IMPACT FINANCE BAROMETER 2021

1st Edition

INCLUSIVE FINANCE • IMPACT INVESTING • GREEN FINANCE

FINANCING SOCIAL AND ENVIRONMENTAL TRANSITIONS

Content

EDITORIAL

While the global pandemic linked to Covid-19 continues to increase poverty and inequality in the world, the IPCC report published on August 8, 2009, presents an alarming assessment of the climate situation in the world. This dual social and climatic crisis reveals, on the one hand, the strong interdependence of countries around the world, and on the other hand, the fragility of our social models based mainly on the infinite exploitation of natural resources, which are nevertheless limited, and on the unequal distribution of wealth.

Facing this situation implies collectively initiating a radical change in our modes of production and consumption, and adopting at all levels - local, national, and global - a paradigm shift based on the Sustainable Development Goals (SDGs) and the objectives set out in the Paris Climate Agreement. In this context, finance has a major role to play.

To be a key player in this transition, the finance sector must cease to seek profit maximisation at all costs, regardless of the major negative externalities that it generates. An urgent reorientation of capital flows and a tangible increase in short and long term investments must occur towards inclusive and sustainable financing, and towards the search for social and environmental impacts. With less than ten years to go until the 2030 Agenda, and faced with our collective responsibility to preserve our planet and build an inclusive and equitable world, it is more than urgent to promote and scale up current and future solutions.

Theese solutions should be based on the Addis Ababa Action Agenda on Financing for Development and should ambitiously and positively impact sectors that can greatly improve the living conditions of people in the world: responsible technologies, infrastructures, social protection, health, education, agriculture, etc.

By exploring the three pillars of impact finance: inclusive finance, impact investing and green finance, this first edition of the Impact Finance Barometer contributes modestly to the development of a finance that serves people and the planet.

Baptiste Fassin
Publications and communication senior officer
*& **Thibault Larose***
Executive Director
Convergences

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IMPACT INVESTING : FIGURES AND TRENDS

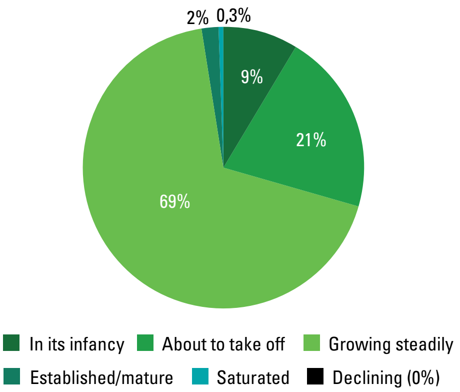
Impact performance: the revolution in impact investing

The recent United Nations Intergovernmental Panel on Climate Change report (IPCC) backs what we have all known. The Earth is warming faster than previously thought and the opportunity to avoid a climate catastrophe is fading. The global pandemic has exposed well-known systemic inequalities and has worryingly widened the original annual SDG funding gap of USD 2.5 trillion.[1] Against this backdrop, impact investors hold a shared set of beliefs: they share concerns about the state of our planet and deepening inequality. However, one belief that offers hope lies in the power of capital to accelerate progress against these challenges. Impact investing is a pathway to lead toward systemic and lasting change.

At the heart of impact investing is measurement of impact results. While one can now track the size of the market and where capital is being allocated to, it is at the measurement and management (IMM) frontier that the revolution in impact investing is advancing, to truly optimize impact performance.

A growing market, with yet unrealized potential

Figure 1 - Stages of industry evolution (% of respondents)



Source : GIIN 2020 Impact Investor Survey

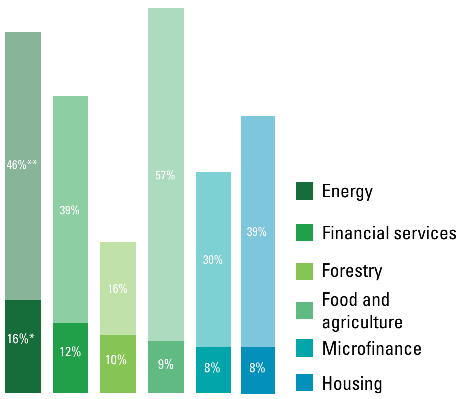
The impact investing market, as measured by the supply of capital from over 1,700 impact investors in 2020, has grown to a significant USD 715 billion.[2] By additionally considering the role of development finance institutions in bolstering the pool of capital for impact, that number expands to several trillion USD.[3] The Global Impact Investing Network (GIIN) found in its 2020 Impact Investor Survey that despite Covid-19, 72% of investors planned to either maintain or increase the volume of capital dedicated to impact investing.[4] Further, record high capital flows into ancillary impact-orientated products is an indication of persistent interest from both institutions and retail investors. In the United States alone, 2020 capital flows to Green Bonds and ESG investment vehicles doubled year-on-year and are ten times the 2018 flows.[5] Investment analysts do not expect this trend to abate, and it points to a growing appetite for investments that consider impact.

Capital flow trends do not adequately tell impact investors' story. Increasingly, more actors entering the market and those expanding their impact practices are seeking to do so responsibly. Leading investors are focused on really knowing how to be most effective and efficient with every unit of impact capital they invest. Yet knowledge gaps remain. As the OECD suggested in their report outlining the 2021 prospects of sustainable finance to address the widening SDG funding gap: "The economic fallout from Covid-19 reinforces the need for better measurements of both the quantity and quality of existing resources."[6]

Good impact intentions as a starting point

Impact investing practices have naturally evolved over the past 12 years since the term was first coined. Much of the initial focus was on measurement and defining metrics to arrive at a common taxonomy. Later the focus turned to frameworks required to manage impact results. Over this period of harmonization and iteration, IRIS+ emerged as the generally accepted IMM system for investors to understand their impact results. 85% percent of respondents to the GIIN's 2010 Impact Investor Survey were using proprietary measurement frameworks to measure their impact. Notably 10 years later, 89% of respondents to the 2020 survey use external resources to measure.[7] Moreover, there is strong coalescence around using the SDGs in key

Figure 2 - Asset allocations by sector (top 6)



* Asset allocation by sector

** Percent of respondents

Source : GIIN 2020 Impact Investor Survey

areas of IMM practice (73% of respondents[8]) with IRIS and IRIS+ being the most widely used metric-based system.[9] Given its broad alignment to SDGs, at least 50 other frameworks, and a rigorous evidence base, this growing trend toward IRIS+ makes logical sense.

The IRIS+ system has provided, among other elements, an aligned way to understand where investors are directing their capital. Allocations of capital is the practical instantiation of their good intentions. At least 60% of investors target both social and environmental impact themes, which shows their recognition that social equity and climate justice are inextricably linked.[10] Considering specific impact categories investors target, there is strong emphasis on basic services for the most vulnerable – food and agriculture (57%), health care (49%), energy (46%), education (41%) and financial services excluding microfinance (39%), with energy and financial services attracting the larger allocation of capital.[11] Indeed, over half of respondents plan to increase allocations over the next five years to food and agriculture, energy, healthcare, and water and sanitation, with the latter sector being one of the biggest areas of growth in terms of capital allocations.[12] Planned growth in these areas strongly reflects support of the 2030 Agenda.

