

FINANCE UNITED: Impact Investors, financial service providers, and the SDGs

The Microfinance Enhancement Facility case study

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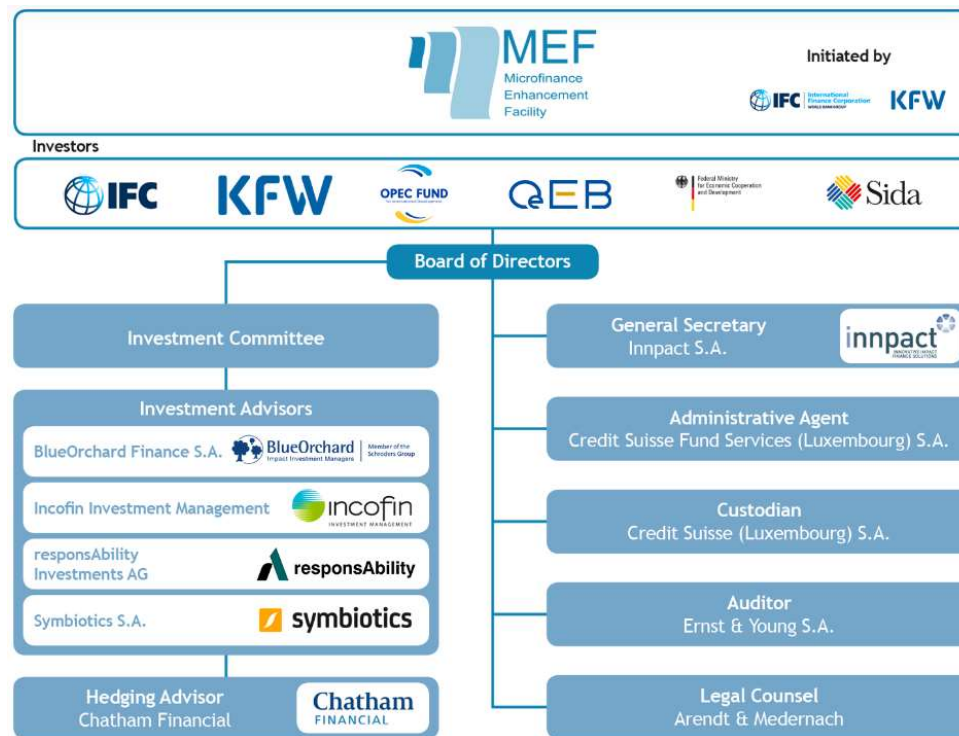
Moderator: **Cécile Lapenu** (CERISE)

30 September 2022





MEF - The Microfinance Enhancement Facility



Innpact

At the forefront of impact investing

15
years TRACK RECORD



32 FUNDS SUCCESSFULLY DESIGNED AND/OR SETUP



50+ IMPACT FINANCE EXPERTS IN LUXEMBOURG, MAURITIUS AND EUROPE



\$8+ bn TOTAL IMPACT INVESTMENTS DESIGNED AND ADVISED



As a mission driven company we believe in business as a force for good and are certified B Corp since 2015

innpact

150+

IMPACT FINANCE PROJECTS AND INNOVATIVE SOLUTIONS



Impact Strategy & Structuring

Fund Management Services

AIFM Services

Board Advisory Services

Fund Management in Mauritius

Impact Management, SFDR & Taxonomy

Independent Directorship Services

Investment Services

RESPONSABILITY IN NUMBERS

2003
founded

USD 3.6
billion
Assets under
Management (AuM)

