

IMPACT FINANCE BAROMETER 2022

KEY FIGURES ON IMPACT
FINANCE WORLDWIDE

P. 2-5

INCLUSIVE FINANCE

P. 6-9

FUNDING LEVERS
FOR A FAIR TRANSITION

P. 10-13

HOW RESILIENT IS IMPACT FINANCE
TO EXOGENOUS SHOCKS?

P. 14-16

IMPACT INVESTING AND THE
NON-PROFIT SECTOR

P. 17-19

HOW RESILIENT IS IMPACT FINANCE TO EXOGENOUS SHOCKS?



In its latest press release of 4th July 2022, the Governing Council of the European Central Bank (ECB) committed to "take climate change into account in its corporate bond purchases, collateral arrangements, reporting requirements and risk management, in line with its climate action programme".

This strategy of "greening" European monetary policy is taking place in a context where social and environmental risks seem to be growing on a global scale: giant fires, the multiplication of conflicts over access to resources, or the systemic and brutal collapse of biodiversity are all indicators that, from now on, no one can ignore.

Faced with these facts, concerted and global mobilisation is as obvious as it is necessary. By adding the parameter of "impact" to the classic risk/return pairing, impact finance reshuffles the deck of traditional finance by adding social, ecological, inclusion and governance variables, whose extra-financial benefits are therefore of greater importance than others. Therefore, in view of the major challenges that we have

to face collectively and without delay, we are convinced that impact finance offers tools adapted to the major contemporary challenges.

Since its emergence in the early 2000s, the sector has enjoyed a strong and sustained momentum. According to data from the Global Impact Investing Network (GIIN) for the year 2020, the size of the impact investment market is estimated at around USD 715 billion¹. As we barely seem to recover from the COVID-19 crisis, this momentum seems far from over.

So what are the motivations driving this sector? How can we contribute to its proper definition and the measurement of its objectives? How can we ensure effective coordination of the various impact initiatives on a global scale?

This year, as part of its special report, the Impact Finance Barometer examines the resilience of the impact finance sector to exogenous shocks. By this term, we mean all the political, economic, climatic and social risks which, if they materialise, contribute to destabilising the sector, with

knock-on consequences for all beneficiaries.

By inviting organisations from our ecosystem to share their expertise on the subject of impact, this publication aims to make a contribution. The Barometer thus offers a panoramic view of the different forms that impact finance can take, highlights its real operating capacities on a global scale through concrete examples, and highlights responses to the issues of inclusion and financing of social and environmental transitions.

Through its content and the working method adopted to bring this publication to life, we are resolutely committed, along with our partners and collaborators, to seeing the advent of a 3Zero world: Zero Exclusion, Zero Carbon, Zero Poverty.

1. The GIIN, Annual impact investor survey 2020:
<https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020%20Executive%20Summary.pdf>

Fanny Roussey
Executive Director
Convergences

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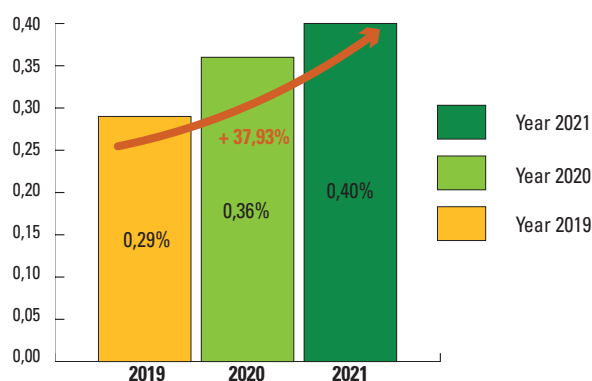
BNP PARIBAS



SOCIAL IMPACT FINANCE IN FIGURES

Social impact finance has continuously grown since it emerged in the 1980s. In just 20 years, it has increased almost 50-fold and now represents EUR 24.5 billion in assets, i.e., 0.40% of French household savings (compared to 0.36% in 2020 and 0.29% in 2019). Designated using the "Finansol" label¹, social impact finance provides a link between organisations with a strong social or environmental focus and savers seeking to put their money to good use. In fact, the year 2021 will be another record year for social impact finance, since resources invested in social impact financial products have grown by 27%, which represents the highest increase in absolute value ever recorded, exceeding EUR 5 billion over the year.

Share of social finance in the savings of French households



This record increase can be explained by a number of concurring factors. The growing diversification of social impact products on offer, accessible to all types of investors, coincides with an ever-increasing appetite on the part of French people to use their savings to help finance projects with a particularly strong social or environmental focus.

The resources raised from social impact savings make it possible to implement financing tools which are leaning towards activities with a high social and/or environmental impact. The year 2021, another year marked by the COVID pandemic, has seen specific issues come to the fore, thus directing funding towards social affairs and territorial cohesion.

In 2021, social impact funders contributed EUR 527 million net funding to organisations with a significant social or environmental impact. The largest increase was in international aid, which experienced a catch-up effect this year (with growth of +184%), after the sharp drop observed last

year, linked to the effects of the health crisis and the difficulty of operating in a period of closed borders. Social organisations, particularly in the fields of housing and health and social work, benefited from a sharp increase in funding (+51%), while environmental organisations experienced a decrease in funding (-23%). Around 1,350 French associations and companies were thus supported via social impact finance in 2021, with an average investment amount (excluding microcredit) of EUR 286,000, hence increasing by 21%. The latter are now better able to mobilise social impact investors, prioritising the desire for social or environmental impact over financial profitability.

Social impact enterprises for their part invested EUR 163 million in 2021, compared to EUR 104 million in 2020. The social housing sector accounts for most of the increase in investments by social impact enterprises (with a growth of +115%), but they are followed by organisations involved in long-term care projects (+26%) and, to a lesser extent, agricultural property companies (+8%).

These funding and investment flows generate a measurable positive impact at the end of the chain. They are part of a growing solidarity and social impact-based economic ecosystem, demonstrating the possibility of combining positive impact with a resilient economic model. Associations and companies with a significant social or environmental focus are now in the process of scaling up and proving their durability and capacity for innovation, suggesting that these record years will continue.

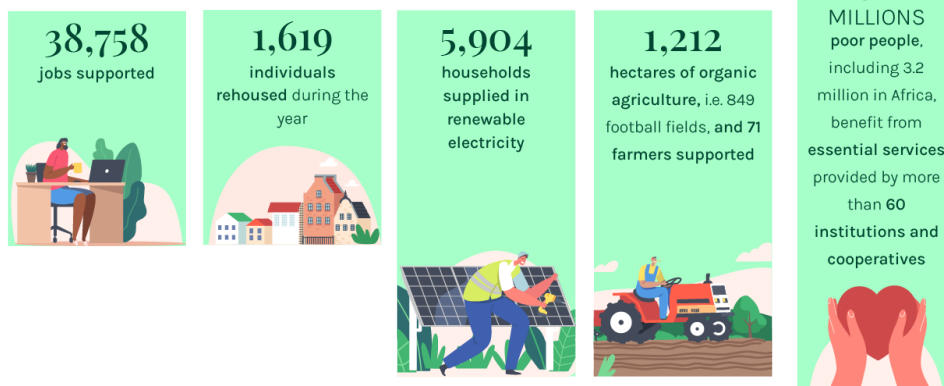
1. The Finansol label, created in 1997 in order to distinguish solidarity savings products from other savings products, is awarded to products issued by organisations at different positions in the financing circuit. Financing flows then occur between Finansol labelled supports, typically from a mutual fund to the shares of a company or a solidarity financier. In order to avoid double counting, the flow is split at the level of the labelled products. The net financing then presents the financing carried out excluding Finansol labelled products. The financing carried out between Finansol labelled products is strongly marked by the nature of the historical members of the network, generating biases in relation to the solidarity financing market as a whole and will therefore not be developed in this article.

Figures confirmed by the FAIR Social Impact Finance Observatory

Camille Manse
Research Officer
FAIR

SOCIAL IMPACT FINANCE HAS MADE IT POSSIBLE TO SUPPORT 1350 SOCIAL AND/OR ENVIRONMENTAL PROJECTS.

What impacts for society in 2021?



KEY FIGURES OF FINANCIAL INCLUSION ACROSS THE WORLD

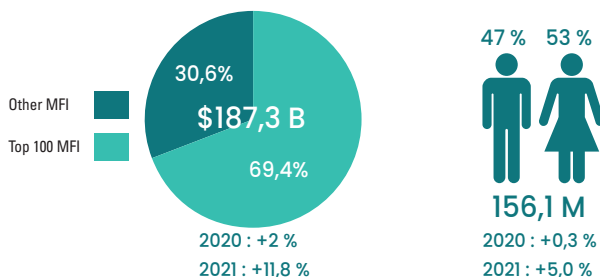
The Impact Finance Barometer analyses key figures on financial inclusion worldwide, using figures on the global microfinance market from ATLAS (www.atlasdata.org), a data platform that hosts validated financial and social impact performance data. Here is a look back at the main trends in the sector in 2021.

Global trends

The global microfinance sector has shown signs of improved growth in 2021 compared to the slowdown observed in 2020. For example, the median growth in gross loan portfolio (GLP) at the Microfinance Institution (MFI) level was 5.9 times higher in 2021 (11.8%) than 2020 (2.0%). Whilst this is higher than the 3.0% rate of global inflation, year-on-year growth remains marginally lower than the average rates recorded prior to 2020, which ranged between 12.4-16.3% (2017-19). In dollar terms, MFIs managed a total GLP of USD 187.3 billion with the top 100 MFIs remaining the sector's dominant players, accounting for 69.4% of total GLP.

The sector has also continued to grow in terms of the number of borrowers, increasing to 156.1 million in 2021. This reflects an increase of 5.0% at the MFI level, which is closer to the annual pre-pandemic growth rates observed in 2017-2019 (6-10%). In terms of demographic composition, female clients make 53% of MFI borrowers.

