



SPTF Investor Meeting

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IFC

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Following questions will be addressed...

The questions I was invited to address

1 Why are **impact investors in Financial Inclusion relevant** to the entire Impact Universe?

Which **added value** can they bring to the impact investment community (lessons learned, ..)?

2 Given the above, what should SPTF **focus on in next 3-5 years**?

3 How does Incofin **measure impact**?

.. and will be answered, taking a step back

Content of this Introductory Presentation

- How **Financial Inclusion Investors** developed **Social Performance Management (SPM)** and impact metrics:
 - a view through the lens of Incofin
- **Challenges and prospects**

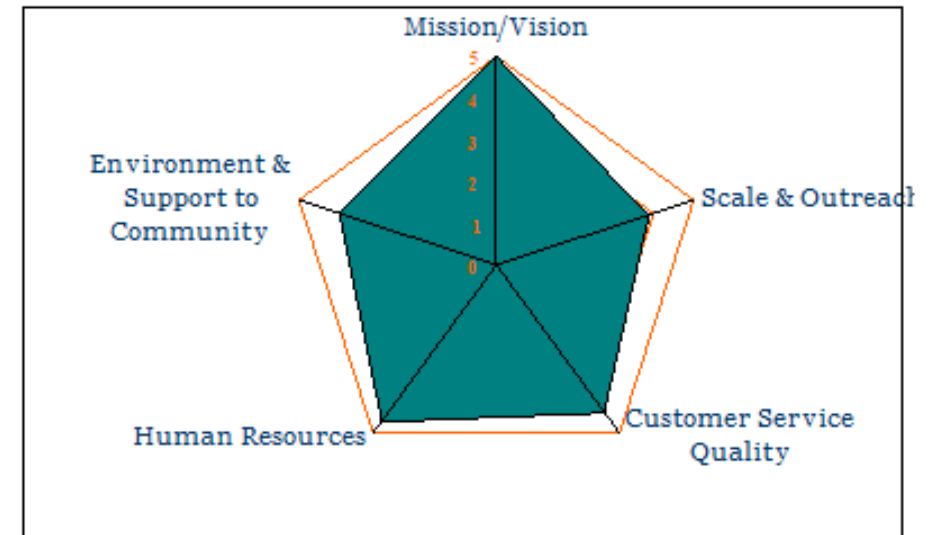


2007: Incofin's first SPM tool

The genesis of the Echos tool

2007

- Incofin develops ECHOS, a proprietary SPM Tool (Environment, Customer Service, Human Resources, Outreach, Social Mission)
- 5 dimensions
- 40 indicators
- Excel based
- Incofin demonstrated positive correlation between social and financial performance



2012: Incofin upgrades its Echos Tool

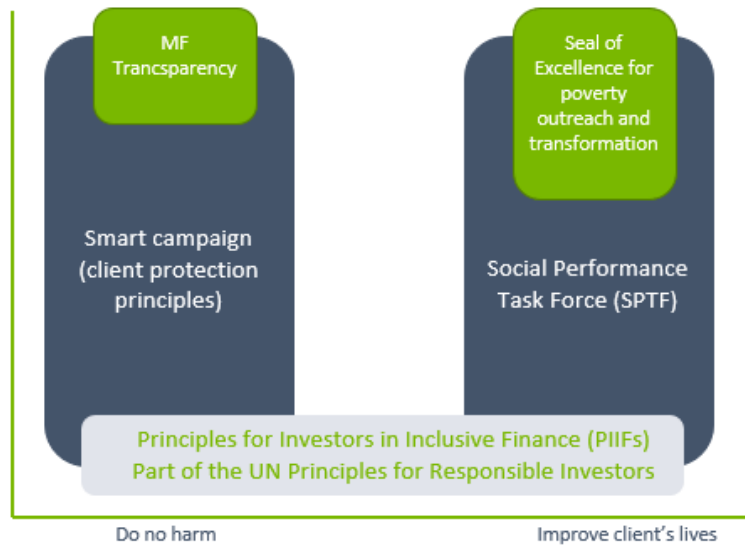
New developments and insights require more sophistication. USSPM is a mile-stone

