



LEVERAGING ECA FINANCE FOR **IMPACT INVESTING**

LETTER FROM THE FOUNDER

While export finance is a commonly-used mechanism for unlocking trade in goods and services in emerging markets, its potential to channel impact investments for essential infrastructure has been underappreciated – until now.

This white paper argues that export finance is one of the most effective financing mechanisms to de-risk infrastructure projects in emerging markets for both private and public sector actors and can increase a project's probability of success. Export finance, by the nature of the mandate of Export Credit Agencies (ECAs), does not feature prominently in the global development conversation. Yet, by shifting the lens through which one considers export finance, it may well be considered the original 'blended finance' instrument with a one-hundred-year track record of delivery.

Export finance has historically been a "banked" product, not easily accessible to institutional investors. However, due to balance sheet constraints and regulatory pressures, arranging banks active in export finance are now opening the door for investors to participate. Once through the door, investors will find a debt product that is well suited to address some of the risks (real or perceived) of operating in emerging markets.

Over time, export finance has developed into one of the most responsible debt delivery mechanisms. Unlike bond products for example, the use of proceeds in ECA transactions is tightly controlled through tailored disbursements linked to a specific project's milestones. ECAs follow a set of guidelines defined by the OECD which codify many of their activities. These include ensuring sustainable lending to avoid over-indebtedness and conducting best-in-class environmental, social and governance due diligence.

Given the nature of the product, impact investors can be uniquely *catalytic*: each \$1 invested in the commercial tranche of the financing catalyzes up to 5.6 times that amount, by unlocking an ECA guarantee. This remarkable mobilization ratio compares favorably with that of the private sector arms of Multilateral Development Banks (MDBs), which averages 2:1¹. Furthermore, impact investors can truly be *additional*, as many transactions fail to come to fruition due to the lack of availability of commercial loan financing in the market.

It is hoped that this white paper will add to the arsenal of the global development and impact investment communities by demonstrating how export finance – a product designed to promote trade and exports – can be leveraged to make a much greater contribution to addressing the persistent infrastructure financing gaps in Africa and around the world.



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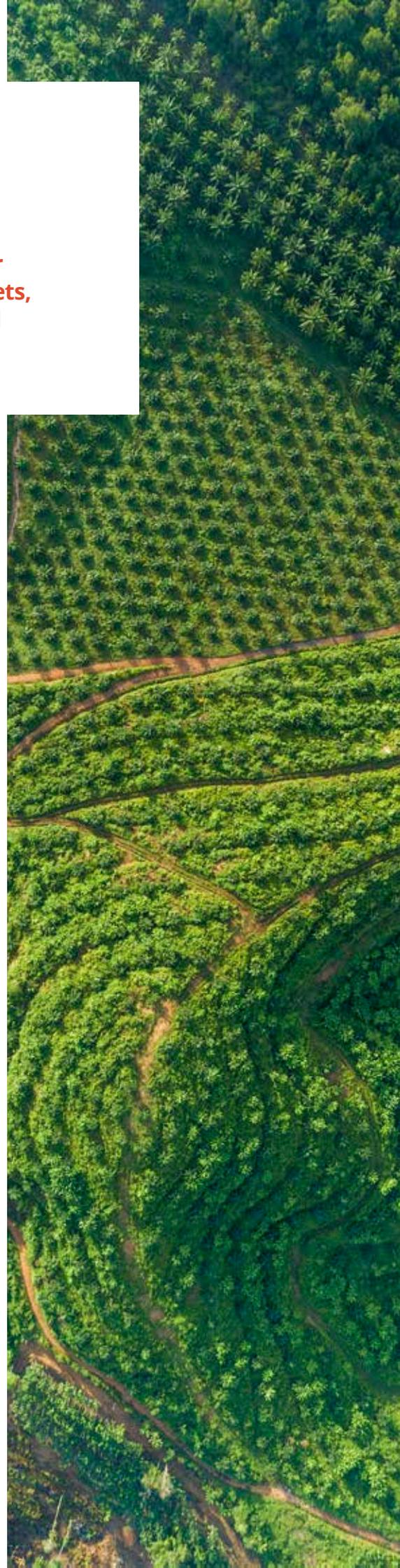


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ABOUT THE AUTHORS

Acre Impact Capital is an impact focused asset manager aspiring to help fill the growing financing gap for socially and environmentally friendly infrastructure in the developing world. Acre believes that the most attractive investment opportunities exist in spaces where attention and capital are scarce. By identifying opportunities where our ability to add value is truly transformational, Acre Impact Capital can deliver sustainable returns for our investors while fulfilling our vision of achieving measurable impact. Acre is launching a credit fund focused on commercial loan financing for impactful essential infrastructure transactions in the Export Finance market. To find out more about our activities please visit our website at www.acre.capital.

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EXECUTIVE SUMMARY

KEY TAKE-AWAYS

1. Export Finance can help increase private sector involvement in infrastructure projects.

Governments still provide the majority of funding for infrastructure projects in Africa, while the private sector plays a marginal role, accounting for just 6% of total infrastructure commitments on average in the past few years. A number of risks (real or perceived) are preventing private sector actors to take a more active role in infrastructure, either as *service providers* or *financiers*. Export Credit Agencies can crowd-in the private sector by mitigating some of the key risks that worry investors and developers, including political risks, credit risks, procurement risks including use of proceeds, environmental, social and human rights risks, etc.

2. Export finance provides many benefits for sponsors of infrastructure projects

Export finance allows project sponsors to significantly reduce the cost of debt by (i) obtaining very attractive funding on the ECA covered tranche of the financing and (ii) obtaining financing tenors of up to 20 years for certain projects. By extending tenors beyond what the private sector may be able to bear, ECAs can significantly increase affordability for the project sponsor. For ECAs with direct lending programs, borrowers may have access to particularly attractive rates known as officially supported commercial interest reference rates ("CIRRs"). For sovereign borrowers, the interest expense savings can then be re-allocated to other social services and/or infrastructure projects.

3. Export finance has developed into one of the most responsible debt delivery mechanisms

ECA's activities are codified by a set of terms and conditions developed by the OECD. These include ensuring that ECAs provide official support in line with sustainable lending practices taking into account IMF/World Bank country debt sustainability analyses. In addition, ECAs must perform environmental, social and human rights due diligence in line with the IFC / World Bank best practices and ensure any such risks are mitigated before providing support. Finally, ECAs ensure strong compliance and control of the use of proceeds, following the OECD's recommendations on bribery and corruption. Funds are usually disbursed

directly to the contractor, based on pre-agreed milestones. This control is critical to ensure financing proceeds are used for the stated purpose of the project which has been approved by the ECA. Ironically, many practitioners and lenders in export finance are unaware that these practices are particularly relevant for the impact investing asset class.

4. There is a market failure in the export finance market

Export finance has historically been a useful financing mechanism to crowd in capital to emerging and frontier markets. However, the market is no longer functioning as it has in the past, leading to some projects being delayed or not proceeding. Indeed, due to a number of strategic, regulatory, risk appetite and cost reasons, banks have become increasingly selective in providing commercial loan financing in the market, for the tranche of the financing not covered by an ECA guarantee. This tranche of the financing is required upfront in order for the borrower to obtain the ECA guarantee. The latest coronavirus crisis is further exacerbating this market failure as banks further reduce exposure to emerging market as they seek to preserve capital.

5. Impact investors can participate in export finance in a way that is both *catalytic* and *additional*

Due to the strategic and regulatory pressures described above, banks are increasingly welcoming institutional investors to participate in export finance transactions. By investing in the commercial tranche, impact investors can unlock the ECA guarantee, thereby *catalyzing* up to \$5.6 for each \$1 invested. This is achieved thanks to the blended nature of export finance structures, whereby the ECA guarantee can attract significant interest from commercial capital providers. Furthermore, impact investors can truly be *additional* – while earning market risk-adjusted returns – as many transactions currently fail to come to fruition due to the lack of availability of commercial loan financing in the market. Last, but far from least, impact investors can influence project design to ensure that environmental and social outcomes are maximized.

STRUCTURE OF THE DOCUMENT

This white paper explores the opportunity for private sector investors, in particular impact investors, to participate in the development of essential infrastructure in Africa by leveraging the export finance market. This document is divided into five chapters.

Chapter 1 - Provides an overview of the export finance market and explains the mechanics a typical export finance transaction. This chapter also provides an overview of the benefits of the product from a project sponsor perspective.

Chapter 2 - Explains how export finance structures can help mitigate a myriad of risks, real or perceived, which prevent the private sector from participating in infrastructure finance in Africa.

Chapter 3 - Highlights some of the regulation, guidelines and practices which make export finance a responsible debt delivery mechanism for infrastructure financing in emerging markets.

Chapter 4 - Explains how a market failure at the heart of the export finance market is preventing the flow of capital towards socially and environmentally beneficial projects.

Chapter 5 - Describes the role that impact investors can play in this market to activate investment in environmentally and socially beneficial environmental infrastructure. The chapter also explains how export finance is a type of **blended finance**, which can catalyze close to \$6 of private sector financing for each \$1 of impact capital.



RESEARCH METHODOLOGY

In the development of this white paper, Acre conducted both desk research and an extensive interview program with leading market participants in the export finance ecosystem.

Acre's interview objectives included:

- i. Testing the hypothesis that a financing gap exists in the export finance market and that it prevents capital flow towards socially and environmentally beneficial projects.
- ii. Understanding the causes of this financing gap and exploring the motivations and incentives of private and public sector actors.
- iii. Exploring the role that impact investors could play in addressing this financing gap.

Semi-structured interviews were conducted between March 2019 and January 2020. Nearly 150 market participants were interviewed across these institution types:

- **International banks.** Many of the most active banks in Africa's export finance market were interviewed. Participants included global heads of export finance, as well as regional heads focused on Africa. In addition, where banks were active in the distribution of export finance assets to investors, their syndicate representatives were also interviewed.
- **Regional banks.** Interviews were conducted with heads of export finance or trade finance from African banks as well as regional European banks.
- **Export credit agencies.** European, Asian and North American export credit agencies were targeted for interviews. Interviews were held with senior underwriters focused on the African continent, as well as with representatives of ESG teams.
- **DFIs/IFIs.** DFIs/IFIs were interviewed to understand the relative role of ECAs and development institutions in financing essential infrastructure in Africa. Further, the interviews sought to identify the potential for collaboration between the two institution types.
- **Fixed income investors.** Both traditional and impact investors were interviewed to understand their potential appetite for, and interest in, the commercial loan tranches of export finance transactions. Private sector investors included large asset managers with significant allocations to fixed income products. Where possible, interviewees held the titles of *Heads of Alternatives, In-*



Infrastructure and Private Debt. Impact investors interviewed included foundations, impact-oriented family offices and impact aggregation platforms.

- **Ministries of Finance.** A number of Ministries of Finance representatives were interviewed to develop an understanding of the decision-making process in selecting export finance as a financing solution. In addition, international advisory firms supporting Ministries of Finance across Africa were also interviewed.
- **Contractors.** A number of engineering, procurement and construction (EPC) contractors active in infrastructure in Africa were interviewed. These participants are acutely aware of the financing gap in the export finance market.

- **Independent arrangers.** A number of independent arrangers of export finance were also interviewed. These individuals work with exporters as an extension of their respective buyer finance divisions, helping them arrange and structure export finance transactions. They tend to be active in smaller transactions and/or markets underserved by banks. Critically, these arrangers do not have access to balance sheet.

In order to (i) obtain a broad set of market views and (ii) not delay the publishing process while obtaining approvals from Communications or Compliance departments, Acre carried out these interviews confidentially.

Acre would like to acknowledge and thank the individuals that generously contributed their knowledge and time to this research effort.

1

WHAT IS EXPORT FINANCE?

Export finance, often referred to as “Trade and Export Finance” or “Export and Project Finance”, is the provision of dedicated funding and insurance products that reduce the risks of selling goods and services internationally.

Export finance is a well-established discipline – nearly as old as trade itself—and has developed over millennia into a collection of sophisticated financial and insurance products that are critical in supporting the world’s trade. The WTO estimates that 80-90% of world trade is facilitated by some form of trade finance (e.g., credit or insurance and guarantees)ⁱ. Most trade finance is short-term in nature and often collateralized, whereas export finance is medium to long-term in nature.

1. OVERVIEW

Most infrastructure projects require some form of debt financing. Project sponsors rarely have the capital on hand to finance a project outright or they may prefer to defray immediate capital outlays. Sponsors typically seek the cheapest cost of funding available, while extending tenors to match the useful life of the asset. However, the banking system is not well suited to transform short-term deposits into 10+ year debt financing for infrastructure projects – particularly when cross-border financing is required in developing countries. In addition, regulatory developments since the Global Financial Crisis (GFC) have further constrained banks’ maturity transformation role.

This is where export finance comes into play.

The OECD defines Officially Supported Export Finance as:

“Government financial support, direct financing, guarantees, insurance or interest rate support provided to foreign buyers to assist in the financing of the purchase of goods from national exporters.”