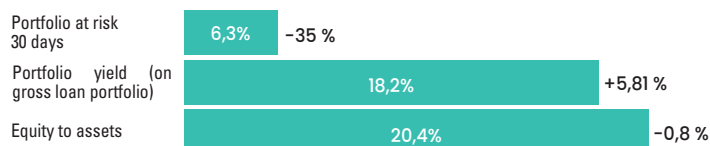
Gross loan portfolio and number of female borrowers



On average, portfolio quality improved in 2021 compared to the decline observed in 2020. High levels of portfolio restructuring that were carried out in 2020 have returned closer to pre-pandemic levels, with the industry restructured portfolio ratio falling from 3.9% to 0.8% (2020-21). The median portfolio at risk >30 days (PAR 30) has also improved, dropping 35% from 6.3% (2020) to 4.1% (2021). At the MFI level, the median growth in PAR 30 peaked at 33.0% in 2020, but fell to -14.0% in 2021, reflecting the improvement in credit risk observed at the global scale. However, segments of the market remain exposed to high credit risk and show a negative trend since 2020.

Aggregate improvements in credit risk have been followed by an improved trend in MFI profitability but remains below pre-pandemic levels. Portfolio yield, as measured on GLP, declined from 23.3% in 2019 to 17.2% in 2020, and has since marginally improved to 18.2% in 2021. The cost of risk has remained stable throughout this period, with the median provision expense ratio ranging from 1.5-1.7%.

MFIs average performance ratios in 2020 and evolution since 2019



At the global level, whilst solvency has remained stable on average, areas of the market have been affected by declines in solvency, particularly MFIs already at credit or solvency risk prior to 2020. For example, the median MFI equity to assets ratio declined by 0.8% yet was approximately stable at 20.4%. Beyond the average, segments of the market continue to show signs of stress and are exposed to a combination of high credit risk and low solvency.

Regional focus

Regionally, South and Southeast Asia (SSEA) continues to dominate the sector, accounting for 72.5% of all borrowers by the end of 2021. Furthermore, SSEA's GLP market share increased from 43.1% to 49.8%, however, the average loan size remained below the global average. For instance, the average loan size as a percentage of Gross National Income (GNI) per capita was at 17% in comparison to the global median of 42%. In terms of portfolio quality, PAR 30 was stable at 3.7% whereas the median restructured portfolio ratio declined from 7.3% to 1.5% (2020-21). This trend indicates a reversion to the global average in comparison to the high levels of restructuring observed in the region in 2020.

Latin America and the Caribbean (LAC) was the second largest market in terms of market share by GLP (38.8%) and borrowers (17.4%). Similar to SSEA, aggregate portfolio quality has improved and is comparable to the global average both in terms of PAR 30 and the restructured portfolio ratio, which are 3.8% and 0.8% respectively. Portfolio yield in 2021 (15.8%) was at similar levels to 2020 (17.0%) but was lower than the global average (18.2%).

In Sub-Saharan Africa (SSA), total GLP grew to USD 9.6bn in 2021, accounting for 5.1% of global GLP and 6.5% of total borrowers. MFIs in SSA continue to have a lower average portfolio quality in terms of PAR 30, which is higher than the global median at 6.0% in 2021 but below the 2020 high of 11.0%. Solvency in the region also remains comparable to global levels with a median equity to assets of 19.7% but shows a decline of 11% compared to 22.3% in 2020.

Europe and Central Asia (ECA) accounted for 4.9% and 2.4% of the global market share in GLP and the number of borrowers respectively. The region also has the lowest median PAR 30 (2.4%) compared to other regions.

Finally, MFIs in the Middle East and North Africa (MENA) region accounted for the smallest market share, making up 1.2% of global GLP and 2.8% of total borrowers. Profitability remains higher than the global average with a median portfolio yield of 24.4% in 2021. Furthermore, the equity to assets ratio (26.8%) remained higher in both relative and absolute terms compared to the global average (20.4%).

Alasdair Lindsay-Walters

Data Scientist

MFR

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ATLAS
Benchmarking across Borders

Methodology

All indicators are calculated based on the availability of reporting MFIs in the ATLAS database (www.atlasdata.org), including up to 431 MFIs for 2021 calculations and up to 1,385 MFIs in the case of gross loan portfolio and number of borrowers. Inflation statistics are provided by the World Bank. Aggregate calculations (e.g., median) use MFI data as of 2021, taking the most recent month where data is available. For gross loan portfolio and number of borrowers, the previous four years are also included (2018-21), taking the most recent year available to ensure more accurate data coverage. For example, if an MFI has reported data for 2021, that value will be used. However, if they have not reported data in 2021 or 2020, then their reported value for 2019 or 2018 will be used. Year-on-year growth statistics are reported using the same composition of MFIs to ensure comparability across years.

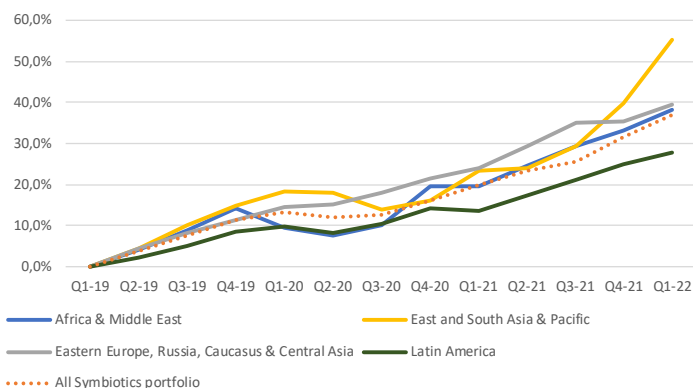
IMPACT OF CRISIS ON GLOBAL



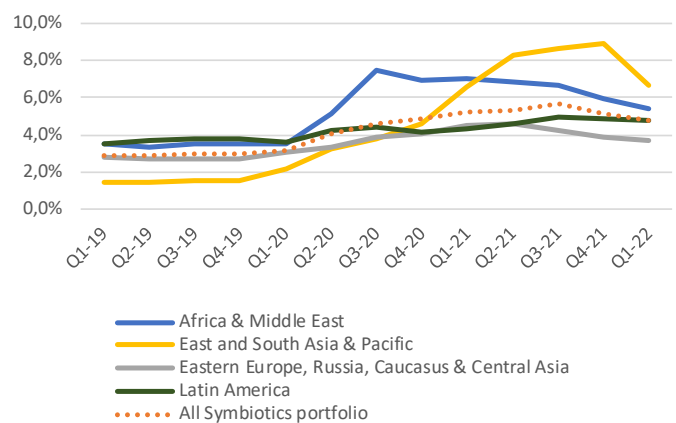
As the pandemic has affected the world over the past two years, several countries faced a severe health crisis, as well as economic slowdowns and political instability. The present analysis depicts the resilience of financial institutions operating towards financial inclusion in emerging and frontier countries, according to financial indicators aggregated at global and regional levels.

Within Symbiotics' portfolio of around 300 institutions, temporary slowdowns of the portfolio growth were observed in 2020, yet the loan portfolio did not decline in any regions. In 2021, growth levels returned to the same pace as before the pandemic in all regions. Asia shows significant growth compared to other regions, similarly to before 2020 since this region was already more sustained than others within Symbiotics' partners.

Portfolio Growth



Portfolio at Risk (PAR90+R)



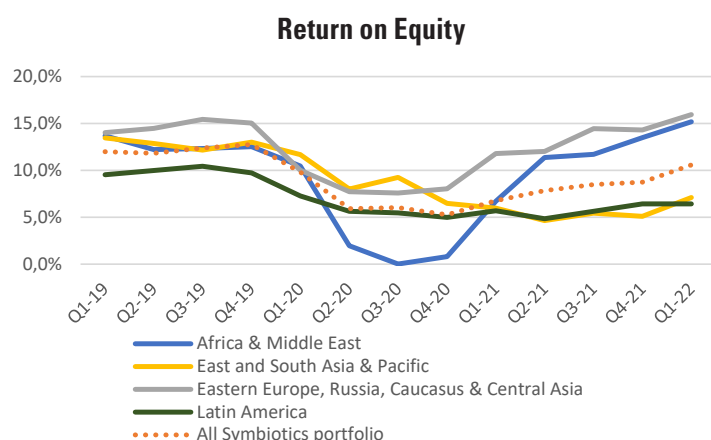
In terms of portfolio quality, the portfolio at risk (PAR90+R) has evolved in successive waves and at different pace across the regions. At the aggregate level, PAR90+R started to increase in Q2-2020, and continued to rise throughout 2021. However, the expected rise of non-performing loans was partially mitigated by moratorium programs implemented in several countries. Indeed, many clients that were unable to repay were protected by the moratoria. Yet, once these were gradually lifted since Q3-2020, the clients had already resumed their businesses and were therefore able to keep repaying their loans. This trend can be seen at the end of 2021 in all regions with a decline in PAR90+R levels. Asia and Africa are two regions that recorded higher levels.



FINANCIAL INCLUSION

In Asia, PAR90+R reached higher levels due to portfolio deterioration in Myanmar and Sri Lanka related to political and economic instability in such countries, as well as an increase in restructured loans in South Asia (namely India). The spike in PAR90+R in Africa was mostly due to political and macroeconomic instability in few specific countries in the Middle East and North Africa, and also to the fact that Sub-Saharan region almost did not grant any moratoria, resulting in an earlier wave of PAR90+R than what could be seen in other regions.

Despite the challenges and instability posed by the pandemic, institutions' access to funding and deposits remained strong. We believe this demonstrates the solid positioning of Symbiotics' partners, and good support coming from their foreign investors, local banks and depositors. In addition, it demonstrates the confidence of the public in local MSME financial institutions, thanks to their resilient track records from previous local and regional crises and improving regulation in this sector. Consistent growth in funding and deposits helped creating a liquidity cushion during the crisis. As institutions resume portfolio growth, a gradual decline in liquidity is reported since Q2-2021 (closer to 2019 levels). In 2021, we noted a slight decline in solvency levels in most regions, mainly led by increased PAR and provisioning expenses. This may indicate lower dividend levels that should help recapitalise institutions and prepare for resumed growth post-pandemic.



At the aggregate level, the profitability of Symbiotics' partners declined for the same provisioning reasons and is comparable to 2019 levels only as of Q1-2022. However, profitability levels in the regions show two different trends. On one side, Africa and Europe & Central Asia followed a decreasing profitability trend until mid-2020 and then a gradual increase until early-2022. On the other side, Asia and Latin America recorded a continuous decline since 2020, which is more significant in Asia, and only reported slight increases since Q3-2021.

