Higher risks for more benefits: the Impact Financing Envelope

Heike Ruettgers, Head of Division, Mandate Management ACP IF
EIB’s Impact Financing Envelope

• EUR 500m to be deployed over 2014-2020

• Separate window of ACP Investment Facility, the revolving fund for private sector development managed by the EIB. Allows the EIB to go further and deeper than traditional IF support.

• Objectives
  • generating superior developmental impact than conventional operations by focusing on private sector projects which could not be pursued until now due to their high level of risk.
  • targeting sectors and/or business models delivering superior S/E impact to targeted populations, in particular when:
    • risk-adjusted expected returns are lower, or
    • contractual risk mitigants cannot be adequate, or
    • for financial sector operations: countries of operations bear weak regulation, currency volatility and/or lack of benchmarks.
EIB’s Impact Financing Envelope

• Areas of focus:
  • Social & demographic challenges:
    • Unemployment, in particular in rural areas and among women and youth, food security, social and financial exclusion, migration, post-conflict / post-disaster recovery, access to healthcare, access to education and training etc.

  • Environmental challenges:
    • Climate action, forestry issues, waste management, preservation of biodiversity, water supply etc.
### IFE instruments

<table>
<thead>
<tr>
<th>Social Impact Funds</th>
<th>Risk-sharing Facilitating Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>- venture capital / private equity / social impact funds</td>
<td>- first loss guarantees to facilitate risk-sharing operations with local financial intermediaries</td>
</tr>
<tr>
<td>- managers explicitly pursue social impact goals</td>
<td>- supporting SMEs and small projects</td>
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<td>- focus on employment, working conditions, vulnerable</td>
<td>- help leverage senior guarantee tranches from EIB and other IFIs / DFIs</td>
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<td>populations, access to healthcare, energy, education,</td>
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<tr>
<td>etc.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loans to Financial Intermediaries</th>
<th>Direct Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>- local currency loans in economically deprived countries</td>
<td>- debt (and possibly equity) instruments with high developmental impact</td>
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<td>- beneficiaries: smallholder farmers, micro-enterprises</td>
<td>- promoted by sound, experienced investors</td>
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<td>and SMEs</td>
<td>- focus on underserved sectors such as agriculture, private health and education</td>
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<td>- intermediaries: commercial banks, credit cooperatives,</td>
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<td>microfinance institutions etc.</td>
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<td>- strengthened with technical assistance and advisory</td>
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<tr>
<td>services</td>
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Social Impact Funds

- Five key criteria will be required:
  - Explicit focus on the alleviation of social issues, which must be at the core of the fund’s investment strategy
  - Targeted Investee companies must deploy scalable and capital-efficient solutions
  - Impact objectives, measurement and monitoring; the fund manager must define ex-ante impact objectives, specify impact metrics, and commit to monitor and report
  - Sustainable funding model must feature at both the fund’s and investee companies’ level
  - As often as possible, profit distribution will incorporate social achievements, i.e. not only be linked to financial performance.
Loans to Financial Intermediaries

- **Main objective:** Facilitate provision of local currency loans on a sustainable basis to smallholder farmers, microenterprises and SMEs
- Special focus on least developed countries as well as post-conflict or post-disaster environments, often characterized by currency volatility, weaker regulation, lack of pricing benchmarks...
- Loans will be extended through viable financial intermediaries: commercial banks, credit cooperatives, microfinance and non-bank financial institutions
- Loans will be accompanied with technical assistance grants and advisory services to strengthen the capacity of financial intermediaries and final beneficiaries
Risk-sharing Facilitating Instruments

- **Objective**: providing first loss guarantees (“first-loss pieces”) for risk sharing operations with local financial intermediaries (mainly commercial banks)

- The first-loss pieces would counter-guarantee both EIB-IF and other IFI’s senior guarantee tranches, thus catalysing additional resources

- First-loss protection levels would generally cover between 15% and 25% of the senior guarantee tranche

- The instrument will generally be used to cover eligible new SME loan portfolios. Targeted final beneficiaries shall be primarily underserved SMEs and small projects
Direct Financing

• Objective of directly supporting private sector projects (through debt and/or equity) in highly developmental sectors such as agribusiness (mainly food security), education and health in ACP countries

• Target: both existing companies and greenfield projects

• These operations could not be financed under the IF for the following main reasons:
  • Equity-type credit risks (rating of B- or below) e.g. due to high market and production risks
  • Limited financial resources of promoters
  • Lack of contractual risk mitigants (completion guarantees, enforceable securities, debt service reserve accounts etc.)
Instruments for developmental impact

European Investment Bank
ReM+: 3 Pillar Framework

Projects may contribute to the objectives of the IFE through:

i) superior development impact (P2) and/or

ii) Operating in a higher risk context where IF has limited/no reach (P3)

Pillar 1:
• Eligibility and contribution to EU and national priorities

Pillar 2:
• Development results

Pillar 3:
• EIB additionality
Pillar 2 goes further and deeper…

Who they are
- # of BoP
- # of women
- # of youth
- # of rural/peri-urban/rural
- # of vulnerable groups

How they benefit, e.g.
- Improved test scores
- Improved health outcomes
Pillar 3: What’s additional?

• A minimum rating of 4 is required because of higher risk environment (e.g. country/type of operation)

**Inputs** ➔ **Market alternative** ➔ **Additionality**

- Extension of typical maturity of more than 100%
- Match with economic life >=80%
- One more element of additionality (e.g. local currency funding)

**Financial Instrument**
- Long term financing
- Local currency funding
  - Grant element
  - Innovative products

**Technical and Sector Contribution**
- Project preparation
- Project implementation support
- Sector support and operations

**Standards and Assurance**
- Demonstration effect
  - Leadership in structuring a bankable project
  - Contribution to raise standards (ESG, procurement)
  - Total leverage
  - Share of private sector funding

**EIB presence in the project provides a “stamp of approval” and it is considered that the project would not be financed without EIB’s presence in the project**
Upcoming initiatives with impact

Boost Africa
- EIB is partnering with AfDB to support early stage entrepreneurs and start ups focusing on innovation at the riskiest phases of their development
- three core components: Africa Innovation Fund, Technical Assistance Pool, Knowledge & Innovation Lab.
- These will go together to build the eco-system for start ups. SMEs create jobs and growth. Boost Africa will provide the appropriate investment and business support to make things happen.

Pamiga Water & Renewable Energy (Microfinance)
- Fund for MFIs to on-lend to MSMEs, small farmers, households for solar energy, drinking water, irrigation needs. Boosting access for rural communities.

Energy Access Ventures Fund
- Financing to SMEs in electricity generation in SSA. Seeking to provide 1 million people with reliable electricity.
Thank you, and now our guests!