



Impact financing in Africa, the Caribbean and the Pacific regions

Between 2003 and the end of 2014, the EIB channelled nearly EUR 4.5bn through the ACP Investment Facility (IF) to over 230 projects, of which nearly 90% were in the private sector, stimulating job creation and entrepreneurship by increasing access to finance for small businesses. In line with the EU Agenda for Change, this is an EIB priority in ACP countries.

The Bank also actively encourages regional integration as well as the integration of the ACP economies into the world economy, mostly from its own resources by investing in intra and inter-regional infrastructure, which underpins private sector development and helps to create a thriving business environment. These public sector interventions are indispensable for sustainable private sector activity.

The EIB continually develops innovative financing instruments to ensure that its lending best meets its borrowers' needs and addresses funding gaps. The blending of loans is a key element of this, enabling the Bank to contribute to making projects happen in challenging sectors or countries where it might not otherwise have been able to.

Grants are provided in various forms: technical assistance, interest rate subsidies, investment grants or risk mitigation instruments. Technical assistance supports project preparation and implementation and capacity-building for borrowers and final beneficiaries, and helps to raise environmental, social and governance standards, ensuring the projects' long-term sustainability.

Subsidies boost the economic and financial soundness of projects offering substantial environmental or social impacts, or essential infrastructure projects in poorer or less developed countries, or those having suffered conflict or a natural disaster.

Investment grants and risk mitigation instruments may further help to render projects bankable or to reduce their risk level.

The Impact Financing Envelope

The EUR 500m **Impact Financing Envelope (IFE)** is a dedicated window of the ACP Investment Facility, and targets projects with a higher developmental impact, but also higher risks, than traditional IF activities. IFE operations began in earnest in 2014, with the signature of a EUR 8m investment in Novastar Ventures East Africa Fund and the further approval of a EUR 40m investment in the Currency Exchange Fund (TCX). This was formally signed in 2015, along with the EUR 40m Caribbean and Pacific Impact Finance Facility.

IFE Objectives

The key features of Impact Financing operations under the new envelope are as follows:



- They generate a superior developmental impact with the overarching objective of poverty reduction, addressing the social and environmental challenges ACP countries are confronted with: employment, sustainability of SMEs, notably the smaller ones and in rural areas, climate change mitigation, food security, access to basic resources, economic and social integration of women and young people.
- They can target sectors with an expected higher impact compared to regular IF activities. An expected impact significantly above average is among the key justifications for eligibility under this new envelope.



- They can also target financial intermediaries in fragile ACP countries where the IF has achieved limited outreach.



Instruments

Social impact equity funds

This instrument supports an emerging population of equity fund managers who are dedicated to funding projects that explicitly pursue social impact achievements and are committed to tracking and reporting on clear objectives and targeting sustainability. To obtain financing from this instrument, funds must (i) explicitly focus on the alleviation of social problems, (ii) deploy scalable and capital-efficient solutions, (iii) set and commit to impact objectives, measurement and monitoring, (iv) fund and investee companies must have a sustainable funding model, (v) profit distribution must incorporate social achievements and financial performance. Novastar Ventures East Africa Fund is an example of this. Through this fund, the EIB is supporting around 20 new MSMEs in education, healthcare, basic financial services, agribusiness and access to food and water. The fund is expected to reach over two million people through its support for these entrepreneurs.

Loans to financial intermediaries

Due to elevated sovereign country risk, currency volatility and the lack of

meaningful pricing benchmarks, this instrument targets financial intermediaries (e.g. microfinance institutions, local banks and credit unions) that cannot qualify for traditional IF financing. Loans to final beneficiaries in local currency are provided on a sustainable basis to smallholder farmers, microenterprises and SMEs in countries with weak and fragile economies. As a rule, intermediated loans are accompanied by technical assistance grants and advisory services aimed at strengthening the capacity of financial intermediaries and final beneficiaries. The Bank works in close cooperation with other IFIs, UN agencies and other development partners to support projects requiring specialist knowledge and to benefit from synergies. The Caribbean and the Pacific Impact Facility is an example here.

Risk sharing facilitating instruments

This is another instrument to provide first loss guarantees for risk sharing operations with financial intermediaries (mainly commercial banks) in order to enable them to finance projects, for the benefit of underserved SMEs and small projects. The purpose is to alleviate capital allocation and counterpart limit constraints faced by the

financial intermediaries, to increase lending volumes to eligible final beneficiaries. The first loss pieces make it possible to leverage senior guarantee tranches from the EIB and other IFIs/DFIs.

Direct financing

Another instrument to finance viable and sustainable private sector projects with high developmental impact using debt and/or equity instruments and promoted by sound and experienced investors. Direct financing operations are envisaged for projects in the agribusiness, health and education sectors, or direct investments in specialised vehicles that support SMEs and small projects. TCX is an example of this form of financing. The idea behind the fund is to provide medium to long-term local currency financing for SMEs and private sector projects across the ACP regions by hedging exchange and interest rate mismatches.