Overall, these financial indicators depict the resilience of financial institutions in emerging and frontier markets working towards financial inclusion, which were able to weather the crisis thanks to rapid crisis-responses such as the moratorium programs and stable relationships with their different stakeholders. Yet, we observe that some regions with severe political and economic issues, such as Myanmar, Sri Lanka and Lebanon, will require more time to recover and return to previous levels.

The impact of the Ukraine-Russia conflict on Symbiotics cannot yet be fully observed as the present study only encompasses data until Q1-2022. It is expected that the conflict and the resulting inflationary pressure experienced in 2022 will have an implication on financial institutions, depending on the region and the type of underlying portfolio.

However, the great resilience of this sector, focused on the real economy of MSMEs leaves us optimistic that they will be able to withstand further distress.

Vincent Lehner
Head of Markets
Symbiotics

HOW CAN A BANK ORGANISE THE MEASUREMENT OF THE SOCIAL PERFORMANCE OF ITS PARTNER MICROFINANCE INSTITUTIONS?

By producing for the first time a specific report dedicated to the social performance of partner microfinance institutions (MFIs), BNP Paribas has sought to assess the actions carried out by these institutions, not only in 2021 but also over 30 years of commitment to inclusive finance. The release of this report is in line with the Group's 2022-2025 strategic plan, which establishes financial inclusion as a priority, by ensuring the monitoring of an indicator dedicated to this subject in its scorecard.

"IT IS THE BANKERS' RESPONSIBILITY TO FINANCE ENTREPRENEURS WHO WILL IN TURN CREATE JOBS AND THUS HELP STABILISE THE ECONOMY."

In order to better understand the impact measurement strategy of our MFI partners, we decided to assess the social performance of their actions. In this regard, we enlisted a CIFRE¹ doctoral researcher, who coordinated exchanges with 18 MFIs, following a collaborative approach. The highly heterogeneous practices in terms of indicators, different definitions and logistical capacity, meant that some readjustments were necessary. In total, six indicators from the MESIS (Measuring and Monitoring Social Impact)² methodology were chosen in order to collect as much data as possible from the institutions.



Grameen offers its beneficiaries financial education sessions and workshops on hygiene, health and access to drinking water.

This financial education is very important, for it helps beneficiaries to avoid the pitfalls of over-indebtedness or abusive credit, as in the case of Matilde, a Mexican immigrant living in New York. The interest on the USD 1,000 loan she took out with loan sharks amounted to USD 100 a week. A huge debt, which she was able to pay off thanks to the income generated by her restaurant, financed by a loan from Grameen America.



In addition to MESIS and the impact studies, the SPI4³ scoring mechanism is a useful tool for comparing the social performance of institutions. For example, the bank-funded MFIs attain a score of 83% compared to 65% for all MFIs in the database. This difference shows the importance of the social remit, which is at the heart of our funding analysis.



BNP Paribas' support to the sector amounts to EUR 367 million in 2021, through both loans (EUR 270 million at the end of 2021) and indirect financing via funds. If we looked only at the extent of lending since 1989, the year BNP Paribas first provided financing to an MFI, we would note that EUR 1.2 billion has been granted to 2.9 million beneficiaries via our partner MFIs. The scope of intervention covers France,

Belgium, Italy, Luxembourg, the Netherlands, the United States, South Africa, Brazil, China, India, Indonesia, Morocco, Senegal and Vietnam. In other words, 14 countries, including 13 participants in the study, and nine local currencies. The financing provided is in local currency so as not to expose the institutions to exchange rate risk.

Finally, the support the bank provides can be not only financial, through credits and investments, but can also be in the form of pro-bono services provided by our employees. This represents more than 15,000 hours of short- or long-term support in four different countries.

This study allows us to assess and objectify the results of microfinance operations. As such, it will guide us towards greater support for the sector in the years to come. As Professor Muhammad Yunus, Nobel Peace Prize winner in 2006, points out in the report, microfinance has a key role to play in the economic recovery from the health crisis: "It is the bankers' responsibility to finance entrepreneurs who will in turn create jobs and thus help stabilise the economy."

1. The CIFRE – Conventions Industrielles de Formation par la Recherche (Industrial Training Agreements through Research) – system allows French companies, local authorities or associations to entrust a doctoral candidate with an assignment in the framework of a research collaboration with an academic research laboratory affiliated to a doctoral school.

2. Co-created by Caisse de Dépôts and BNP Paribas with the support of the consulting firm KIMSO.

3. The Social Performance Indicators (SPI) tool is used to assess social performance and was developed by CERISE for financial service providers (FSPs) including MFIs.

Alain Levy

Head of Microfinance & Social Entrepreneurship for Latin America, Asia and Eastern Europe
BNP Paribas



BNP PARIBAS

GENDER-SMART FINANCIAL INCLUSION: KEY LEARNINGS FROM ADVANS GROUP

In 2020, UN Women announced that the gender poverty gap would widen in the wake of the COVID 19 pandemic¹. Advans' found that while women were less affected initially, it took longer for women's situations to improve, with 85% still saying their financial situation had worsened vs. 80% of men² at the end of 2020³. This encouraged Advans to dig deeper into how it could better support female clients. Advans received support from shareholder BII to work with Palladium Impact Capital to define a targeted gender strategy with projects in two markets: Cameroon and Ghana. Here are some lessons from this experience.

1. Female clients should not be treated as a homogenous group⁴

Female entrepreneur clients are mostly in Advans micro segments and are less present in the small and medium segments. In Ghana, over 60% of the micro segment are women so studies focused on micro female 'Striver' clients with a high business potential but in need of support to grow. In Cameroon, which has more small and medium clients, Advans targeted these two larger segments. The objective of these studies was to gain an in-depth understanding of the barriers different female entrepreneur profiles encounter and their needs going forward.

Figure 1 : % female clients per segment

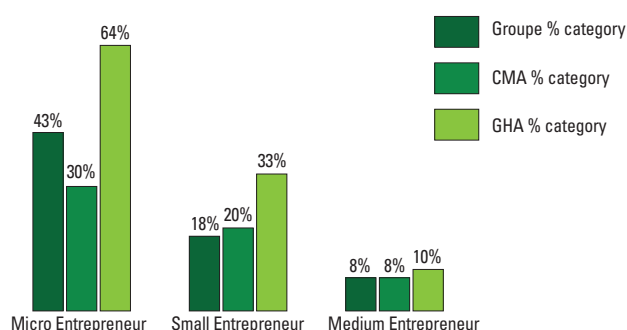


Figure 2: Distribution of female portfolio



2. Financial and non-financial services can help female entrepreneurs grow

Access to capital remains a barrier to growth, but women often don't have the collateral or formalisation required to get a bigger loan. Defining how to make collateral more flexible is key to increasing access to finance for women and additional services like coaching or digital accounting tools can benefit in the long term. Advans Tunisie launched a coaching program in 2020 for clients affected by the COVID crisis, with over 300 female clients participating. 89% of beneficiaries said the program positively impacted their activity⁵, with on time repayment improving especially for female participants.

3. Clear communication is key for adoption and use of services⁶

In Ghana women had more active accounts but transacted less while in Cameroon, female clients wanted more information and lacked trust in digital services. It is therefore essential to provide the right support when onboarding female clients – particularly for digital services. Advans Cameroun has started providing financial education sessions, lowered minimum savings account balances, and is using female client ambassadors to promote Advans.

4. Staff buy in is essential to deploying a gender-smart approach

Financial service providers need to build front line staff's capacity to have a fully gender sensitive approach⁷. Field staff need to be convinced of the business case for serving women and understand why sales approaches should be adapted. Advans Cameroun has started rolling out gender smart training and coaching in branches. Focusing on improving the female customer experience will increase satisfaction and help Advans attract more female clients.

5. Serving women better may help Advans have a wider impact

In Ghana, women were more likely to report that Advans had a positive impact on their quality of life, especially increasing their spending on home improvement, education and healthcare⁸. These results show that women clients may be more likely to invest in key life improvements for their families, and that by supporting women clients, Advans can have a wider impact on the communities in which it operates.

What's next for Advans and gender-smart financial inclusion?

Advans aims to use these key first learnings to enrich its overall gender strategy and deploy key projects in Cameroon, Ghana and Tunisia. We will share experiences and refine our gender smart road map for the years to come with one overall objective: a better approach to women's financial inclusion for a wider impact on businesses, families, and communities.

1. Source: <https://www.unwomen.org/en/news/stories/2020/8/press-release-covid-19-will-widen-poverty-gap-between-women-and-men>
2. Covid impact survey conducted by 60 Decibels with 3,054 clients in Cambodia, Cameroon, Ghana, Nigeria Pakistan, Tunisia, Myanmar (Study supported by FMO)
3. 739 female respondents and 646 male respondents R2
4. Source: <https://www.cgap.org/blog/3-ways-deepen-our-understanding-womens-financial-inclusion>
5. Results of survey with 840 beneficiaries of the programme (which included 328 women)
6. The Paradox of Gender-Neutral Banking, Global Banking Alliance, 2016 (p.10): [Link to report](#)
7. A comprehensive framework for gender centrality in financial services, MSC, Briefing Note #175, 2018: https://www.microsave.net/wp-content/uploads/2019/03/BN_175_Comprehensive_framework_gender_centralty.pdf
8. 60D Financial Inclusion Index results, GHA: 151 female clients /255 clients Ghana

Katherine Brown
Senior Marketing Officer
ADVANS Group

HOW TO SUPPORT GENDER LENS INVESTING?

What is Gender Lens Investing (“GLI”)? The GIIN defines it as “a strategy or approach to investing that takes into consideration gender-based factors across the investment process to advance gender equality and better inform investment decisions”. In other words, mainstreaming gender analysis in the investment process, from deal origination to exit measurement. This includes setting targets for women-led and women-targeting projects, seeking new deal sourcing channels, diversifying the investment selection committee, and offering gender lens technical assistance to portfolio firms. All being measured and monitored through ad-hoc indicators, such as quantity of women-led businesses, products and services generated towards women, gender diversity in the workforce, and number of women in value chains.

Within the past five years, the number of gender lens funds has grown exponentially. In 2020, global Assets under Management (AuM) of gender lens funds reached USD 7.7 billion.

