the total financing available for CCA loans to small producers and agri-MSMEs in the four target countries to USD 180 million.

ARCAFIM also has a USD 20 million Technical Assistance funded by GCF, Government of Denmark, and IFAD. The TA will be deployed to (i) improve the capacity of participating financial institutions (PFIs) to invest in CCA activities, (ii) improve the capacity of small producers and agri-MSMEs to borrow for CCA activities, and (iii) improve the CCA enabling environment through the promotion of policy dialogues and a CCA financing taxonomy.

ARCAFIM's beneficiaries will be low-income rural households and small producers with a focus on women and youth. As a result of ARCAFIM, up to USD 700 million in CCA loans will be provided by Equity Group through its own subsidiaries and PFIs. 336,000 households will benefit directly, and a total number of 1.5 million people will be reached.

ARCAFIM is well-aligned with the UN SDGs and IFAD's 2016-2025 Strategic Framework, Private Sector Engagement Strategy, Rural Finance Policy, Environment and Natural Resource Management Policy, Climate Change Strategy, Climate Mainstreaming Plan, and COVID-19 Response. ARCAFIM is also aligned with the target countries' national strategies and goals, contributing to the achievement of their Nationally Determined Contributions (NDCs), national climate change strategies, and national sustainable development strategies.

Sponsor/Cost/Location

Equity Group Holdings PLC (EGHL) and its subsidiaries, together Equity Group, is the largest financial services company in Central and East Africa with headquarters in Nairobi, Kenya. Equity Group currently has banking subsidiaries in six countries - Kenya, Rwanda, Tanzania, Uganda, South Sudan and Democratic Republic of Congo– and a representative office in Ethiopia. EBK, the borrower of the loan from IFAD, is the Group's largest banking subsidiary by assets, customers, branch network, and points of service.

AdditionalityFinancial additionality:

IFAD offers strong financial additionality by initiating the concept of ARCAFIM and assembling financial resources to provide a loan and credit protection in a risk-sharing mechanism which enables Equity Group to make CCA loans with loan terms that are more appropriate for the CCA activities of small producers and agri-MSMEs in the four target countries. The mobilization of USD 180 million in loan capital and USD 20 million in TA grants from international sources and a regional private bank to invest in a vastly underserved market demonstrates significant financial additionality.

Non-financial additionality:

IFAD conceived, designed, and mobilized the financing for ARCAFIM to address the lack of a CCA financing market in the target countries. IFAD also used its extensive knowledge and experience in climate adaptation solutions to support development of the taxonomy for CCA financing, appropriate investment delivery mechanisms, and Monitoring and Evaluation (M&E) and impact assessments.

Contact

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