There is strong coalescence around using the SDGs in key areas of IMM practice (73% of respondents) with IRIS and IRIS+ being the most widely used metric-based system. Given its broad alignment to SDGs, at least 50 other frameworks, and a rigorous evidence base, this growing trend toward IRIS+ makes logical sense

Accelerating a revolution through transparent data-informed investment decisions

Appreciating the supply of capital, and where the pre-dominant sectors of focus are for investors' intentions, is important. However, understanding how investors can pro-actively and positively influence impact results is becoming a crucial focus for investors. The 2019 IMM State of the Sector report gave wind of this fact. Respondents cited transparency on impact performance as a top challenge facing the industry, and the inability to compare impact results with a market of peers as a significant challenge.[13]

One may ask why these challenges are essential to solve for. Impact investors understand that IMM is embedded in the foundational characteristics of impact investing that they ascribe to. IMM practices (including an impact intention) are tools that help an investor in various stages of an investment process. Investors also recognize the need to understand their specific contribution, or the extent to which those factors they have influence over - their capital, engagement strategies, investment management – enhance impact outcomes.

Figure 3 - Top 8 SDGs targeted by impact investors

Source : GIIN 2020 Impact Investor Survey

With this knowledge in hand, it becomes possible for investors to make more informed decisions, be sensitive to the best impact results as opposed to poorer ones, and be able to make choices throughout the investment cycle that result in the most effective and efficient impact outcomes. Once an investor knows not just the impact results associated with their action, but whether those results are indeed good enough relative to the change required, then they would be able to make more effective decisions timeously.

Building on IRIS+ and COMPASS, a pilot to build the industry's first thematic Impact Performance Benchmark is currently being developed by the GIIN.This infrastructure provides investors with enhanced tools to better inform their decision-making. It means that investors – and the supporting ecosystem of data analytic providers and assurance providers – can accelerate impact by focusing on the practices empirically associated with desired impact results

Building on the pedigree of IRIS+, the next step to aid investors has been the evolution of a standardized approach to analyzing impact results. A method to compare impact results has now been developed, through an iterative set of impact performance studies over the last three years as well as an extensive engagement process, culminating in the release of COMPASS - The Methodology for Comparing and Assessing Impact.[14] This is the forerunner that will enable transparent comparability of impact results among peer groups and crucially, relative to the extent of social and environmental challenges. What is now needed is further development and use of analytic tools and resources. Therefore, building on IRIS+ and COMPASS, a pilot to build the industry's first thematic Impact Performance Benchmark is currently being developed by the GIIN.

This infrastructure provides investors with enhanced tools to better inform their decision-making. It means that investors – and the supporting ecosystem of data analytic providers and assurance providers – can accelerate impact by focusing on the practices empirically associated with desired impact results. By supplementing both insights on the supply of capital and where and how it is being allocated, with a suite of analytic-based products for investors to gauge their effectiveness and efficiency of their impact performance, the market can reach its full potential.

Infrastructure such as this enables the revolution that is advancing the optimization of impact performance which can, in turn, unlock capital to tackle the funding gap before it widens even further.

A call to action for investors

Indian author and social justice activist, Arundhati Roy, suggested at the advent of this pandemic, that it was a portal.[15] She noted that historically pandemics have instigated shifts from the past and suggested that this moment presents a chance to step into a new reality. The idea being that nothing would be worse than going back to anything resembling a prior reality. Perhaps this pandemic, along with worsening climate change, the recognition of systemic racial injustice, and socio-political upheaval, are catalysts for investors to heighten their resolve to address societal and planetary challenges in more effective ways.

With investors' shared beliefs, impact tools as their arsenal, and knowing the influence of their impact results, a re-imagined new normal is conceivable. Now is the time for investors to move beyond their commitment to impact intention and to make evidenced-based decisions throughout the investment cycle that ensure that every cent of their investment capital is put to the very best impact outcome possible.

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Dean Hand
Director of Research
Global Impact Investing Network (GIIN)

Methodology

• The GIIN's 2020 Impact Investor Survey, is the most comprehensive global survey that provides data and insights on impact investors' motivations, activities, and perspectives on market progress and remaining challenges. The 2020 edition was the 10th and provides trends analysis on repeat respondents from the 2016 survey (2015 year-end data) as well as comparative insights from the original 2010 survey (2009 year-end data). Through a public call for participation and standardized gating criteria to ensure that respondents have experience of impact investments, the GIIN analyzed data collected from 294 impact investing organizations via a survey administered between February and April 2020. The survey included questions on respondents' impact investing activity during 2019, investment plans for 2020, assets under management (AUM) as of the end of 2019, and perspectives on the state of the market.

• The GIIN's 2020 Impact Investor Survey included a special section to update to the original 'Sizing the Impact Investing Market'. The full impact investing market size is estimated at USD 715 billion as at the end of 2019, with over 1,720 organizations allocating to impact. The Impact Investor Survey reflects the activities of more than half of the market, as measured by AUM.

KEY FIGURES OF FINANCIAL INCLUSION | WORLD

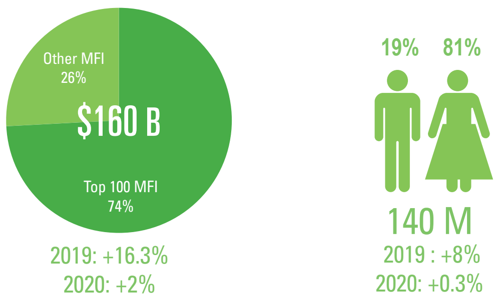
Financial inclusion in the world : what are the trends?

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 launched in 2020 which saw the outbreak of the Covid-19 pandemic and the consequential exogenous shocks on the global economy and microfinance sector. Here is a look back at the main trends in the sector.

Focus on Institutions and Clients

In 2020, microfinance institutions (MFIs) ended the year with a total gross loan portfolio (GLP) amounting to $159.9 billion. This reflects a median 2.0% growth rate by institution from 2019, which is approximately in line with world-wide inflation (1.9%) but significantly lower than the previous median year-on-year growth rates observed from 2017-19 (12.4-16.3%). The top 100 MFIs also continue to dominate the sector and currently hold 74.4% of total GLP.

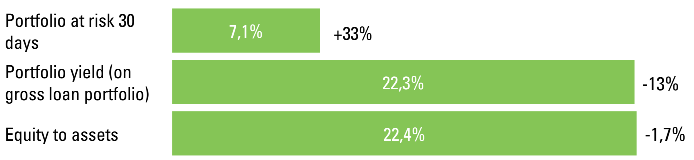
Gross loan portfolio and number of female borrowers (worldwide)



During the same period, the total number of borrowers remained stable at 140.3 million with active borrowers marginally increasing on average in MFIs by 0.3% from 2019 to 2020. In contrast, the median annual growth in active borrowers ranged between 6-10% in the prior 3 years (2017-2019), indicating a significant slowdown in the year-on-year growth of active borrowers at the MFI level in 2020. Concerning demographic composition, female clients continue to be the primary borrowers from MFIs, accounting for 80.9% in 2020.

In terms of portfolio quality, credit risk has increased overall in 2020 as well as the variability of risk across different MFIs. The median portfolio at risk >30 days (PAR 30) increased to 7.1% from 4.3% in 2019, representing an average 33.0% increase across MFIs. Restructured portfolio, including both regular restructured portfolio and Covid-19 moratoria, has also increased to levels not seen previously in the sector globally with an industry median of 3.9%. Looking beyond the average, 25% of MFIs have a restructured ratio higher than 17.0%.

MFIs average performance ratios in 2020 and evolution since 2019 (worldwide)



The increase in credit risk has been accompanied by a decrease in portfolio yield from 24.6% in 2019 to 22.3% in 2020, representing a 12.9% decline. On the other hand, the increase in credit risk is not yet reflected in an increase in the cost of risk: the provision expense ratio, which defines the provision expense for loan losses over GLP, remained stable at 2.1%. Furthermore, until the end of 2020, solvency has also remained stable on average. For example, the median equity to assets ratio was at 22.4%, which is within the range observed in 2017-19 (21.6% to 22.8%).