How did this come about? According to the World Economic Forum (2021) it will take 135.6 years to close the global gender gap, and 267 years to close the economic participation gap. The entire investing community – from institutional and traditional investors, to innovative fund managers - acknowledges that the current financial system engages differently with both genders. As a result, GLI attracts increasing attention, seeking to transform finance into a tool promoting gender equality.

IT IS NOT A QUESTION ABOUT PRIORITISING WOMEN AT THE EXPENSE OF MEN, BUT RATHER PROMOTING THE EMPOWERMENT OF WOMEN AND GENDER EQUALITY IN ALL FACETS OF LIFE. THIS RANGES FROM CHILDREN TO ADULTS, POLITICAL TO SOCIAL LIFE, FAIR AND JUST EDUCATION TO BASIC NEEDS.

One of the first ground-breaking initiatives addressing this goal is the 2X Challenge, which calls Development Finance Institutions to collectively mobilise USD 3 billion to invest in the world’s women.

Innpact, Luxembourg- and Mauritius- based advisory and fund management company, brings its financial expertise to build the ecosystem of impact finance, to enable social and environmental initiatives and serve the purpose of gender-lens investing.

Several are Innpart’s initiatives which contribute to the challenge of shifting capital for responsible finance through a variety of initiatives:

Innpact advises emerging fund managers and investment teams on the additionality of Global Leading Indicators (GLIs)

One example of Innpart’s knowledge-sharing activities is providing expert training to the emerging fund managers being supported by the International Climate Fund Accelerator (ICFA), an initiative for which Innpart is one founding members and a key contributor. Innpart aims to integrate an element of gender in the next cohort of climate fund managers, in an effort to promote the intersection between gender and climate finance. Fund managers will be trained on all elements of gender: risks associated with climate investments, renewable energy infrastructure, the repercussion of climate risks on women-led businesses (such as in agriculture), gender-based violence, and gender equality and social inclusion. Considering

gender and climate change together is important, as investing in women can positively affect the efforts to fight climate change and vice versa.

Innpact also supports emerging fund managers in updating their impact investment strategy with best practices on gender

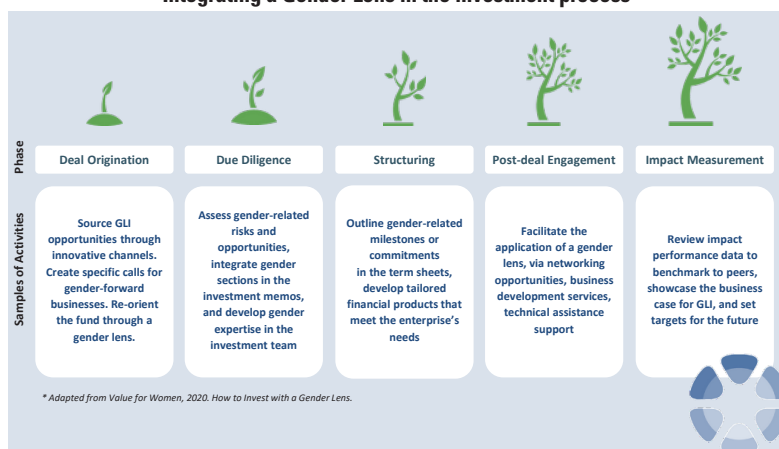
One example is the Future of Work Fund promoted by Chancen International, a fair and ethical student finance provider. The fund provides financing for education that leads to employment in the form of Income Share Agreements in Rwanda & South Africa. The 2X Challenge Gender Criteria are used throughout the investment process to align the fund’s objectives and real impact. Gender KPIs including the ratio of female beneficiaries are embedded in the fund’s business model to ensure impact generation is at the core of all its operations.

Thirdly, Innpart is a member of the 2XCollaborative, global industry body that convenes investors around GLI

The 2X criteria have already become the global standards for gender investments. Innpart, by actively joining the Collaborative, seeks to contribute to 2X goals of building capacity, setting standards, and shifting markets to mobilise capital with gender impact.

Overall, Innpart believes that GLI allows us to tap into an often-overlooked potential. It is not a question about prioritising women at the expense of men, but rather promoting the empowerment of women and gender equality in all facets of life. This ranges from children to adults, political to social life, fair and just education to basic needs. We hope to see GLI gain more traction and merge with other areas dear to Impact Investing such as climate, in order to truly reap the benefits of positive social and environmental impact.

Integrating a Gender Lens in the investment process



Adriana Balducci
Head of Advisory Services

Julie DeThomas
Junior Consultant

Elisa Camorani
Junior Consultant

Innpact

INCLUSIVE FINANCE, AN UNDER-EXPLOITED TOOL IN THE FIGHT AGAINST CLIMATE CHANGE



Tackling climate change and its consequences is an immense challenge on a global scale. However, this challenge is even greater when it comes to Africa, the most vulnerable continent to climate change even though it contributes very little to it according to the IPCC report published in early 2022. Thus, according to the IMF's 2020 estimates, between USD 30 and 50 billion in additional financing will be needed each year for climate change adaptation in sub-Saharan Africa alone.

Given the scale of these needs, inclusive finance is not the first thing that comes to mind to meet them. However, it is the most vulnerable populations, especially small-scale farmers, who are bearing the brunt of climate change, and these populations often have no other access to financial services than through inclusive finance providers. This sector therefore has a key role to play in enabling populations not only to adapt to the effects of climate change, but also to be part of the necessary transition to a more eco-friendly and low-carbon development model.

Enda Tamweel, Tunisia's leading microfinance institution, has set itself the goal of taking on this role to the fullest extent. After developing a first microcredit for recycling operations in 2015 and adopting an environmental strategy, this MFI sought to develop its "green" microcredit facilities in order to ultimately position itself as the leader in green microfinance in the country. With the support of ADA and MicroEnergy International, Enda Tamweel thus analysed the opportunities and chose to begin by addressing the needs of small-scale date palm producers in southern Tunisia. These producers are particularly exposed to the consequences of climate change, which threatens their agricultural yields, but they also manage an industry that could potentially be transformed to involve more sustainable practices, particularly in terms of water and energy resource management. Enda Tamweel therefore developed a new product which would provide finance for solar irrigation and pumping systems, with expected positive effects on both the environment and the economic situation of producers, through the use of a clean, less costly energy source and the rational management of water resources.

In 2020, a pilot was launched in six agencies in southern Tunisia, around 100 loans were granted, and an evaluation¹ was carried out and made available in early 2022. Although the context of the COVID-19 crisis meant the quantitative objectives of loan disbursement were not achieved, the results of the evaluation demonstrated the suitability of the product and its positive effects. Thus, from an environmental point of view, while 2/3 of the producers initially used diesel to power their pumping system, 79% changed energy source after taking out the credit. Similarly, while 67% initially used gravity-fed irrigation, 62% now use a more water-efficient drip irrigation system. Concerning the economic situation of the producers in the short term, 93% of the respondents said that the solar pumping system was more cost-effective than a conventional pumping system and 88% found it more economical. Finally, with regard to their agricultural operations, 35% of the producers believe that the quality of their production has improved, 25% have extended their irrigated area, while others have diversified and/or intensified their production thanks to this new system. These positive results were made possible by combining the credit with agricultural technical assistance (training and individual coaching), which helped producers manage the change.

Nevertheless, the major challenge for this type of product relates to its upscaling. For this to happen, awareness-raising not only among potential clients but also and especially among MFI staff is essential, as is technical support for clients and the development of strong partnerships with equipment suppliers. All of these aspects represent significant financial and human investments for the MFIs, which could be supported, for example, through targeted funding for climate change initiatives.

Making climate finance more accessible to the people who need it remains a challenge that the actors supporting the inclusive finance sector should help to address. This objective is therefore now part of ADA's new strategic priorities.

1. A telephone survey of 71% of clients was conducted, with a margin of error of 6.15%.

Mathilde Bauwin
Junior Consultant
ADA Microfinance

TOWARDS A MORE INCLUSIVE CARBON FINANCE?

The need to foster the emergence of economic systems that are not only sustainable and resilient – but also regenerative for both the environment and the social fabric – is becoming increasingly compelling. This requires adopting a multi-dimensional approach, working on different dimensions of impact at the same time, but also bringing together stakeholders from different backgrounds – public, private, investors & civil society – around common objectives that allow externalities to be valued.

A demonstration of regenerative agriculture and carbon finance

In this context, regenerative agriculture appears to be one of the most promising and concrete solutions for the ecological and social transition:

- The agricultural and forestry sector represents 24%¹ of global greenhouse gas (GHG) emissions;
- Adapting to climate change requires reshaping the balance of farms;
- Soil depletion leads to lower yields on exploited land;
- We are heading towards a world with 9 to 10 billion people;
- The evolution of agricultural production must include the issue of deforestation;
- The social inclusion of women and young people remains a major challenge to keep the younger generations in rural areas;
- 78% of the poorest people live and work in rural areas and depend mainly on agricultural activities.

These are key reasons to promote better use of existing land and restoration of soils for better environmental health and more equitable business opportunities... Yet the uptake of regenerative agriculture remains stalled at scale, especially at the first mile of agricultural value chains, at the level of small farmers.

The expected outburst of voluntary carbon markets

On the other hand, the so-called voluntary carbon markets (VCMs) are entering a promising, if probably turbulent, decade. The AFOLU (Agriculture, Forestry) segment will continue to represent a significant part of carbon programmes but will increasingly need to integrate the fragmented supply chains involving hundreds of millions of small farmers.

Expectations for the global market range from USD 30 billion to USD 150 billion over the decade, with the first billion-dollar mark reached in 2021... So much for the likelihood of confusion. The only way to avoid accusations of green or SDG washing, as the credits generated in this way are akin to indulgences, will be to establish the solidity of the social impact provided and the real additionality of the approaches implemented.

The necessity of a fair transition

Indeed, the environmental transition can only take shape if it is part of a framework of social justice. There can be no climate transition if it is not fair.

Thus, the inclusion of small farmers in this future development of carbon finance is imperative, as much for reasons of equity as for reasons of acceptability.

In the face of land scarcity and in view of these equity objectives, actions on existing farms to encourage changes in practice and the adoption of regenerative agriculture can rely on the anticipated rise of voluntary carbon markets to find additional financing while providing real environmental impact and value redistribution. Furthermore, it is also an opportunity to future-proof development projects, giving them the means to be sustainable and self-financing to fully benefit from their implementation efforts, through offset markets. All of these elements are excellent reasons to include more and more small farms in carbon finance projects, especially in emerging and developing countries, and to promote the transition to regenerative agriculture.