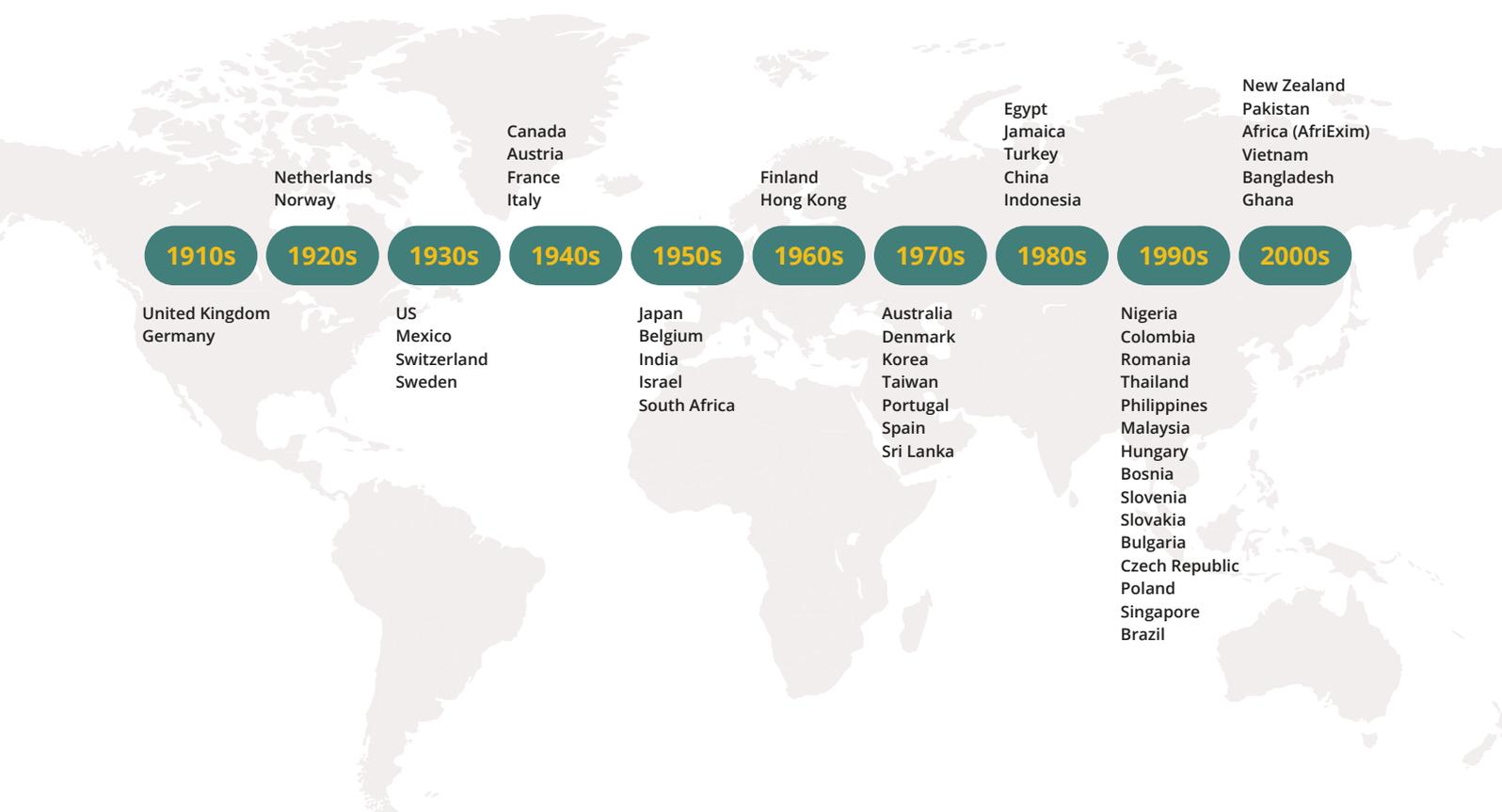
The existence of such facilities arises out of the need for affordable, long-term finance for the project sponsor. Export finance allows a project sponsor, a contractor and a debt finance provider to manage the inherent risk of cross-border transactions. Export finance has developed into a critical instrument to support foreign sales and facilitate foreign direct investment (FDI).



Governments provide officially supported export finance through Export Credit Agencies. The first ECA, UK Export Finance (UKEF), was founded by the UK government in 1919. Since the founding of UKEF, almost all OECD – and most developing countries – have established an ECA or an export credit facility. The basic role of an ECA is to encourage exports and outward investment by insuring or guaranteeing international trade and investment transactions, and in some cases providing loans or finance directly. ECAs can be government institutions or private companies owned by and/or operating on behalf of governments.

Most governments see the role of ECAs as filling market gaps and encouraging the participation of private banks in export credits. Market gaps generally arise for two main reasons: (i) private-sector reluctance or inability to accept certain medium to long-term risks (e.g., target country political/market risks and long-term fixed-rate lending); and/or (ii) private-sector reaction to market cycles or economic crises. For instance, ECAs ramped up activity in the wake of the GFC as commercial bank appetite for emerging and frontier markets waned. During the early weeks of the coronavirus crisis, ECAs have played a similar counter-cyclical role, implementing a number of programs to support exporters and borrowers.

FIGURE 1: ECA MARKET DEVELOPMENT OVER TIME



ECAS IN THE CONTEXT OF OTHER OFFICIAL AGENCIES

MULTILATERAL DEVELOPMENT BANKS / AGENCIES (MDBS/MLAS)

MDBs are supranational institutions owned by multiple government shareholders. Their mandate is to promote sustainable growth and development in low-income member countries. Examples include the World Bank, the Asian Development Bank and the African Development Bank.

DEVELOPMENT FINANCE INSTITUTIONS (DFIS)

DFIs are specialized banks that support private sector development in developing countries. They are usually majority-owned by national governments and source capital from national or international development funds or benefit from government guarantees. DFIs can be bilateral, serving to implement their government's foreign development and cooperation policy, or multilateral, acting as private sector arms of International Finance Institutions (IFIs) established by more than one country. This ensures their creditworthiness and enables them to raise large amounts of capital on international capital markets while providing financing with competitive terms. Examples here include the CDC in the UK, DEG in Germany, DFC in the US and FMO in the Netherlands. In some cases, DFI programs may also be 'tied' to their home government's national interests.

EXPORT CREDIT AGENCIES

ECAs are often owned by a single country's government and are mandated to promote that country's national trade interests – principally, exports. Some Agencies provide broader 'national interest' programs (e.g., supporting home companies' investments abroad or other key projects of national interest). Examples include US EXIM, UK Export Finance, BPI France and EulerHermes.

Today, ECAs are a significant channel of FDI into Emerging Markets. In 2018 alone, members of The International Union of Credit & Investment Insurers

(Berne Union¹) insured or financed \$2.5tn worth of exports or investments across short and medium-term products.

2. PRODUCTS OFFERED BY EXPORT CREDIT AGENCIES

ECAs' products can be broadly classified into two categories: (i) short-term credit insurance and (ii) medium to long-term finance credit insurance. The focus of this white paper is on medium to long-term finance and credit insurance, which is the relevant financing product for infrastructure.

SHORT-TERM CREDIT INSURANCE

The majority of volumes covered by short-term credit insurance products is below 90 days, although coverage can extend up to two-years. Covered risks may include pre and post-shipment risk, political risk and commercial risk. Credit products include letters of credits (LCs), forfaiting and factoring.

MEDIUM / LONG-TERM CREDIT INSURANCE AND FINANCE

In part thanks to medium and long-term credit insurance products, ECAs have become key players in infrastructure finance within emerging and frontier markets. ECAs provide political and commercial risk guarantees for a duration of up to 20 years. This is typically structured with a two to three-year delivery and construction period, plus a repayment period that can last between ten and 18 years (in accordance with OECD rules) after delivery/project completion. Debt financing is then either delivered by a banking institution (alone or in syndicate) or directly by an ECA when it has a direct lending program. By extending tenors beyond what the private sector may be able to bear, ECAs can significantly increase affordability for the project sponsor.

¹ Includes both public (ECA) and private credit insurers

Between 2014-2018, ECAs globally provided medium and long-term export credit cover worth \$150bn annually on average, with outstanding exposure of \$716bn. Ninety percent of outstanding exposure was in the form of guarantees, with direct lending by ECAs representing the balance.

The OECD Arrangement on Officially Supported Export Credits sets the parameters under which member states can operate their ECAs. This includes defining minimum levels of premiums, interest rates and maximum tenors that ECAs must adhere to. ECA support is often provided at below market rates. The Arrangement essentially defines the maximum level of subsidy that an ECA can provide, thus creating a level-playing field amongst ECAs.

3. BENEFITS OF EXPORT FINANCE FOR INFRASTRUCTURE FINANCING IN EMERGING MARKETS

As a financing mechanism, ECA finance provides a number of unique benefits relative to other forms of finance. These benefits are summarized below:

CROWD-IN PRIVATE SECTOR PARTICIPANTS TO FUND A PROJECT

The involvement of an ECA changes the risk profile of a transaction from project specific commercial risk to ECA or Sovereign risk. As a result, commercial banks are able to participate in the financing of infrastructure projects. The risk transfer also helps borrowers diversify their sources of debt finance away from more traditional avenues such as debt capital markets or commercial bank debt.

REDUCE THE COST OF DEBT

ECA debt guarantee products are highly rated and recognized as such by bank regulators under Basel III. As a result, banks that fund against such a guarantee are able to substitute the rating of the emerging markets borrower with that of the ECA (e.g., sovereign/quasi-sovereign). As expected, ECA guaranteed loans benefit from attractive regulatory capital treatment. A portion of this benefit is then passed on to the project sponsor in the form of competitive USD or EUR funding (and sometimes local currency funding) at rates below what banks may offer without ECA support.

EXTEND FINANCING TENORS

ECAs offer longer repayment periods for emerging market borrowers after delivery of the project. In some cases, these may extend up to 18 years. In comparison, longer tenors are generally not available from private sector lenders without an ECA guarantee. This leads to increased affordability of the underlying infrastructure.

PROVIDE A RELIABLE LONG-TERM SOURCE OF CAPITAL

Export promotion is the primary driver of ECA support. Therefore, ECAs consider the long-term trade relationship between two countries, not just the transaction at hand. As a result, ECAs can provide support through the cycle, even when private sector lenders are unwilling or unable to do so.

ACCESS ATTRACTIVE ECA DIRECT FUNDING

For ECAs with direct lending programs, borrowers may be provided access to particularly attractive rates known as officially supported commercial interest reference rates (CIRRs); these rates may be fixed in advance of contract/loan signature and remain fixed during the sometimes extended (two to five years) construction (drawdown) and repayment periods (from ten up to 18 years²).

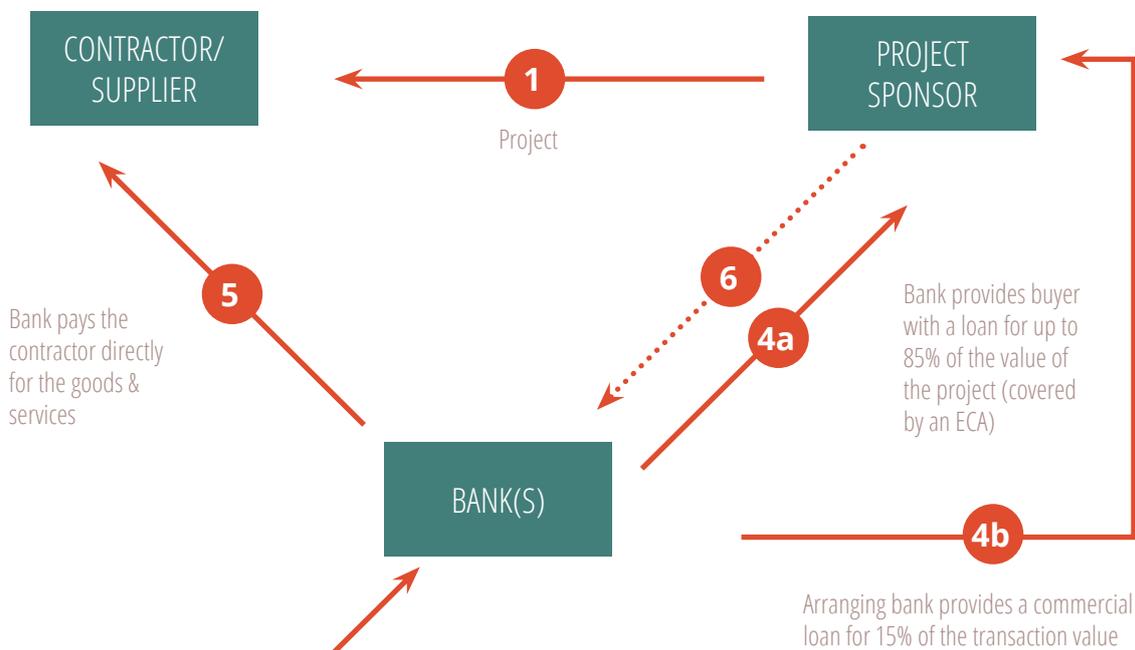
² In Europe, Direct Lending programmes are generally delivered in cooperation with banks as arrangers / agents, ensuring they are incentivized to arrange the associated 15% commercial loan. In North America, the Agencies do not rely on banks for their direct loan programmes, which means that borrowers have to seek the 15% commercial loan from other sources. Post GFC, many European ECAs have introduced securitization / re-finance guarantee programmes which assist banks wishing to remain the lender of record access the necessary long-term capital to do so.

LEVERAGE EXPERIENCE AND KNOWLEDGE OF INFRASTRUCTURE FINANCING

ECAs are experts at supporting infrastructure financing in developing markets. Over years of working in developing markets, ECAs have established the expertise and knowledge base to evaluate the risks associated with financing infrastructure projects in developing markets. Given the typical mix of exporters in any given ECA's country, they are also experts

in the technology, products and services they are financing as well as the resources and skills required by exporters to deliver them. This expertise increases the probability of success of implementation of infrastructure projects and repayment of the associated medium to long term ECA supported debt. This experience also helps sieve out projects with a low probability of success.

FIGURE 2: TYPICAL BUYER'S CREDIT TRANSACTION



- 1 The Project Sponsor contracts a supplier for the delivery of a specific project (e.g. commissioning a new hospital)
- 2 The Contractor engages a bank to arrange the export credit
- 3 The arranging Bank engages with the ECA to arrange a guarantee for up to 85% of the contract value, covering political and credit risk
- 4a The arranging bank (alone or in syndicate) provides a loan for up to 85% of the value of the project
- 4b The Arranging bank (alone or in syndicate) provides a commercial loan (at market rates) for 15% of the transaction value
- 5 The Arranging bank pays the supplier directly for the goods and services provided as per pre-agreed milestones — funds do not flow through the Project Sponsor
- 6 Borrower pays interest only during delivery and after delivery repays principal and interest (every 6 months)



4. A TYPICAL ECA TRANSACTION STRUCTURE

In a typical export finance transaction, the financing is usually structured in two tranches: (i) an ECA-Covered tranche and (ii) a tied commercial 'down-payment' tranche.

