

Chapter 7 Partnering with Africa

FINANCE IN AFRICA

Unlocking investment in an era of digital transformation and climate transition

Chapter 7 **Partnering with Africa**



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About the EIB Economics Department

The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The department and its team of economists is headed by Debora Revoltella, director of economics.

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Chapter 7

Partnering with Africa

The European Investment Bank's work in Africa

The European Investment Bank (EIB) has a global reach, with operations in more than 140 countries beyond Europe – including most African countries – building on decades of development experience. The EIB has been investing in Africa since 1963, financing a range of projects that support sustainable economic development. In the current period of geopolitical fragmentation and uncertainty, Europe's partnership with Africa is vital and must be strengthened. EIB Global is a specialised EIB directorate established in 2022 that is devoted to financing investments beyond the European Union. It focuses on delivering EU development priorities in line with the Sustainable Development Goals and climate goals, including through operations that improve access to vital infrastructure, health, climate, food security, jobs and sustainable and inclusive economic and social development.

The EIB delivers all its investments through partnerships, and typically does not fund more than half of a project's total cost. EIB Global, as part of Team Europe, works with the European Commission, the European External Action Service, and other European development finance institutions in funding flagship projects under initiatives such as the EU Global Gateway and the global climate transition. For example, the EIB supported the supply of COVID-19 vaccines for low- and middle-income countries eligible under the European Commission's European Fund for Sustainable Development, with many African countries benefiting from this initiative.

EIB Global is strengthening its engagement and cooperation in Africa. In 2023, EIB Global opened regional hubs in Cairo, Egypt, and Abidjan, Côte d'Ivoire, allowing for closer ties with private and public partners across Africa. The EIB has six regional hubs globally, of which four are in Africa. The Bank's financing arrangements beyond the European Union were worth €8.4 billion in 2023, with Africa attracting 37% of this financing, at €2.5 billion in sub-Saharan African and €0.7 billion in North Africa (Table 1).

The EIB Global Impact Report 2023/2024 shows that more than half of the projects signed beyond the European Union in 2023 contributed to climate action and environmental sustainability, one of the EIB's four key public policy goals.¹ In Africa, given the broad spectrum of financing requirements, financing by the EIB was less heavily concentrated on climate and was instead directed to other vital areas. For example, private sector development remains a priority in Africa; about a third of EIB financing targets this sector, focusing on growth, job creation and supporting smaller firms (Figure 1).

There are encouraging signs in Africa, with growth accelerating, macroeconomic imbalances declining and access to financial markets improving. However, although many African economies are showing considerable dynamism, poverty levels remain extremely high – 400 million people are estimated to be living in extreme poverty ² – and African countries face challenges in achieving their full potential. Currently, only 65% of the population in sub-Saharan Africa can access basic drinking water services, and only 33% have access to basic sanitation and public transport, meaning investment in vital infrastructure is needed. The EIB directs financial support where it is needed most. Around 72% of EIB lending to Africa in 2023 (78% for sub-Saharan Africa) reached the countries with the greatest need: least developed countries and fragile or conflict-affected countries.

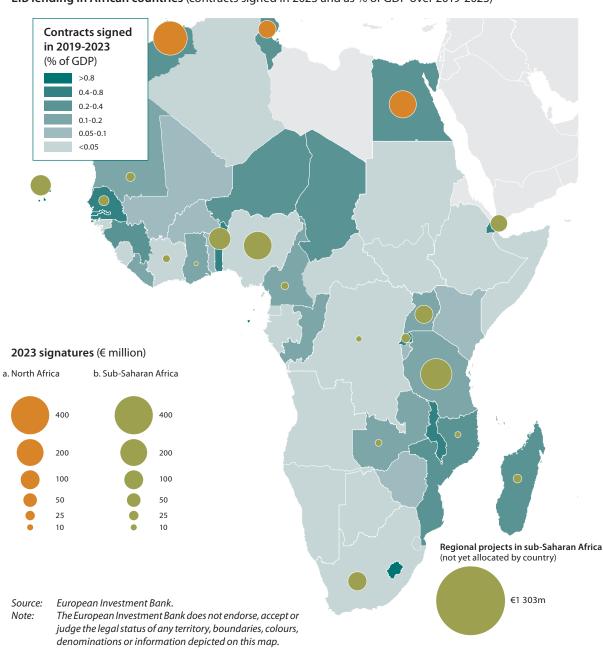
See Table 1 on page 6 of the EIB Global Impact Report 2023/2024 for more details on the share of financing directed to the four different public policy goals.