A number of obstacles... that digital solutions can help overcome

However, there are many financial and operational barriers to this need:

- Price of the Tonne of Carbon Equivalent for a long-time anaemic;
- High cost for the qualification and monitoring of credits as well as for transactions;
- Uncertainty of emission levels;
- Above all, it is difficult to induce changes in practices and to ensure the long-term participation of small farmers.

Therefore, it is necessary to think of the schemes at scale, at two levels.

- Validation, monitoring and issuing of credits: analyses combining different sources of data, field & satellite for example, data science approaches for identifying and processing abnormal data (outlier spotting, redundancies, sampling, etc.) make it possible to process large samples by cross-referencing with field approaches;
- Sharing the value created with farmers and stakeholders, in cash and in kind.

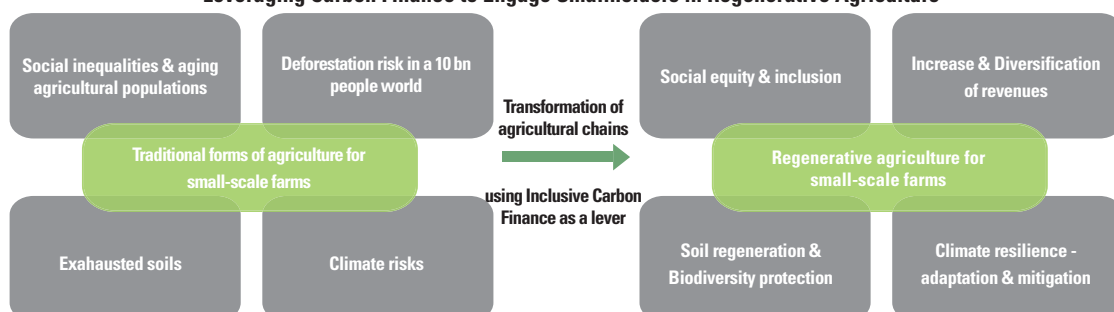
By broadening the debate, this could more extensively advance the operationalisation of mechanisms for valuing externalities² (as voluntary carbon markets are a typical example), in multi-stakeholder coalitions or through impact bonds: at the social level, such as gender equality actions, or at the environmental level, around biodiversity for example. The robustness of impact approaches will indeed be the most reliable guarantee of the multi-stakeholder coalitions required for the emergence of regenerative economy models.

1. Source : <https://www.epa.gov/ghgemissions/global-greenhouse-gas-emissions-data>

2. Source : <https://ksapa.org/impact-measurement-is-a-societal-political-stake/>

Raphaël Hara
Executive director
Ksapa

Leveraging Carbon Finance to Engage Smallholders in Regenerative Agriculture



FINANCING THE ECOLOGICAL AND SOCIAL TRANSITION IN AFRICA THROUGH A MULTI-STAKEHOLDER INSTRUMENT: THE FEFISOL II FUND



The European Solidarity Financing Fund for Africa (FEFISOL II) is a response to the major challenges involved in financing vulnerable populations in rural areas in Africa, and particularly in the agricultural sector. Its mission is to finance and strengthen small microfinance institutions (MFIs) in rural areas and agricultural entities that supply from family farms, which are excluded from traditional financing mechanisms and yet are key players in the continent's economy.

Today, the penetration rate of microfinance in rural areas remains very low in Africa: less than 5% of the loans disbursed by traditional financial institutions go to the agricultural sector and less than 10% of farmers have access to credit. Nevertheless, the agricultural sector represents 23% of the continent's GDP and 55% of employment.

Within the African agricultural sector, family farming plays a major role in terms of number of farms (there are 100 million family farms in the 47 countries of sub-Saharan Africa), in terms of value production, and in terms of employment: 75% of the sub-Saharan population is involved directly (production) or indirectly (processing) in agriculture. Family farming is also essential in terms of environmental issues and directly contributes to the preservation of biodiversity.

The financing of the agricultural sector, and in particular of small-scale farmers, is therefore of crucial importance when it comes to food security, employment, resilience to the climate change, and also regarding the financial inclusion of women who, even though they represent more than half of the agricultural workforce, often do not have the same access to finance as men.

In 2011, the social investors International Solidarity for Development and Investment (SIDI in the French acronym) and Alterfin, designed the first European impact fund dedicated to rural microfinance in Africa, called FEFISOL. It successfully concluded its operations in 2021, validating the innovative approach adopted at its launch.

- EUR 86.5 million disbursed, of which 93% in sub-Saharan Africa, 60% in low HDI countries, and 90% in countries vulnerable to climate change;
- 75% of the portfolio in local currency;
- 92 clients financed in 25 countries;
- 139 technical support projects carried out with 51 clients;
- 3.4 million final beneficiaries.

Building on a decade of successfully providing support to rural microfinance, SIDI and Alterfin launched FEFISOL II for a period of 12 years. The very positive results of the first fund have convinced investors to sign up for FEFISOL II: in addition to SIDI and Alterfin, the European Investment Bank and the private sector subsidiary of the French Development Agency, Proparco, the French social bank Crédit Coopératif and the Italian bank Banca Etica have renewed their commitment. New investors have also joined the initiative: the Belgian investment company for developing countries BIO, the Alternative Swiss Bank (BAS), and the NGO SOS Faim Luxembourg. FEFISOL II is thus closing its first investment round at EUR 22.5 million, with a technical support package of EUR 1 million provided by Proparco via FISEA+ with the final objective of raising EUR 6 million. The second round will be launched in 2023.

These investments will enable the Fund to pursue and broaden its social mission. By drawing on the experience acquired, FEFISOL II will be able to focus its efforts on the quality of the service provided and thus be even more ambitious in terms of social and environmental performance.

Financing the ecological and social transition is the central focus of the fund. The goal is to implement FEFISOL II in more than 28 African countries and eventually support 110 MFIs or agricultural entities that buy from family farms, most of which are Fair Trade or organic certified. The fund offers diversified financial products that are tailored to the needs of the supported organisations, and in 12 to 15 local currencies so that they will not be exposed to exchange rate risk. Finally, FEFISOL II provides new technical assistance tools, with the particular aim of strengthening the climate change resilience of partners.

Inpulse, an asset manager specialising in impact investment and microfinance, has been selected to manage FEFISOL II. SIDI will continue to act as portfolio coordinator, which means that it will support the SIDI and Alterfin investment officers in developing and monitoring the fund's portfolio.

By supporting the implementation of socially and environmentally sustainable practices, FEFISOL II aims to improve the living standards of vulnerable populations in rural Africa, reduce inequalities and promote sustainable agricultural practices, such as agroecology.

Isabelle Brun
External communication manager
SIDI

CARBON FINANCE, A STRATEGIC LEVER TO ACCELERATE INVESTMENT IN THE FAIR TRANSITION AND ACHIEVING NET ZERO EMISSIONS

The major challenge of our century: achieving net zero emissions as soon as possible

Climate change has become an undeniable reality. As the latest IPCC report has forcefully reminded us, all economic actors need to act as a matter of urgency to tackle the issue.

In order to meet the objective of staying below the 1.5 degree Celsius mark set by the Paris Agreement, we need to achieve net zero emissions on a global scale as soon as possible, and before 2050 at the latest.

All scenarios for achieving this goal are based on a significant reduction in GHG emissions, combined with the capture or sequestration of some of the CO₂ in the atmosphere, using both natural carbon sinks and technological sequestration solutions.

To help achieve this goal, companies and organisations need to accurately measure their carbon footprint (especially in Scope 3) and drastically reduce their GHG emissions as part of a "net zero" and "science-based" trajectory. In addition, they need to start financing carbon sequestration projects today.

The role of carbon finance in achieving net zero

Climate finance, which began with the implementation of the Kyoto Protocol, is now a proven and recognised mechanism for financing ambitious carbon reduction and sequestration projects.

It has been around for more than 15 years and is now a mature sector based on proven methodologies (developed for the most part within the framework of the United Nations Clean Development Mechanism - CDM), robust certification standards (VCS, Gold Standard, etc.), a code of best practices used worldwide (ICROA Code of Best Practices) and internationally recognised standards (PAS 2060, ISO 14068 standard currently being developed, etc.).

Using certified carbon credits allows organisations to help neutralise (sequestration projects) or offset (emission reduction or avoidance projects) their incompressible emissions.

With the price of carbon credits rising steadily since 2019 on the voluntary carbon market, carbon finance makes it possible to finance and make more attractive projects that would not have been possible without the revenue generated by carbon certification. As a result, more and more projects are being undertaken on all continents.

This increase in the price of carbon credits is good news in that it will encourage project developers to initiate additional emission reduction or carbon sequestration projects, while financing programmes aimed at increasing access to energy, improving health conditions and building capacities alongside carbon-based operations.

Carbon finance: an impact investing tool

Over and above their role in reducing emissions or sequestering carbon, "carbon" projects are in fact impact finance projects, providing numerous co-benefits for the beneficiary populations.

Some of these carbon projects facilitate access to clean and affordable energy (e.g., methane capture projects for small-scale farmers, renewable energy deployment projects in the least developed countries), contribute to the provision of better education for children and the achievement of gender parity while improving sanitary conditions (improved cooking stoves or water access projects), or protect endemic

biodiversity and natural resources in fragile and threatened ecosystems (nature-based projects, such as forest preservation, reforestation or mangrove restoration projects).

In this respect, carbon finance represents a valuable impact investing tool that can accelerate a just and inclusive ecological and social transition, but which is still sometimes underestimated and probably not yet considered at its fair value.

Boosting investment in new impact carbon projects

The significant growth in demand on the voluntary carbon market, which leads to higher market prices, has accelerated the development of new, truly additional projects.

However, it is clear that the projects currently under development will not be sufficient to cover all the remaining incompressible emissions by 2050 in order to reach net zero emission. The number of carbon sequestration projects in particular is still too low to meet the demand and address the climate challenges.

We therefore need to facilitate, scale up and massively increase investment in new impact carbon projects.