(i.) ECA-COVERED TRANCHE (UP TO 85%)

As per the provisions of the OECD Arrangement on Officially Arranged Export Credits, ECAs can provide guarantees for loans up to 85% of the value of an export contract. These guarantees cover all political and commercial risks, including any non-payment risks by the project sponsor. These guarantees, which can extend up to 18 years, are critical to contractor and commercial bank engagement in infrastructure projects in emerging and frontier markets.

The 85% maximum threshold for official export credit support was established by consensus through the OECD Arrangement on Officially Arranged Export Credits. The Arrangement was implemented to ensure that exporters compete on the merit of the goods and services being exported, rather than purely on the basis of financing terms competitiveness.

In order to provide support to a project, ECAs require an element of 'export' to be included in this tranche of the financing. This ranges from 30% for the most flexible ECAs, up to 100% for others. Most ECAs have increased flexibility for what is considered 'export' content, reflecting the global reach of many companies and the sophistication of global supply chains.

(ii.) COMMERCIAL TRANCHE (15%+)

In order to benefit from an ECA cover, a project sponsor needs to provide 15% or more of the value of the project up front. This could be satisfied with a cash down payment or financing via the bank commercial loan market. It is important to note that ECA supported debt is only disbursed after this commercial tranche has been paid or financed.

As we will show in chapter 4, because of regulatory and other constraints, banks are reluctant to provide commercial loan financing. As a result, otherwise credit-worthy project sponsors are unable to access commercial financing on this tranche, despite the fact that tenors are significantly shorter than the ECA-covered tranche (5-7 years amortizing). ***As a result, highly impactful projects are significantly delayed or do not achieve financial close.***

2

CLOSING THE INFRASTRUCTURE FINANCE GAP THROUGH EXPORT FINANCE

Acre believes that sustainable, impactful, infrastructure development is fundamental to economic growth and meeting the social and environmental goals of developing countries. Whether enabling families to thrive through access to improved and affordable health services, education, water and sanitation and electricity, or enabling small and large businesses to prosper through improved energy access and routes to market, infrastructure development strengthens economies and improves lives.

This view is shared by many in the development community. For instance, the AfDB states that “high-quality infrastructure is essential for Africa to achieve the Sustainable Development Goals (SDGs) of the United Nations (UN), Agenda 2063 of the African Union (AU), and the High Five Goals of the African Development Bank (AfDB). It is needed for raising economic productivity and sustaining economic growth.”ⁱⁱⁱ

However, the capital available for infrastructure finance is limited and insufficient to address the Sustainable Development Goals. This chapter outlines the size of the infrastructure financing gap, describes some of the risks faced by the private sector when analyzing infrastructure investments and proposes that export finance become a financing tool to move capital towards environmentally and socially beneficial infrastructure projects.





1. AFRICA'S INFRASTRUCTURE FINANCING GAP

Africa's infrastructure needs are significant across both hard infrastructure sectors (power, transportation, ICT and water) and social infrastructure sectors (social housing, education and healthcare). In addition, a discussion on infrastructure is not complete without considering the negative impacts of climate change. Climate change has a three-fold impact on infrastructure:

1. It increases the maintenance cost of existing infrastructure which must undergo upgrades to become climate resilient and cope with increasingly severe weather events
2. It requires that changing weather patterns, including the increased severity and frequency of weather events, be taken into consideration as new infrastructure is built.
3. It compels the building of new, protective, climate adaptation infrastructure (e.g., flood protection, and storm drainage infrastructure).

Furthermore, there is a need to ensure that new infrastructure assets being financed are low carbon or carbon neutral to ensure alignment with the Paris agreement. This may have the effect of skewing investments away from certain infrastructure technologies and sectors towards more climate friendly solutions.

The AfDB estimates an infrastructure financing need of \$130-170bn a year across the continent, with an annual financing gap of up to \$108bn^{iv}. These estimates are based on the fulfilment of the following objectives by 2025:

- **Power:** 100% urban electrification, 95% rural electrification
- **Water supply and sanitation:** 100% access in both rural and urban areas
- **Information and communication technology:** Universal mobile coverage (50% of population is within 25 km of a fiber backbone and fiber internet penetration rate to home/premises of 10%)
- **Road and other transport sectors (air, rail and port):** 80% preservation (maintenance and rehabilitation), 20% development (upgrading and new construction)

The Global Infrastructure Hub estimates an average annual financing gap of ~ \$165bn up through 2030 for energy, transport and water infrastructure in Africa. This takes into account the increased spending to fulfil the SDGs^v.

While the AfDB and the Global Infrastructure Hub financing gap estimates cover hard infrastructure in sectors such as power, water, ICT and various forms of transportation, they do not cover the funding requirements for social infrastructure. Among others, these sectors include healthcare, education and social housing, where the financing gaps are similarly large. For example, there is an estimated healthcare financing gap of \$66bn annually based on a 5% of GDP threshold for government spending^{vi}. Likewise, the World Bank estimates that there is at least a \$28bn annual adaptation deficit in coastal flood protection in sub-Saharan Africa^{vii}.

THE STATE OF AFRICA'S INFRASTRUCTURE BY SECTOR

\ POWER

Africa accounts for only 6% of global primary energy supply despite representing 16% of the global population^{viii}. More than 640 million Africans (47%) have no access to energy^{ix} – 80% of which live in rural areas^x. Where energy is available, it is not always considered reliable. In most Sub-Saharan countries, less than 33% of firms report having reliable access to electricity^{xi}. Across a sample of 25 Sub-Saharan cities which have a nominal access rate of close to 100%, more than a quarter have a 'reliable access rate'³⁷ below 50%^{xii}. In context, investment in power infrastructure can yield significant benefits, with up to \$15 in incremental GDP generated for each \$1 of investment^{xiii}.

\ TRANSPORTATION

It is estimated that the cost of transportation in Africa is around 50-175% higher on average than in other parts of the world due to poor road, rail, and port transportation infrastructure^{xiv}. Travel time along key export corridors is 2-3x higher than in Asia^{xv}. More than 50% of Africa's road network is unpaved^{xvi}, impacting access to essential service, particularly in rural areas. The development of such infrastructure has a significant positive impact on economic development. A recent study in Ethiopia found that rural access to an all-season road reduces poverty by 7% and increases household consumption 16%^{xvii}.

\ WATER SUPPLY AND SANITATION

For Africa as a whole, access to improved sanitation was 36% in 2015, compared to 83% for Latin America and 62% for Asia^{xviii}. The water and sanitation investment rate remains only marginally ahead of the population growth rate. In addition, growing urbanization increases the pressure on water systems^{xix}.

\ INFORMATION AND COMMUNICATION TECHNOLOGY

Mobile subscription rates in Sub-Saharan Africa stand at 44% of the population, with 456mn unique subscribers. However, only 7% of total connections were on 4G networks^{xx}. Internet usage is still very low, at less than 20% in SSA^{xxi}. Broadband connectivity remains relatively expensive too, with 1Gb of data costing an average of 18% of income versus only 3% in Asia^{xxii}.

\ HEALTH

In 2015, Africa accounted for only 2% of global healthcare spending despite representing 16% of the global population and 26% of the global disease burden^{xxiii}. In 2016, there were only nine hospital beds per 10,000 people compared to a global average of 27.

\ EDUCATION

Since 2000, tremendous progress has been made in Sub-Saharan Africa's education sector. Today, millions of children benefit from increased access to education at all levels. Between 2000 and 2014, for example, the net enrolment rate of primary-school age children went up from 60% to 78%^{xxiv}. However, given Africa's population growth – and despite African governments allocating close to 20% of their budgets to education – more needs to be done. SSA still has 30mn children who are not receiving any form of schooling. Meanwhile, the rate of mass enrolment in tertiary education is the lowest in the world at 8.5%^{xxv}.

\ SOCIAL HOUSING

Due to rapid urbanization, African cities are called home for 40,000 new people every day^{xxvi}. As a result, there is an urgent need to build sustainable and affordable housing. The housing shortage in Kenya is estimated at 2mn units, while in Nigeria it stands at 17mn units. There are few local developers that have the financial and technical capabilities to construct large scale projects^{xxvii}.

\ CLIMATE ADAPTATION

A warming planet, rising sea levels, extreme weather patterns and intense precipitation will increase damage to roads, airports, bridges, rail links and other essential infrastructure. These impacts will be exacerbated in areas at risk from floods in both coastal and riverine areas. In addition, urbanization will increase the human and economic costs of such events. Resilient flood protection infrastructure is a key mitigation tool to reduce the impacts of these risks.

3 Defined as an electricity connection that works "most of the time" or "all of the time"

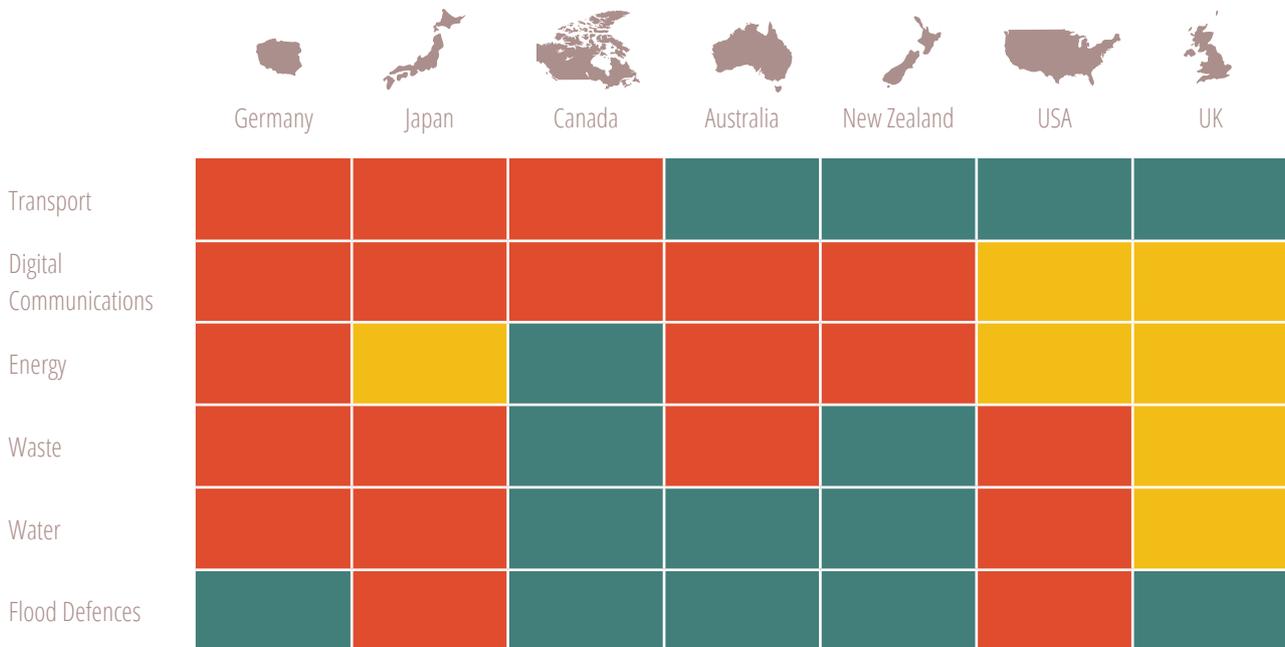
2. THE ROLE OF THE PUBLIC SECTOR IN INFRASTRUCTURE FINANCE

Historically, the public sector has played a key role in financing infrastructure works globally. Since the 1990s, efforts have been made to increase the private sector's role in financing infrastructure. Despite this, it is estimated that the public sector continues to finance about two-thirds of the world's estimated annual \$3 trillion investment in infrastructure^{xxviii}.

The significant role of the public sector in financing infrastructure has to do with its intrinsic nature; it generates certain risks and broader benefits that the private sector is not always in a position to price. Infrastructure projects are capital intensive, with high up-front (sunk) costs during the development and construction phase and limited opportunities for positive cash flows in the early years. However, once a project moves to the operational phase, it may generate stable and predictable cash flows over long periods of time. The public sector may be better equipped to shoulder the risks inherent to such a cash flow profile.

In addition, some infrastructure projects may not generate any cash flows at all, in particular when the infrastructure serves a public good (e.g. flood defenses), or when users are unable to pay. Despite this, the public sector remains willing to finance such projects because of the broader social and economic benefits that essential infrastructure can generate. Finally, infrastructure projects are inherently idiosyncratic, complex and context dependent. The effort required to understand the local macroeconomic, legal and regulatory contexts – and then structure an appropriate transaction – may put off private investors. Figure 3 shows that even in advanced economies with sophisticated capital markets, the public sector *still* plays a significant role in financing infrastructure.

