Finance United:
Impact Investors, Financial Service Providers and the SDGs
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30 September 2020
Session Notes

Name of session	**Using Data for Decision-Making:** Investors (IDB Invest, Incofin, DFC) and financial service providers (Genesis, Crystal) share how they use impact data to improve performance.
Time	**11:30 am – 1:00 pm**
Moderator	**Amelia Greenberg**, Deputy Director, SPTF
Speakers	**Loïc De Cannière**, Managing Partner and Founder, Incofin Investment Management **Leticia Emme**, Managing Director, Impact Management, Monitoring, and Learning (IMML), Office of Development Policy, U.S. International Development Finance Corporation (DFC) **Maya Kobalia**, Head of Environmental and Social (E&S) Department, Crystal **Alessandro Maffioli**, Chief, Development Effectiveness Division, IDB Invest **Edgardo Perez Preciado**, General Manager, Fundación Génesis Empresarial

NOTES FROM THE PRESENTATIONS AND DISCUSSION:

Question 1: Describe why and how IDB Invest implements the Impact Standards for Financing Sustainable Development (IS-FSD)

Alessandro's response:

- We at IDB Invest are convinced that standards are important. Standardization leads to greater clarity and credibility and helps investors distinguish the quality of assets or make comparisons across investments. In turn, this helps mobilize more private capital to developing markets and towards the SDGs.
- We have been very active in ongoing conversations and working groups with DFIs and impact investors around establishing common metrics for measuring social and environmental impact in areas such as climate, gender, and direct jobs. IDB Invest has been working with other DFIs to align the Harmonized

Indicators for Private Sector Operations (HIPSO), with the IRIS+ and with the SDGs. We are also a member of the Advisory Board of the Operating Principles for Impact Management and a member of the Global Impact Investing Network's (GIIN) Investor's Council.

- We see the OECD-UNDP Impact Standards for Financing Sustainable Development as providing more granular guidance about how to manage for impact. We were active in providing feedback and input during the consultation period.
- For IDB Invest, it was very reassuring to see that what we have developed fits quite well within the logic of these standards. Aligning with the internationally agreed upon best practice validates our approach. But we also strive for continuous improvement. Mapping our practices to these standards was also an opportunity to reflect on what is working well, what challenges we still face, and how we can make improvements. We found the process valuable of mapping our institutional practices against the IS-FSD.
- This process also reinforced what we know to be true: impact management tools are important, but even more important are the skills and expertise of the impact management specialists in charge of managing these tools, who are responsible for maintaining the highest standards of rigor and guaranteeing uniformity of analysis. An effort to standardize such skills would also be important.

Question 2: In what ways does Incofin implement the principles of strategy, management, transparency, and governance emphasize by the IS-FSD in order to achieve its impact goals?

<u>Loïc's response</u>:
From day 1 of our operations have had impact goals and have known we needed to implement responsible practices to achieve them. Thus, our approach and process are already following the spirit of the IS-FSD:

Standard 1: Strategy
All our Fund's impact objectives are anchored to a specific SDG. In 2018, we underwent an exercise to match our existing fund's social mandate with the SDG and to communicate this in a systematic way. All new funds since, starts with an SDG matching from the onset. These objectives influence our investment strategy as well as the impact indicators that are tracked over time.

Standard 2: Management Approach
Our ABC Impact Investment Strategy (Avoid harm, Benefit Stakeholders, Contribute to Solutions) follows the latest norms on how to intentionally manage impact. In all investments, we act to avoid harm, seek to benefit and improve stakeholders (i.e. investors, investees, end clients, local community), and support companies go the extra mile through active engagement in the form of technical assistance and/or board seat (for equity investments). The ABC impact strategy is put into practice through our 4-step risk management approach: identify, analyze, control and monitor.