These projects must have impact as a main focus while ensuring that they comply with best practices in the carbon market and further enhance their level of integrity (additionality, sustainability of sequestration, credible baseline scenario, independent verification and audits by qualified third parties, transparency in the use of funds).

This is the task that Removall, the first French entity to specialise 100% in investment and financing solutions for impact carbon sequestration projects, has set itself.

Jérôme Beilin

Executive Director and Co-founder
Removall



Source: ICROA and Imperial College study on the cobenefits of carbon offsetting projects

DEVELOPING IMPACT FINANCE TO RESPOND TO CURRENT EMERGENCIES BY TRANSFORMING OUR SYSTEM

Environmental, social and societal emergencies are commonplace: exogenous shocks are increasing and are translating into various pressures on our economic system and our society. To provide an adequate response, the transformation of the real economy and the financial system is becoming increasingly urgent. The development of impact finance is key to achieving this goal.

We need to move beyond simple ESG (Environment, Social, Governance) analysis, which has not been shown to have a concrete impact in terms of transforming the real economy. To do so, financing needs to be based on the three key principles of impact: intentionality, additionality and measurability. The risk/return approach and single financial materiality are not enough to achieve effective transformation: the double materiality supported by the European institutions is essential/important to succeed in the necessary transformation to handle the emergencies, as it also integrates the negative and positive impacts of the entity concerned on its wider environment (environmental, social and societal levels). In a context where financial resources are likely to be more limited than in the past, the additionality of the different vectors of impact finance will become crucial in terms of setting priorities while ensuring protection from any impact risk.

Following these convictions, stakeholders are mobilising within the framework of the Marketplace Group on Impact Finance led by Finance for Tomorrow. More than 230 participants from 130 organisations are now involved in four working groups, led by 17 committed stakeholders. Having agreed on a cross-cutting definition at the end of 2021, presented above, the parties involved are currently working on developing tools to make it operational.

The first project concerns an evaluation grid of fund's potential to contribute to sustainable transformation. This grid, which will be developed on an iterative basis as it is trialled by stakeholders, is an operational, voluntary and educational tool which will help stakeholders to engage in an impact assessment process. The grid qualifies the fund as "impact" if and only if ten criteria are met to a certain requirement level and if the fund's score reaches at least 75 out of 100. This tool can thus guide investors in the construction of their impact funds but could also be used to refer savers and investors to funds with the greatest potential for contributing to sustainable transformation. Two sub-groups are also

working on the co-construction of two potential variations of the grid, "banking products" and "real assets" (infrastructure and real estate), capable to grasp the specificities of these business areas.

A second project concerns the development of an "Impact Investor Charter" for investors who deal in impact products. After a preamble focusing on the definition of impact finance, the Charter will commit signatories to respecting principles that are in line with the three key principles of impact by clearly stating the scope of the products concerned.

A third area of work concerns the development of a framework for assessing the impact of the companies financed and a mapping of the tools for financing impact companies. These companies, as major components of the real economy, need to change in order to respond to emergencies.

This work in the marketplace is key when it comes to creating the operational tools needed to develop impact finance. Another way of doing so involves integrating the issue of impact into the ongoing reform of the SRI label¹, as recommended by the marketplace group. The SRI label could thus include an "Impact" section comprising a "commitment" component and transparency obligations that go beyond reporting on KPIs, with a particular focus on demonstrating the soundness of the methodology used by the investor and its limitations.

Given the lack of detail in the regulations, and in particular in the SFDR², which does not take sufficient account of impact in its definition of "sustainable" funds (Articles 8 and 9), mobilisation around these shared tools is necessary to move forward collectively on the basis of solid, credible and collective foundations.

1. French label created in 2016 by the Ministry of Economy and Finance, whose objective is to offer greater visibility to investment funds that respect the principles of socially responsible investment (Source : https://fr.wikipedia.org/wiki/Label_ISR)

2. The Sustainable Finance Disclosure Regulation (SFDR) aims to provide greater transparency in terms of environmental and social responsibility on the financial markets, in particular by providing information concerning the sustainability of financial products (Source : <https://www.mirova.com/fr/reglementation-sfdr-us>)

Philippe Clerc
Impact project Manager
Finance for Tomorrow

Definition of impact finance

Impact finance is an investment or financing strategy that aims to accelerate the fair and sustainable transformation of the real economy, by providing evidence of its benefits.

It uses the key principles of **intentionality**, **additionality** and **impact measurement** to demonstrate:

1. The joint pursuit, over time, of ecological and social performance and financial profitability, while controlling the occurrence of negative externalities;
2. The adoption of a clear and transparent methodology describing the causal mechanisms through which the strategy contributes to upstream environmental and social objectives, the pertinent period of investment or financing, and the methods of measurement, according to the theory of change framework;
3. The achievement of these environmental and social objectives within reference frameworks, notably the Sustainable Development Goals, applied at international, national and local levels.



HOW RESILIENT IS IMPACT FINANCE TO EXOGENOUS SHOCKS?



Finance has always worked on the basis of the risk/return trade-off, in so far as a low-risk investment has a low return, and vice versa. Because it takes into account planetary¹ and human² limitations, sustainable finance, and more specifically impact finance, has apparently added a third variable, that of environmental and social performance. This involves a reduction or internalisation of negative impacts and a promotion or externalisation of positive impacts, if possible in a way that is intentional, brings added value and is measurable.

In reality, this extra criterion simply involves a different interpretation of risk, since more capacity to withstand environmental and social crises simply means less risk. Nowadays, there is general agreement that a company that ignores the question of planetary and human limitations is taking significant risks. As a result, France's 2019 PACTE law amended Article 1833 of the Civil Code to legally compel companies to take into account social and environmental issues relating to their business, and to close the debate on the question of fiduciary duty concept.

As early as 2015, Mark Carney, then Governor of the Bank of England, warned the financial sector about the endogenous and exogenous shocks inherent to the climate crisis, namely physical, transition and liability risks. In 2022, the current head of Caisse de Dépôts, Eric Lombard, said the fact that an investment would be profitable is not a reason to disregard planetary and human limits. Bearing in mind that it takes 100 good loans with a 1% margin to compensate for one bad one, he believes that it is high time that we take radical action and "ban what is harmful even if it is profitable".

The very heavy toll of the last major exogenous shock, the COVID-19 crisis, in health, social, economic and financial terms, will irrevocably lead public authorities, companies and investors to identify sources of resilience in order to prepare for future crises. The European Central Bank has just announced that from October it will apply environmental criteria in its dealings with the financial markets, and indeed, ESG funds are already outperforming traditional funds in terms of returns.

In the banking markets, in line with the development of syndicated loans linked to sustainability objectives (what are known as "impact" loans), climate change provisions should enable creditors to preserve a borrower's

strengths (for example, by maintaining a minimum percentage of operations eligible for the European tax system), prevent potential endogenous threats (through prior information on any new "brown" investment), anticipate exogenous threats (through measuring the carbon footprint), and even contain its weaknesses, by providing a framework for its actions by means of performance indicators.

More generally, as climate change depends on multiple non-linear dynamics (natural, technological, societal, regulatory and cultural, among others) that interact with each other in a complex manner, we are likely to enter a period of great uncertainty, which will make it impossible to calculate the probability, correlation and diversification that are the basis of all modern financial theories³. In this context, the resilience criteria of sustainable finance, and especially impact finance, will become increasingly important.

KPMG's latest "Risk Transformation Survey" of 105 companies in ten sectors and six countries confirms that the risk landscape in which companies operate has never been more uncertain. In addition to better integration between risk management and governance, and increased collaboration between control lines, this will require a strengthening of business continuity, an increased focus on business model sustainability, and a specific requirement for expertise.

1. Climate change, ocean acidification, stratospheric ozone depletion, disruption of the biogeochemical cycles of nitrogen and phosphorus, global freshwater use, land-use change, biodiversity erosion, chemical pollution, increased aerosols in the atmosphere.

2. Water, food, income, education, resilience, voice, jobs, energy, social equity, gender equality, health.

3. Promises or agreements entered into by the borrowing party that are more financial in nature (Source : <https://corporatefinanceinstitute.com/resources/knowledge/finance/financial-covenants/>)

4. Harry Markowitz's Modern Portfolio Theory (MPT); William Sharpe's Capital Asset Pricing Model (CAPM) and Eugene Fama's Efficient Market Hypothesis (EMH).

Jérôme Courcier
Senior Advisor
KPMG



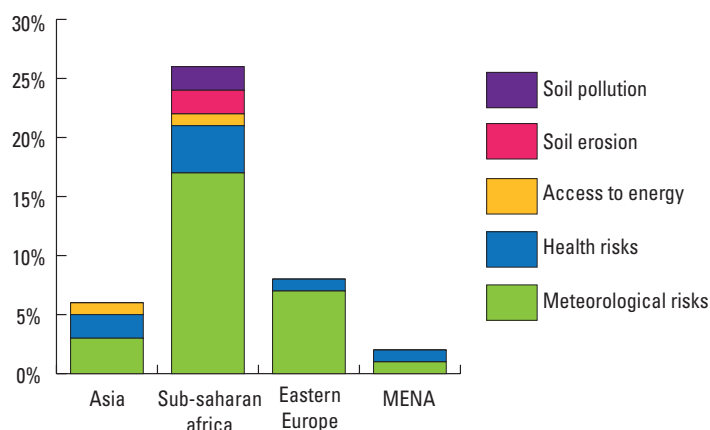
MICROFINANCE INSTITUTIONS AND SOCIAL ENTERPRISES FACING THE ENVIRONMENTAL AND CLIMATE EMERGENCY

As part of its research into environmental and climate issues, the Grameen Crédit Agricole Foundation sought to identify the main risks faced by its partners (microfinance institutions and social enterprises) and their clients. At the end of 2021, we gathered reports from 44 MFIs and four agricultural enterprises in order to map their progress on these issues.

Vulnerability to environmental and climate risks

These risks are not a distant prospect for our partners as they are already seeing significant and growing impacts on their clients. The majority of them (65%) are concerned about the meteorological risk, considered the most significant risk in the short term for their clients: droughts affecting yields and reducing access to water, floods destroying harvests and interrupting supply chains, etc. However, the impact of these risks varies from one geographical area to another, and sub-Saharan Africa is the area where our partners are most affected.

Which risk do you think will become central in the near future?