FIGURE 3: PUBLIC VS. PRIVATE FINANCE PROVISION ACROSS SELECTED COUNTRIES



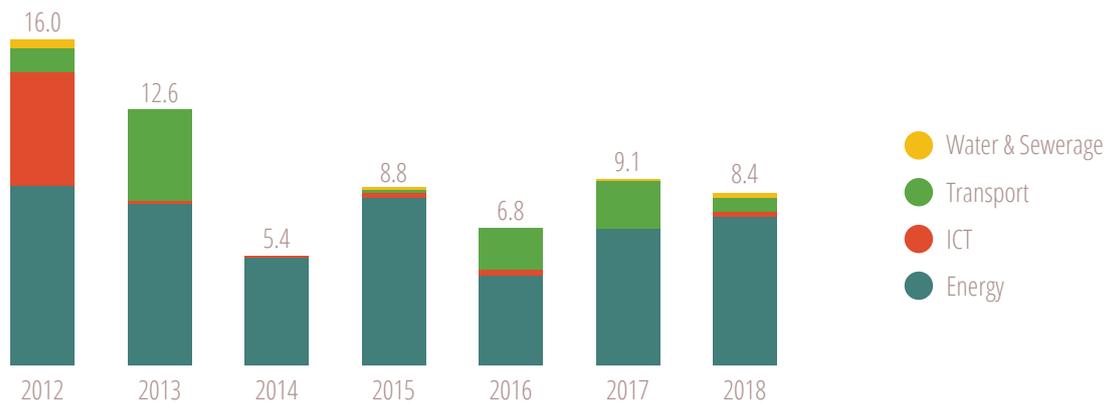
Source: Comparative Study of National Infrastructure Financing Institutions, Enomia report for the National Infrastructure Commission

- Predominantly Public
- Mix of Public and Private
- Predominantly Private

The role of the public sector in financing African infrastructure remains significant given the relatively small participation of the private sector. According to the World Bank Private Participation in Infrastructure (PPI) database, the value of projects with private sector participation reaching financial close was \$9bn on average, during 2017-2018 (Figure 4). According to The Infrastructure Consortium for Africa, the private sector has contributed 6% of Africa's infrastructure financing on average since 2013 (Figure 5). In addition, most private sector infrastructure financing has flowed to the energy sector, leaving other critical sectors such as transportation and water within the responsibility of the public sector. In the energy sector,

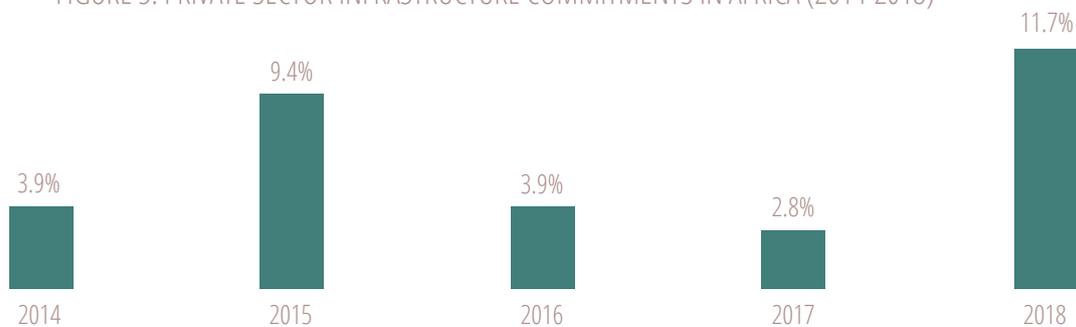
where the private sector plays a more active financing role, an "off-take" agreement is often in place. This agreement effectively guarantees electricity sales to the (privately-owned) entity generating the power. The provider of the off-take agreement is generally a government acting directly, or through the publicly owned national electricity company in that country. As a result, a significant proportion of the financial risks get transferred from the private sector to the host government^{xxix}. Thus, the public sector remains the key driver of financing flows towards infrastructure – and will likely continue to play a significant role for the foreseeable future.

FIGURE 4: PRIVATE SECTOR PARTICIPATION IN INFRASTRUCTURE IN AFRICA (2012-2018, \$BN)



Source: World Bank Private Participation in Infrastructure (PPI) database

FIGURE 5: PRIVATE SECTOR INFRASTRUCTURE COMMITMENTS IN AFRICA (2014-2018)



Source: Infrastructure Consortium for Africa, Infrastructure Financing trends 2018

3. WHY IS THE PRIVATE SECTOR NOT PLAYING A GREATER ROLE IN INFRASTRUCTURE FINANCE?

Given the size of the infrastructure financing gap in Africa, it is clear that there is an opportunity for the private sector to play a broader role in both the *delivery* and *financing* of infrastructure. Figure 6 shows

the various roles that the private sector can play in the delivery of infrastructure and where the relative balance of risks lies for the public sector and private actors.

FIGURE 6: PRIVATE SECTOR PARTICIPATION IN INFRASTRUCTURE

		Duration	Asset Ownership	Capital Investment	Commercial Investment	O&M	Service & payment to private provider
Traditional procurement	Service contract	1-3 years	Public	Public	Public	Public & Private	<ul style="list-style-type: none"> Fee paid for technical service by Government to private sector provider
	Mgmt & Maintenance contract	3-8 years	Public	Public	Public	Private	<ul style="list-style-type: none"> Private sector manages operation of Government service and receives direct fees from Government
Private Participation in Infrastructure	Lease	5-10 years	Public	Public	Private	Private	<ul style="list-style-type: none"> Private actor manages, operates and/or maintains a public service to specified standards User fees charged and rent paid to Government for use of facility
	Concession / PPP / BOT	10-30 years	Public & Private	Private	Public	Private	<ul style="list-style-type: none"> Private actor manages, operates, maintains and/or invests in infrastructure to specified outputs and standards Government is the main source of revenue for the private actor
	Concession / PPP / BOT (user pays)	10-30 years	Public & Private	Private	Private	Private	<ul style="list-style-type: none"> Private actor manages, operates, maintains and/or invests in infrastructure to specified outputs and standards Users are the main source of revenue for the private actor
Private	Full divestiture	Perpetual/subject to license	Private	Private	Private	Private	<ul style="list-style-type: none"> Private operator invests in infrastructure and provides the service Government disposes of existing infrastructure asset (e.g. airport)

Source: OECD^{xxx}

To assess the relative attractiveness of a project, the various actors (e.g., public sector, private contractor and equity and debt investors) will evaluate the expected potential cash flow generation against potential risks and any available mitigants. While the nature of infrastructure is such that each

project is unique, risks can be broadly classified as policy-related and regulatory, macroeconomic and business, project execution and environmental, social and governance (ESG) related.

CHALLENGING POLICY ENVIRONMENT

Many jurisdictions lack established legal and regulatory frameworks across infrastructure sub-sectors. This includes public sector procurement policies and laws for PPP operations. Without a basic level of regulatory maturity, it is very challenging for the private sector to engage in infrastructure projects.

POLITICAL AND REGULATORY RISKS

Political and regulatory risks are of particular concern due to the long-dated nature of infrastructure projects. Noted risks include significant changes in government policy or changes in the legal and regulatory environment which may negatively impact expected cash flows. These could manifest as a request to renegotiate an agreed upon contract or an inability to enforce an existing contract.

MACROECONOMIC & BUSINESS

In many infrastructure projects, a private sector actor will partner with national and subnational government entities, including state-owned enterprises. Assessing the credit worthiness of any such public sector entity over the lifetime of a project is critical to understanding and evaluating counterparty risk. When end-users pay directly for infrastructure services, the overall macroeconomic environment will have a direct effect on end-user demand and/or pricing. Other risks include fluctuations in foreign exchange which may negatively impact the project's expected returns and the availability and convertibil-

ity of hard currency to enable debt servicing and the remittance of dividends.

PROJECT EXECUTION RISKS

These include issues that may cause non-completion, late completion or cost overruns by the contractor. Some of these delays are caused directly by issues within the control of the contractor, while others are caused government action or inaction.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Environmental risks may arise when a project does not comply with all environmental laws, regulations and, where relevant, international best practice, in particular health and safety practices during the construction phase. Similarly, due to the long-term nature of infrastructure, the lack of social acceptance for a project may negatively impact its operating performance. Finally, procurement-related risks remain at the forefront of investor concerns. These are broad ranging and may include project selection, bidding processes and selection criteria, value for money, anti-money laundering and bribery undertakings.

Given Africa's continental diversity, it is important to remember that these risks vary by country and sector of activity. In addition, every infrastructure project is unique. As such, a thorough understanding of each project's specific features is critical for an adequate risk assessment and to ensure that perceived risks can be mitigated.

BOX 3

THE ROLE OF PUBLIC-PRIVATE PARTNERSHIPS (PPP) IN INFRASTRUCTURE PROVISION

PPPs are perceived to be efficient alternatives to the public sector, benefiting from more project and financial discipline, more innovation and lower cost overruns. However, some PPPs are also criticized for providing attractive returns to the private sector, while offering little value for money for the public sector and limited affordability of services for end-users.

As shown in Figure 6 above, there are a variety of possible approaches for structuring a PPP. Of course, each project requires careful consideration of the risks (and commensurate costs) being passed on to the private sector partner. Some risks can be more efficiently managed by private sector partners (e.g., construction), while others may be better handled by the public sector (e.g., legal and regulatory risk). A well-structured PPP transaction will optimize risk balancing and allocate risks to the party best suited to handle them.

The AfDB^{xxxxi} recognizes that, "while PPPs are important for infrastructure provision, a careful assessment with analysis of objectives, commercial viability, risks, and their management is necessary to make them successful. Again, not all infrastructure projects are suitable to PPP structure."

BOX 4

POLICY RECOMMENDATIONS TO INCREASE PRIVATE SECTOR INVOLVEMENT IN INFRASTRUCTURE PROJECTS

At the policy level, increasing the role of the private sector includes Government-led initiatives to increase the supply of bankable projects. According to the AfDB^{xxxi}, a project is bankable if “it provides clear incentives for lenders to consider financing it”. Given that the pipeline of such projects is currently limited, the AfDB provides a number of policy recommendations to improve bank- ability. A sample of these include:

- Increasing in-country capacity by educating and training the teams involved in infrastructure financing.
- Establishing appropriate institutions and technical capacity.
- Partnering with reputable project preparation institutions.
- Defining a strategic infrastructure plan which considers the specific circumstances and comparative advantages of the country.
- Adopting effective legal and regulatory frameworks, including procurement policies and laws for PPP operations, and ensuring such laws are implemented without frequent policy changes.

Implementing these can create a business and regulatory environment that is more conducive to private sector investment in infrastructure.

4. THE ROLE OF EXPORT FINANCE IN INFRASTRUCTURE FINANCE

Increasing the role of the private sector in infrastructure, whether in an *investment* capacity or a *service provision* capacity, requires easing some of the perceived risks inherent to such projects. This is where export finance can play a critical role, by reducing risks for all parties involved in a project:

- **Contractors/Suppliers.** The involvement of an ECA increases the appetite of a contractor to bid for projects and provide services outside of its home market. Indeed, the contractor’s risk of not getting paid for services rendered is significantly reduced as financing is arranged up-front for the full contract value.
- **Banks.** The risk of non-payment of interest and principal is greatly reduced: ECAs cover any risk of non-payment due to credit or political risk event for up to 85% of the project’s value.
- **Project sponsors:** ECAs are experts at supporting infrastructure in developing markets. These official institutions conduct thorough due diligence on both the project and the contractor they chose to support. In doing so, they ensure that the contractor has the skills and experience to deliver the proposed project, thus increasing the probability of success.

THE CASE FOR EXPORT FINANCE AS A VEHICLE FOR IMPACT INVESTMENT IN INFRASTRUCTURE

This white paper argues that export finance is one of the most effective financing mechanisms to de-risk infrastructure projects for both private and public sector actors and can increase a project’s probability of success. ECAs’ support for medium and long-term transactions averages around \$150bn annually. This compares with an estimated \$215bn^{xxxii} of annual financing for MDBs and DFIs. However, export finance, by the nature of the mandate of export credit agencies, does not feature prominently in the global development conversation. Yet, by shifting the lens through which one considers export finance, it may well be considered the original ‘blended finance’ instrument with a one-hundred-year track record of delivery. It will also be seen as an effective way to attract private investors seeking environmental and social impact alongside financial returns.



TARGET PROJECT EXAMPLES THAT CAN BE FINANCED THROUGH EXPORT FINANCE

The table below provides examples of projects suitable for export finance and can help achieve broader social and environmental objectives in line with the Sustainable Development Goals.

	Target Sectors	Example assets
1	 Healthcare	<ul style="list-style-type: none"> Hospitals Clinics
2	 Education	<ul style="list-style-type: none"> Educational facilities (schools, universities) Digital educational solutions
3	 Social housing	<ul style="list-style-type: none"> Social housing units Related infrastructure (e.g. solar power, water treatment, etc.)
4	 Transportation	<ul style="list-style-type: none"> Clean public transportation Road infrastructure for underserved populations
5	 Renewable power	<ul style="list-style-type: none"> Solar Wind Small hydro Transmission lines Geothermal Biomass
6	 Agriculture	<ul style="list-style-type: none"> Agricultural training and development centers Smart irrigation technology Warehousing and cold storage
7	 Water and Sanitation	<ul style="list-style-type: none"> Boreholes, wells Piped water Sewerage and water treatment
8	 Waste management	<ul style="list-style-type: none"> Recycling facilities Waste-to-energy
9	 Climate adaptation	<ul style="list-style-type: none"> Coastal flood containment infrastructure (embankments, sea walls, spurs) River flood containment infrastructure embankments, levees, dikes, diversion channels) Urban stormwater drainage infrastructure

3

ECA FINANCING: A RESPONSIBLE DEBT DELIVERY MECHANISM

ECA financing has evolved into one of the most responsible debt products available to support infrastructure projects. In part, this is because of the coordinating role of the OECD and their clear guidelines on debt sustainability, ESG and compliance. In addition, because an ECA is an official institution representing a sovereign nation, there is reputational risk in supporting an exporter or a project that may underperform. In response, ECAs embrace detailed due diligence and controls to maximize the success probability of projects being supported.

1. DEBT SUSTAINABILITY

In public sector transactions, where the buyer is a government or a municipality, OECD ECAs perform debt sustainability assessments before supporting a transaction. In line with the OECD's recommendations, export credits must reflect "sustainable lending practices." These are practices that support the buyer country's economic and social progress without endangering its financial future and long-term development prospects^{xxxiii}. In practice, this means ECAs assess the priority of a project relative to its social and economic development impacts. They also ensure that any new borrowing is in line with the debt sustainability analysis of the country from the World Bank or IMF. In addition, the OECD Arrangement allows borrowers in poorer countries (Category 2) to benefit from longer tenors compared with wealthier countries (Category 1).

Finally, where a contract was not awarded through a public tender process, most ECAs apply 'value for money' tests to ensure that the project sponsor is paying a fair price.

As a result of these practices, ECAs have a strong track record of minimizing defaults. For example, the International Chamber of Commerce (ICC) reports a default rate of 0.28% on ECA loans to sovereign borrowers between 2007-2017^{xxxiv}.



2. ENVIRONMENTAL, SOCIAL AND HUMAN RIGHTS DUE DILIGENCE

OECD ECAs adhere to the “OECD Common Approaches” on environmental and social due diligence. From this, ECAs must classify transactions in three different categories:

- **Category A:** Projects with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.
- **Category B:** Projects with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.
- **Category C:** Projects with minimal or no adverse environmental or social risks and/or impacts.