- Identify – exclusion list, positive selection based on impact thesis, E&S risk categorization
- Analyze – screening of UN Global Compact principles such as human rights, child labor, corruptions and other safeguards are made through: ALINUS, AML-KYC checks, ESG questionnaire.
- Control – High risk files reviewed by Risk Department, double-bottom line IC decision, social undertakings in loan agreement
- Monitoring – investees report quarterly financial data and social KPIs, including SFDR PAIs (as of 2023) via our web-based platform, annual review of ESG performance, and various disclosures to investors, regulators and public via our website and media channels

Standard 3: Transparency

- Impact report - On an annual basis, we produce an Impact report that communicates the impact and contribution of our investments to the Fund's relevant SDGs.
- Operating Principles Disclosure Statement – On an annual basis, we disclose our impact management approach and its alignment with the Operating Principles on our website and that of the organizers. On a 3-year basis, we have an independent verification of this disclosure.
- SFDR Disclosures – As per regulation, we have disclosed our sustainability risk policy and approach on our website. As of June 2023, we shall also disclosure the Principal Adverse Indicators (PAI) Statement, containing the 15 mandatory indicators on the performance of our funds on environmental and social indicators such as greenhouse gas emissions, gender pay-gap, etc (included in Alinus 3.0).

Standard 4: Governance

- We have an Impact Committee (ICs) at Incofin that meets at least quarterly to review our impact KPIs, strategy and practices.
- ESG and impact criteria are reviewed by our ICs, with dedicated sections in the investment memo.
- All Incofiners have impact goals as part of their annual goals, which is part of their performance appraisal.

Question 3: Please describe the journey Genesis has been on to implement the Universal Standards, and the benefits you have realized?

<u>Edgardo's response</u>:
I came to Genesis after working many years as a banker. Genesis serves a very poor and vulnerable clientele. But a pivotal moment was why I asked our staff, "What is it that we do differently from what a regular bank does? The answer was, "Nothing." That realization was the start of change. We wanted to create something different, to transform our institution. We wanted to serve the most vulnerable, and I told our staff that the only way to serve that target population well was with excellence.

At Genesis, we base our strategic plan on the framework of the Universal Standards. Doing this has helped us to have a complete change in culture and in mindset. For example, we now have “development officers” whereas they used to be called “loan officers.” Implementing this Universal Standards has been part of giving the whole institution a new purpose. And purpose transforms into passion and passion transforms into excellence. This creates a virtuous circle.

Question 4: Genesis did a cost-benefit analysis of how much you invested to improve your social performance practices and how you benefited, finally. Please explain.
Edgardo’s response:
Yes, we did do this analysis. We did experience positive financial benefits of investing in social performance, such as improved portfolio quality and high client retention and high staff retention. We are ranked as the No. one Great Place to work in Central America and Caribbean. However, because our mindset had already shifted, we did have a feeling of do we even really need to be doing this cost benefit analysis? We already know we have to implement the Universal Standards to achieve the kind of excellence we want.

One interesting finding we had was the return on our investment in training. We offered it to half a million people, which was more than just our own clients. And we saw that the portfolio at risk (PAR) for the clients who attended at least two trainings was half of what the PAR is for our overall portfolio. PAR was already low for the whole portfolio – 0.7% - but for clients who had received training, it was half that.

Audience question 1: What were the two topics for the trainings for clients?
Edgardo’s response: We have four training topics: credit management, administrative and financial abilities (related to management abilities and how I run my business), personal development, and quality of life.

Question 5: Please describe how your organization uses outcomes or impact data to make decisions?
Alessandro’s response:

- We all have heard the phrase, “You can only manage what you measure.” For IDB Invest, data is one of the pillars that sustains our Impact Management Framework. From very early on, we knew that we had to fully integrate data into our framework and use it not only to identify the potential impact of an investment at the structuring phase but, most importantly, to measure actual impact achieved over time.
- To start, our strategic selectivity tools, which steer the deal origination process, focus on a quantitative assessment of the development gaps in each of our beneficiary countries, in the sectors where we operate. This development gap analysis at country level allows us to focus our resources where they are needed the most.
- Then, our impact rating system, called the DELTA, takes a rigorous evidence-driven approach to assess development impact both when structuring

investments as well as to track results achieved over time. For instance, it includes an estimate of the economic and social rate of return of each investment (looking both at positive and negative externalities), a stakeholder analysis that looks at who will benefit and how (with a focus on inclusion), a sustainability assessment, and an additionality assessment to ensure our value added.

