

Environmental and Social Data Sheet

Overview

Project Name:	NOVASTAR VENTURES AFRICA FUND II
Project Number:	2017-0807
Country:	Regional - Africa
Project Description:	The proposed operation consists of an equity participation of up to USD 15 m in a USD 120 m target venture capital fund managed by Novastar Ventures. The Fund will invest in Sub-Saharan Africa.
EIA required:	no
Project included in Carbon Footprint Exercise ¹ :	no

Environmental and Social Assessment

The Fund is a successor to Novastar Ventures East Africa Fund I ("Fund I"), a fund with a total size of USD 80m in which EIB committed USD 10 m in 2014 and which has now been fully committed one year ahead of schedule.

The investment strategy of the Fund is similar to the strategy deployed by the predecessor fund. It is a venture capital fund with an initial impact screen. Under this screen, investee companies should demonstrate that the investments made will target low-income households, and show a profitable growth. Investments supported include – amongst other - waste management services and green energy production.

Only then will investments be considered by the Fund Manager for inclusion in the pipeline.

The Fund Manager has a clear data collection and management plan, and has demonstrated their capacity to collect and report social and economic impact under the previous fund - NVAF I.

¹ Only projects that meet the scope of the Pilot Exercise, as defined in the EIB draft Carbon Footprint Methodologies, are included, provided estimated emissions exceed the methodology thresholds: above 100 000 tons CO₂e/year absolute (gross) or 20 000 tons CO₂e/year relative (net) – both increases and savings.

Luxembourg, 12 June 2018

Furthermore, the Fund has an ESG policy requiring investees, among others, to periodically monitor and report on a set of Environmental, Social and Governance (ESG) compliance metrics, with a particular focus on corporate governance processes (completion of board membership, adequate decision processes, use of board committees etc.), on social development impact strictly related to business performance (e.g. inclusion impact in low income segment business models, HR practices, job creation progress) and on any environmental impact related to investments conducted by the Fund.

Prior to signature, the ESG policy will be further strengthened and formalized for Fund II. The ESG policy as negotiated and agreed upon between Novastar and the Bank will be a condition for disbursement.

EIB will receive quarterly updates on the projects in the development, implementation and operation phase as well as more detailed annual portfolio reports. The Fund Manager undertakes to make available any additional information concerning the investee companies and assure that relevant documentation is kept. He shall also report on any claim or equivalent communication from any Authority concerning any investee company.

In 2017 and 2018, the East African Centre for Human rights reported allegations against a portfolio company, Bridge International Academies (BIA), to all investors of the Fund I on concerning practices and associated legal and reputational risks, including lack of transparency, poor labour conditions, and non-respect of the rule of law in host countries. BIA as well as The Fund Manager replied to the allegations in an open letter rebutting the allegations and invited the civil society organizations to a dialogue. The EIB responded directly to the civil society organisations.

Conclusions and Recommendations

If located in Europe, the project would not trigger the European Environmental Impact Assessment Directive because the activities do not fall under Annexes I or II of the EU Directive 2011/92/EC as amended, and would therefore not be subject to mandatory Environmental Impact Assessments.

Some of the ventures in the Fund's pipeline are addressing specific issues such as waste management or green energy production.

The Bank will ensure through its finance contract that the projects financed from the Fund are in eligible areas/sectors for the Bank, do not lead to competitive distortions, and that Bank's requirements on procurement, environment and social matters will be respected. More specifically, the validation of the Promoter's Environmental, Social and Governance Policy by the Bank's Environment, Climate and Social Office is a condition for the finance contract signature.

Therefore, the project has been classified as acceptable in environmental terms for the Bank's financing.