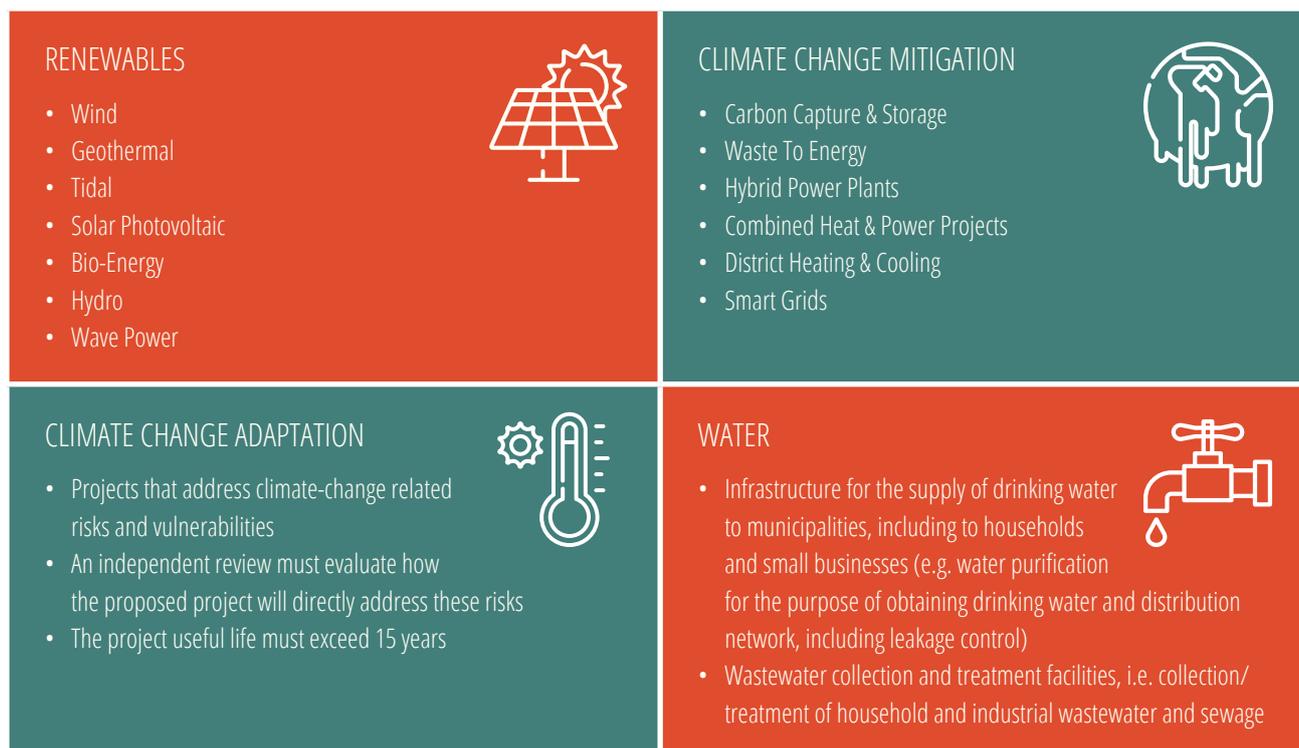
For Category A projects, an Environmental and Social Impact Assessment (ESIA) must be conducted in line with the World Bank Safeguard Policies and the IFC Performance Standards. Category B projects also

require a review of environmental and social impact standards which may be documented in an ESIA. While these assessments do not guarantee positive social or environmental outcomes, they do ensure that any negative impacts that could be foreseen are identified and mitigated. In practice, OECD ECAs will not support a project that does not meet the IFC Performance Standards and World Bank Safeguard Policies.

In addition, transactions are monitored for any new risks that may arise during the construction period and often during the entire life of the ECA cover. As such, ECAs strive to avoid unintended consequences and ensure that they “do no harm”.

Furthermore, the OECD arrangement allows for extended financing terms of up to 18 years for projects in sectors that have a positive environmental and societal impacts. These include projects related to renewables, climate change adaptation and mitigation and water.

FIGURE 7: SECTORS BENEFITING FROM EXTENDED TENORS AS PER THE OECD ARRANGEMENT



HOW 'SUSTAINABLE' IS THE ECA MARKET?



The core mandate of ECAs is export promotion and job creation in their respective home countries. ECAs do not discriminate against any type of industry or project that can receive official support. Indeed, ECAs' activities have been widely criticized by NGOs and civil society due to the support they provide to industries and projects that may not be compatible with the SDGs or the Paris Climate Agreement. Historically, ECAs have provided a significant amount of support to industries such as oil and gas, defense and shipping, largely driven by the mix of active exporters in their home market. More recently, ECAs have also provided support to industries and projects that promote sustainable development, including renewables, water infrastructure, climate adaptation infrastructure and healthcare. Amendments to the OECD Arrangement have supported this type of impactful activity by allowing ECAs to offer longer tenor guarantees and finance for these technologies.

In order to better understand the market and estimate the size of the sustainable and social infrastructure being supported by ECAs, data from TXF, one of the largest trade publications in the export and trade finance industry, is used. TXF's data is self-submitted by market participants and is the basis of industry-wide league tables. Acre has collaborated with TXF to establish a methodology to size and track the development of the 'sustainable' ECA market.

The methodology being used by Acre and TXF to identify Green, Social and Sustainable transactions is closely aligned with ICMA's (International Capital Markets Association) Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainable Bond Guidelines (SBG). These principles and guidelines – underpinning \$456bn⁴ of Green and Social bonds outstanding as of 2018 – provide helpful definitions and categorization of the types of projects and financings that could be considered Green or Social⁵.

These guidelines are the most widely accepted set of voluntary governance structures and bring unprecedented transparency and disclosure into this fast-evolving space. These governance structures are underpinned by four main pillars:

- Use of proceeds
- Project selection
- Management of proceeds
- Impact reporting.

Acre has classified transactions in TXF's TagMyDeals database as being *Green*, *Social* or *Sustainable* where the "Use of Proceeds" can be clearly identified per ICMA GBP, SBP or SBG.

As the data available for the market sizing exercise was self-submitted by market participants (in particular, active commercial arranging banks), the choice of classification methodology was largely driven by the need to establish a common approach industry-wide. A large number of arranging banks active in the ECA market are already Green Bond issuers and, in some cases, Social and Sustainability Bonds issuers. In addition, ECAs such as EDC and the Exim-Import Bank of Korea (KEXIM) are also Green Bond issuers. As issuers, these institutions have in place the expertise and governance mechanisms to classify ECA transactions as Green, Social or Sustainable in line with the principles and guidelines. Likewise, it is hoped that as more ECA assets are earmarked against Green, Social or Sustainable bonds, institutions will be encouraged to increase sustainable bond issuance. This will jumpstart a virtuous cycle of increasing the size of sustainable debt capital markets.

4 Bloomberg, Thomson Reuters

5 For example, the GBPs provide examples of green projects that fit within the following categories: renewable energy, energy efficiency, pollution and prevention control, environmentally sustainable management of living natural resources and land use, terrestrial and aquatic biodiversity conservation, clean transportation, sustainable water and wastewater management, climate change adaptation, circular economy adapted products and green buildings.

\$138bn Volume of ECA Financing in 2018

16.3% Volume of sustainable ECA Financing in 2018

FIGURE 8: GLOBAL ECA MARKET (2018) – REGIONAL SPLIT OF SUSTAINABLE ECA TRANSACTIONS

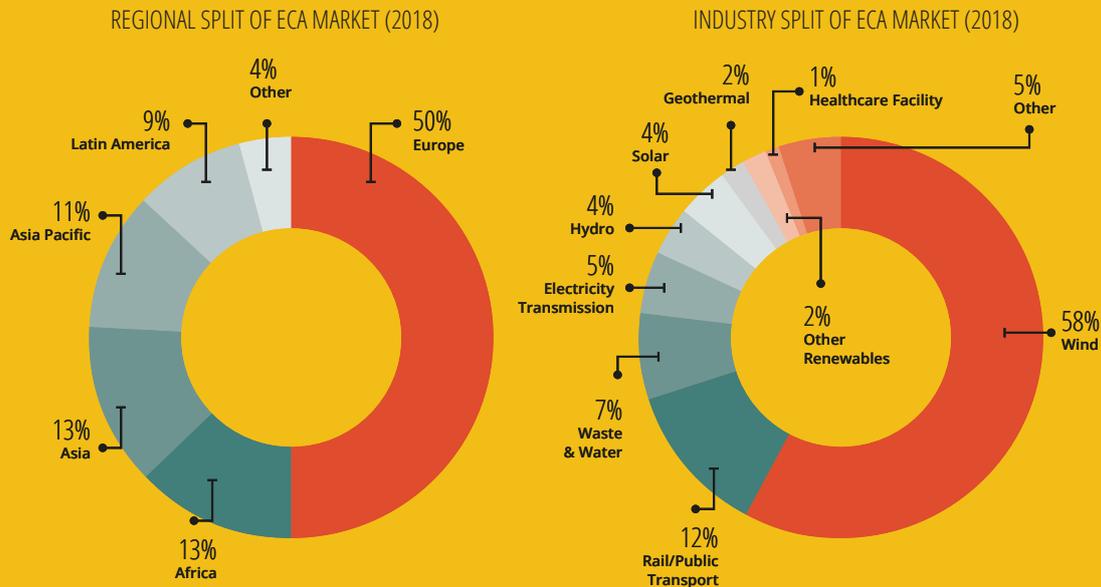
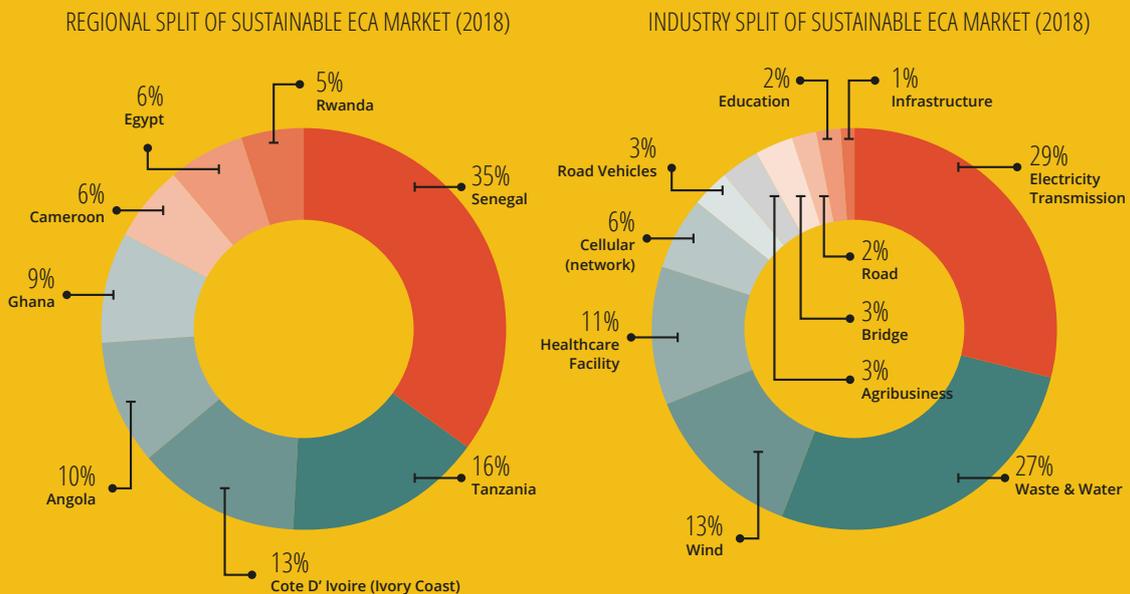


FIGURE 9: AFRICA ECA MARKET (2018) – SPLIT OF SUSTAINABLE ECA TRANSACTIONS



According to TXF data, about 16% of the \$138bn of financing supported by ECAs in 2018 can be classified as 'sustainable'. Figure 8 provides the regional and industry split of the \$23bn of financing that could be considered as 'sustainable' financing,

while Figure 9 provides similar splits for the \$3bn worth of 'sustainable' financing in Africa.

As we will show in Chapter 4, the size of the sustainable ECA market could be significantly larger were it not for persistent market failures preventing the flow of capital to relevant projects.

3. COMPLIANCE AND CONTROL OF THE USE OF PROCEEDS

Arranging banks and ECAs both independently ensure that robust KYC, AML and anti-bribery and corruption procedures are followed. Given the increased regulatory scrutiny and record fines levied on the banking industry in recent years, compliance is taken seriously by all parties. The OECD Recommendation on Bribery and Officially Supported Export Credits remains a key element of the OECD's overall anti-corruption strategy.

In addition, funds are usually disbursed directly to a contractor based on pre-agreed project milestones. These milestones will have been signed off on by both the project sponsor and the contractor. This control is key to ensure financing proceeds are used

for the stated purpose of the project which has been approved by the ECA. The exporter is also required to subscribe to strict anti-bribery and corruption undertakings towards the ECA. Should breaches occur, it is not uncommon for the appropriate national crime agency to investigate (e.g. the Serious Fraud Office in the UK).

The control of the use of proceeds is particularly useful for sovereign borrowers. A Ministry of Finance representative of a Southern African state interviewed in the context of this research highlighted the usefulness of export finance structures in strengthening governance and increasing project success at the municipal level.

BOX 7

REGULATIONS AND GUIDELINES FRAMING ECAS' ACTIVITIES

The OECD Arrangement for Officially Supported Export Credit. This 'Arrangement' sets parameters for financing support offered by member states. It is also followed voluntarily by some non-OECD members. Should a member breach the parameters set, there is matching provision which allows other members to match, thus dis-incentivizing such breaches.

Specifically, the Arrangement sets out the terms and conditions for the provision of export credits, including minimum interest rates, premiums and maximum tenors. It is meant to ensure that competition is based on the quality and price of services provided, rather than financing terms.