² World Bank (2022). "Poverty and shared prosperity 2022: Correcting course." Washington, DC: World Bank.

Table 1
Value and expected outcomes of projects financed by the EIB in Africa in 2023

Signed in 2023	Key expected results of new projects
	1.66 million people with access to safe
€3.1 billion	drinking water
E3.1 DIIIIOII	115 800 new connections to electricity
	networks
Climate action and	614 000 jobs sustained in micro, small and
environmental sustainability: 32%	medium-sized enterprises and mid-cap firms

Figure 1 EIB lending in African countries (contracts signed in 2023 and as % of GDP over 2019-2023)



Jobs and inclusive growth

Businesses play a critical role in the development and economic convergence of low-income countries with high-income countries. Through investment, businesses can increase productivity levels, which is essential for reducing poverty and raising standards of living. In addition, the ability of businesses to create jobs for those entering the workforce and opportunities for women and men is crucial for the development of more inclusive societies. However, access to finance is a key constraint on businesses, as demonstrated in Chapter 2.

EIB Global supports businesses through credit lines that allow local banks to extend credit to small and medium-sized enterprises and some mid-cap companies that the local banks would otherwise not reach. They do this by passing on more favourable terms and conditions, such as longer loan tenors. In addition, credit lines to microfinance institutions help these institutions expand their outreach to very small and mostly informal companies, aiding microentrepreneurs in building and improving their businesses. Investment in private equity, infrastructure and venture capital funds provides much needed expertise and risk capital to green and sustainable projects and carefully selected businesses with high growth potential, developing solutions with a high degree of replicability across Africa.

As an example of this support for businesses, two EIB credit lines – one to a bank in Rwanda and one to a bank in Benin – were fully allocated in 2023. These credit lines resulted in 60 loans worth a combined €50 million directed at local companies, with 56 of these loans going to small and medium-sized enterprises. The average tenor of the loans to small firms was four years. As reported in Chapter 3, loans to small and medium businesses are often less than two years in duration, so these 56 loans represent a marked improvement in the long-term financing available to these firms. The loans are estimated to have created more than 4 100 permanent jobs in the local economy.

EIB Global's support for private sector development also focuses on disadvantaged groups and genderresponsive investments, with operations in 2023 supporting the economic empowerment of women entrepreneurs, young people and farmers in Tanzania, Mauritania, Mozambique, Uganda and Nigeria.

Rising to the challenge of climate adaptation

Adaptation to better manage the effects of climate-related migration is crucial for protecting economies and millions of lives. Severe heatwaves, deadly wildfires, violent storms and devastating floods swept across many areas of the world in the summer of 2023, which was the hottest summer on record.³ These extreme weather events – caused by climate change – threaten food security, communities, infrastructure, natural resources and entire ecosystems, and have displaced millions of people worldwide.

For least developed countries, the EIB is extending financing of up to 100% of the cost of climate adaptation projects. For example, the Bank is working with local banks in Côte d'Ivoire, Senegal and Zambia, and in a partnership with the International Fund for Agricultural Development, to finance smallholder farmers who adopt climate-resilient practices. Further loans to Nigeria will improve the climate adaptation and resilience of agricultural value chains; for example, through upgrades to rural roads and agrologistics centres.