Focus on the Regions

Geographically, South and Southeast Asia (SSEA) continues to dominate the sector both in GLP and number of borrowers, which makes up 43.1% and 70.3% of market share respectively. The composition of female borrowers reached 82%, which was significantly higher than all other regions. For portfolio quality, PAR 30 grew at a higher rate than other regions but remained lower than the global median at 4.3%. The restructured portfolio ratio was also approximately 2.3 times higher than the global average at 9.1%.

Whilst Latin America and the Caribbean (LAC) have a similar market share by GLP at 40.0%, the global proportion of borrowers in the region was 19.1% and therefore remained significantly lower than SSEA. As a proportion of gross national income per capita (GNI pc), the average outstanding loan balance was approximately 2.1 times larger in LAC (37%) compared to SSEA (18%). The portfolio composition similarly differs, with just over half of borrowers in LAC being female (54%). Moreover, the median restructured ratio was also lower at 3.0% compared to both SSEA (9.1%) and the global average (3.9%).

Sub-Saharan Africa (SSA) has continued to grow both in GLP and the number of borrowers, accounting for 5.9% and 5.7% of global market share in 2020 respectively. In contrast to other regions, MFIs in SSA have on average a lower portfolio quality in terms of PAR 30, which increased by approximately 50% to 11.0%. The region also has the lowest median provision expense ratio (1.3%) compared to other regions. However, the write-off ratio (0.40%) and restructured portfolio ratio (3.0%) remained at similar levels to the global average (0.47% and 3.9% respectively).

Growth in GLP across MFIs in Europe and Central Asia (ECA) averaged 4.8% from 2019 to 2020 with the region accounting for 9.6% of global GLP. In contrast, the share of borrowers was at 1.9%.

Finally, the Middle East and North Africa (MENA) region remained the smallest region by both GLP (1.3%) and the number of borrowers (3.0%). The proportion of female borrowers was also lower (59%) compared to the global average (81%). On the other hand, measures of portfolio quality, such as PAR 30 and write-offs, are at similar levels to the global average. In terms of financial performance, portfolio yield was lower (18.7%) compared to other regions (22.3%), however, equity to assets was higher both in relative and absolute terms (29.6%), indicating a higher capitalisation in the MENA region.

Given the changing market conditions, and the increasing variability of risk across MFIs, it remains important to continue to monitor the trends of the sector throughout 2021.

Alasdair Lindsay-Walters
Analyst
MicrofinanzaRatings

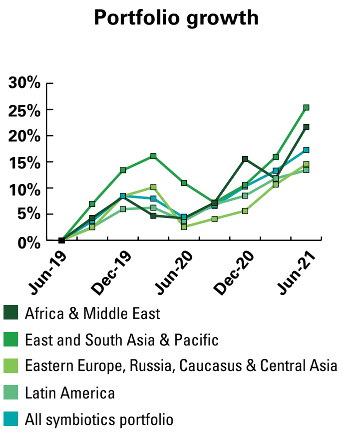
Methodology

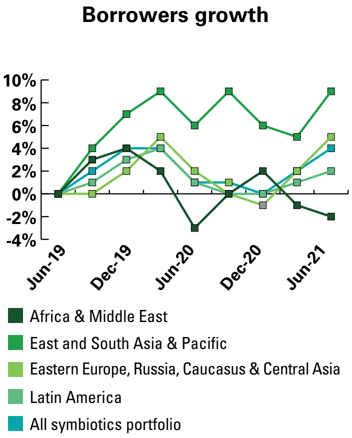
All indicators are calculated based on the availability of reporting MFIs in the ATLAS database (www.atlasdata.org), including up to 551 MFIs for 2020 calculations and up to 1,318 MFIs in the case of gross loan portfolio and number of borrowers. Inflation statistics are provided by the World Bank.
Aggregate calculations (e.g., median) use MFI data as of 2020, taking the most recent month where data is available. For gross loan portfolio and number of borrowers, the previous three years are also included (2018-20), taking the most recent year available to ensure more accurate data coverage. For example, if an MFI has reported data for 2020, that value will be used. However, if they have not reported data in 2020 or 2019, then their reported value for 2018 will be used.
Year-on-year growth statistics are reported using the same composition of MFIs to ensure comparability across years.

IMPACT OF COVID-19 ON FINANCIAL INCLUSION

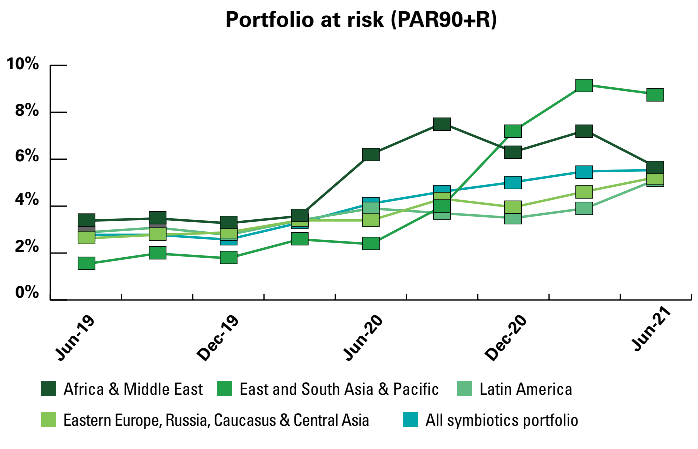
How has the pandemic affected financial inclusion around the world? Focus on Asia.

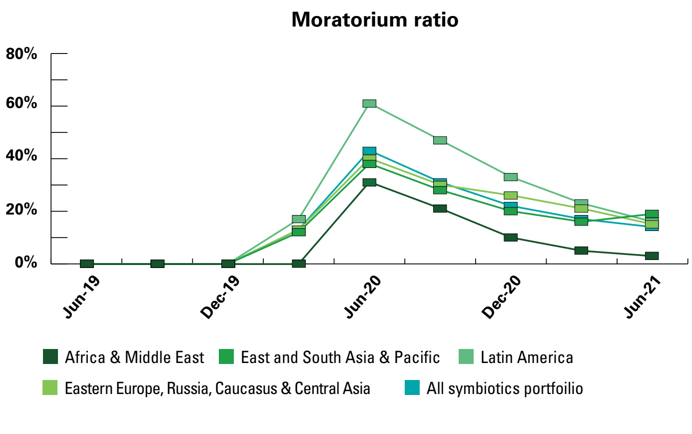
More than one year after the beginning of the Covid-19 pandemic, signs of recovery can be observed in the microfinance sector. Symbiotics' portfolio provides a positive outlook with a growing microfinance portfolio across the most region since the last quarter of 2020. As depicted in the graph below, the two indicators describe the evolution of the portfolio and the number of borrowers since June 2019. The borrower's growth shows a more timid growth than the portfolio which could be explained by a more conservative approach taken by the MFIs by focusing on existing clients and larger loan sizes.





At the beginning of the pandemic, payment moratoriums were put in place, limiting the visibility of credit quality risks, which are usually carried by the portfolio at risk (PAR90+R), i.e. the percentage of the portfolio with payment delays of over 90 days and the restructured portfolio. With the end of the moratorium period in most countries, the level of PAR90+R has increased in all regions, with Asia and Africa recording the highest levels.