OECD Recommendations or Common Approaches (not legally binding) include:

- *Bribery and Export Credits* recommendations to deter bribery in export credit transactions.
- *Sustainable lending practices* that guide ECAs to "take into account the results of the most recent IMF/World Bank country specific debt sustainability analyses (DSAs) [...] and take into account the prevailing limits on public sector non-concessional borrowing [...] for transactions involving public obligors or publicly guaranteed obligors in lower-income countries."
- *Environmental and Social Due Diligence* which "sets common approaches for undertaking environmental and social due diligence to identify, consider and address the potential environmental and social impacts and risks".
- *OECD MNE guidelines* which are voluntary principles for multinational business conduct that lenders are also encouraged to adopt.
- *Aid and Export Credits* where the arrangement aims to limit "the use of concessional financing for projects that might be supported through commercial financing. These rules were also developed to redirect tied aid away from richer countries, which should be able to attract commercial credits, and towards developing countries, that are less well off."

The WTO's Agreement on Subsidies and Countervailing Measures (mandatory for signatory countries): The WTO Agreement regulates the use of subsidies. Most export credits are considered allowed subsidies as long as they are in line with the OECD Arrangement.

EU Regulation No: 1233/2011 (legally binding for EU ECAs): The regulation stipulates that the OECD Arrangement applies in the EU and sets out reporting measures – including how environmental risks are to be considered by EU ECAs.

The Berne Union: This is the largest network of ECAs and private credit insurers. All members follow a set of principles focused on sharing and implementing best practices in the export credit industry, while taking into account environmental issues surrounding their activities.

4. PROJECT EXECUTION

As official institutions representing their sovereign, ECAs must carefully manage any reputational risk that may result from poor or inadequate project delivery. The significant expertise of ECAs in supporting global infrastructure projects certainly helps mitigate execution risks and rigorous due diligence is performed for each project. Due diligence efforts on key execution topics include:

- Ensuring that the project (and related financing) has received the appropriate approvals.
- Ensuring that the contractor has the required expertise, knowledge and track record to deliver the proposed project.
- Ensuring that the contractor has the financial strength to undertake the project.
- Reviewing the project delivery/construction and payment milestones to ensure they are reasonable and in line with similar projects.
- Investigating whether the project's completion is reliant on the delivery of other infrastructure and understanding how that infrastructure will be delivered, including how it may be financed.

BOX 8

RECENT DEVELOPMENTS IN SUSTAINABLE EXPORT FINANCE

During the period in which this white paper was conceived and developed, the topic of sustainability has been rapidly growing in importance across the export finance industry and has now become an inevitable topic of conversation across industry conferences. In addition, industry bodies are starting to actively engage with the topic. For example, the International Chamber of Commerce (ICC) Export Finance Committee – a bank-led advocacy group – has created a Sustainability Working Group to increase awareness and grow the sustainable export finance market. This sub-committee has convened a number of stakeholder meetings, the most recent being a Berne Union / ICC Sustainability Workshop in September 2019, bringing together over 80 representatives of Arranging Banks and ECAs. Topics covered included:

- debating if and how ECAs should map their portfolios to the SDGs
- debating the thorny issue of ECA mandates and whether they should evolve beyond export promotion
- adapting the OECD Arrangement to facilitate sustainable financing
- reviewing practical transaction case studies to analyze how best to optimize social and environmental outcomes

In addition, national governments are increasingly questioning the congruence of their home ECA's activities with their international commitments under the Paris Climate Agreement. For example, the UK's parliamentary Environmental Audit Committee stated that "UKEF's support for fossil fuel projects is at odds with a number of declared measures to tackle climate change"^{xxxx}. In Sweden, the Swedish Export Credit Corporation (SEK) introduced a 5% cap on gross lending to fossil fuel operations (coal oil and gas) as a proportion of total support.

Finally, Acre (in partnership with TXF) has published the inaugural sustainability league tables for the export finance industry in September 2019. For the first time, there is a clear sizing of the sustainable export finance market, providing transparency to market participants and establishing a baseline from which sustainable financing can grow. In addition, the sustainability league tables help put the spotlight on the leading ECAs and arranging banks in the industry (see appendix). The objective of this effort is to increase awareness around the topic of sustainability and contribute to broadening the existing dialogue in the industry.

4

THE MARKET FAILURE AT THE HEART OF THE EXPORT FINANCE MARKET

As outlined previously, export finance has historically been a useful financing mechanism to crowd in capital to emerging and frontier markets for building essential infrastructure, with the banks being the backbone arranging and funding vehicles for the market. Arranging banks have the institutional knowledge and expert teams to support exporters in arranging an export finance transaction, sometimes for considerable periods of time during project gestation.

However, as suggested within a variety of interviews, it is clear that the export finance market is no longer functioning as it has in the past, leading to some projects being delayed or not proceeding. One DFI representative interviewed in the course of this research explained that this “market failure” justified the DFI getting involved in commercial loan financing on select transactions, in order to catalyze projects with significant developmental impacts.

1. BANKS AS A KEY DELIVERY CHANNEL OF EXPORT FINANCE

While ECAs are central to the export finance industry as providers of guarantees (and in some cases, direct loans), banks play a critical role in the actual delivery of the export finance product.

- **Origination and education.** Banks originate transactions through their corporate clients who are seeking to win infrastructure mandates. In doing so, they keep clients informed and updated about the benefits of the product and its suitability for specific projects. Banks also play a similar role for project sponsors.
- **Arranging and structuring export finance transactions.** Banks play a key role in arranging and structuring export finance transactions, managing the relationship between the project sponsor, the contractor and the ECA and ensuring alignment between these parties.

- **Funding the guaranteed tranche.** As explained in Chapter 3, most ECAs issue guarantees for up to 85% of the value of the export contract value for a project. Banks provide the funding against this guarantee.
- **Funding for the commercial tranche.** Banks can also provide funding for the 15% commercial tranche. This is where the “market failure” increasingly occurs, as banks have become more selective around their involvement in this tranche of the financing – or not participating at all.
- **Agent role.** Banks also play an agent role once a transaction is complete. They ensure the monitoring and disbursement of cash flows as per the contractual terms as well as compliance by the project sponsor with financial and other covenants in the finance documentation.

As seen in the next section, a number of regulatory and strategic considerations are limiting commercial banks’ involvement in the commercial tranche of the financing.

2. INCREASED SELECTIVITY OF EXPORT FINANCE BANKS IN EMERGING AND FRONTIER MARKETS

In order to unlock cover from an ECA, the project sponsor needs to provide 15% or more of the value of the project up front. This commercial tranche can either be provided as a cash down-payment or financed through the commercial bank loan market. Historically, banks were active providers of finance in this market. However, since the Global Financial Crisis, banks have reduced appetites for this market and take an increasingly selective approach to providing commercial loans in Africa. This is driven by four key factors: (i) strategic considerations, (ii) regulatory considerations (iii) risk appetite of each institution and (iv) more expensive due diligence requirements.

STRATEGIC

In the post-GFC world, many banks allocate their scarce resources (e.g., banker time, balance sheet and risk-weighted assets) to their most strategic clients. In these relationships, banks earn revenue across a variety of products. As banks reduce their client lists and focus on developing deeper relationships with a select number of key clients, the number of companies that can benefit from commercial loans, particularly in emerging or frontier markets, is impacted.

For banks, the ‘strategic value’ of a client is defined in terms of economic value and cross-selling potential. Considerations include:

- Is the exporter or borrower a long-standing client of the bank?
- Is the borrower’s country a strategic target for multiple products the bank offers or does the bank have a branch network?
- What is the likelihood of cross-selling other products like corporate finance, cash management or risk management services?
- In the case of a Sovereign borrower, what is the likelihood of obtaining a highly coveted mandate for arranging the potential issuance of a Euro-bond?

This selectivity stands in contrast to the behavior of banks prior to the financial crisis. At that time, banks would be less restrictive, pursuing transactions based principally on the exporter relationship and availability of ECA support, while relying heavily on ECA’s due diligence on the project.

REGULATORY

In the wake of the financial crisis, the Basel III regulatory framework was introduced to strengthen the global financial system. While a detailed discussion of these regulatory changes is beyond the scope of this paper, the introduction of strengthened capital and leverage requirements had many banks, European banks in particular, constrained from a capital or leverage perspective. As a result, banks responded by focusing on rebuilding capital, cutting costs, refo-

BOX 9

INTERVIEW FEEDBACK: HOW TRANSACTIONS GET PRIORITIZED IN PRACTICE

In the context of this research, the export finance heads of a number of international and regional banks were interviewed. A key focus of the discussion was on establishing the existence of a financing gap at the heart of the export finance market.

Most interviewees agreed that transactions that do not fit within the strategic criteria mentioned above do not even make it on the pipeline. In addition, larger transactions tend to be preferred as they generate more revenues for the bank and require the same amount of fixed effort as smaller ones. This puts smaller yet impactful transactions, common in social infrastructure sectors, at a disadvantage. Most bankers agreed, however, that should a third-party provide commercial loan financing, it would remove a significant hurdle and allow them to expand their activities in the market.

Contractors interviewed noted a similar dynamic. They struggle to elicit bank interest for (i) projects in countries that are not 'strategic' for their bankers and (ii) smaller projects where bankers earn smaller arranging fees and (iii) when commercial loan financing is required.

cusing on home markets, exiting certain lines of business and tightening risk appetite.

Bank commercial loans in Africa attract high Risk Weighted Assets (RWA) and therefore consume a significant amount of capital. In addition, risk country limits have been reduced as banks seek to rebuild capital.

ADDITIONAL DUE DILIGENCE COSTS

All banks incur significant costs to ensure compliance with anti-bribery and corruption regulation, sanctions, embargoes and anti-terrorism financing. As a result, banks engage in thorough Know Your Customer (KYC) and AML (Anti-Money Laundering) due diligence. This due diligence is costly and time consuming – and may be more challenging in certain emerging and frontier markets. Naturally, banks evaluate these high due diligence costs against expected revenue streams and draw conclusions accordingly. In order to get involved in a transaction, banks have to believe that there is an opportunity for a recurrent revenue stream, which is often not the case in certain geographies or for some counterparties.

Because of these trends, banks active in export finance focus on a narrow selection of strategic clients and markets across Africa where they are willing to operate. The target markets are often linked to their historical presence and/or the presence of other banking businesses, such as a retail branch network.

RISK APPETITE

In addition to the strategic considerations above, the global export finance arranging banks that are active across Africa have varying appetites for lending. The risk tolerance of these institutions is influenced by the availability of risk mitigants such as private credit insurance and their ability to syndicate risk to other banks or distribute risk to investors.

International banks active in the market can be characterized within three risk categories:

- 1. No risk appetite.** A significant number of banks have no appetite for any commercial loan exposure in these jurisdictions, even if they can procure private credit insurance in the insurance market. These institutions are only selectively active in export finance to support a handful of key corporate clients. These banks will only get involved if they can work with partners who are comfortable with exposure to elements of the transaction that are not guaranteed by their home ECA.

- 2. Limited risk appetite.** These institutions have identified a select number of countries where they can be active and take commercial loan risk on their balance sheets. Depending on the sophistication of the institution, they will be active users of risk mitigation techniques such as bank syndication, distribution to investors and usage of private credit insurance. The majority of banks fall in this category.
- 3. Active risk appetite.** While these institutions are only active in a handful of countries, they benefit from a historical, local retail banking presence. This affords them a better understanding of the political, regulatory and business environments. Despite a higher appetite for risk, these institutions are active users of risk mitigants such as private credit insurance.

BOX 10

COMMON RISK MITIGATION TECHNIQUES USED BY BANKS

International banks active across Africa have limited appetite for on balance sheet exposure to credit and political risk. As such, they have developed various risk mitigation techniques to help offload these exposures. These techniques allow banks to actively manage risk limits and exposures and are useful tools to create capacity to finance new transactions.

A number of such techniques are listed below, in order of their relative sophistication.

- *Bank syndication.* Under this approach, a lead arranging bank will share unwanted exposure with other banking institutions active in export finance in order to facilitate the transaction. Typically, the other banks involved will receive a share of the transaction fee.
- *Private credit insurance.* Most banking institutions are active users of private credit insurance to cover political and credit risks of commercial loans. This insurance ensures payment to the bank in case of a default event and covers a broad range of non-payment risks such as expropriation, currency inconvertibility, political violence or contract frustration. The use of the product is widespread with continental European banks in particular, which can obtain capital relief from their regulatory bodies when using such insurance. This insurance allows them to substitute the Loss Given Default (LGD) of an African counterparty with that of the private credit insurer, thus reducing the internal capital charge against such a loan.
- *Distribution to investors.* Distribution to third-party investors is not widespread and only a handful of institutions are engaged in this. These institutions have pronounced capital markets DNA, a strong syndication function and knowledge of the emerging markets investor base to which they will attempt to distribute the risk. However, the universe of target investors for unlisted or unrated paper remains small.
- *Use of market risk instruments.* In theory, banks could use a hedging instrument such as Credit Default Swaps or build a short position in a bond. In practice, due to model risk and cost and liquidity consideration, the use of such market instruments is uncommon.



THE UNFULFILLED POTENTIAL OF EXPORT FINANCE

As a result of these trends, the market for export finance is fragmented. A contractor or borrower wishing to arrange an export finance transaction has to navigate a complex web of banking institutions to identify which bank may be able to support a transaction. Banks will consider the strategic value of client relationships, the economics of the transaction, available risk limits and lines for specific countries and borrowers, and the opportunity for risk mitigation techniques before taking on a mandate.

Ultimately, this leads to less financing being directed towards infrastructure projects that have an environmental and social benefit.

BOX 11

CAN DEVELOPMENT BANKS FILL THE GAP?

In theory, Development Banks are well placed to address gaps in availability of commercial loan funding for impactful and developmental projects in the export finance market.

However, in practice, the participation of Development Banks in export credit transactions is less common. This can be explained by a number of factors:

- **Mandate:** ECAs have an export promotion mandate which may not always coincide with the development mandate of Development Banks.
- **Complexity:** Many arranging banks highlight that Development Banks have complex processes and heavy documentation requirements. As such, arranging banks often prefer excluding a Development Bank as inclusion will increase transaction complexity and potentially delay financial close.
- **Size.** Often, the relatively small size of export finance transactions precludes the involvement of Development Banks. These Development Banks have high minimum transaction sizes given the fixed time and effort required to review a transaction – regardless of size.