2012

Review of Echos

- Consumer Protection Principles indicators
- USSPM: more indicators in line with USSPM

Social performance in Microfinance Main Initiatives



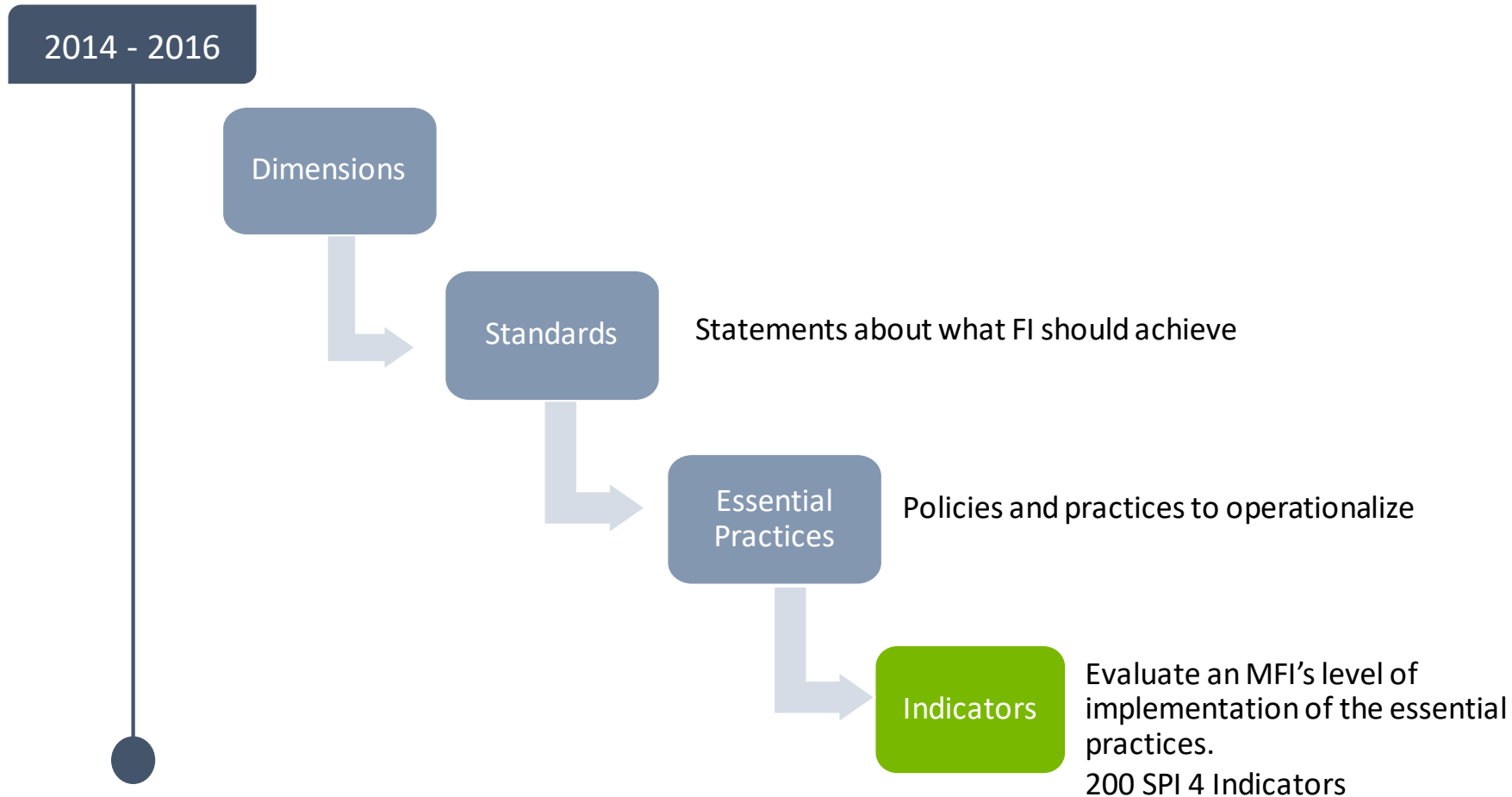
New developments

- PTF had released USSPM
- Smart Campaign post India crisis
- MF Transparency
- PRI/PIIF