At the Europe-Egypt Energy Interconnectivity event in May 2023, EIB Global unveiled new support for the Egypt Green Economy Financing Facility, which provides financing for business investment through local financial partners. This initiative will enable companies across Egypt to invest more in reducing energy and water consumption, improving product quality and increasing competitiveness. In Morocco, EIB Global is supporting the Moroccan forestry strategy aimed at restoring more than 600 000 hectares of forest ecosystems, combating soil erosion, regulating the flow of water, and increasing returns from forestry and tourism. The EIB-financed component will afforest 55 000 hectares, creating more than 6 800 permanent jobs.

³ NASA Announces Summer 2023 Hottest on Record — NASA.

Supporting vital infrastructure

EIB Global is financing the first electricity interconnector between Tunisia and Italy, ELMED. ELMED is a strategic link encompassing a 200 km submarine cable between the Cap Bon Peninsula in Tunisia and the Italian island of Sicily. The link will spur the development of renewables and optimise the use of resources by allowing the import and export of surplus supply, improving the security of supply and increasing the operational flexibility of both electricity systems. The project contributes to the Global Gateway priorities and climate goals. Eventually, the cable will provide Tunisia with the possibility of exporting renewable energy to Europe.

In addition to financing the largest independent wind power producer project in Africa – the 310 MW Lake Turkana wind farm in Kenya (2014) – the EIB played a pivotal role in funding the first independent wind power producer project on the continent: the Cabeólica wind farm in Cabo Verde (2010). The Cabeólica project involved the development, construction and operation of four wind farms across the islands of Santiago, Boa Vista, Sal and São Vicente, with a total installed capacity of 27.2 MW. Currently, the EIB is supporting the expansion of the wind farm on Santiago island, which is expected to include a 13.5 MW capacity increase and battery energy storage systems that will enhance the reliability and stability of the energy system.

EIB Global remains committed to promoting private sector engagement in renewable energy generation. In recent years, the EIB has financed pioneering, competitively tendered, renewable energy projects in the region, including those in South Africa, Zambia and Senegal. The resulting tariffs demonstrate the marked decline in renewable energy prices brought by the competitive process, which ultimately benefit local consumers. The tariffs yielded by the tenders in Zambia and Senegal were exceptionally low.

The EIB is providing €90 million of financing for the AFR-IX Medusa cable system, a submarine data cable network interconnecting five European countries (Portugal, Spain, France, Italy and Cyprus) with four North African countries (Morocco, Algeria, Tunisia and Egypt). In addition to improving access to digital services for consumers and businesses, the system will stimulate innovation and research in the region, with around 500 universities, education institutes and research centres and about 4.5 million students expected to benefit from the project.

The EIB is also investing \$40 million in the ACRE Export Finance Fund, an infrastructure fund that provides credit financing to projects in Africa in the sectors of renewable energy, health, food and water scarcity, and green transportation. The fund will implement a first of its kind investment strategy by providing unsecured commercial loans to complement long-term loans provided by international banks that are guaranteed by export credit agencies. The fund aims to raise \$200 million and finance up to 15 projects.

A boost for African startups

In partnership with the African Development Bank, and with support from the European Commission and the Organisation of African, Caribbean and Pacific States, the EIB launched the Boost Africa investment programme in 2020 with the aim of strengthening the nascent African venture capital market. The initiative combines financing via venture capital funds with technical assistance to new venture capital fund managers and African startups. By unlocking the entrepreneurial potential of Africa's young population, the programme should spur private sector growth on the continent, alleviate poverty through the creation of jobs and advance achievement of the Sustainable Development Goals. The programme focuses on fundraising targeting more fragile countries.

Financing under the Boost Africa programme has already reached 32 startups that are active across the continent. These companies are mainly headquartered in Nigeria and Kenya, which are two of the most prominent African startup hubs, but investee companies also conduct business in an average of three additional African countries. Fintech is a major area of focus, with 13 startups active in this sector. The next most important sector is logistics and transport, featuring four active Boost Africa investee companies.

Through Boost Africa, investee companies also secure more financing than startups outside the programme. Almost 94% of Boost Africa-backed founders have raised more than \$1 million, whereas only 52% of other founders have achieved this.

