Higher risks for more benefits: the Impact Financing Envelope

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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

Social Impact Funds

- venture capital / private equity / social impact funds
- managers explicitly pursue social impact goals
- focus on employment, working conditions, vulnerable populations, access to healthcare, energy, education, etc.

Risk-sharing Facilitating Instruments

- first loss guarantees to facilitate risk-sharing operations with local financial intermediaries
- supporting SMEs and small projects
- help leverage senior guarantee tranches from EIB and other IFIs / DFIs

Loans to Financial Intermediaries

- local currency loans in economically deprived countries
- beneficiaries: smallholder farmers, micro-enterprises and SMEs
- intermediaries: commercial banks, credit cooperatives, microfinance institutions etc.
- strengthened with technical assistance and advisory services

Direct Financing

- debt (and possibly equity) instruments with high developmental impact
- promoted by sound, experienced investors
- focus on underserved sectors such as agriculture, private health and education

Social Impact Funds

- Five key criteria will be required:
  - <u>Explicit focus</u> on the alleviation of social issues, which must be at the core of the fund’s investment strategy
  - Targeted Investee companies must deploy <u>scalable and capital-efficient solutions</u>
  - <u>Impact objectives, measurement and monitoring</u>; the fund manager must define ex-ante impact objectives, specify impact metrics, and commit to monitor and report
  - <u>Sustainable funding model</u> must feature at both the fund’s and investee companies’ level
  - As often as possible, <u>profit distribution</u> 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

- <u>Objective</u>: 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 <u>eligible new SME loan portfolios.</u> Targeted final beneficiaries shall be primarily <u>underserved SMEs and small projects</u>