- We monitor the progress of each investment on outcome and output indicators against expected targets set in the results matrix at project approval. Changes are monitored and factored into the tracking of portfolio progress toward delivering development outcomes. This analysis allows us to identify clients who may need additional support to achieve development objectives and deliver expected results. Additionally, the expected SDG contributions of each project in supervision are updated annually as part of the monitoring process, allowing for more precise accounting of SDG impact.
- Finally, everything is evaluated at completion (operational maturity). This not only makes us accountable of the development impact we eventually produce, but it is a key for learning from our operational experience and to feeding back lessons into how we construct our portfolio.
- We have made great strides to automate data collection. One big change we have made in the past two years is to fully digitalize the impact data we collect and store. Today, the results matrix of an operation, which is the instrument used to collect all impact indicators, including baselines, targets and actual values, is fully automatized. In addition, we have established a set of standard indicators to guarantee that whenever transactions share similarities they use the same types of indicators. This systematization and automation allow us to easily aggregate data for impact reporting, manage dashboards with real time impact information, quickly flag projects that have problems of lack of data and take actions to correct, as needed, and shorten the feedback loop. With the consolidation and automation of our supervision system, we are better able to analyze the determinants of performance during implementation, gathering insights that can both inform the structuring of new operations and predict operation success at completion.
- Our clients are also recognizing the value of impact measurement as part of their core business. In recent years we have seen an evolution among many of our clients from simply complying with its M&E requirements to fully embracing them as a way to measure and manage their impact and SDG contributions, as well as respond to their stakeholders' demands. And they are increasingly asking us for help with building their capacity to measure and manage impact. For example, we are working with financial institutions to help them measure the impact of specific portfolios in line with the SDGs. While things are moving in the right direction, there is still room to strengthen client capacity in this regard.
- To summarize, it is important to collect data not only for accountability, but also to correct and to improve. This is equally true for delivering impact as it is for financial performance.

<u>Comment from Amelia</u>:

One DFI told me years ago that his organization used data for monitoring financial and social performance, but there was an imbalance in reactions. If a financial problem became apparent, this DFI would jump immediately to react and address the issue. But if the outcomes data showed weakness, there wasn't the same swift response to address the problem. Ideally, however, each impact-oriented organization would treat an impact problem as seriously as a financial/portfolio problem.

Another recommendation is to make sure the outcomes data you monitor give you information if clients are better or worse off. If your "outcomes data" is really just data like number of clients or number of loans made, then that is output data, not outcomes, and you don't know whether the people served are better off or not. Output data are not sufficient.

Question 6: Genesis has a strong outcomes measurement system. Please describe what you measure and how you use the information.
Edgardo's reponse:
We measure everything, specially when it comes to customers wellbeing. We collect data on every client social and economic variables and we see where each customer is in the development plan of those variables.

Genesis does financial and social segmentation. We define 24 segments. We track indicators related to many areas of development: business development route, housing, education, family, operational, financial, and social metrics.

To serve a particular segment, you need very specific products and services that help and chart of segmentation to follow the development path. Our current approach involves extreme granularity: Each client segment has its own set of products. The development officer (this is what we call the loan officer) has the profile of the customer in his app and can help customers choose the best product for them, plus an education program. We do not design products that does not match the impact strategy for the individual customer. Our objective is that within seven years, a client who began in poverty can move to a better quality of life.

Question 7: DFC also collects a lot of data related to your impact. Please describe what data you collect and how you use it.
Leticia's response:
Our approach is similar to what Loïc and Alessandro described. On the compliance side, our environmental and social assessment looks to mitigate negative effects that a project may have on people and/or planet (e.g., biodiversity, cultural heritage). We require all projects to comply with local and national laws including those related to environment, health, safety, labor, human rights as well as the IFC performance standards and other international standards and practices. Environmental and social ("E&S") data is gathered both pre investment (during E&S due diligence) and on an ongoing basis (during monitoring).

On the impact side, we have introduced several tools to integrate impact throughout the investment cycle. We gather impact data both pre investment (during screening as well as due diligence) and on an ongoing basis during monitoring. Ex ante data is used to assess the potential development impact of a project – for example with a financial institution project we'll look at the number and size of loans, the recipient of the loans (whether they are women, rural, low-income, MSME loans), and if the product/service is innovative we'll look at how it benefits its target customers and the community. We'll use that data to "score" a project in terms of its development impact potential, and once the project is active, we'll monitor to see if it is on/off track with original expectations. If we see that a project is off track, that flags to us the opportunity to intervene, whether we can offer advice, TA, or simply to adjust original expectations. For example, during a recent site visit to a financial institution in Cambodia we identified several areas where TA would be beneficial, and we are working internally to coordinate action. Another learning from that site visit was that to get client insights (outcome data), the best way is to do it through a neutral third party that speaks the local language, and not through our monitoring officers visiting a client selected by the client company who is also in the room! We have done a few surveys with 60 Decibels to gather client insights and better understand the outcomes of our projects and we are currently exploring extending this type of work to many more projects.