89%
AuM
private debt

11%
AuM
private equity

>USD 12 billion
invested since
inception

7
offices
worldwide

288
high impact
portfolio companies

234
employees
worldwide

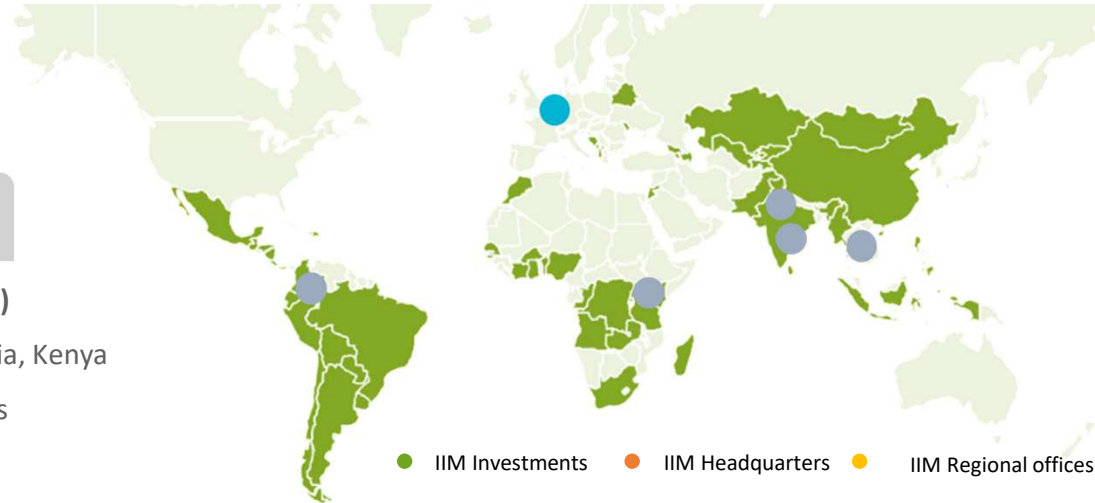
75
investment
countries

- We invest for impact to drive inclusive progress and sustainable transitions

About Incofin IM

¹Alternative Investment Fund Manager

- Leading AIFM¹ licenced **global impact Investment firm (USD 1.4bn AUM)**
- Headquartered in Belgium, with **local teams** in India, Cambodia, Colombia, Kenya
- Sector focus in **agri-food, financial services, drinking water** for 20+ years
- 90+ global team members, 50+ **emerging market investment specialists**
- Experts in **equity, debt** and **technical assistance**



Our investors



Key figures

19%

AuM growth over the last decade

Direct investments in **187**
companies across **50**
countries

USD 4 bn

invested since inception

USD 8.1 m

invested in TA
projects

151

TA projects
completed



Impact



50 million end-beneficiaries

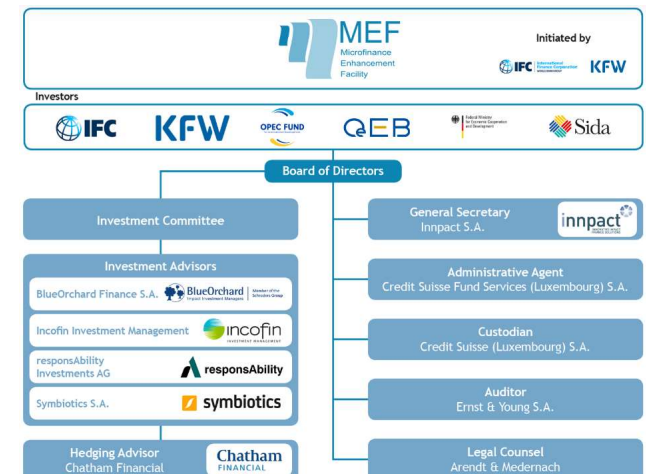
61% women active clients

66% rural active clients

Innpact's role with the MEF



INVOLVED SINCE THE BEGINNING	Innpact has accompanied the fund initiators through the whole design, set-up and implementation process of the fund
PROVIDING ONGOING SUPPORT	to the governing bodies, the initiators and the investors
OVERALL MANAGEMENT OF THE FUND	legal matters, regulatory, budget, compliance, audit, risk management, reporting, publications
INCLUDING PORTFOLIO MANAGEMENT	coordination of the four investment advisors, organisation of IC meetings, compliance with fund's limits and strategy ...
ONGOING ENHANCEMENT	organisation, operations, reporting, strategy, ESG and impact management



KfW perspective on implementing impact principles

- Individual investment more likely to be in compliance with these standards, decreasing risks
- Ability to fulfill our fiduciary duty
- Guarantee of adherence and quality of the investment by pushing the standards

Incorporating IS-FSD, the view of ResponsAbility

- **Strategy**
 - 3 impact strategies identified for each fund/product; each strategy is structured along IMP 5 dimensions
 - ESG standards applied throughout investment process
- **Impact Management Approach**
 - Impact scoring (or equivalent) for each strategy integrated into origination structure
 - Impact management carried out in line with OPIM 9 principles
- **Transparency**
 - Impact reporting using industry-recognized metrics
- **Governance**
 - Full transparency on processes disclosed on our website

Supporting standardization for impact measurement, the process of Incofin



- We believe that to achieve our impact goals, we need to implement responsible investment standards. Our approach and process are already following the spirit of the IS-FSD.