5

EXPORT FINANCE: HOW CAN IMPACT INVESTORS PARTICIPATE?

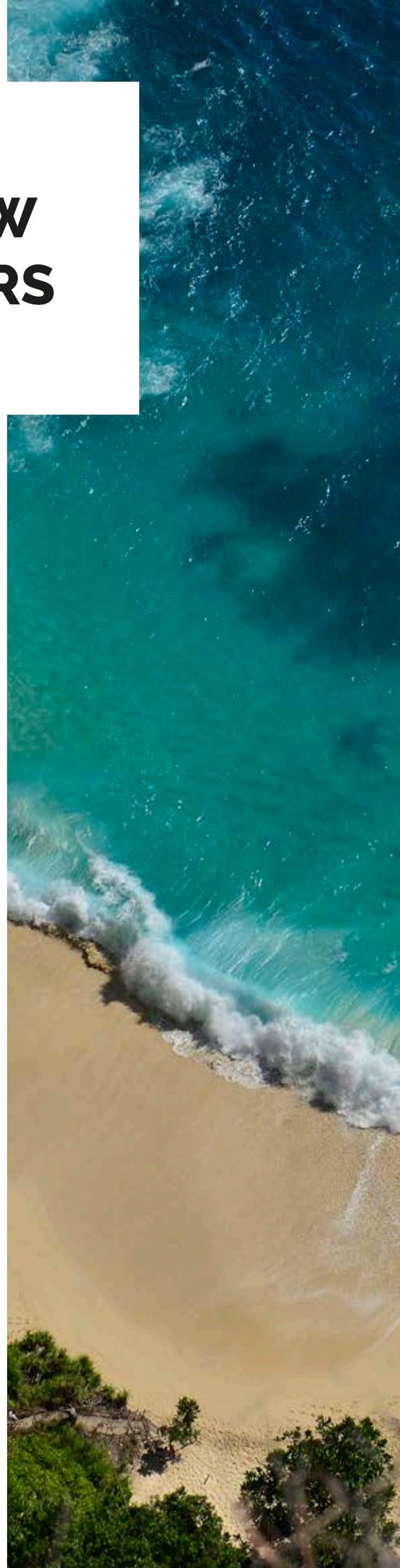
Having already explained the financing gap in the export market, this paper now shifts to discuss the role that impact investors can play in catalyzing capital.

1. EXPORT FINANCE AS AN ASSET CLASS

Export credit remains relatively unknown outside of the specialized desks of export and trade finance at the world's largest corporate and investment Banks. By and large, investors have had little exposure to this asset class which consistently generates about \$150bn^{xxxvi} of fresh assets annually.

As a result of the regulatory pressures described, banks are starting to open the door for institutional investors to participate in export finance transactions. Export financiers, who are normally housed within the corporate banking divisions of their institutions, are starting to engage more actively with their markets colleagues. It is these teams who hold the relationship with institutional investors.

In addition, the International Chamber of Commerce (ICC) has been collecting loan performance data for its Trade Register, providing helpful high-quality statistics on the credit-related default and loss experience. Currently, 22 banks across Europe, Africa, North America, Asia and Australia submit regular statistics to the Trade Register. This allows regulators and other stakeholders to form an informed view of the export finance product globally.



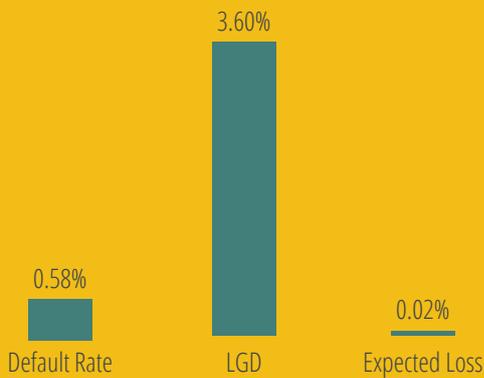
ICC TRADE REGISTER DEFAULT HISTORY



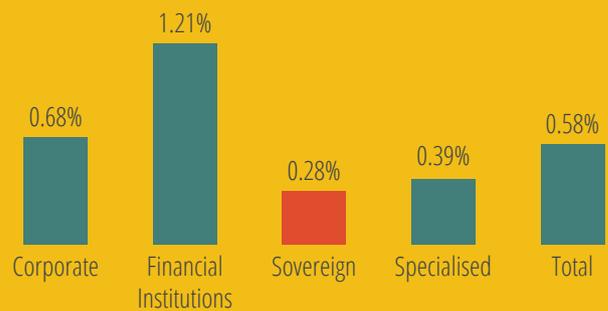
The ICC Trade Register draws from a data set comprising nearly 43,500 data points from 2007– 2017. This provides meaningful analysis on the Probability of Default (PD), Loss Given Default (LGD), and therefore, Expected Loss (EL) in

export finance. This data set is considered the definitive source of insight on the export finance industry and is used by regulators around the world to calibrate the capital requirements of banks for ECA loans.

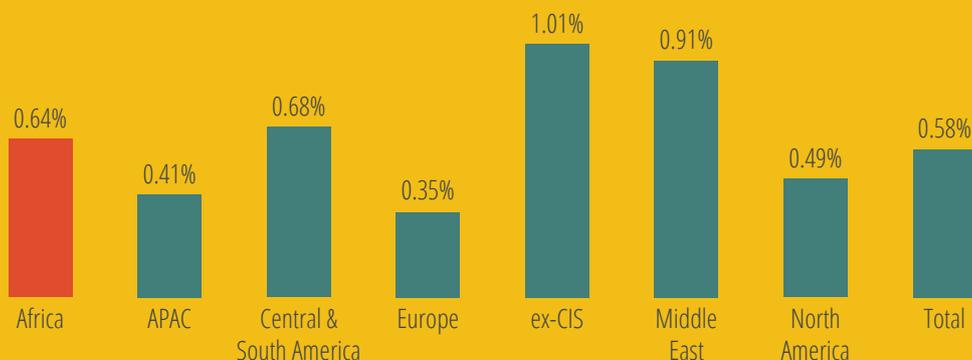
ICC EXPORT FINANCE EXPECTED LOSS STATISTICS - EXPOSURE WEIGHTED (2007-2017)



EXPORT FINANCE DEFAULT RATES - EXPOSURE WEIGHTED (2007-2017)



REGIONAL EXPORT FINANCE DEFAULT RATES - EXPOSURE WEIGHTED (2007-2017)



Note: This data includes sovereign, financial institution and corporate counterparties.

For perspective: the default rates for US corporates was 1.35% in 2018 and 2.85% in 2016 according to S&P^{xxviii}.

2. THE CATALYTIC ROLE OF IMPACT INVESTORS

Chapter 3 reinforces how export finance is a proven mechanism to deliver funding towards environmentally and socially beneficial projects in emerging and frontier markets. By applying debt sustainability checks, conducting detailed environmental, social and governance due diligence, ensuring stringent compliance checks and controlling the use of investment proceeds, ECAs help minimize project risks.

For impact investors, there are two participation areas within an ECA transaction:

1. ECA covered tranche
2. Commercial tranche

ECA covered tranche

The ECA covered tranche is highly rated paper and offers the benefits of an ECA guarantee. In practice though, this is a challenging place to participate for a two key reasons. First, banks benefit from attractive regulatory treatment on ECA guaranteed loans. As a result, these loans tend to remain on their balance sheets where they can enjoy a yield pick up over similarly rated assets. The supply of such investment opportunities is therefore likely limited.

Second, the guaranteed tranche of an export credit transaction tends to have highly structured cash flows during a project's early life. A loan may take years to be fully drawn by the borrower, depending on the requirements of the project. In addition, project delays can impact the timing of the loan disbursement. This cash flow profile, which is formed around the requirements of a specific project, tends not to fit in institutional investors' portfolios. These investors prefer to have certainty on the timing of cash flows of an asset.

As a result, when institutional investors get involved in this type of ECA covered transactions, they tend to do so when the loan is fully drawn and already in repayment. However, this raises the issue of additionality for impact investors. Financing a secondary transaction is only additional if the freed-up capital is used to finance another equally impactful transaction. However, there is no guarantee that the bank will not use the freed-up capital to invest in a distinctly different direction; targeting an oil and gas transaction, for example.

Commercial loan

Impact investors could also invest in the commercial loan of an ECA transaction. By doing so they address the market failure at the heart of the export finance market and ensure that their capital is (i) truly additional, (ii) meaningfully catalytic and (iii) actually maximizes the transaction's impact.

ADDITIONALITY

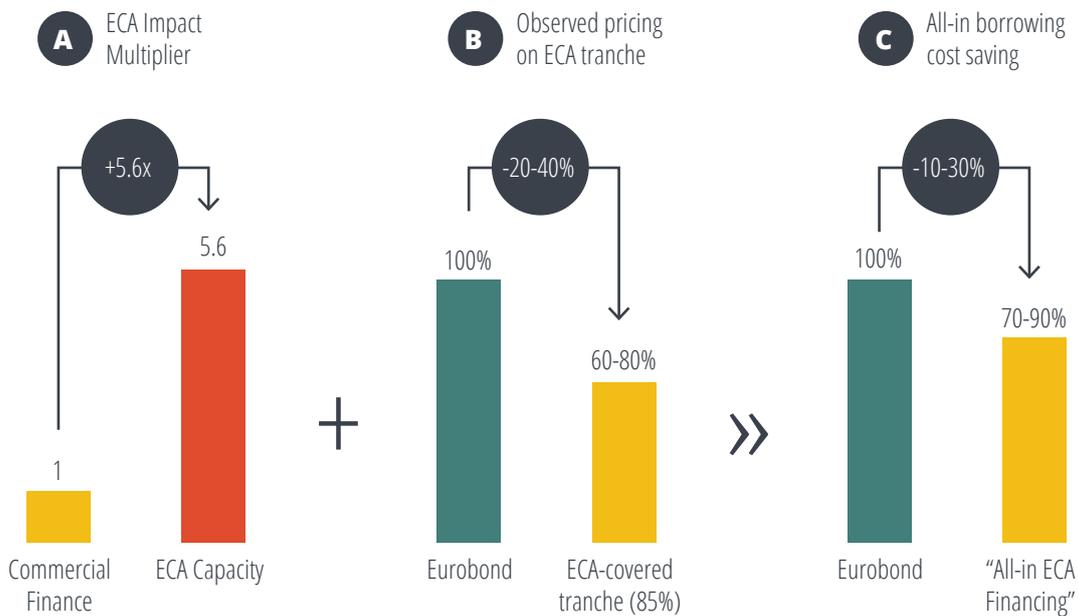
The involvement of an ECA often implies that pure commercial financing on market terms is not available or only available at terms that would be too prohibitive for closing. In addition, given that many projects struggle to achieve financial close because of lacking commercial loan finance availability, the involvement of impact investors on this tranche can help ensure they are truly additional. **By supporting impactful transactions in this market, impact investors provide actual, incremental contribution to environmental and social outcomes.**

CATALYTIC: ECA FINANCE AS A BLENDED FINANCE INSTRUMENT

A. By providing a loan for the required 15% or more financing tranche, impact investors can unlock public sector support in the form of an ECA

guarantee and mobilize up to 5.6x the amount of impact capital invested. Unlike most blended finance structures, it is the 15% commercial finance that unlocks a significant amount of public support, through the ECA guarantee.

FIGURE 10: IMPACT MULTIPLIER EFFECT OF ECA TRANSACTIONS



B. In addition, the use of an ECA facility allows funders of the ECA covered tranche to pass on some of the credit enhancement provided by the ECA to the borrower in the form of cheaper funding costs. For a Sovereign borrower, the observed pricing on an ECA tranche is anywhere between 60-80% of the equivalent Eurobond, providing a particularly attractive source of financing. This is especially relevant for public sector borrowers who have limited resources and can redeploy the interest expense savings to other public services.

C. The commercial tranche is normally priced on commercial terms, in accordance with prevailing market practices. However, given the relative attractiveness of the ECA-covered tranche, the blended cost of financing for the borrower is still significantly lower than the equivalent Eurobond.