2014-2016: Development and launch of SPI4

SPI4: a tool for data collection and assessment of the USSPM



SPI4

- The common data collection and assessment tool for USSPM
- A free social audit and management tool that allows financial institutions to analyze their current SPM practices and make SPM decisions internally
- A reporting tool that can improve industry benchmarks and quality of SP data by producing social statements

2016-2017: Incofin adopts ALINUS

Alinus: dedicated module for due diligence and monitoring

2016 - 2017

- ALINUS is a module of SPI4, containing 80 out of the 200 indicators in the full version, defined by 12 Fund Managers/MIVs
- A group of first movers (AFD/Proparco, BlueOrchard, Cordaid, Grameen Credit Agricole, Incofin, Pamiga and Triple Jump) decided to use this set of indicators to evaluate their investee moving forward

Cordaid 

ada 

BlueOrchard
Impact Investment Managers 

BNP PARIBAS 

grassroots
capital management 

incofin
INVESTMENT MANAGEMENT 

OIKO
CREDIT 

Proparco
GROUPE AGENCE FRANÇAISE DE DÉVELOPPEMENT 

Deutsche Bank 

GRAMEEN CRÉDIT AGRICOLE
Microfinance Foundation 

SIDI 

Triple Jump 

2017-2018: Web-based tool to capture SPI4/Alinus metrics..

Incofin launches Echos 2.0

2017 - 2018

The screenshot displays the Incofin ECHOS 2.0 interface for 'Kashf Foundation - 91'. The top navigation bar includes 'Incofin ECHOS 2.0' and 'Last saved at: 19-10-2018 12:26:58'. The left sidebar shows a navigation menu with 'ECHOS 2.0 Form Management' and various categories: 'Company Information' (31%), 'Social' (0%), 'Organisation' (27%), 'Clients' (33%), 'Portfolio Composition' (40%), 'Key financial indicators' (checked), 'Responsible Finance Initi...' (67%), and 'DIMENSIONS' (91%). The main content area is divided into sections: 'Mission statement', 'Select applicable UN SDGs' (listing SDG 1: No poverty, SDG 2: Zero hunger, SDG 3: Good health and well-being, SDG 4: Quality education, SDG 5: Gender equality), and 'DIMENSIONS'. The 'DIMENSIONS' section is expanded to show 'DIMENSION 1: DEFINE AND MONITOR SOCIAL GOALS' with sub-sections 1 A 3, 1 A 1 1, 1 A 1 2, 1 A 1 3, 1 B, and 1 B 2 1. Each sub-section has a 'Yes' button and a 'Comment' field.

2017: Incofin broadens the impact assessment approach

Managing impact the same way we manage financial performance makes good business sense

Part A

Impact Thesis: during Origination, we only select investees that aim for a healthy balance between social, environmental and commercial goals.