Question 8: Crystal, encouraged by Incofin, began to measure and analyze client outcomes data. Please describe what data you collect and how you have used it.

Comment from Loïc: One client segment in which Incofin invests is smallholder farmers in rural areas. We designed an outcomes measurement project with several partners, and that included 9 of our investees in the agRIF Fund, including Crystal.

Maya's response:
Incofin is an equity shareholder of Crystal and we were happy to partner with Incofin and CERISE on the outcomes project. CERISE is a knowledge expertise provider, Incofin is resource provider, and Crystal was conducting the Social Outcome Measurement of its customers. This team of all three of us was necessary to make this project work. All together we made this interesting and valuable journey. Along the way, we, indeed, had failures as well, but it has all been part of the journey and a great way to progress.

Before I answer the question about what we've learned from the outcomes data, I'll give you some context about the Country of Georgia and Crystal. There are around 4.5 million people in Georgia, Crystal has 120 000 thousand customers.

For us, working on outcomes is a process. Nothing can be perfect at specific moment. When we are talking about impact management, we should talk about our weaknesses, too and about the way how we progressed and what have we learned. When I first came to Crystal, SDGs, Social Impact Measurement and like-wise topics were all very new to the culture and to the Georgian financial sector. I also note that emotional intelligence and qualitative part is just as important as the financial and quantitative part of the data.

Question 9: Did having actual outcomes data help shift culture at Crystal, to build awareness and buy-in about the importance of social performance management?
Maya's response:
Yes. It also took maturity to understand the role of impact management. Early on, people were asking, "Why do we need it?" Understanding the importance of outcomes management came with showing the results. It's important to have the growth mindset that everything we do is for our customers. Remember that when microfinance organizations were founded, they were founded for customers and for eradication of poverty. It's also worth mentioning that we seriously took into consideration CERISE's outcome measurement recommendations and followed with specific steps – one of which was issuing Women/Gender Corporate Bonds.

Comment from Alessandro:
Picking up on this idea of showing results to help people understand the importance of impact management, from early on, we knew that we had to fully integrate data into our framework, from assessing potential impact at structuring to measuring actual impact achieved over time. We've created a system to capture impact data and visualize it with various dashboards. This helps make the results achieved by our investments more tangible to management, clients, and other stakeholders and also allows us to better identify trends and inform decision-making.

Comment from Edgardo:
We have two anthropologists in house. This helps us to impact data collection effectively. In Guatemala, there are 23 different languages and cultures. We have to be sensitive to this.

Also to accommodate individual needs, we are moving into artificial intelligence. This will help the loan officer analyze each client's specifical profile and exact business project and offer a product and/or service that is exactly tailored to that client's needs. For example, if the client is raising chickens, the system should gather information on exactly how much land the client has for the chickens, and use this to calculate the number of chickens that the client has space to raise, and therefore what quantity of inputs (e.g., amount of feed) the client needs and then we can offer the exact right loan for that business.

Question 10: What are the lessons you've learned over the years about using data effectively, and about which data are useful?
Leticia's response:
Different types of data are useful for different purposes. The data we gathered via our annual surveys (mostly output data) help us track whether original expectations for each project are being met (e.g., in terms of number of clients served, or type of clients served, etc.) but doesn't allow us to get to outcomes data, as we are often one step

removed from end-clients. For example, we many times invest via intermediaries (whether that's funds or banks that do on-lending).

For that reason, it is important to triangulate data. We have got outcome data from a few projects in which we partnered with 60 Decibels and we are currently exploring setting up a TA facility to be able to conduct more of these studies so we can gather outcome data from more projects. I don't think I need to mention the benefits of outcome data, but clearly it is the only way to truly know what is happening at the client level and if our intents and objectives are truly being met. Just stopping at the number or value of loans to women doesn't actually tell you if the women who received those loans are doing better as a result of it.