BOX 13

'HALO' EFFECT OF PARTICIPATING IN AN ECA TRANSACTION

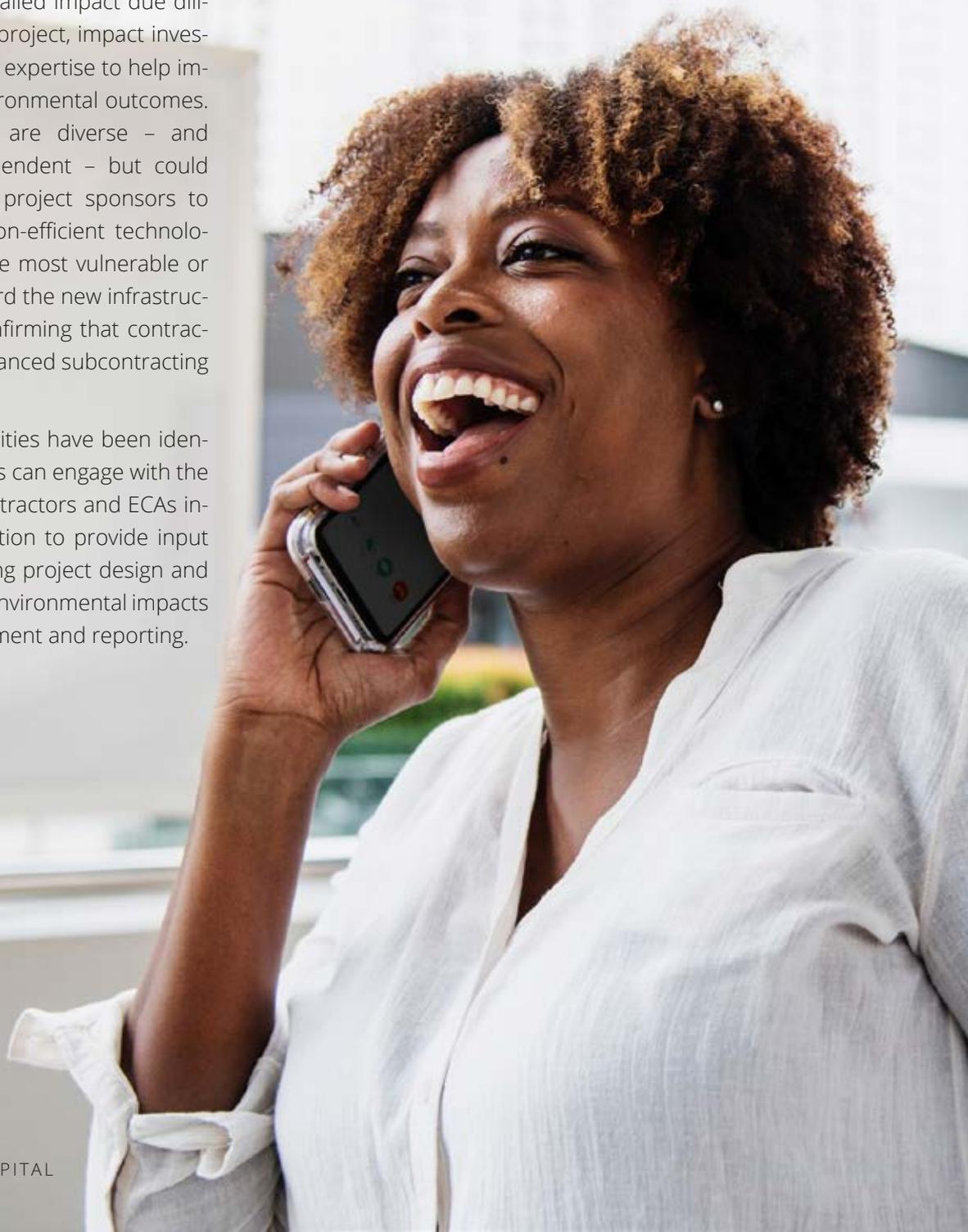
In sovereign transactions, investors providing capital on the commercial tranche of an ECA transaction benefit from what is sometimes called the *halo* effect of being in the same lending facility as an ECA. Indeed, most commercial loans benefit from a cross-default clause into the ECA-covered tranche. This means that borrowers cannot selectively default on the smaller commercial debt tranche without also triggering a default on the ECA-covered tranche.

In a situation of borrower default, commercial lenders often rank pari-passu to lenders on the ECA tranche. In addition, ECAs will become directly involved in the default discussions, leveraging their 'official' status and wider credit relationship with the borrower.

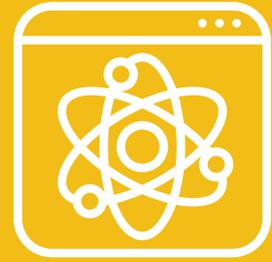
MAXIMIZE TRANSACTION IMPACT

When conducting detailed impact due diligence on a potential project, impact investors can provide their expertise to help improve social and environmental outcomes. These opportunities are diverse – and certainly project dependent – but could include encouraging project sponsors to switch to more carbon-efficient technologies, ensuring that the most vulnerable or marginalized can afford the new infrastructure services and confirming that contractors make gender-balanced subcontracting and hiring decisions.

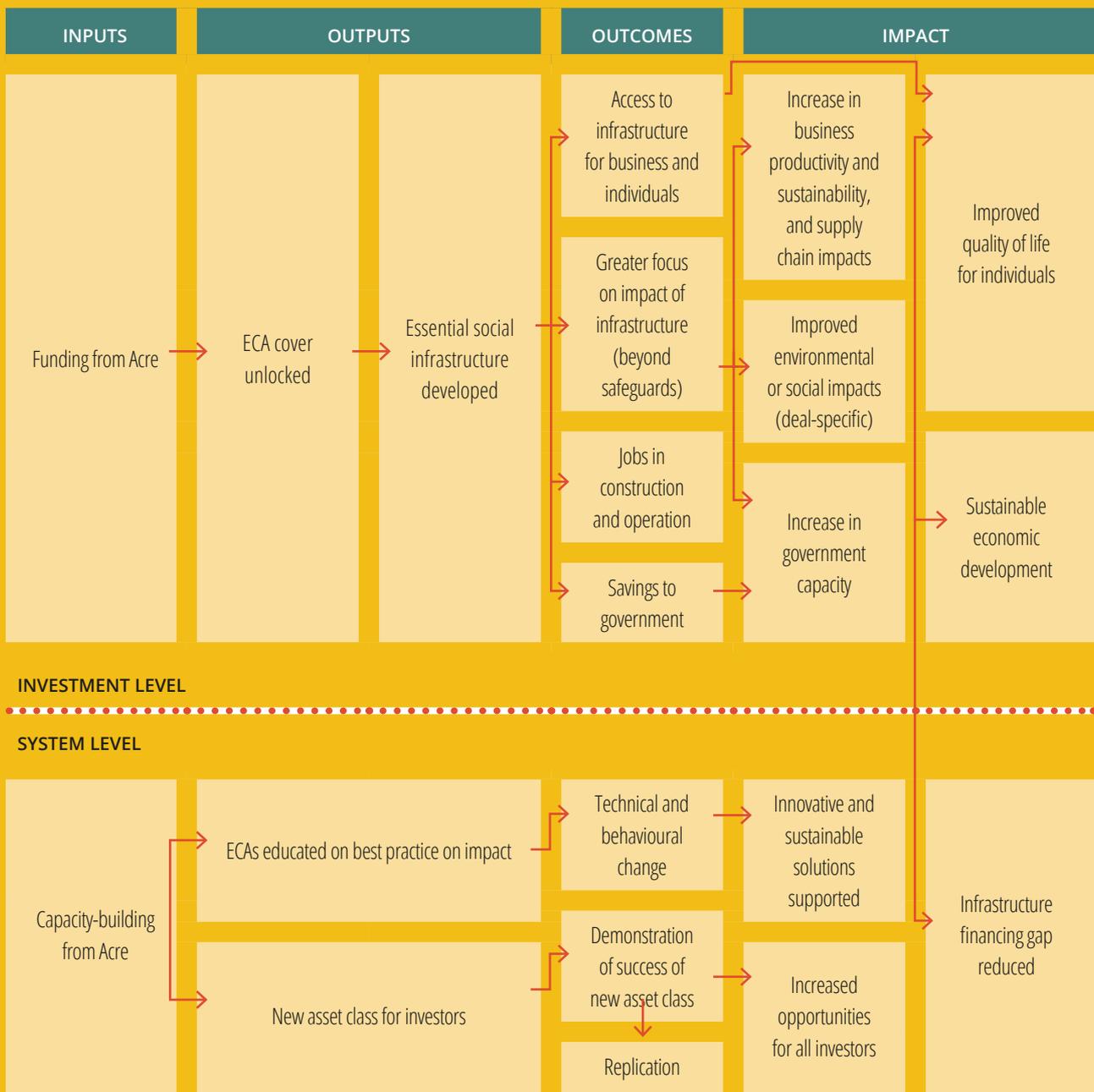
Once these opportunities have been identified, impact investors can engage with the project sponsors, contractors and ECAs involved in the transaction to provide input and assist in improving project design and maximize social and environmental impacts and related measurement and reporting.



ACRE'S THEORY OF CHANGE



Acre has developed a Theory of Change which outlines the envisaged impact of its investing activity. The impact is expected to be both project specific and systemic. By creating a new asset class for institutional investors, Acre aims to grow the export finance for impactful transactions and ultimately contribute to closing the infrastructure financing gap in Africa.



EXAMPLE OF PROJECT DESIGN IMPROVEMENTS

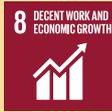
This example highlights how a basic road infrastructure project in a rural area in a Southern African country can be improved to maximize impact. The actual parties to the transactions have been disguised for confidentiality.

THE PROBLEM

In a predominantly rural area, the municipal government identifies the rehabilitation of the main road network serving the capital as a priority development project. The poor state of the road and adjacent feeder roads poses a number of developmental challenges:

- Limited movement of people and goods, in particular agricultural goods and inputs, leading to low agricultural productivity.
- Limited movement of people in the rainy season, impacting access to healthcare and education for children.
- Limited adjacent infrastructure (e.g., power and telecommunications).
- Unrealized potential for tourism and related conservation benefits, particularly in the national park area.

While the project's aim is to develop the road network, a number of enhancements to the project have been considered to maximize impact and contribution to the SDGs. These enhancements are achievable with only marginal incremental costs to the parties, while delivering significant benefits. These are mapped below:

Expected Benefit	Description	Tentative SDG Mapping
Employment	<ul style="list-style-type: none"> • Job creation for the local population throughout the duration of the project: <ul style="list-style-type: none"> – Contractor commitment to employ 30% of women and youth – Contractor commitment to provide educational training to staff, leading to formal qualification at the end of the projects 	 
Economic development	<ul style="list-style-type: none"> • Eco-Tourism: <ul style="list-style-type: none"> – Improved access to naturally rich areas (e.g. national parks) – Staff accommodation to be donated to the local municipality will be transformed into a new lodge • Agriculture <ul style="list-style-type: none"> – Faster and reliable access to the capital opens the potential to grow a greater variety of crops such as maize, cotton, sugar cane, sweet potatoes, beans, etc. 	
Health and education	<ul style="list-style-type: none"> • Health education <ul style="list-style-type: none"> – HIV/AIDS education provided to employees as part of the "Health & Safety" sessions • Access to education: updated road network will facilitate the easy transportation of children/teachers to schools • Creation of schools and medical clinics: <ul style="list-style-type: none"> – Camps created for the project workforce to be converted into schools and medical clinics by the local municipality 	 
Water and biodiversity	<ul style="list-style-type: none"> • Creation of boreholes every 10 km (26 boreholes). These boreholes will solve for approx. 25% of the deficit of potable water for residents and cattle in the District • Minimizing interaction between wild animals and cattle (currently taken to the local river) will preserve biodiversity 	 

CONCLUSION

With only ten years left for the achievement of the Sustainable Development Goals and 8 years left on the carbon clock for a 1.5°C scenario, there is an urgent need to deploy capital efficiently to address these challenges. In Emerging Markets, the financing gap to achieve the SDGs is estimated to be \$2.5 trillion, a significant proportion of which is needed for infrastructure investments. It is clear that public sector purse strings will not be sufficient to address the gap.

By leveraging public sector and philanthropic development capital, blended finance can mobilize significant commercial sources of finance for the achievement of the SDGs. There is a flurry of blended finance innovation, with market participants experimenting with a range of instruments including grants, insurance, guarantees, first-loss mechanisms, etc.

Export finance receives only a cursory mention in the global development conversation. Yet, it could be considered the *original* blended finance instrument, with a one-hundred-year track record of delivery in emerging and frontier market. Over time, ECAs have refined a set of practices that enable them to deliver debt finance responsibly. These include ensuring that the borrower can afford to take on additional debt, ensuring that environmental, social and human rights risks are well mitigated and ensuring strong compliance and an effective use of proceeds. This is achieved while providing the emerging markets borrowers with significant cost savings over available market terms, thanks to the ECA cover.

Given the market gaps described in this paper, the participation of impact investors in the export finance market would deliver additionality to existing market participants, enabling the funding of projects that otherwise would not come to fruition. Crucially, impact investors will help unlock additional private sector finance with an attractive 5.6:1 mobilization ratio. This will ultimately contribute meaningfully to closing the infrastructure financing gap in Africa and support the achievement of the SDGs.



TERM GLOSSARY

AfDB	African Development Bank
AML	Anti-Money Laundering
AU	African Union
CIRR	Commercial Interest Reference Rate
DFI	Development Finance Institution
ECA	Export Credit Agency
EDC	Export Development Canada
ESG	Environmental, social and governance
ESIA	Environmental and Social Impact Assessment
FDI	Foreign Direct Investment
GBP	Green Bond Principles
GDP	Gross Domestic Product
GFC	Global Financial Crisis
ICC	International Chamber of Commerce
ICMA	International Capital Markets Association
ICT	Information and communication technology
IFC	International Finance Corporation
IMF	International Monetary Fund
KEXIM	Exim-Import Bank of Korea
KYC	Know your customer
LC	Letter of Credit
LGD	Loss given default
MDB	Multi-lateral development bank
OECD	Organization for Economic Cooperation and Development
PPI	Private Participation in Infrastructure
PPP	Public Private Partnerships
RWA	Risk Weighted Assets
SBG	Sustainable Bond guidelines
SBP	Social Bond Principles
SDGs	Sustainable Development Goals
SSA	Sub-Saharan Africa
UKEF	UK Export Finance
UN	United Nations
UNECA	United Nations Economic Commission for Africa

APPENDIX

FY 2018 Export Finance Sustainability League Tables

FINANCIAL INSTITUTIONS

		\$m	No	Share (%)
1	Banco Santander	927	21	6.7%
2	KfW IPEX	851	9	6.1%
3	ING Bank	729	10	5.3%
4	Société Générale	726	8	5.2%
5	Rabobank	606	5	4.4%
6	MUFG Bank	540	8	3.9%
7	Credit Agricole	472	5	3.4%
8	CaixaBank	454	3	3.3%
9	HSBC	433	5	3.1%
10	Nord/LB	429	1	3.1%
11	SMBC	408	7	2.9%
12	Natixis	358	3	2.6%
13	Commerzbank	338	3	2.4%
14	Sumitomo Mitsui Trust Bank	338	3	2.4%
15	The Norinchuckin Bank	319	2	2.3%

ECAS

		\$m	No	Share (%)
1	EKF	5,135	20	38.6%
2	China Exim	2,720	2	20.5%
3	JBIC	1,487	5	11.2%
4	India Exim	661	4	5.0%
5	Euler Hermes	658	5	4.9%
6	Sinosure	406	3	3.1%
7	Bpifrance	394	4	3.0%
8	Atradius	261	4	2.0%
9	KEXIM	256	2	1.9%
10	BANCOMEXT	174	3	1.3%
11	ECGC	170	2	1.3%
12	SACE	166	3	1.2%
13	ICIEC	152	1	1.1%
14	Sace	146	2	1.1%
15	Cesce	143	17	1.1%

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AC ACRE
IMPACT
CAPITAL