Part B

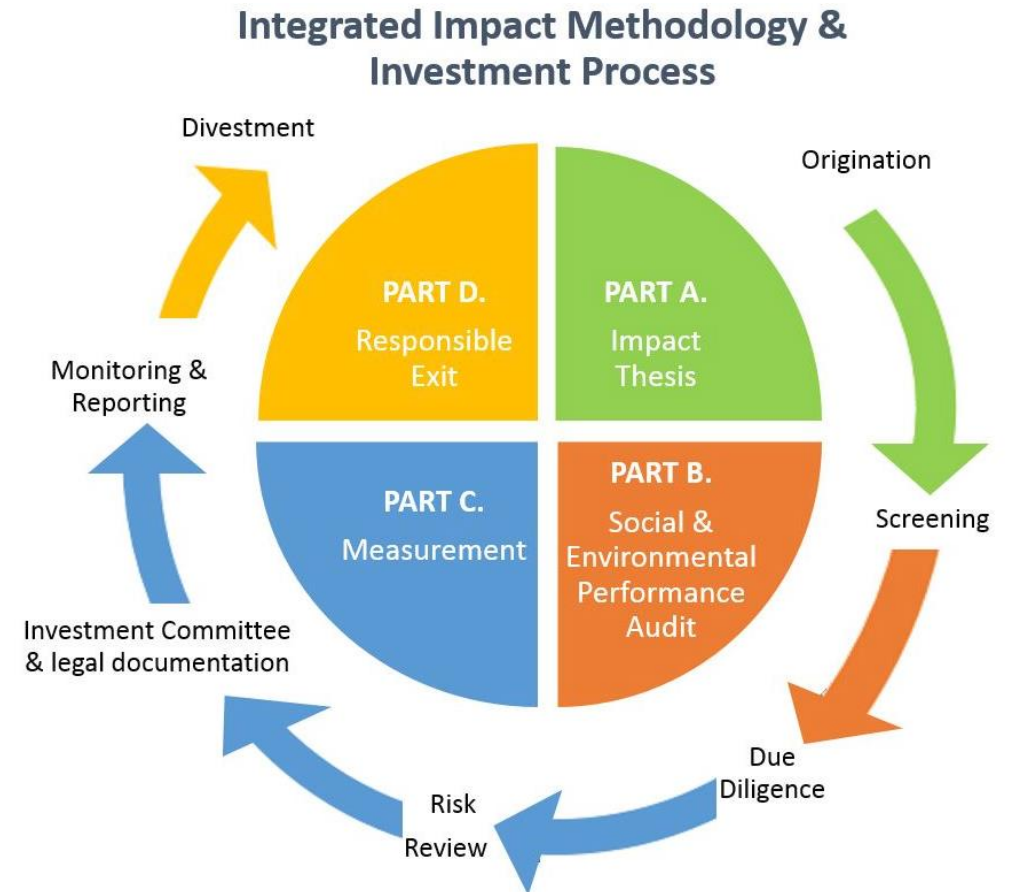
Due diligence: we assess the operational performance of an investee through a comprehensive Social & Environmental Performance Audit (SEA), embedded in Incofin's "ECHOS 2.0" (SPI4/Alinus) impact and risk tool.

Part C

Measuring impact outcome: we want to help our investees develop a realistic impact strategy where they positively and sustainably impact the lives of their end customers.

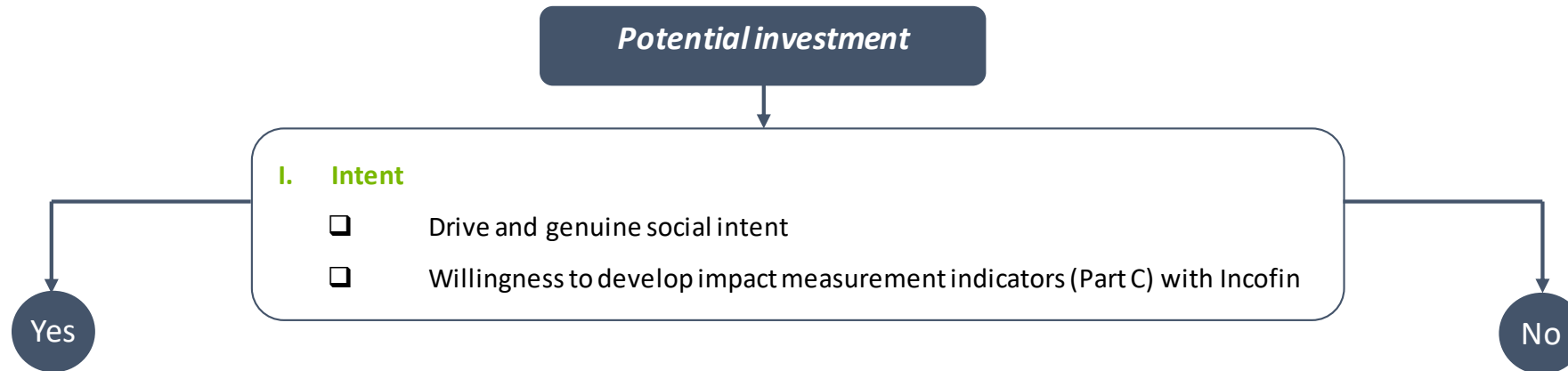
Part D

Exit: we want to ensure that each exit meets the financial objectives of our investees and sustained impact post exit.