One example of using data to make decisions comes from an in-depth assessment we did of 30+ financial institutions in Latin America in our portfolio. We learned, among several things, that many financial institutions that were labeled as "2x" (meaning they fit agreed upon criteria by the 2x initiative that help promote investment in women – see more here https://www.2xchallenge.org/) within the DFC portfolio did not intentionally target women. For example, they did not have products/services that were designed specifically to benefit women or did not grow the share of women in their portfolios over time. We also found that many did not fully understand the 2x criteria. Given that a large % of our 2x projects are FIs, we are setting up a 2x TA facility to help our clients improve practices, whether that's related to 2x strategy, product development, or tracking and reporting of data.

Loïc's reponse:
The fund manager is well positioned to push the outcomes agenda to the investor and the institution. The board needs to be convinced of the value of outcomes manager, and as an equity investor, Incofiin can play the role of championing this work to the full board. In the case of the project with nine investees, including Crystal, we convinced the group of investors financing the project to spending money on impact management, even though that meant they'd have less financial gain because some of the revenue from the project would be spent out outcomes management.

Another important lesson is that the institution gets new interesting information that can inform decisions and improve services for clients. For example, we saw that the loan quality for women was slightly better than for men but the number of female clients was declining. After we saw that data, we knew we should change this. We also learned that we needed to pay more attention on our rural clients. The survey demonstrated that they are Crystal's most loyal clients. However, in the survey the rural clients expressed their disappointment because did not get the same attention as urban clients.

Another lesson is that outcomes management is possible even in difficult contexts, but you have to be aware of how demanding it is on the institution and find a solution. In Myanmar, for example, they had a pandemic and political instability but we required outcomes management and they did do it. It would not have been possible without the willing participation of our investee.

A few more lessons:

- The best way is to embed outcomes data collection in the existing data collection system and processes.
- Not all the data you collect will be significant or good. Pay attention to what you need and don't collect data that are not useful.
- A realistic result is that some clients are better off, some are the same, and some are worse off. For example, a study we did showed 43% clients were better off, while for 33% nothing changed, and the rest were worse off. It is important to communicate this honestly and transparently to investors, and to build a shared understanding of what is realistic. Don't expect the sky!
- Don't measure outcomes to please investors. Measure outcomes to improve.

Question 11: To close, what is a final piece of advice or observation you'd like to share with the audience?

- Edgardo: The key issue is to measure, and be conscious of the fact that having a social impact mindset can improve the financial statements of an institution.
- Alessandro: You manage what you measure. Which means that you are not managing what you are not properly measuring. What you measure will tell you a lot about what you are actually managing and the true focus of your organization.
- Maya: Here are my key lessons learned:
    1) It's ok to test, to experiment, to fail, and to go beyond what is easy to measure;
    2) It is a journey - and co-creating, co-challenging, co-learning is part of this journey;
    3) Impact measurement and data collection is country-specific and culture specific: (Remember the saying: ''Culture eats policy for breakfast.'')
    4) "The greatest threat to our planet is the belief that someone else will save it.'' This is an ugly truth, but our (Crystal-Cerise-Incofin) cooperation and case-study proves that the more time goes, the more companies realize sustainability is no longer a kind will and a choice. Focus not on doing less harm but rather doing more good, because there is a greater risk in NOT doing it. The impact-driven decision making had proven it. Therefore, together with ROAs and ROEs, we need ROS- Return on Sustainability.
- Leticia: A few thoughts:
    - Use standardized and harmonized data as that is data you can aggregate and also helps reduce the reporting burden on clients (since they are likely being asked for that data by other investors).
    - Additionally, be aware that output data alone won't give you the full picture and to that end, including client insights/outcome surveys where possible is very beneficial. When it comes to collecting outcome data, we at headquarters are not the best positioned to gather it. People who are speaking the language, based in the country, will likely get more candid responses.

- Only ask for data that you truly need to learn and make decisions. Reflect on how you will use the data you ask your clients for and resist the temptation to add things that are "nice to have."
    - Exchange with the broader sector. For example, sharing learnings back with clients or with other DFIs is an important way to help the sector continue to grow.
- Loïc: If we have the right data, we can design better products and better funds.
- Amelia: I would like to reiterate Loïc's message of don't measure outcomes to please. Outcomes data are for decision-making and improvement. We have to be transparent. I would also like to reiterate Edgardo's point about how the only way we can serve the hardest to reach populations well is if our work is excellent. We need outcomes data to help us identify areas of weakness and learn how to improve.