Awareness of these issues at all levels

The vast majority of microfinance institutions agree that they have a duty to respond to the environmental and climatic risks they observe on the field. Thus, 88% believe that protecting their clients against these dangers is part of their mission. For this to happen, the involvement of governance around these issues is crucial: decisions to provide support or assistance are only implemented, when the governing body is truly involved in addressing these issues.

Client demand is an effective motivator: the more our partners see explicit client requests, the more their governing boards will get involved. Donors can also play an active role. Many of our partners who have made the most progress on these issues have been supported by their own funders in defining an environmental strategy or designing green finance products.

Partner initiatives

Several of our partners have already put in place significant initiatives to strengthen the resilience of their businesses. Among these, we have identified four as being particularly key: raising awareness on environmental risks among clients; drawing up a list of practices that have a negative environmental impact and that must be avoided; training clients in good practice; and providing them with contingency savings plans to deal with unforeseen events. At the same time, steps are being taken to limit the exposure of their portfolio to environmental risks, such as excluding harmful business activities from the portfolio and supporting the purchase of energy-efficient equipment.

Not all of our partners are able to implement these initiatives because, although 64% of institutions are considering adopting them, there are financial and technical obstacles to overcome: 78% of them claim that they do not have the financial resources and 52% the expertise to carry them out.

Conclusions and recommendations

The role of governance is key to the progress of our partners' environmental and climate projects. We believe that the replicating of good practices, sharing experiences and designing tailor-made financial products will be steps in the right direction. We must therefore work together to construct a "roadmap for environmental protection".

Technical assistance is essential when it comes to enabling companies in our sector to implement concrete actions. In our report entitled "Our technical assistance system"¹, we highlight the need to tailor the assistance offered according to each company's respective needs. This applies in particular to environmental missions: both climate and environmental risks vary greatly from one region to another, and from one entity to another. Supporting these services with appropriately structured financing represents another step in the right direction.

Finally, it should be noted that one of the challenges our sector faces concerns the need to establish models for measuring the impact of missions related to environmental issues, including the identification of precise objectives and indicators. In order to establish appropriate direct and indirect indicators, it is necessary to agree collectively. We particularly encourage reflection on how best to support competitive and sustainable agriculture, one of the main challenges facing Africa.

1. Source : https://www.gca-foundation.org/wp-content/uploads/2021/10/FGCA_Notre-dispositif-dassistance-technique_FR.pdf

Article co-signed by all the teams

Fondation Grameen Crédit Agricole

RESILIENCE BUILDING, AN ONGOING PROCESS

Organizational resilience is the ability of an organisation to anticipate, prepare, respond, and adapt to incremental changes and sudden disruptions in a way that permits them to survive and prosper¹

The COVID-19 pandemic has created situations that the current generation of inclusive finance leaders had not faced before. Questions of resilience became crucial, as the market demanded that leaders and organisations successfully overcome multiple challenges and continue to deliver value to clients and other stakeholders during and despite the crisis.

CERISE+SPTF recently published *The Guide for Building Resilience in Inclusive Finance Organisations*, written by Orisel Caminero (Achieve Consulting Group, S. R. L) and edited by Cara S. Forster (SPTF). This Guide contributes to the ongoing research and dialogue about both individual and organizational resilience. It aims to accompany inclusive finance organisations in building resilience before, during and after disruptive events. Crucially, the key questions to ask and the specific recommended actions to take are not the same depending on when you are in relation to the moment of change.

The Guide is based on the experience of twelve organisations from six Latin American countries. And the authors have already noticed similarities with experiences of the organisations in both Latin America, and Africa. During SAM 2021, inclusive finance professionals from various African countries discussed the actions carried out by their organisations, which helped them adapt to the crisis and become more resilient. Whether it is a bank, an NGO, or a cooperative located on either side of the Atlantic Ocean, resilient organisations coincided about the need to focus on these four key aspects:

Cohesive leadership

This includes Board of Directors and Executive Leadership. The first step towards overcoming a crisis is to stick together. In most cases, this took the form of an Emergency or Crisis Committee which included at least one board member and other key management/operational roles. A cohesive leadership team is needed to adjust the organization's priorities promptly and effectively, modify the business plan, budgets, and cost-structures, as well as perform the steps mentioned below.

Care of staff

All surveyed entities made staff's safety a main priority. This included protecting the most vulnerable and ensuring proper preventive and sanitary measures for those who still had front line positions. Staff who feels valued and cared for will be more committed to the organisation and enthusiastic about client care.

Client centricity

The combined forces of cohesive leadership and committed staff are powerful to keep clients in the center and adjust operations to serve their changing needs during the crisis and recovery. The first step is "closeness despite physical distance". How are our clients doing? What do they need? How can we serve them and meet their needs in this new context? Either through phone, text, email or WhatsApp, the most important thing is to maintain open lines of communication. Where there's a will, there's a way.

Systems and processes adjustments

There is no doubt technology has been critical in allowing financial organisations to adapt to the new normal. Tech-friendly organisations have been able to make a smoother and faster transition to digital means of communication and transaction. However, digital transformation must start in the hearts and minds of the people. It is not enough to add a new app or digital product. The transition must be prioritised by leadership, understood, and embraced by the staff, and relevant to clients' needs.

The steps above are a pre-requisite for successful adaptation. Also, internal processes

must change to adapt to the staff's changing circumstances and needs as well as the changing technology employed to reach the clients. Unnecessary bureaucracy, duplication of duties, and other inefficiencies must be eliminated, and unnecessary costs canceled or postponed.

THE KEY QUESTIONS TO ASK AND THE SPECIFIC RECOMMENDED ACTIONS TO TAKE ARE NOT THE SAME DEPENDING ON WHEN YOU ARE IN RELATION TO THE MOMENT OF CHANGE

Resilient organisations do not exist by chance, they are created by resilient leaders. The Guide for Building Resilience in Inclusive Finance Organisations includes a practical Resilience Strengthening Tool for Leadership and Teams as an annex, and additional resources on resilience in English and Spanish. SPTF and REDCAMIF offer many trainings, including the Resilient Leaders series webinars. Many of the recommended actions are incorporated into the Universal Standards for Social and Environmental Performance Management. CERISE+SPTF hopes all the available resources will be useful to strengthen the adaptability of inclusive finance institutions, regardless of their regions or contexts.



1. Denyer, D. (2017). *Organizational Resilience: A summary of academic evidence, business insights and new thinking*. BSI and Cranfield School of Management.

2. *The Guide for Building Resilience in Inclusive Finance Organisations* : <https://sptf.info/images/Building-Resilience-in-Inclusive-Finance-Organisations-Final-English-V8-2022.pdf>

3. *Webinaire Resilient Leaders* : <https://sptf.info/sptf-guidance-notes>

4. *Normes Universelles de Gestion de la Performance Sociale et Environnementale* : <https://sptf.info/ta-funding/responsible-finance-ca-caribbean-rift-cac>

5. *The Driven Resilience Model* - Rossouw, P. J., Rossouw, J. G. (2016). *The predictive 6-factor resilience scale: Neurobiological fundamentals and organizational application*. *International Journal of Neuropsychotherapy*, 4(1), 31–45. doi: 10.12744/ijnp.2016.0031-0045 <https://home.hellodrive.com/articles/6-domains-of-resilience/>

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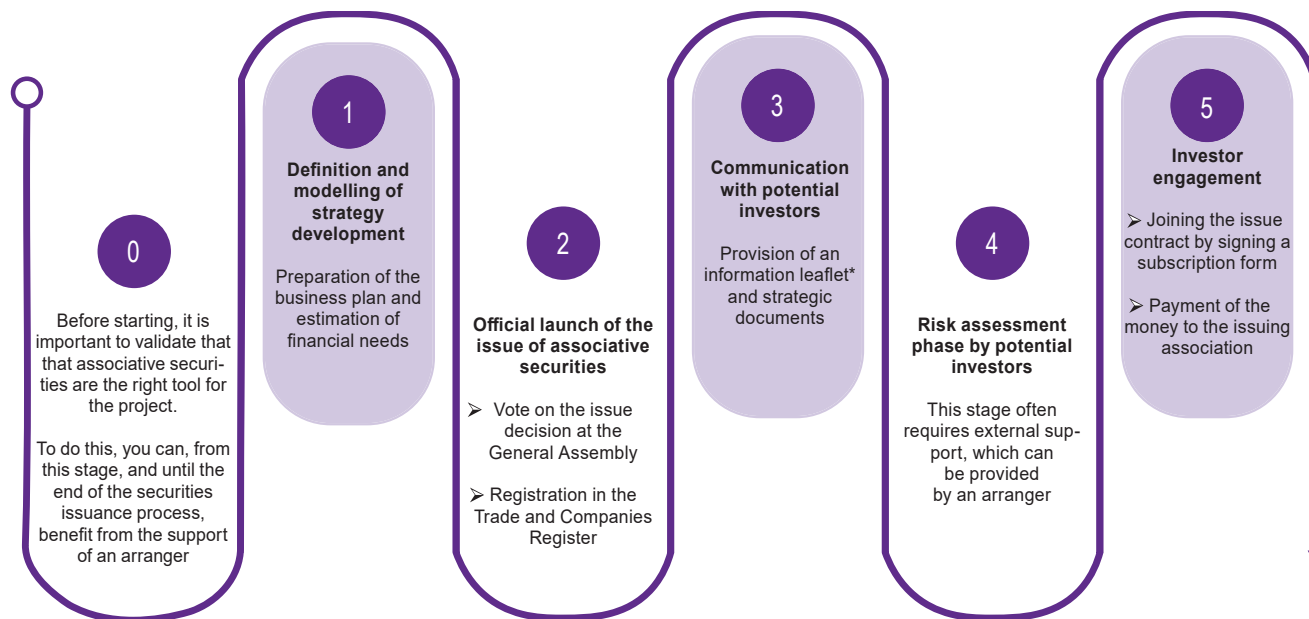
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ASSOCIATIVE SECURITIES: A FINANCIAL TOOL FOR CONSOLIDATING THE QUASI-EQUITY OF ASSOCIATIONS



* « This document concerns in particular the organisation, the amount of equity capital at the end of the previous financial year, the financial situation and the development of the association's activity. The information that must be included in these documents is set by decree, and the figures are approved by an auditor chosen from the list provided for in Article L 822 1 of the Commercial Code. In the case of issues open to individuals, the information document (or prospectus) must also be approved by the AMF. » (France Active, 2018)

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What are associative securities?