Part A: Impact Thesis

Applying to each potential investment (for intake decision)



Proceed to assess II, III and IV of the impact thesis relevant to fund of potential investment

Do not proceed with investment

II. Who

... is the customer

- Underserved and/or
- Bottom of pyramid

III. Why/What

...benefit does the end client have?

- Better living standards
- Empowerment

IV. How

...are the services provided?

- Affordable
- Transparent
- High quality

Impact thesis elements for sample fund only; for illustrative purposes

Part B: SPI4/Alinus

Echos 2.0 – screen shots of reporting

1. General

Mission Statement	UN Sustainable Development Goals	
Promote rural employability and improvement of living standards through the provision of adequate, affordable and transparent renting services to low income population in Myanmar	<p>E.g. 1 Applicable UN SDG E.g. 2 Not Applicable UN SDG</p>	
UN SDGs (For Reference)		
1. No Poverty	7. Renewable Energy	13. Climate Action
2. No Hunger	8. Good jobs & Economic Growth	14. Life Below Water
3. Good Health	9. Innovation & Infrastructure	15. Life on Land
4. Quality Education	10. Reduced Inequalities	16. Peace & Justice
5. Gender Equality	11. Sustainable Cities and Communities	17. Partnerships for the Goals
6. Clean Water & Sanitation	12. Responsible Consumption	

2. Social Performance

Social and Environmental Audit	Client Protection
Overall score current period : 81 % Overall score previous period : N/A	Overall score current period : 96 % Overall score previous period : N/A
<ul style="list-style-type: none"> 1 - Define and monitor social goals (ALINUS) 94 % 2 - Commitment to social goals (ALINUS) 99 % 3 - Design products that meet clients' needs (ALINUS) 92 % 4 - Treat clients responsibly (ALINUS) 97 % 5 - Treat employees responsibly (ALINUS) 90 % 6 - Balance social and financial performance (ALINUS) 94 % 7 - Green microfinance (ALINUS) 0 % 	<ul style="list-style-type: none"> 1 - Adaptation of services (ALINUS) 100 % 2 - Prevention of over-indebtedness (ALINUS) 100 % 3 - Transparency on products (ALINUS) 83 % 4 - Responsible pricing (ALINUS) 90 % 5 - Fair practices with clients (ALINUS) 100 % 6 - Confidentiality of client data (ALINUS) 100 % 7 - Complaints mechanism (ALINUS) 100 %

3. Responsible Pricing

Average disbursed loan size	-
Interest rate method	Flat interest method
Average APR of loan portfolio	28.73 %
Return on Assets	6 %
Nominal portfolio Yield	39 %
Average disbursed loan size as a % GNI per capita	-

Legend: ● Gross Loan Portfolio (k USD)

4. Human Resources

Staff	Gender
Total staff	2,860
Staff turnover	16.5 %
board member with social performance experience	-
Social performance on staff appraisal	Yes
% female board	-
% female management	-
% female client and front office	-
% female total staff	50 %

5. Clients

Client satisfaction rate	-	Borrower retention rate	73 %
Rural clients	-	Women clients	-

6. "Responsible Finance" Initiatives

SMART	Yes	MIX	Yes
Social Rating	-		

Case study: from impact thesis to measuring impact

Rent2Own in Myanmar

Social Problems

- Myanmar has one of the highest rural financial exclusion of East Asia.
- Poor infrastructure and absence of public transportation in rural areas makes mobility and employability difficult.
- 75% of population living in rural areas with higher poverty incidence than in urban centers.