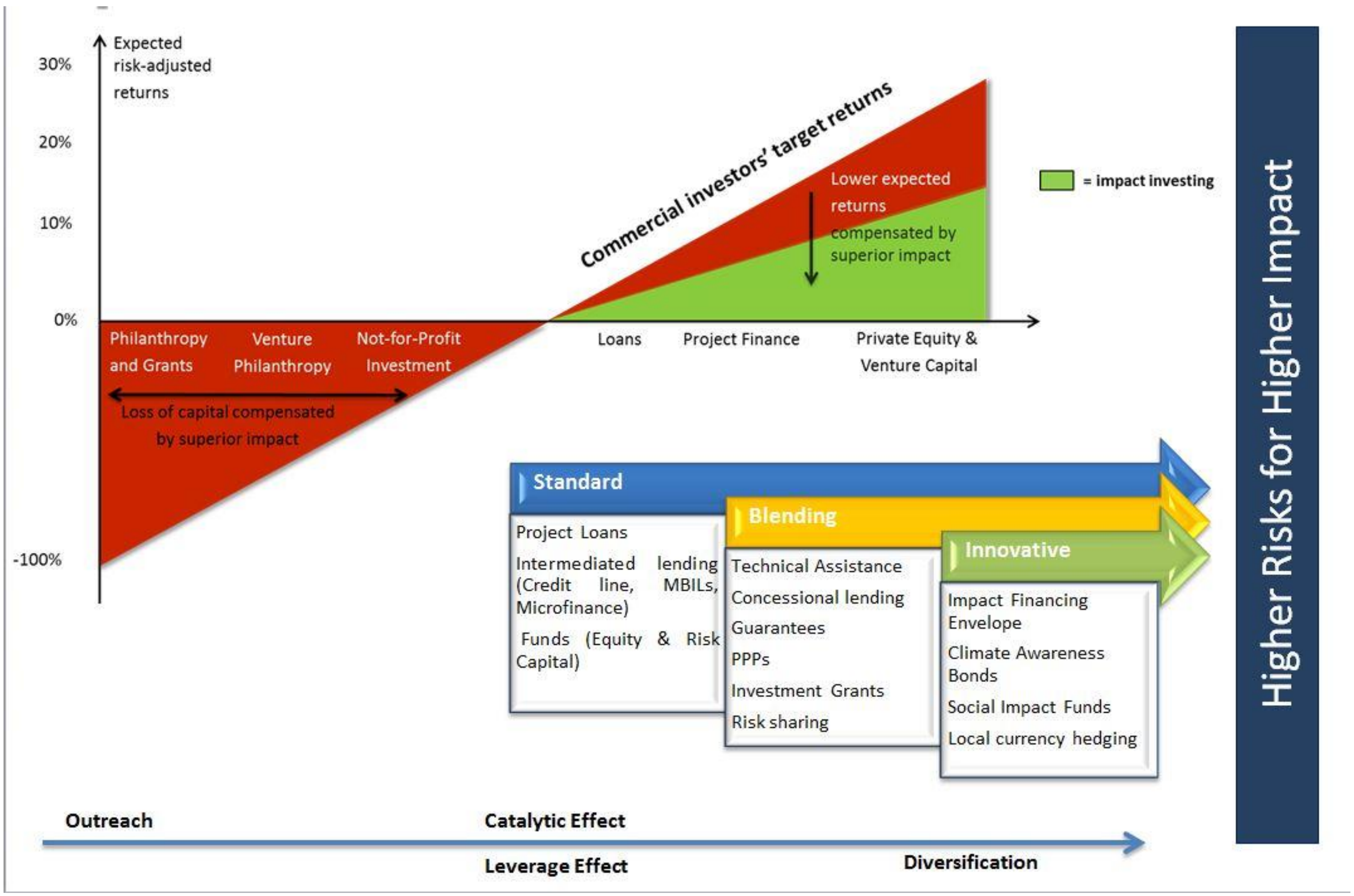
Direct Financing

- 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

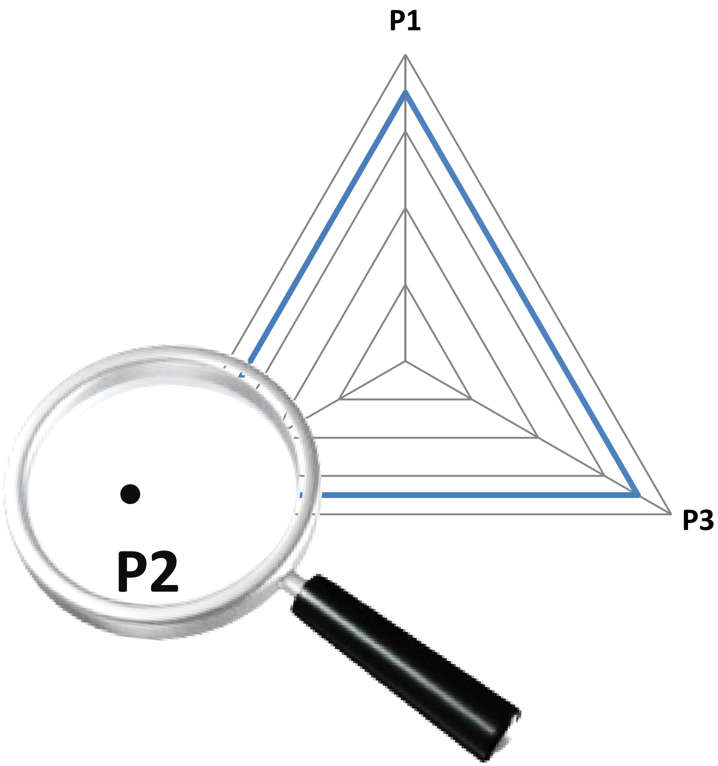


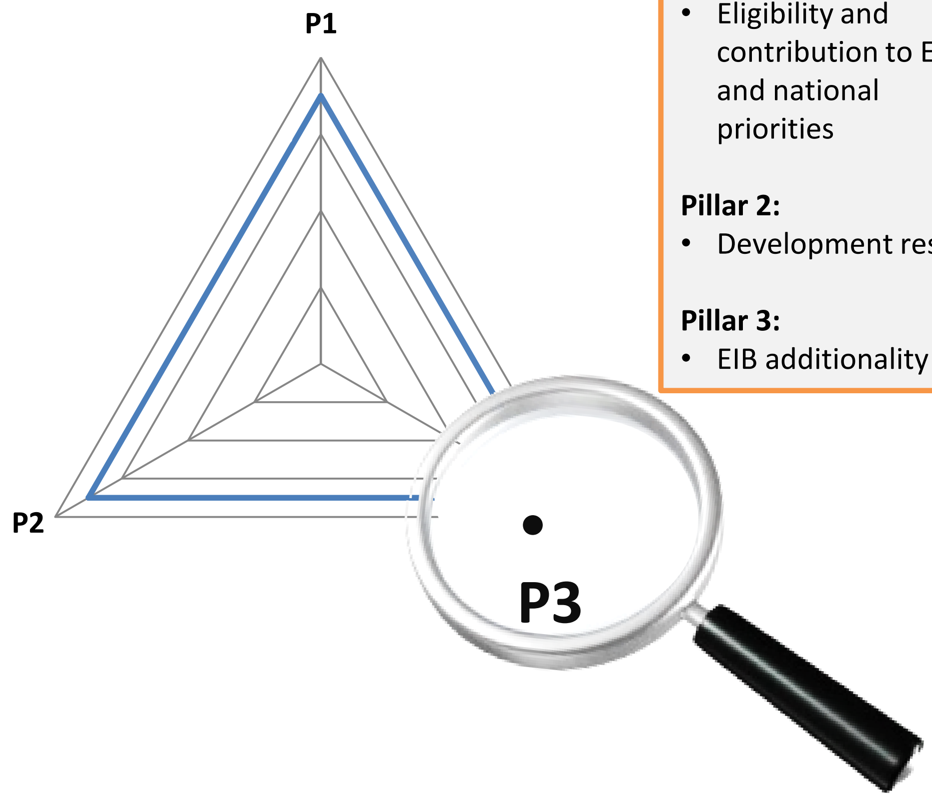
ReM+: 3 Pillar Framework

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)