- Universal Standards have been embedded in our impact measurement process since day 1.



Social & Environmental Audit tool

- 4 levels of engagement with ALINUS:
 1. Screening (eligibility criteria)
 2. Due diligence
 3. Monitoring
 4. Reporting

Use of reporting aligned with the Universal Standards by ResponsAbility

- Advantages of ALINUS
 - Useful guide to best practice regarding metrics and questions to ask
 - Online portal relatively intuitive, training material available
 - Alignment of questions helpful for investees
- Challenges
 - Limits ability to ask additional questions
 - Very focused on MF – not as tailored to SME finance or hybrid MF/SME institutions
 - Quite lengthy in terms of questionnaire
 - Requires basic training on use of portal for investee

Why did Innpact recommend the ALINUS tool?

A SPECIFIC CONTEXT

2019: 10 years of operations

MEF was a \$700M fund, Top 5 MIVs, worldwide outreach, 4 investment advisors, \$200M+ disbursed with around 75 deals every year

In a context of positive development for the microfinance sector

- Maturity of the microfinance sector
- Positive impact & success stories
- But also ongoing topics (e.g. digitalisation, gender-lens)

But also criticism

- Eg. Client protections, over indebtedness
- Lack of transparency and comparability
- Positive impact of microfinance being questioned
- Increasing focus on ESG and impact measurement and reporting
- Increasing regulatory environment
- Reporting burden

IN THIS CONTEXT how the MEF as major PPP MIV investing worldwide could promote best practices in terms of reporting efficiency and transparency and play a catalyzer effect

Innpact analysed

- Existing tools, initiatives, working groups and how the MEF could play a more active role
- How the MEF could improve its data collection process, its reporting framework and be more transparent

In parallel

- ✓ more advanced discussions with Cerise took place
- ✓ Innpact analysed how many existing FIs were already using ALINUS result was around 40%
- ✓ Innpact analysed the impact on the fund's operation

→ Decision to start using ALINUS

MEF : using standard framework of ALINUS for reporting



Using ALINUS combined with the expertise of CERISE allows MEF

To report on “traditional” datapoints

MEF IMPACT AT A GLANCE
as of 31 December 2021

640,000
Final borrowers reached by MEF funding

1,453 Average
2,466 Median
Loan size to final borrowers

84%
Women

56%
Rural

MICROFINANCE
LuxRAIG Microfinance Label since 2011

Operating Principles for Impact Management
Signatory of the Impact Principles since 2021

MEF contributes to the following SDGs



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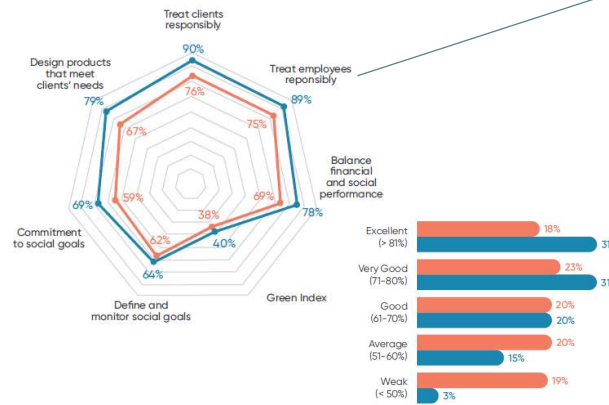
To benchmark its portfolio

MEF Portfolio

Average SPI4-ALINUS score

73% | 63% CERISE global benchmark

71% in 2020 | 57% in 2020



To provide more detailed analysis per dimension

Dimension 4 | Treat clients responsibly

Average D4 Score
90% | 76%*
89% | 71% in 2020

*MEF score compared to global benchmark

MEF Partner MFIs are particularly strong in client protection practices (90% for D4 | compared to 76% for their peers). This is consistent with previous years' findings, which is evident by the similar scores in 2020 (89% for D4 | compared to 71% for the benchmark).