Business Solutions



Intended Impact

- “Mobility is an important requirement for the economic development of a country, especially for rural regions. This faster means of transport enables users to generate higher income: as a result, small farmers for example can offer their produce more flexibly and obtain higher prices for it”
- "By making this investment, we are assisting small businesses in Myanmar to become more mobile and so generate income for themselves and their families,"
- “Almost all of our clients use their bike to generate income, there's no doubt about this. Our internal surveys also show that "bringing children to school" is their second usage, by priority.”

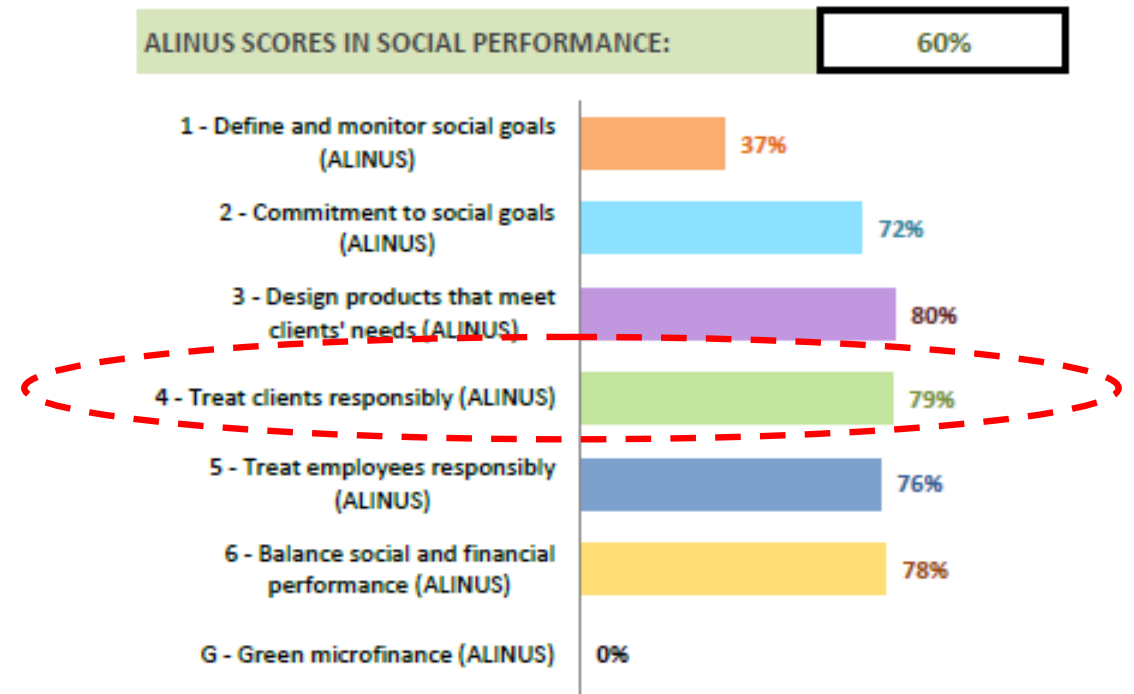
Case study (cont.) SPM check through Alinus

SPM check through Alinus: the relevance of USSPM (Part B) for safeguarding a truly social approach