Advisory activities

Working as part of Team Europe and cooperating with other international organisations, EIB Global provides technical assistance and financial advice for project preparation and implementation. In addition, EIB Global supports the development of skills for clients and other stakeholders. Besides enhancing the quality and sustainability of projects, the Bank's advisory work also improves the efficiency of implementation. EIB in-house experts design and manage the advisory programmes, often with support from external service providers or other institutional partners for technical assistance and activities that develop specific skills. Examples of some of the impactful activities of EIB Global advisory services in researching, designing and carrying out projects are outlined below.

Unblocking project delivery in the Maghreb: Based on an internal assessment of the EIB lending portfolios in Tunisia and Morocco, the Bank has deployed a consultancy team under the Economic Resilience Initiative's envelope for technical assistance. Consultants are working with project promoters and implementation units to address implementation bottlenecks, based on priorities defined by the involved parties.

Developing strategies and project pipelines for African cities: EIB Global's African Sustainable Cities Initiative is a €7 million technical assistance programme helping secondary cities in up to four African countries prepare municipal investment plans for sustainable urban infrastructure. The programme aims to strengthen municipal capacity for raising finances and developing priority projects through private sector investments. In 2023, Côte d'Ivoire became the first beneficiary.

Coupling advisory services with blended finance: Developing clean, climate-friendly and energy-efficient solutions in Africa is the goal of the Demand-Side Management, Social Infrastructures and Renewable Energy Expansion (DESIREE) programme. Some of the projects will benefit from blended financing through technical assistance, investment grants and credit enhancement instruments under a dedicated envelope funded by the European Commission. The first, in 2023, was a €20 million loan for the West Africa Rural Electrification Expansion project.

Sharing knowledge on green financing: The Greening Financial Systems technical assistance programme provides advisory services to central banks and financial intermediaries to enhance climate risk management and scale up green investments, with the overall objective of promoting net zero and climate-resilient financial systems. A fast start in 2023 saw the approval of assignments in Armenia, Ethiopia, Georgia, Kenya, Nigeria, North Macedonia and Rwanda. The programme is supported by Germany under the International Climate Initiative (IKI) fund.

Preparing projects on climate-smart sustainable agriculture and food production: In partnership with the Food and Agriculture Organization of the United Nations Investment Centre, another advisory programme is aiming to deliver bankable projects along the agriculture and bioeconomy value chains targeting small and medium-sized enterprises, corporates and the public sector. The technical assistance focuses on climate resilience and risk mitigation and addresses basic needs for food security, rural development, improving farmers' incomes and creating jobs to overcome current demographic challenges and promote the empowerment of women.

Supporting trade and competitiveness: EIB Global is advising financial intermediaries and businesses on developing financial products and bankable investments that will promote sustainable value chains in sectors such as food, agroindustry, manufacturing, services and tourism. Compliance with EU standards for export to the EU market is a key topic. Technical assistance has already been provided in Egypt, Tunisia and Morocco.

Promoting the economic empowerment of women: In 2023, two technical assistance programmes promoted access to finance for women entrepreneurs in sub-Saharan Africa. The African Women Rising Initiative worked with nine financial intermediaries from Côte d'Ivoire, Rwanda, Senegal and Uganda to help improve and extend both their financial and non-financial services for women. The initiative saw the number of loans to women rise by over 30% across the portfolio in the space of a year. Advisory support was further provided to complement the EIB's financing of the Women's Entrepreneurship Development Project (WEDP). The programme worked with 17 financial intermediaries in Ethiopia to enhance their capacity to serve women entrepreneurs.

Developing knowledge: The EIB and the International Monetary Fund, through their development partnership, created the online course Financial Development and Financial Inclusion, FDFIx for training government officials and financial intermediaries on financial inclusion and access to finance, particularly for micro, small and medium-sized enterprises. Since its launch in 2019, the course has served almost 10 000 active participants (of which more than 5 500 took the final test) from 70 countries across five continents.

With operations in more than 140 countries, the EIB Group's reach is global. For more information on the EIB's activities in Africa and other regions of the world, please consult the EIB Global Impact Report 2023/2024.

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