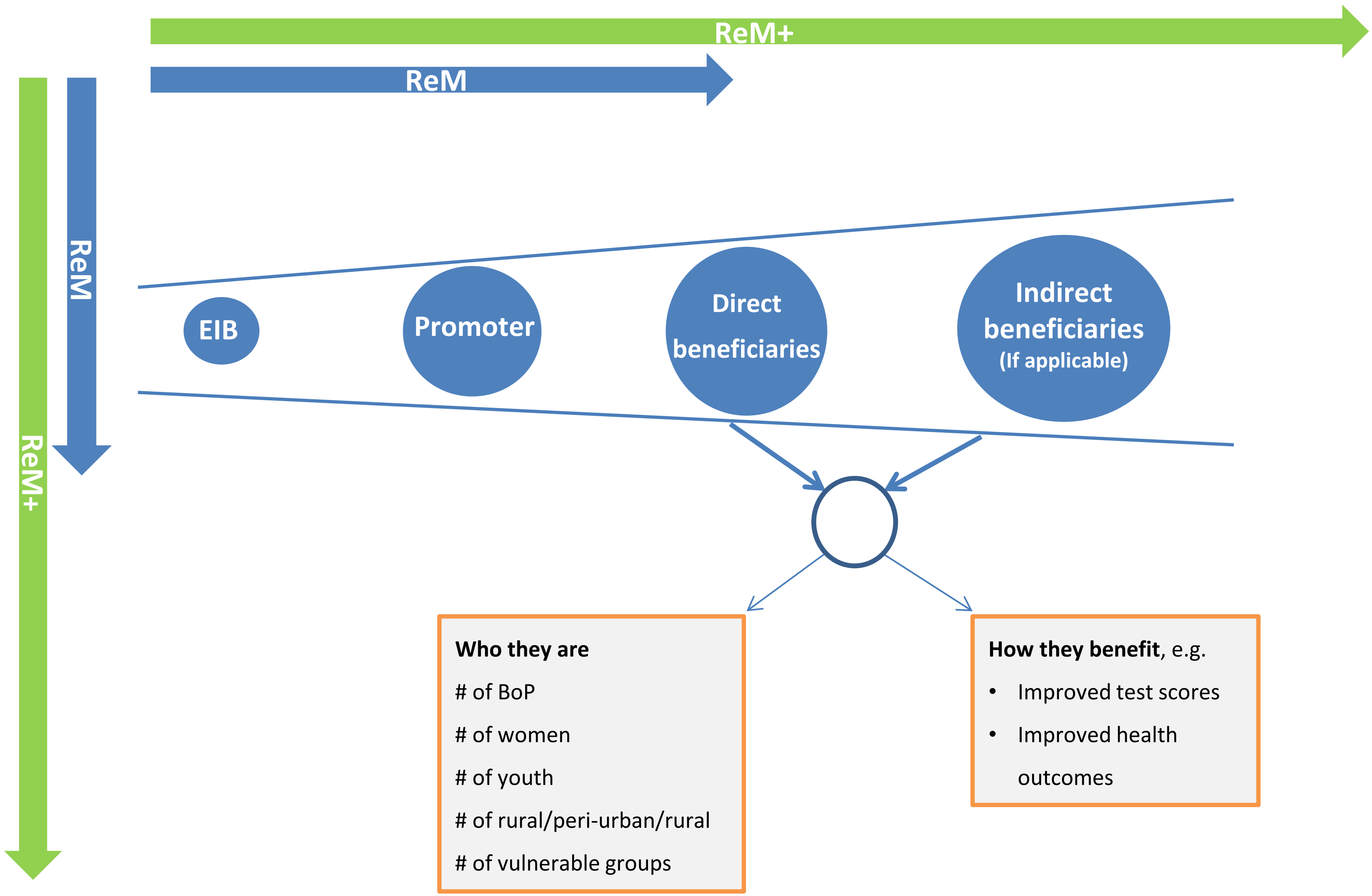


Pillar 1:
- Eligibility and contribution to EU and national priorities

Pillar 2:
- Development results

Pillar 3:
- EIB additionality

Pillar 2 goes further and deeper…



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)

- 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

•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

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!

NOVASTAR VENTURES

SANERGY

TCX
the currency exchange fund