Do no harm approach: protect your clients



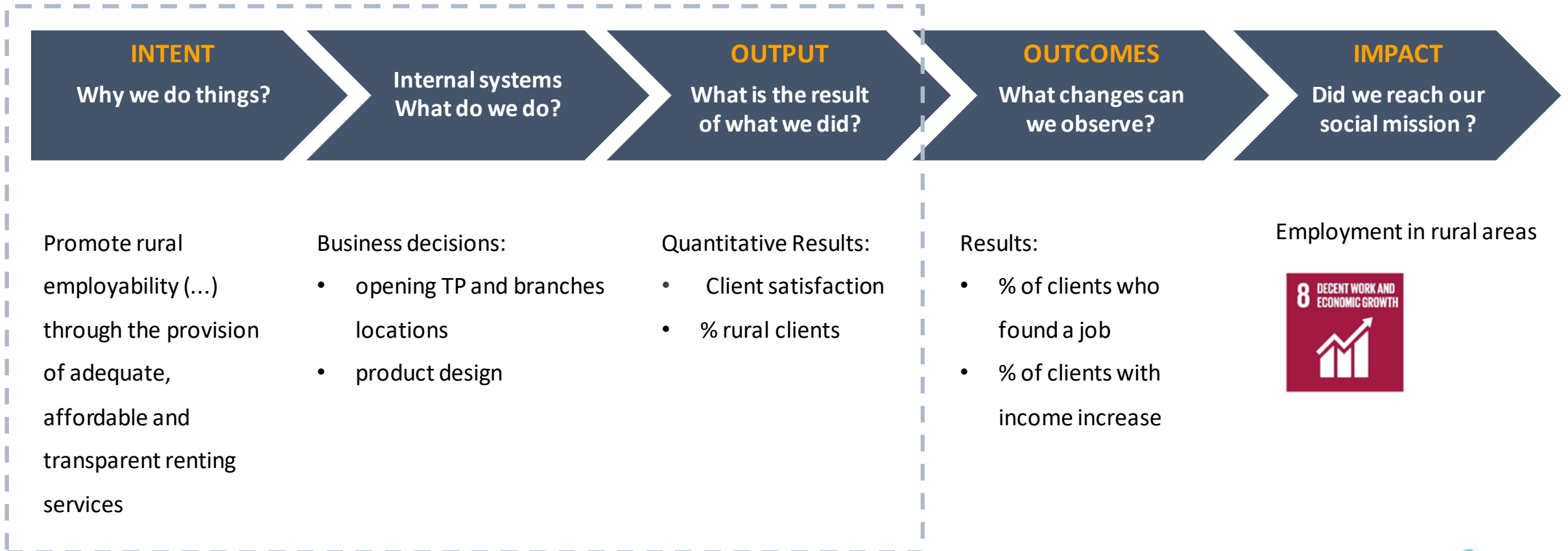
USSPM: the heart of SPM



Case study (cont.)

Rent2Own: From intent to impact measurement

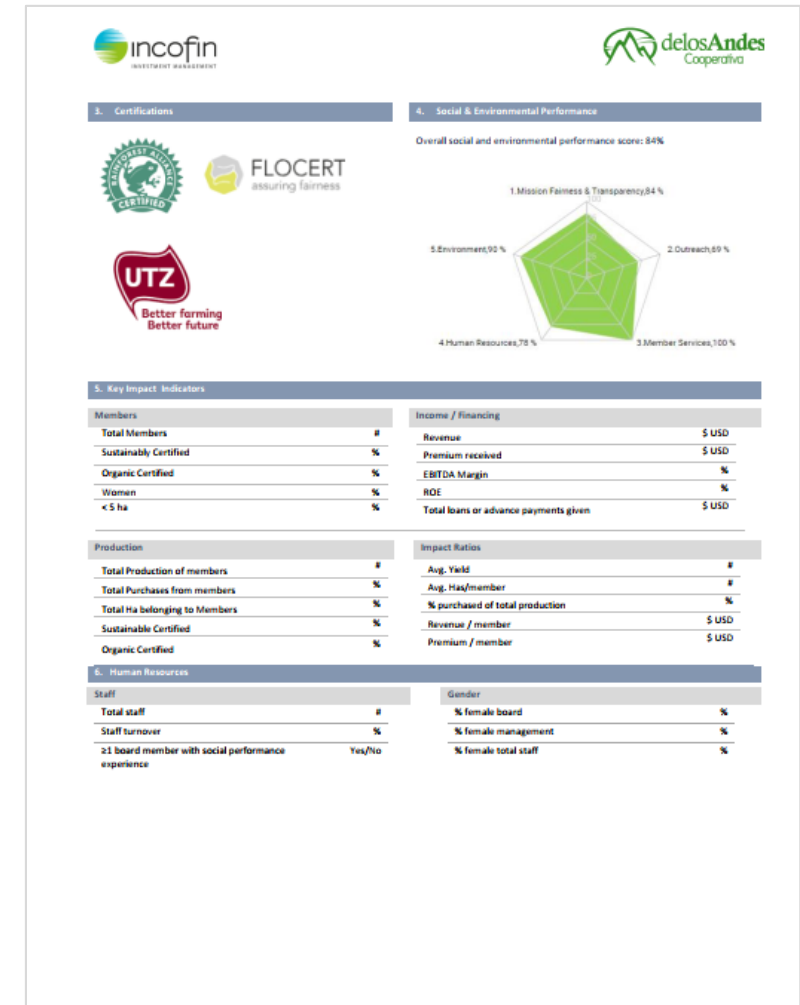
[-----Social Performance Management-----] [-----Impact Measurement-----]



