

PRIVATE INVESTMENT MOBILIZATION MODELS (PIMMS) FACT SHEET:

Value Chain Financing (PIMM4)

EXECUTIVE SUMMARY

PIMM4 is designed to increase the supply of debt/loan financing to smallholders, micro, small and medium enterprises (MSMEs) and mid-caps supplying goods and services to larger companies through value chain financing. The financing can occur through two channels: (i) financial intermediaries or (ii) real-economy companies.

OBJECTIVES

Increase loans to MSMEs, smallholder, and mid-cap suppliers of goods and services to larger real-economy companies through value chain financing mechanisms. Expected to include co-financing and/or bearing risk in partnership with either (i) the larger real-economy company and/or (ii) a financial intermediary.

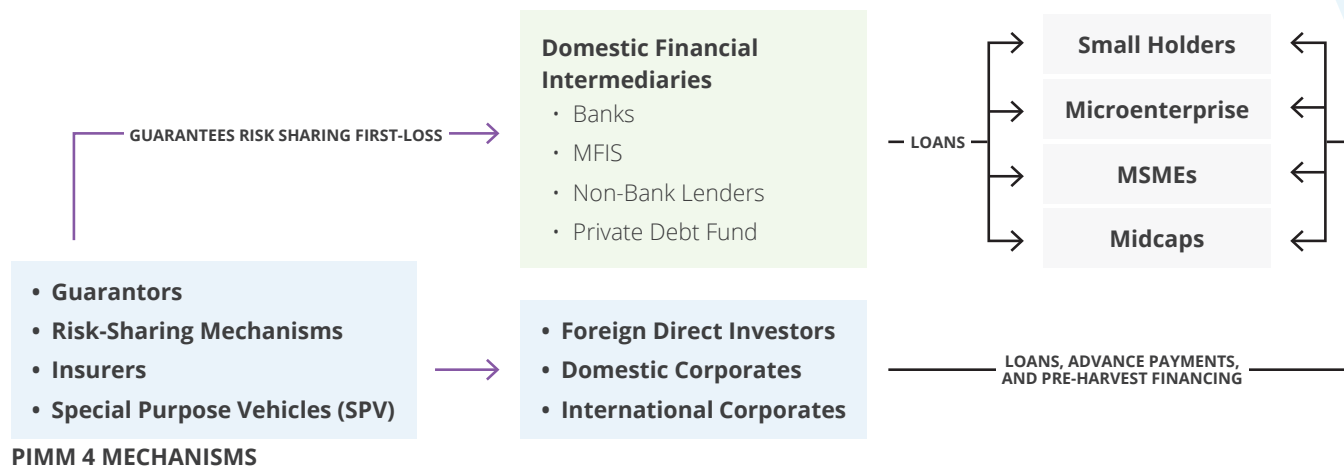
Rationale	In general, the financial sectors in most low and middle-income countries systemically under-lend to MSMEs and smallholders that could supply goods and services in value chains. This under-lending leads to less procurement from local MSMEs and smallholders, lower levels of investment and employment at MSMEs, and inhibits foreign direct investment by larger corporates; all of which leads to lower exports, higher imports, and worse balance of trade/ payments.
Description	<p>PIMM4 channels catalytic and concessional (C&C) funding to co-fund and/or share risk with (i) larger real economy companies and/or (ii) financial intermediaries for value chain financing to MSME and smallholder suppliers.</p> <p>Indicative examples include co-financing (i) with Unilever of its suppliers in the agriculture value chain in Latin America, (ii) with H&M in its value chain in Bangladesh and India, and (iii) a Cote d'Ivoire bank value chain financing in the cocoa industry.</p> <ul style="list-style-type: none"> • PIMM4 is expected to primarily provide pre-harvest and pre-delivery financing to MSMEs and smallholders by co-financing with (i) larger corporates and/or (ii) financial intermediaries. • The most common expected applications are (i) to part-fund and (ii) to share the risk of MSME and smallholder loan/financing in supply contracts or pre-delivery / pre-harvest financing.
Development rationale	Financial sector under-lending to MSMEs and smallholders leads to less local procurement, lower levels of investment and employment, and inhibits foreign direct investment by larger corporates.

Existing comparable precedents of C&C funding	<p>The International Finance Corporation (IFC) Global Supply Chain Finance Program, which commenced in 2022, is a good example of a supply chain financing program.</p> <p>International Fund for Agricultural Development has supported value-chain financing for many years.</p> <p>IFC Global Agribusiness and Food Security Program includes a component of value chain financing.</p>
Indicative activities for Network of C&C Funders	<p>The Network of C&C funders could establish a sub-group of organizations interested in awarding C&C funding to value-chain financing mechanisms. The Network could consider organizing two types of calls for proposals to award their funds to the best proposals/cases aligned to this PIMM:</p> <ol style="list-style-type: none"> 1. Real-economy companies: A call for proposals where private sector real-economy companies that need to procure goods and services from local MSMEs and/or smallholders describe how they could deploy C&C funding to provide value chain financing to MSMEs and/or smallholders. The Network members would assess the proposals and award their funding to the best proposals. 2. Financial intermediaries: Similar to the above, proposals submitted by financial intermediaries, such as commercial banks. Illustrative uses could be (i) co-finance with Kenyan banks and MSMEs in the coffee value chain in Kenya and (ii) share risk with Africa Guarantee Fund in a pan-African value chain financing mechanism in up to 54 African countries. <p>In competitive global calls for proposals, it is expected the Network could receive hundreds of proposals annually facilitating the award of C&C funding on a quasi-auction basis.</p>
Expected C&C funding instrument	<p>The majority of C&C funding is expected to be required in the form of loans and guarantees for fair/equitable outcomes.</p>
Expected financial profile of C&C funding (including risk profile)	<p>C&C funding deployed in PIMM4 is expected to take on a risk profile beyond the willingness or ability of multilateral develop banks (MDBs) and development finance institutions (DFIs). There are likely two possible financial expectations of C&C funding:</p> <ul style="list-style-type: none"> • <u>Partial loss expectations</u>: It is likely a portion (potentially a majority) of C&C funding would result in a partial loss. • <u>Break-even or better expectations</u>: It is possible a portion (potentially a minority) of C&C funding could be deployed at break-even (or better) financial outcomes.
Expected sources of private investment mobilized	<p>Two sources:</p> <ol style="list-style-type: none"> 1. Direct: Real-economy companies such as foreign direct investors 2. Indirect: Financial intermediaries
Expected leverage	<p>Reasonable leverage expectations in PIMM4 range from 10-30 times.</p>
Single-country or multi-country application	<p>Both.</p> <ul style="list-style-type: none"> • Real-economy companies are expected to propose solutions for the several countries where they are active or want to become active. • Domestic financial intermediaries (e.g., commercial banks in Kenya) likely to propose for a single country (Kenya). • International commercial banks likely to propose for multiple countries (e.g., Sub-Saharan Africa).

**Recommended
standardization
for this PIMM**

In Convergence's opinion, there has not been enough robust mobilization activity in value chain financing, therefore it is not beneficial to propose standardization within PIMM4 at the outset. Over time, the Network might identify the benefits of standardization of PIMM4.

VALUE CHAIN FINANCING MECHANISM ADHERING TO PIMM 4



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