

# EFSE's approach to managing impact and sustainability

EFSE's mission is to foster economic development and prosperity in Southeast Europe and the EU Eastern Neighbourhood Region. It pursues this by channelling responsible financing to micro and small enterprises and households and by strengthening the systems that surround and enable local entrepreneurs and families. In this way, the fund pursues its ultimate impact target of supporting jobs and income generation as well as improving living conditions. EFSE further strives for systemic impact by contributing to strengthening the financial sector serving those target groups, as well as empowering entrepreneurship by building skills along with access to resources and opportunities.

## READ MORE

about EFSE's approach to impact & sustainability, including our sustainability-related disclosures in line with the requirements of the SFDR, at: <https://www.efse.lu/impact-sustainability>

EFSE takes a comprehensive approach that combines dedicated debt financing with tailored technical assistance and capacity building. Working through local financial intermediaries has shown to be particularly effective in building outreach, strengthening systems, and creating impact at scale. In addition, EFSE advances strategic issues to strengthen its target regions' financial markets, such as local currency financing.

This approach is supported by an impact management system that combines managing and mitigating potential negative outcomes with enhancing positive impact. These aspects are integrated into the fund's investment cycle: from setting the objectives in core strategy and policy documents and thorough screening of potential investees – including their alignment with fund objectives and capacities to deliver impact – to continuous monitoring and management once capital has been deployed.

In line with its goal to boost the availability of responsible finance for its target groups, EFSE engages in long-term partnerships with its investees. Close collaboration is facilitated through the local offices of Finance in Motion, the advisor to EFSE, in EFSE's

regions of operation, and through the fund's networking and platform-building efforts; all of this contributes to knowledge sharing and scaling up good practices among partner institutions.

EFSE works towards the Sustainable Development Goals and aligns with international standards and good practices. These include the Operating Principles for Impact Management, the IFC Performance Standards, the eight core conventions of the International Labour Organization, the International Bill of Human Rights, and key responsible finance initiatives.

## Positive impact management

EFSE utilises a number of instruments and approaches to enhance the positive impact of its activities. These include specific eligibility criteria which aim to ensure that resources are actually on-lent for the intended purpose and to the intended recipients; portfolio targets, such as increasing the proportion of local currency lending; and the deployment of technical assistance to build capacity as and where needed.

## QUICK FACTS

In pursuing its sustainable investment objective, EFSE qualifies as an Article 9 impact fund in accordance with the regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR).

Assessing EFSE's impact is crucial to the fund, as it demonstrates progress towards EFSE's social objective and provides insights and learnings that inform its strategy.

EFSE tracks and reports its progress towards its impact objective based on a set of key indicators: These have been selected based on EFSE's Impact Pathway, reflecting both the direct impact on the investee (for example, by improving the financial institutions' capacity to serve the micro and small enterprise, or MSE, sector) as well as the indirect impacts on or through the investees' clients (for example sustaining and creating job opportunities in the local MSE sector).

The fund combines a range of data sources to track progress against its industry-aligned key performance indicators, including reporting by the investees on their financing activities to MSEs and households, and periodically conducted end-borrower studies. The fund also utilises third-party data for impact estimations as appropriate and in line with industry practice. EFSE's geographical proximity to investees and stakeholders through local offices supports regular on-site visits and continuous dialogue, contributing both qualitative and quantitative impact information.

# EFSE engages in long-term partnerships with its investees.

## Managing environmental & social risks

EFSE places a priority on the effective management – i.e., avoiding, minimising, and mitigating – of potential environmental and social (E&S) risks and impacts associated with its investments. To this end, the fund maintains, implements, and continuously improves on its Environmental and Social Management System (ESMS). The fund's E&S management approach is guided by the IFC Performance Standards.

E&S risks are considered throughout the investment process. E&S screening and thorough E&S due diligence processes are a key tool for identifying potentially significant adverse sustainability impacts and for assessing the capacity and commitment of EFSE's investees to address and mitigate against these impacts.

Once capital is deployed, EFSE regularly monitors the E&S performance of its partner lending institutions.

In addition, the fund prohibits the use of EFSE funding for activities with an elevated risk of causing adverse social or environmental impacts, such as those related to coal or oil and gas, activities involving child or forced labour, and those involving the destruction of high conservation value areas, among others.

# Contributing to the Sustainable Development Goals (SDGs)

EFSE's activities have been mapped towards the Sustainable Development Goals (SDGs) at an SDG target level, based on which 6 have been selected as core SDGs.



EFSE contributes to eradicating poverty by meeting the basic financing needs of micro and small enterprises and low-income households.



EFSE helps improve agricultural productivity and the livelihoods of small-scale food producers through secure and equal access to financial services.



EFSE contributes to economic development and job creation by enabling entrepreneurs to establish and grow businesses through, for example, tailored financial services, mentorship, and strong ecosystems that support entrepreneurship.



EFSE contributes to inclusive and sustainable industrialisation by upgrading small-scale enterprises through improved access to finance and innovative solutions.



EFSE contributes to the economic inclusion of all by sustaining and growing business income among marginalised entrepreneurs.



As a pioneer in blended finance, EFSE contributes to bringing together public and private investors for sustainable development.