Part C: Impact Output Dashboard and SDG contribution

Automated online dashboard

- Throughout the duration of the investment, Incofin measures and reports on their investee performance against the impact indicators developed at the time of investment
- An 'impact output dashboard' is produced for each investee, showcasing the investee's contributions to the SDGs and overall impact objectives going forward



Part D: Responsible exit

Fitness and suitability review

#	Criteria	Description
1	Reputation (external)	<ul style="list-style-type: none"> - KYC-AML checks show no reputation issue. - Public information shows no reputation issue that the acquirer cannot legitimately explain.
2	Reputation (with regulator)	<ul style="list-style-type: none"> - Informal feedback from regulators
3	Financial Stability / Performance	<ul style="list-style-type: none"> - Credit rating / overall strong financial performance of the acquirer.
4	Regional and Local knowledge	<ul style="list-style-type: none"> - Other investments in the country and understanding of domestic microfinance market.
5	Financial Inclusion knowledge	<ul style="list-style-type: none"> - Previous exposure to financial inclusion and understanding of financial inclusion.
6	Social Performance	<ul style="list-style-type: none"> - Understanding (Client Protection Principles, over-Indebtedness, etc.). - Likelihood to support (responsible pricing, evidence from other acquisitions).
7	Clear rationale for acquisition	<ul style="list-style-type: none"> - Corporate strategy for overseas/MFI investment. - Articulation of plan for the target post-acquisition.
8	Corporate culture	<ul style="list-style-type: none"> - Working climate compatible with the target.
9	Funding availability	<ul style="list-style-type: none"> - Availability of low-cost funding to support the target operations post-acquisition.
10	Management stability (at parent level)	<ul style="list-style-type: none"> - Stability of key management staff (CEO, Head of Subsidiaries, etc.).
11	Management development (for acquired organizations)	<ul style="list-style-type: none"> - Management continuity and development post-acquisition.
12	Innovation / technology	<ul style="list-style-type: none"> - Digital Finance services technology, ATM & plastic card expertise and experience, etc.

Challenges

Incofin's view

- The Financial Inclusion impact universe needed **15+ years to develop standards and roll-out best practices** for monitoring SPM and measuring outcome/impact
- Expansion of impact industry beyond microfinance is a great achievement but requires **deep understanding of the specific businesses**
- There is still a long way to go: **defining relevant outcome indicators** which contribute to understanding and growing a broad range of businesses is complex
- Convincing Management and Board of Directors of investees to monitor Outcome is not obvious; **monitoring needs to be relevant for the business**

Concluding remarks

What SPTF can bring to the industry and what SPTF could focus on?

- 1 All players in the impact universe can benefit from the 15+ years learning process of SPTF and Financial Inclusion investors
- 2 Developing relevant impact measurement methodology requires a long learning process
- 3 USSPM (the heart of SPM) do not only apply in Financial Inclusion but – mutatis mutandis – also in all other businesses (eg insurance companies, agro-businesses,..) → challenge for SPTF to contribute to spreading USSPM to all impact sectors
- 4 Measuring output and outcome without SPM is not enough → importance of universal standards for impact enterprises
- 5 More “universal standards” for outcome measurement required. Technology can help in future.
- 6 Transmitting SPM knowledge post-exit to (increasingly mainstream) buyers of equity FI stakes
- 7 Importance of environmental aspects (“Green microfinance”)