While in Asia the trend is due to stricter lockdown measures with the delta variant and the impact of the coup in Myanmar, in Africa the high level stems from country strategies of adopting short or no payment moratoriums, so that the risk has been mainly carried by PAR90+R. In the second quarter of 2021, levels in Africa and Asia are declining, which may correlate with positive portfolio growth in the region.

In the microfinance sector, solvency remained stable during the pandemic, except in Asia where it decreased. Profitability has been impacted by the pandemic with a downward trend until the end of 2020, yet since the beginning of 2021 the profitability level has been rising and stabilizing close to pre-pandemic level.

Focus on Asia

The Asia region has seen a different trend than other regions due to the delta variant imposing stricter lockdowns in 2021. To assess the current situation in Asia, we need to take a closer look at the evolution of portfolio growth and solvency in South Asia (SA) and East Asia and Pacific (EAP).

The SA financial institutions (FIs) faced the rise of the delta variant, which led to new lockdowns. Despite the situation, FIs portfolio grew at 22% in June 2021, followed by an increase in loan recollection close to 75% in June-July 2021. These positive trends are due to less restrictive lockdowns allowing most businesses to open during restricted hours. Moreover, there was an increase in disbursements in the regions due to demand for smaller loan amounts for existing customers in different forms. On the solvency side, many FIs in SA raised significant equity after the first lockdown and maintained comfortable solvency levels. As a result of this strategy, FIs had robust capitalization levels to absorb increasing write-offs and provisioning requirements. Moreover, central banks injected liquidity into the market, leading to deleveraging due to portfolio rundown and consequent reduction in debt. However, this resulted in dilution for the majority of shareholders and led to lower returns on equity.

The EAP region faced severe lockdowns a year ago and the business outlook was very uncertain. In this context, most borrowers have postponed consumption and investment decisions and FIs have been cautious with limited risk appetite. In 2021, Covid-19 infections are increasing in the region, but with vaccination and the easing of Covid-19 restrictions, signs of economic recovery are emerging and loan demand is increasing. The FI portfolio of the region continues to grow in 2021, with level of growth at 27% as of June 2021, as well as the number of borrowers and disbursements. On the solvency side, EAP region has seen a steady decline despite improving profitability. This is a result of increased wholesale funding, high level of liquidity as precautionary measures, and successful deposit and debt collection by many financial institutions, many of which have seen deposit growth exceed loan growth.

Overall the situation have stabilized across most region in Q2 2021 and improvements has been observed. The growth outlook for next quarter of 2021 is more uncertain due to the spread of the more contagious Delta variant that have led to renewed lockdowns in some markets. The markets with limited vaccination coverage are expected to be more impacted than others. Nonetheless, the majority of FIs and end clients have now learnt to live with the virus and have adapted their businesses as such.

Vincent Lehner
Head of Markets
Symbiotics

Impact Finance: three pilars serving the general interest

The global pandemic related to Covid-19 and the ensuing socio-economic crises have revealed the vulnerabilities of our economic systems and increased inequality and poverty around the world. A recent OECD report[1] estimates that the pandemic has directly contributed to increasing the Sustainable Development Goals investment gap in developing countries by 50% to $3.7 trillion by 2020. However, there is no shortage of money. For example, the same report points out that institutional investors in OECD countries alone control $100 trillion: a redirection of 3.7% of all these assets to finance the transition in developing countries would close this funding gap.

With only 9 years left to achieve the 2030 Agenda, the finance world must begin a profound transformation to finance the social and environmental transitions necessary to build a sustainable, just and responsible world. Finance must reorient itself to fully integrate impact as a new concept in its operating methods. In short, we must move from finance for profit to impact finance. This impact finance is based on three main pillars: inclusive finance, impact investment and green finance.

Together, these three pillars of impact finance contribute to serving the public interest and achieving the SDGs. As part of its special report entitled "financing social and environmental transitions" and its special focus on financial inclusion, which analyses how the sector has coped with the crisis, the Impact Finance Barometer presents analyses of concrete tools for redirecting financial flows towards impact projects and existing initiatives. It presents the different levers to activate to accelerate the development of impact finance.

Faced with the unprecedented ecological and social emergency, we must collectively begin a complete economic paradigm shift. A paradigm based on maximising impact, not profit. In this new model of society, investors have a key role to play

To address these issues, we invited impact finacne experts. For example, Pierre Valentin, Chairman of the Board of Ecofi, presents in his contribution on page 12 the different ways of integrating extra-financial criteria into a company's business plan. The article written by BNP Paribas (p.14) focuses on sustainability linked bonds, a relatively recent tool for financing sustainable companies, by presenting the issues related to this type of bond and its future prospects. In her contribution (p.8), Renée Chao-Beroff, Executive Director of the microfinance institution Pamiga, analyses how financial inclusion can be a development model for impact investing.

Faced with the unprecedented ecological and social emergency, we must collectively begin a complete economic paradigm shift. A paradigm based on maximising impact, not profit. In this new model of society, investors have a key role to play. As this Barometer shows, many tools and initiatives already exist in Europe and around the world. It is now a matter of accelerating these transitions towards sustainable, fair and responsible models.

1 Mobilising institutional investors for financing sustainable development in developing countries, OCDE, 2021.

Baptiste Fassin
Publications and communication senior officer
Convergences

Impact investment: a basic definition with different interpretations

Conceptualised in the United States, impact investment refers to all investments that explicitly seek both economic profitability and the creation of a positive and measurable social and environmental impact . Interpretations vary according to the geographical, cultural and sectoral origins and operational constraints of stakeholders. In Europe, it is more a question of complementing public action rather than replacing it.

Creating a social and environmental impact means wanting to solve problems that are often in the public interest and contributing to the structural transformation of the beneficiaries' situation in the long term.

Impact investing is a voluntary approach based on three elements : intention, additionality and measurement. Intention is first and foremost the desire to give meaning to one's investment by seeking to make a positive and substantial contribution to the improvement or preservation of socio-ecological systems. It justifies ex ante the definition of a strategy called theory of change. Because impact investment seeks to respond to issues close to the general interest, it helps to strengthen and enrich public action without replacing it, in accordance with the principle of additionality that is enshrined in European Community law . The evaluation and measurement of impact makes it possible to monitor and prove that the action undertaken is the result of the intention defined ex ante and to establish the causal link (counterfactual analysis) with the change generated.

A series of 6 criteria can complete the initial definition: 1/ explicit and transparent social or environmental purpose, 2/ demonstration of the existence of a need, 3/ definition of the expected effects (positive and negative), 4/ formalisation of a transformation strategy (theory of change), 5/ proof of commitments and actions carried out, 6/ measurement of the results (output, outcome, impact). For an investment, economic profitability refers to the return on investment or capital. It is an indicator of the robustness and sustainability of the approach.

***Sandra Bernard**, consultant in impact strategy, Aurore Investissement*

Impact Finance in France: genesis and development

Impact finance was born in the southern countries. It emerged from the development of the microfinance sector: financial innovation at the service of the poorest and the construction of organisations that are sustainable over time, capable of mobilising private capital in a Blended Finance approach. The first private investors appeared in Europe and the USA. Gradually, they began to claim the pursuit of social and environmental objectives through their investments. This was the birth of "impact investing", a semantic innovation that appeared in 2007 in the Anglo-Saxon world on " investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."[1]

In France, solidarity finance appeared in the early 1980s.[2] It is part of impact finance, but the latter will only be defined in 2014, by the French advisory committee on impact investment&. The Impact Invest Lab (iiLab) was born out of this work to continue the fertilisation of the sector and began to publish an annual report on the State of the French Impact Investing Market. In 2020, this represents 4.37 billion euros of invested assets.