Associative securities are a financing solution for associations through a quasi-equity investment. They are subordinated bonds with no certain maturity date, i.e. medium or long-term debts that are settled in the last rank in the event of bankruptcy or liquidation. When an association issues a bond, it therefore undertakes to repay the money made available by investors plus interest.

Created in 1985, associative securities have long remained little known and little used. This is due to the complexity of their implementation in terms of financial engineering and administrative procedures, but also to their low rate of return for investors in relation to the risk taken.

In 2014, the law on the social and solidarity economy modified the conditions and rates of reimbursement of securities. It makes them more attractive for investors and less complex to set up for associations. However, although there is greater visibility of associative securities in the financing universe, there are still few associations issuing them and this tool seems to be reserved for fundraising of more than EUR 500,000. Indeed, the association issuing associative securities must ensure that its development plan will be sufficiently solid to be able to repay the bonds in the medium term. This means preparing documents (business plan, information leaflet, etc.) to give investors a clear vision of the project over the duration of their investment, i.e. at least seven years.

Thus, although associative securities make it possible to raise substantial amounts, this financing solution

is not adapted to all economic models because it requires surpluses to be generated in order to allow for their repayment. The association must therefore have a sufficiently robust and stable economic model with human resources in support functions.

How do associative securities work?

In order to issue securities, an association must have been operational for more than two years and the decision and the conditions for issuing securities must be approved by the general meeting under the majority conditions required for a change in the articles of association. The association applies for registration in the Trade and Companies Register. It must then convince investors that its development project is sound and therefore profitable in the long term.

The investors who subscribe to associative securities are mainly solidarity financiers, but they can also be institutional partners or even banks via their subscription to an issue contract. In return, the law stipulates that investors are remunerated with an interest rate capped at the average rate of return on private company bonds over the three months preceding the issue (TMO) + 4.5%.

The French law provides that redemption may take place from the seventh year onwards, either at the initiative of the issuing association or when the surpluses generated by the association exceed the amount of the initial issue.

Towards a new evolution of associative titles?

On 28 September 2021, Olivia Grégoire, then French Secretary of State for the Social, Solidarity and

Responsible Economy, presented a new action plan to promote investment in associations. This new plan aims in particular to facilitate the use of equity investment methods to consolidate equity capital and diversify the sources of funding for associations.

The government has announced three areas of action with the aim of strengthening and facilitating the use of associative securities:

- Democratising the financing of associations by all French citizen: directing all or part of their life insurance towards associative securities;
- Simplify the use of nonprofit securities: provide turnkey tools (standard financing contracts, best practices) to help set up a project to issue nonprofit securities;
- Increasing the attractiveness of nonprofit securities: increasing the yield cap on nonprofit securities, which would attract more financiers, particularly impact funds.

These changes, particularly the increase in the yield cap on nonprofit securities, announced by the government are still being debated by the community of experts in the financing of SSE companies and have yet to be confirmed. Indeed, this increase could have consequences on the amount of recourse to associative securities.

Mickael Barth

Head of Unit

AVISE

HUMANITARIAN ACTION, SUSTAINABLE DEVELOPMENT AND FINANCIAL INNOVATION:



ACTED, the second largest French NGO in the field of international solidarity and among the 15 largest NGOs worldwide, has been mobilising solidarity savings and impact finance for nearly 10 years to pre-finance its humanitarian projects and invest for a 3Zero world: Zero Exclusion, Zero Carbon, Zero Poverty. With nearly €27 million in bonds and associative securities issued since 2012, and the number of people benefitting from its actions more than doubling over this period to reach 18.2 million people today, ACTED integrates impact investing as a development lever for its activities.

The fragility of the contemporary world, with its conflicts, natural disasters, shortages, economic and political tensions, is increasingly alarming. For example, the IPCC reports regularly remind us how difficult it is for the international community to mobilise and act effectively and collectively in the face of the existential threat posed by climate change. How much longer?

After more than two years of pandemic, are we on the verge of a global recession? Countries like Lebanon and Sri Lanka, for example, have already experienced this bitterly. For the first time in 25 years, the global poverty reduction dynamic has reversed. The international community has not yet been able to measure this impact precisely, but its effects can be seen on the ground: millions of people are falling into poverty and food insecurity is increasing, leading to social exclusion.

In order to provide solutions that meet these challenges and contribute to the achievement of the Sustainable Development Goals (SDGs) and

those of the Paris Climate Agreement, our ways of acting must evolve towards more appropriate models and practices. Because another world is possible: no longer a world where solutions thought up at the global level are projected locally, going so far as to overshadow initiatives on the ground, but a world thought up at the local level, putting communities at the centre, strengthening them, feeding off local innovations and bringing them to the international stage.

Multiplying positive social and environmental impact with a multi-stakeholder approach

In order for these social, ecological, economic, energy and solidarity transitions to succeed, we must absolutely involve all stakeholders and give back all its meaning to the local level.

ACTED advocates at its own level for this multi-stakeholder and co-construction approach in order to multiply the social and environmental impact of its actions on the ground. Since 1993, ACTED has progressively built up a whole ecosystem, a "toolbox", to reinforce its impact and the relevance of its actions: entities specialised in microfinance to support local entrepreneurship (OXUS), a think tank to better inform the aid sector (IMPACT Initiatives / REACH), and a global advocacy platform aiming to bring together public, private and solidarity actors to accelerate the achievement of the SDGs (Convergences) have thus been developed. ACTED has also developed a range of initiatives and programmes to serve this ambition, from the promotion of cultural heritage (Bactria), to the strengthening of links between local needs and the global aid ecosystem (AGORA, PANDA).

HOW CAN IMPACT FINANCE SPEED UP THE ADVENT OF A 3ZERO WORLD?

Beyond its traditional humanitarian and development activities, ACTED implements integrated and innovative programmes that address the intrinsically interconnected challenges of Zero Exclusion, Zero Carbon and Zero Poverty. This is the case of our flagship programme THRIVE, which supports communities living in and depending on vulnerable ecosystems to ensure their long-term livelihoods, or 3Zero Homes, a physical and digital platform to accelerate local solutions with positive social and/or environmental impact.

"THE SCALE OF THE CRISES IN THE FIELD REQUIRES US TO ACCELERATE AND INCREASE THE SCOPE OF OUR RESPONSES TO HUMANITARIAN, SOCIAL AND ENVIRONMENTAL CHALLENGES WHILE RETHINKING OUR MODELS", EXPLAINS AURÉLIEN DAUNAY, ACTED'S VICE CEO FINANCE, INNOVATION & INVESTMENT

Through its projects, ACTED seeks to involve partners at all levels to distil and apply these local solutions to global issues as widely as possible: by mobilising civil society and community organisations in all countries of intervention and elsewhere; by involving the media, schools, universities, opinion leaders, young entrepreneurs; by experimenting and developing innovative models.

Innovative investment strategies for Zero Exclusion, Zero Carbon, Zero Poverty

To support this ambition, ACTED has developed a strategy of financial innovation, using solidarity savings and impact finance as levers for innovative financing.

Today, through its field operations, the NGO already contributes to the achievement of 11 out of the 17 Sustainable Development Goals (SDGs). By reorienting its funding strategy towards private funding options, diversifying and expanding its portfolio, ACTED seeks to increase its contribution to the achievement of the SDGs, in line with the 2030 Agenda.

Indeed, since 2012, ACTED has been raising associative securities from investors. After six successful issues between 2012 and 2019, in December 2021 ACTED achieved the largest fundraising of this type in France for an NGO, with EUR 9 million of associative securities. This private funding is used to pre-finance humanitarian actions and gain agility; it also allows ACTED to invest in the transformation of the organisation (maximising the environmental sustainability of its activities, measuring and halving, by 2030 and in line with IPCC recommendations, carbon emissions linked to operations, helping populations adapt to the impact of climate and environmental crises, accelerating the group's digital transformation), and to go further by investing in the development of partner entities in the 3Zero ecosystem.

"We hope that our successive fundraising events will help build bridges between the world of investment and this formidable pool of organisations

from the non-profit sector in France, whose role is more essential than ever today. The magnitude of the crises in the field requires us to accelerate and increase the scope of our responses to humanitarian, social and environmental challenges while rethinking our models", explains Aurélien Daunay, ACTED's Deputy Managing Director for Finance, Investment and Innovation.



Thinking outside the box and innovating collectively

In line with ACTED's operations, and in order to increase its impact and sow seeds for the future, part of the available cash is also invested in entities that resonate with the Group's 3Zero vision. This was the case in 2022, when we acquired a stake in Lendahand, a Dutch participatory financing platform that allows the general public to lend funds to organisations that support social and environmental projects in emerging countries.

On this occasion, we brought together actors as diverse as an impact fintech, Lendahand, a Dutch institutional investor, ABN Amro, a French private investor, INCO VC, savers in France and impact enterprises in the field. These types of innovative partnerships invite actors from diverse backgrounds to think outside the box and act collectively for a Zero Exclusion, Zero Carbon, Zero Poverty world. Finally, it allows complementary sources of financing, in this case from the private capital market on a blended finance model, to be directed towards sustainable development in developing countries, where they are often lacking.

Of course, this is a drop in the bucket compared to the major global ills mentioned above, but placed side by side, these approaches show through action that a financial system at the service of a transition towards fairer societies is possible. Societies that would prove to be more sustainable and inclusive, capable of preserving ecosystems and meeting the basic needs of populations.

Aurélien Daunay
Vice CEO Finance, Innovation & Investment
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ABOUT CONVERGENCES

Launched in 2008, Convergences is the first platform for thought in Europe that aims at building new convergences between public, private, and solidarity-based actors to promote the Sustainable Development Goals and the development of a world "Zero Exclusion, Zero Carbon, Zero Poverty."

Convergences seeks to engage with various stakeholders in order to disseminate good practices and to promote co-construction approaches with the aim of creating high impact and innovative partnerships.

Our scope of interest is wide ranging: sustainable development, international development, solidarity-based and inclusive finance, Corporate Social Responsibility (CSR), social entrepreneurship, social and solidarity economy, and new technologies for change.

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