A closer look at the indicators shows a strong performance on adherence to Client Protection Principles (CPPs):

- Client protection is a strong focus for MEF's investment advisors in selecting and encouraging microfinance investees, as CERISE notes as well.
- The careful analysis and commitment to client protection issues is observable in the high scores and good practices reported by MEF Partner MFIs, such as MFIs with a CPP-compliant Code of Conduct (86% | compared to 71%); MFIs with a CPP-compliant anti-discriminatory policy (59% | compared to 52%); MFIs that inform their clients how their data is used and shared (85% | compared to 68%); MFIs that have CPP-compliant complaints management systems (80% | compared to 51%); and MFIs that provide clients with a CPP compliant key facts document (88% | compared to 66%).

	MEF	CERISE
NUMBER OF RESPONDING FINANCIAL INSTITUTIONS	18	43
Anti-discriminatory policy	61%	61%
Code of Conduct	78%	61%
Disclosure of client data usage	72%	54%
ESG	61%	61%
Financial accountability	63%	57%
Transparency	67%	54%
Client data management accountability	67%	54%
Total accountability	73%	65%
Design products that meet client needs	79%	67%
Client needs and preferences	86%	66%
Benefits to clients	73%	65%
MEF client responsibility	90%	76%
Adherence to client protection	82%	62%
Transparency	52%	50%
Use and respect for treatment of clients	69%	56%
Disclosure of client data	65%	55%
Mechanisms for complaint resolution	67%	60%
Treat employees responsibly	89%	76%
Code of Conduct	86%	53%
Communication of terms of employment	86%	67%
Employee satisfaction	85%	65%
Balance financial and social performance	78%	69%
Growth rates	90%	56%
Alignment of objectives	56%	55%
Financially sound	55%	60%
Compliance	57%	59%
Green Index	78%	54%
Managing financial environmental risks	55%	55%
Managing natural environmental risks	65%	52%
The possible better green opportunities	50%	51%
TOTAL SCORE	73%	63%

How has it gone so far?

	BENEFITS	CHALLENGES	LESSONS LEARNED
IMPLEMENTATION PHASE	<p>Challenge the existing questionnaire in place</p> <p>Data quality</p> <p>Improved data collection process</p>	<p>To convince the Board</p> <p>To convince investors</p> <p>Adherence of the Investment Advisors</p>	<p>New processes and tools raise interesting questions</p> <p>Methodology alignment</p> <p>Thoughts provoking</p>
ONGOING	<p>Be part of a group and share</p> <p>Cerise's expertise</p>	<p>No direct handling of social data</p> <p>ALINUS life cycle</p> <p>Lack of flexibility</p>	<p>Even an industry-developed tool does not solve all the issues</p> <p>The MEF could bring its perspective as user of the ALINUS from an investment fund point of view</p>

General reflections

The benefit of the availability of these resources to stakeholders in the inclusive finance sector

BENCHMARK by type, maturity, region, country

TRANSPARENCY Data reported on a platform, reviewed by a third party

COMPARABILITY Alignment of data collected, calculations, formulas

KNOWLEDGE SHARING In terms of methodology and reporting

EFFICIENCY Ease reporting to lenders and investors

Q&A

Key lessons of using standards to achieve impact

Additional benefits to be gained from using the ALINUS tool

Make the ALINUS platform more flexible and add customization options could expand the use of the datapoints available - from a social reporting tool to a more dynamic source of data

LABELLING AGENCIES To avoid additional reporting and increase transparency, labelling agencies could use one single source for the data

OFFICIAL SOURCE OF DATA To be used for regulatory purpose (e.g. SFDR)

PORTFOLIO MANAGEMENT Currently only for reporting - Could be used for more active portfolio management

FUND STRATEGY MANAGEMENT More flexibility would allow for quick adaptations along strategy and need development