Solidarity finance and impact finance have a common objective: to allocate resources to finance companies generating positive social and/or environmental returns. The FAIR association, born from the merger of Finansol and the Impact Invest Lab, bears witness to the fact that impact finance has taken root in France. Finansol was created to develop and promote solidarity finance and has developed a label, unique in the world for the diversity of investment vehicles on which it can be awarded, from certain bank books to shares in solidarity property companies to "90/10" funds. A French innovation created by the Fabius Law of 2001, these funds are required to invest between 5 and 10% of their assets in organisations approved as "solidarity enterprises".

The topic of impact finance is constantly being redefined, as shown by the work of the French Centre for Impact Investment or that of FIR and France Invest in 2021: 60 management companies have thus come together to define impact investment in France in a rigorous manner, creating a basis for its future development.

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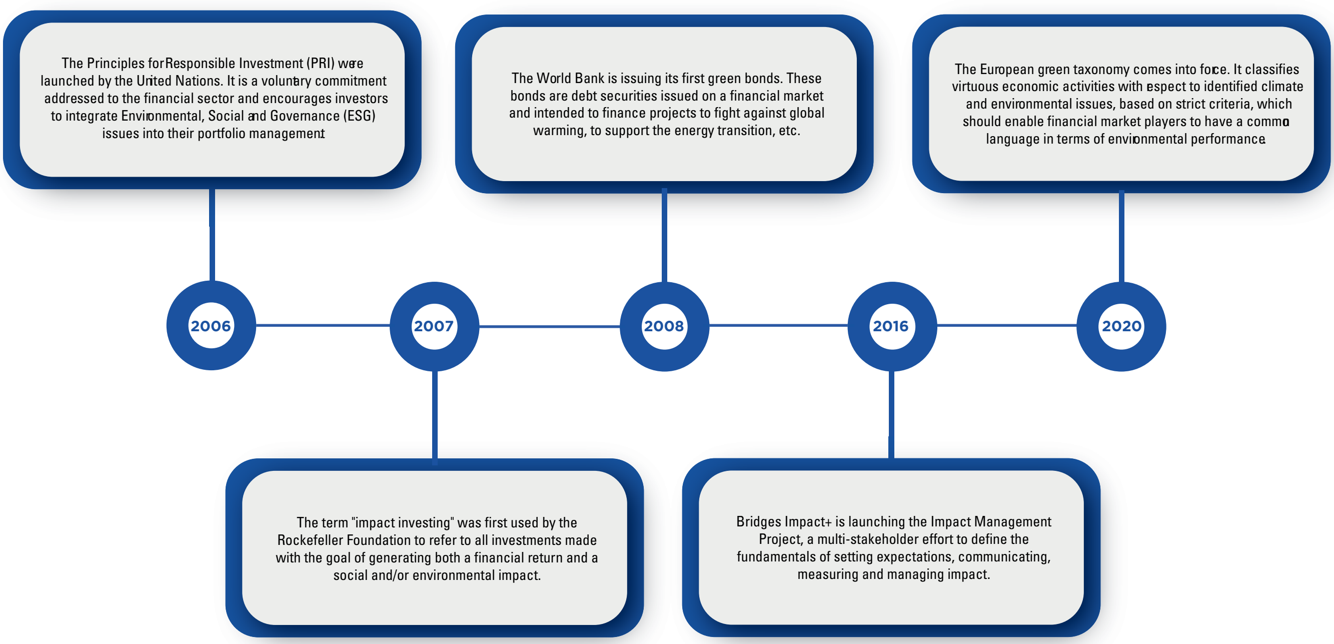
1 Definition of GIIN, the leading US organisation for structuring impact investing
2 See the reference study "20 years of the Finansol Label" on the FAIR website

Flore Latournerie
Research officer
FAIR - Financer Accompagner Impacter Rassembler

A look back at some key dates of Impact Finance



Financial inclusion : a model for the development of impact investing?

Although sustainable finance is a recent concept, having emerged from the SDGs, its commonly accepted pillars seem to be those of inclusive finance, Impact Investing and Green Finance. Of these three pillars, there is no doubt that inclusive finance (an avatar of the microfinance of the 1990s) is the most mature industry, having gone through several decades of resounding successes and no less virulent criticisms, which have pushed it to amend and reinvent itself. It is clear, however, that the principles, measurement and reporting tools that make up the industry today would benefit from inspiring the other two more emerging finance sector, in order to save some precious time. Its adoption will depend very much on the origin of the promoters of these two other industries and their familiarity with the history of inclusive finance.

Evolution of Impact Finance and the link between the three pillars

At the origin of the development of inclusive finance, there is the central problem of the 1980s and 1990s fight against poverty. At that time, a large number of public and private actors saw easy and large-scale access to (micro)credit for disadvantaged and excluded populations, particularly women, as a solution to poverty reduction. Very quickly, microcredit developed, and in a few decades made it possible to reach 140 million microentrepreneurs. In addition to this minimalist microcredit, which can lead to (over)indebtedness and dependence, the sector progressively broadened the range of financial products to lead to the creation of microfinance. Tools have been developed in a participatory way to measure the "social performance" and methodologies have been developed to help interested actors "Manage their Social Performance" and show the results, promising impacts.

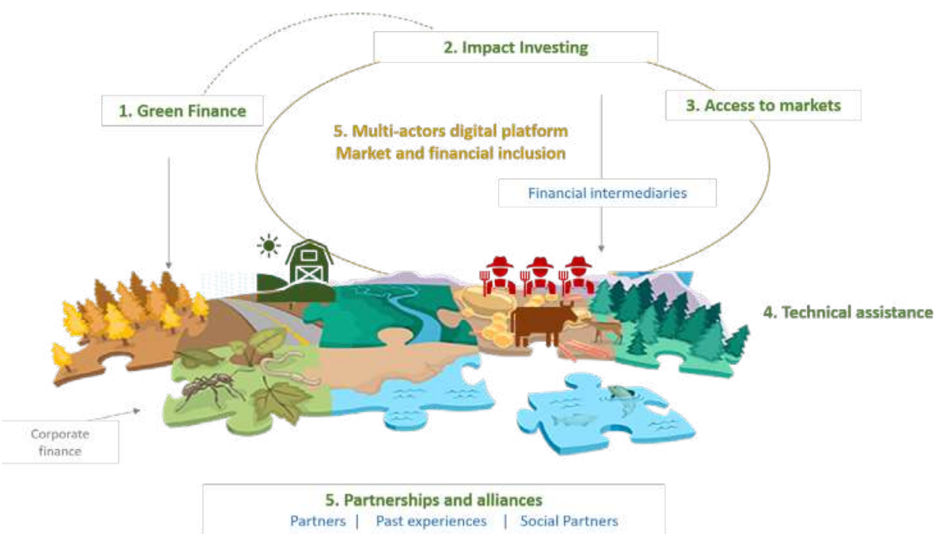
The controversies of the 2000-2010 decade, which arose from the scandals of overindebtedness and market saturation caused by aggressive and deviant practices, gradually turned lessors and investors away from this sector, which had certainly become profitable but risky. To face these criticisms, financial inclusion had to reinvent itself by adopting a "more client-oriented attitude". In concrete terms, this has meant the adoption of other types of financial products, such as access to renewable energy, water and sanitation, education, health or sustainable agriculture. This more holistic financial solution is called Microfinance + and the tools for measuring the social performance of microfinance have been extended to include environmental measures.

The continuum from inclusive finance to impact investing

During these years of transformation, the microfinance sector continued to grow and to need capital to increase the impact of its initial mission of financial inclusion. Microfinance Investment Vehicles (MIVs) emerged, largely funded by (public) development finance institutions followed by private funds and foundations. The broadening of the sector towards microfinance+ has allowed the emergence of Impact Investment Funds over the last 10 years. Symbiotics, in its 2019 MIV survey estimates this universe at USD 16.9 billion serving 850,000 active borrowers.

> Thus, from inclusive finance to impact investment, a continuum undeniably exists. It would therefore be logical for the former to guide, feed into and enrich the latter.

Impact Finance scheme



Thus, from inclusive finance to impact investment, a continuum undeniably exists, especially since it is the same ecosystem actors, taken in a broad sense, who are involved. It would therefore be logical for the former to guide, feed into and enrich the latter, especially with regard to social, environmental and impact performance practices and measures.

Is green finance another category of financing? Impact investment and green finance, what are the links?

Green finance, on the other hand, seems to have emerged from another logic and another ecosystem. According to the United Nations Framework Convention on Climate Change, climate finance or green finance is defined as "local, national or transnational financing, from public, private or alternative sources, to support action to mitigate and adapt to climate change". This category includes green bonds, carbon finance, labelled or aligned bonds.

Since COP 21 in Paris in December 2015, the network of 23 largest national and regional development banks, members of the International Development Finance Club has doubled its climate change financing. In 2020, climate bonds were issued for a total of USD 297 billion, aligned bonds for a total of USD 1,700 billion and labelled bonds at USD 913 billion.

Starting from a different logic and with different objectives to achieve, impact investing and green finance are unlikely to meet, except for one major observation: the people most affected by climate change and its disastrous effects are indeed the poorest and most vulnerable populations.

On the face of it, these two pillars can complement each other in good synergy. Green finance would invest in mitigation measures such as protecting or rehabilitating mangroves, forests and other fragile natural landscapes, while putting in place the necessary infrastructure to foster some grassroots economic development through local and regional incubators that favour sustainable practices. Then the field of Impact Investing would finance MSMEs ready to receive capital and accompany them to their full development, on the national and international markets, thus creating sustainable jobs and ensuring the durability of the actions launched at the beginning by green finance. This complementarity would be winning, virtuous and fully aligned with the ambitions of the SDGs.

Renée Chao-Beroff
CEO and founder
Pamiga

Impact Based Finance: a disruptive solution to deliver the Sustainable Development Goals

To tackle global environmental and social priorities, combined efforts from everyone are needed. Many companies rethink their business models to contribute to a sustainable future for all while creating long-term value for their stakeholders. Yet, the scale and pace of transformation are too slow: disruptive business and financing solutions are urgently needed to deliver more with less!

On the back of the Covid-19 crisis, the SDG investment gap, i.e. the additional investments required to meet the SDGs, jumped by 50% from an estimated US$ 2.5 trillion per year to US$ 3.7 trillion per year until 2030 according to the OECD.[1] This reflects both the increased needs resulting from the pandemic and the slowdown of financing flows to emerging countries.

However, there are reasons to remain optimistic: the world has shown its ability to coordinate efforts to fight an emergency, and there is a growing awareness that a radical paradigm shift is required to solve environmental and social crises. Furthermore, with an estimated US$ 110 trillion of assets under management,[2] there is no shortage of private capital available. How can we funnel this capital in the right direction, towards impactful investments? By changing our priorities and making impact-driven decisions: any project, investment, or initiative should be designed and implemented to seek the maximisation of its positive impacts rather than solely profit. Besides, our ecosystem is at risk unless we adopt circular business models that preserve nature. In other words, we must do more (impacts) with less (resources and costs).

Societe Generale has developed Impact-Based Finance, a disruptive approach to support companies that shift their strategy to deliver low carbon, nature-positive and inclusive businesses. The objective is to assist them in focusing on their customers' environmental and social needs, enabling them to enhance the impacts of their projects, facilitate funding and accelerate their scale up.

Our approach is threefold:

1. Augment impact:
By providing multiple services and mutualising costs, projects can generate more social, environmental & economic impact as well as additional revenues. Reducing the "cost-to-impact" leads to increased profitability, stronger resilience and financial attractivity.

For solution providers, an example can consist in developing off-grid solar power in rural areas in developing countries, combined with access to connectivity, healthcare and education together with innovative agriculture techniques including nature-based solutions.

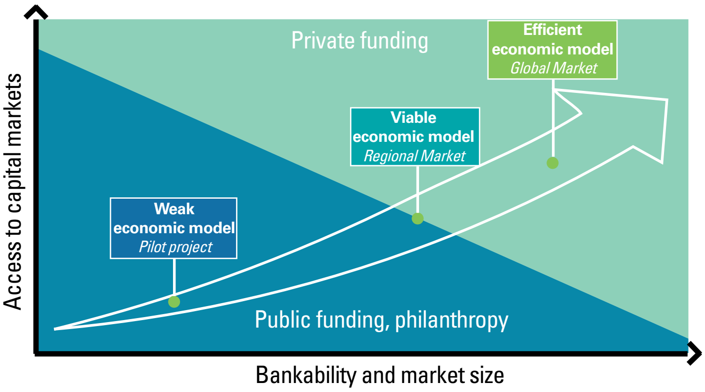
On the demand side, we advocate for "impact-based" tenders where bidders are selected on their ability to deliver impacts rather than equipment or infrastructure.

2. Enhance credit:
Using Blended Finance mechanisms to reduce transactions risks and designing aggregation vehicles to reach critical size enable the optimal allocation of risks and return to all actors of the impact ecosystem (Development Finance Institutions, foundations, banks, investors...) while ensuring financial sustainability for all stakeholders. When data collected demonstrates investments' actual profitability and impact, credit enhancement can be reduced or even abandoned to be redeployed elsewhere. This principle of "additionality" is essential to successfully deliver the trillions of SDG investment gap.

3. Leverage on digitalisation:
First, data on operational performance, payment track record and impacts are key to improve the risks (mis)perception when considering investing in developing countries or new business models. Second, digital tools and artificial intelligence can be used to standardise processes and facilitate scale up by aggregating transactions in diversified portfolios and optimising the use of public money as mentioned above.

With trillions of dollars spent during the pandemic, states and companies must - more than ever - optimise the use of their capital to "do more with less". Natural capital also needs to be preserved. Using our collective intelligence, we must co-construct new impact-based business models that maximise positive outcomes for the people and the planet and optimise the risk/return/impact ratio for investors.

Maximize impacts to develop profitable and sustainable business models



1 Source OECD, "Mobilizing institutional investors for financing sustainable development in developing countries"
2 Source PWC, Asset & Wealth Management Revolution: Embracing Exponential Change

Philippe Weill
Director, Impact-Based Finance
Société Générale

SOCIETE GENERALE

Funders and impact assessment

As key players in the Social and Solidarity Economy (SSE) ecosystem, funders are increasingly interested in impact assessment. Beyond the challenge of evaluating the effects of actions, there is the question of the support and dialogue necessary for the evaluation with the funded projects.

Who are the SSE funders and what are their challenges ?

The notion of SSE funder includes a set of public and private actors of different natures, which can be distinguished in 3 main categories:

- Public funders : State, local authorities and operators
- Solidarity and impact finance actors
- Foundations and sponsors

Whatever their nature and size, funders share common issues around impact assessment. First of all, it is an external issue, as funders are themselves accountable to their stakeholders for the funding they provide : savers in the case of solidarity finance, donors and the State in the case of sponsorship, and citizens in the case of public authorities. The use of evaluation can also serve communication or advocacy purposes, for example for foundations supporting specific causes.

The other interest of evaluation for funders is internal. They can use it to improve their funding strategy (granting of subsidies, calls for projects, etc.) and their support for structures. Understood within a logic of continuous improvement, evaluation also makes it possible to identify the conditions for success and areas for improvement in the projects supported.

Customisation vs standardisation: a possible compromise?

In terms of evaluation, funders face a particular difficulty : proposing a common method and indicators for different projects. This search for standardised evaluation is guided by the need to benefit from a global vision of the portfolio of funded projects to establish decision-making and reporting tools, and to make comparisons.

However, many funders understand the value of more personalised evaluations for projects. They allow for a better understanding of the impact of projects and offer greater proximity and involvement for the funder. The mobilisation of tools adapted to the activities of the organisations is also often a guarantee of better appropriation and therefore of an evaluation that is really useful for the project.

The challenge for the funder is therefore to find the balance between the need for standardised indicators and the need to adapt to the context of each project.

From "promise" to "measure".

What are the possible approaches to assess the impact of the funding ?

The first one is to have a tool that analyses the value of a project prior to funding and to make it consistent with the intention of the funder (the domains or types of project it wishes to fund). In this respect, initiatives are emerging internationally such as the Impact Management Project.

Then comes the question of measurement, in particular the definition of a method and indicators that can be representative and useful for the project. At this stage, three complementary options exist:

- Use existing methods and tools,
- Draw on tools and approaches appropriate to the context,
- Build your own method.

The absence of a standard usually requires an approach adapted to the context of each funder. Furthermore, the choice of method and indicators is crucial and needs to be shared with the projects, so as not to make the evaluation a control tool but rather a tool that is adapted and offers sufficient flexibility to the project (a limited number of indicators, chosen by the structure, measurable, etc.). It is here in particular that the dialogue between the funder and the financed proves to be indispensable.

The level of robustness of the measure will vary according to the challenges faced by the funder, but also according to the maturity and temporality of the projects funded. Going for too much complexity will be long and costly.

Helping projects in their evaluation processes : a challenge to increase competence

Support from the funder is essential because it is the actor who can give projects the means to evaluate themselves and to develop their skills. This can take the form of training, awareness-raising workshops, support from an expert or even the co-construction of an approach and an increase in skills between the funder and the project. In all cases, it is good practice to set aside a proportion of the funding granted to organisations for evaluation, as this invariably requires additional time and resources for the funded project.

Useful Ressources:
Co-construire l'évaluation de l'impact social avec les projets, l'expérience de la fondation Daniel et Nina Carasso, Avise, 2019
L'évaluation de l'utilité sociale des financeurs de l'ESS, Avise, Admical, Essec, FAIR
Les publications de l'Impact Invest Lab, site de l'iiLab
L'évaluation d'impact des politiques publiques, site de France stratégie

Etienne Dupuis
Project officer
Avise

What are we waiting for to finance transitions in the territories? Diagnosis in five key points.

Mega-fires, the Covid-19 crisis, the Yellow Vests... who could believe in a return to "business as usual", ignoring climate change or the inequalities that are bursting into the open? Faced with the economic, social and environmental underperformance of the current model, the transformation of our model is imperative. Circular economy, soft mobility, autonomy, educational success, sustainable food... in all these key sectors for the transition, initiatives, often originating from civil society, abound in the territories.

Green finance, socially responsible investment, impact investing... beyond their differences, all these approaches converge towards financing the "responsible" real economy, or even the impact economy. The real economy - let's remember that etymologically economy means housekeeping - is the one whose usefulness is perceptible by its inhabitants, in particular populations who feel neglected, and which creates visible, local jobs, anchored in a territory.

But if projects abound and funding exists, how is it that the model does not evolve more rapidly? How can we resolve this asymmetry between the available funds and the real, rapid impact on the territories? Our experience with 27 territorial collectives and more than 600 social and environmental impact projects has led us to identify five major obstacles to overcome.

On the entrepreneurs' or project leaders' side, we must first reduce the lack of knowledge of financing tools (promissory bills, participatory loans, equity capital, etc.) and the lack of clarity in the financing chain. Because of their often modest size, these structures suffer from a lack of time, resources and skills to use financial tools or follow a fundraising process. In this regard, we can mention a very operational recommendation on strengthening the management skills of organisations, and the advantages of pooled resources, in the report on financing social innovation coordinated by Jérome Schatzman in 2020[1].

In addition to this relative lack of knowledge of the financial tools that can be mobilised, we have also observed a real cultural barrier among project leaders, a form of demonisation of finance. Loss of control, loss of values, the risks exist. But they can be mitigated by turning to investors who are concretely committed to impact (and who communicate their criteria) and by knowing how to set limits, specific to each entrepreneur. By bringing these two worlds together, a dialogue is established, trust is built and postures are broken down. Creating harmonious conditions for cooperation and exchange requires short- and medium-term support for these grassroots initiatives.

On the investor side, a cardinal virtue of the profession is to de-risk and go towards the best known projects, those that know the "tricks" and are already capable of selling themselves well. Sourcing territorial projects, which as we have seen above, rarely fit into the funding system, requires time and knowledge of the field. And yet it is necessary to nurture this breeding ground of innovative initiatives if we want to foster the emergence of future "social and environmental unicorns". This is one of the objectives of French Impact's Impact Finance program, in cooperation with numerous players in the field such as France Active and the Banque des Territoires, and in partnership with thirty impact investment funds.

What also struck us was the low level of interaction and articulation between all the funders in a given territory - corporate foundations, crowdfunding, banks, business angels, public agencies such as ADEME, and the investment fund. Providing a framework for meetings on a very concrete basis, i.e. around local projects seeking funding, allows these funders to "articulate", encourages co-investment, including public-private, and gives greater clarity to the entire chain.

Finally, "to change the model, let's change the measurement" was the title of the parliament of entrepreneurs d'Avenir in 2012. Purely financial indicators are inadequate, too normative and obsolete when it comes to transforming the model. But then, how can we objectively prove that an organization is concretely working for transitions and is effective in its field? How to support and equip project leaders? How to measure its impact in a comprehensible way? This question is more relevant than ever with the debate on the definition of impact - let's recall that Finance for Tomorrow's mission, mandated by Bercy, will soon deliver its conclusions - the emergence of sustainable accounting, the work of big companies within the Giverny circle and the fight of both France and Europe on extra financial standards. At this stage, we venture a conviction: the interest of building a common grammar linking impact measurement and Sustainable Development Goals, a subject on which the OECD has launched a major study in the field of the Social and Solidarity Economy. Let's hope that the participants of the 3Zero World Forum will share this conviction!

1. Financing social innovation, report from the working group led by Jérôme Schatzman, 2020.

Stéphanie Goujon
CEO
Le French Impact

Extra-financial criteria: how to integrate them into your business plan?

The concept of impact has gradually gained ground in the investment field. Initially reserved for private equity and social impact, it has been extended to the environmental aspect and to investment in listed securities. The investor wants his or her investment to have an impact, which means that social or environmental (or even governance) outcomes must be measurable and measured, so that they can be clearly attributed to the investment made, and that they result from a joint intention of the investor and the company, expressed at the time of investment. These characteristics make the impact the natural subject of a business plan, but of a non-financial nature.

Through a dialogue with the company and a vote at the General Meeting the investor can demand, or even obtain, the development of a climate strategy by the company

For the investor in a listed company, usually acting on the secondary stock market and having little contact with the company, this impact approach is difficult to formalise. However, the example of corporate climate strategy illustrates what can be done. Through a dialogue with the company and a vote at the General Meeting (in France, a resolution can be put on the agenda at the initiative of shareholders who together hold at least 0.5% of the capital, even without the agreement of the Board of Directors), the investor can demand, or even obtain, the development of a climate strategy by the company.

Obviously, the responsible investor will demand a climate strategy aligned with a limited warming trajectory, for example 2 degrees or better 1.5 degrees. In practice, this defines the company's efforts to reduce CO_2 emissions year after year over a long period, depending on the sector to which it belongs and the geographical areas in which it operates. "Aligned" companies are recognised as such by SBTi (Science Based Targets initiative), which has an independent and recognised methodology. Alignment with the 2-degrees trajectory is a particularly interesting type of extra-financial business plan: it is increasingly widespread and relatively easy to monitor since companies publish their greenhouse gas emissions every year. In the event of a clear drift, the investor can see that the commitment is not being met and can decide to sell his shares.

Alignment with the 2-degrees trajectory is a particularly interesting type of extra-financial business plan: it is increasingly widespread and relatively easy to monitor since companies publish their greenhouse gas emissions every year. In the event of a clear drift, the investor can see that the commitment is not being met and can decide to sell his shares

This is not the case for investment in unlisted companies. Since the transfer of shares is difficult and often subject to restrictions linked to the shareholders' agreement, it is in the investor's interest to define very clearly the impacts sought and the indicator measures planned for the results when negotiating the investment. Some investment funds add to this negotiation an incentive for achieving the impact: this can take the form of an interest rebate or a share of the capital gain to the company. That said, it is also possible to provide an incentive for the fund managers: this is the case if the carried interest (mechanism for giving the fund managers a share of the financial performance) is conditional on the achievement of the impact. These schemes are devised by funds that are afraid of not having enough control over companies or that doubt the sincerity of management commitments. Most of the time they are not really necessary because in the companies concerned by impact funds, the commitment of the managers pre-exists the intervention of the fund. In this case, the extra-financial business plan is more of a formalisation exercise than an external constraint.

What are the typical indicators used? This will depend on the type of investment. For example, a fund investing in Microfinance Institutions (MFIs) will be required to have a loan portfolio that is overwhelmingly aimed at entrepreneurs whose income is well below the average per capita income of the country, thus ensuring the effect of the MFI in reducing poverty. A fund that invests in a work integration scheme will set a target of improving the rate of reintegration into mainstream employment at the end of the integration process. The devil is in the detail and in the latter case it will be necessary to ensure that the selection of profiles for entry into integration is not biased to facilitate the result.

We can be pleased to see investors setting extra-financial objectives that are assessed with as much rigour as financial objectives. For a long time, Socially Responsible Investment has adopted a stock selection approach based on past social and environmental performance rather than on a dynamic of progress. The philosophy of impact investing is to integrate this dynamic dimension. It remains to be seen whether social issues can be reduced to a series of indicators, and whether investors are best placed to define them.

Pierre Valentin
Board Chairman
Ecofi

Green finance as an accelerator of the ecological and energy transition

A recent UN report on the Sustainable Development Goals, published in June 2021, was not optimistic about the impact of the Covid-19 crisis on progress towards SDG 7 (universal energy access by 2030).[1] After a decade of progress in energy access, the report notes that «the lights are going out in parts of Africa and Asia» due to growing poverty.

While in Europe the public debate associates energy with the challenge of reducing consumption, emerging countries face almost diametrically opposed challenges. Access is lacking, populations lucky enough to be connected to the grid are faced with reliability problems and above all high energy costs, and consumption levels are on average extremely low. The social consequences of lack of access to energy are massive in terms of education, health, economic and industrial development.

The dependence of Asian and African energy systems on fossil fuels also poses a series of environmental challenges. Asia is characterised by very high carbon energy mixes and dependence on coal for power generation. Nearly 8% of premature deaths in Asia are caused by air pollution (compared to 5% in Europe[2]), and the continent's contribution to global greenhouse gas emissions is increasing almost exponentially.[3]

In Sub-Saharan Africa, the historical dominance of hydroelectricity in the energy mix has gradually given way to oil and gas as a result of investment programmes following the lead of North Africa. Although the continent accounts for only about 4% of global CO_2 emissions, it is characterised by a significant over-representation of indoor pollution as a cause of premature death.[4]

In this context, green finance must fully assume its transformational role to enable emerging countries to lift the constraints on their investment cycles. Most governments, faced with strong social demand, are questioning the validity of the traditional model of infrastructure financing to achieve SDG 7. In Africa in particular, the possibility of replicating centralised electrification strategies is hampered by the scarcity of fiscal resources, the very low reinvestment capacity of national energy companies, and the possibility of calling on the international financing market limited by a cost of capital that is often higher than the profitability of the projects under consideration.

Solutions exist. Since the beginning of the 2010 decade, specialised environmental funds and impact funds have accepted the risk of technological innovation in the service of energy access. Decentralised solar energy solutions (operating autonomously without being connected to the grid), such as solar home kits, self-consumption solar roofs sold on a leasing basis, or mini-grids combining solar and batteries, have become one of the main vectors of African electrification in less than 10 years. As a result of this decade of maturation, solar energy became the «cheapest energy ever» in 2020.[5] This is a particularly crucial factor for low-income populations.

In recognition of this progress, major donors are taking the lead in financing the energy transition by shifting their infrastructure investment mandates towards renewable energy, after decades of support for the oil and gas sector. The World Bank and the Rockefeller Foundation recently announced a joint initiative to catalyse €2 billion in decentralised energy financing in emerging countries.[6]

This maturing sector, incubated by private actors, is now attracting governments who see it as a cost-effective way to achieve SDG 7. Togo, for example, intends to achieve its universal access goal through the "intelligent combination of network extension and off-grid technologies"[7], and relies on public-private partnerships catalysed by pockets of subsidies from the European Union and the African Development Bank.

This is also the direction taken by the Democratic Republic of Congo, where after liberalising the energy sector in 2014, the state has gradually set the conditions for private operators to operate, which have multiplied since 2018. Gaia Impact Fund has supported one of them, Nuru. Active mainly in North Kivu, Nuru electrifies entire towns by means of solar mini-grids: in one year, more than 4,000 beneficiaries (households and SMEs) have been connected to the grids built and operated by the company.

In the DRC, over 80% of the population has no access to electricity. In 2030, without new investment programmes, 560 million Africans will still face this situation.[8] Confronting such challenges, innovation and commitment must remain the watchwords of green finance.

1 https://unstats.un.org/sdgs/report/2021/The-Sustainable-Development-Goals-Report-2021.pdf
2 https://ourworldindata.org/outdoor-air-pollution
3 https://ourworldindata.org/grapher/annual-co-emissions-by-region
4 https://www.who.int/news-room/fact-sheets/detail/household-air-pollution-and-health
5 IEA, World Energy Outlook 2020
6 https://www.rockefellerfoundation.org/news/ifc-and-the-rockefeller-foundation-partner-to-advance-distributed-renewable-energy-solutions-in-emerging-markets/
7 https://at2er.tg/download/strategie-delectrification-du-togo-fr/?wpdmdl=570
8 https://www.iea.org/reports/sdg7-data-and-projections/access-to-electricity

Guillhem Dupuy
Investment Director
Gaia Impact Fund

GAIA IMPACT FUND

The ascent of sustainability-linked bonds[1]

Science-based targets embedded into sustainability-linked bonds are game changers for corporates to finance the transition towards a low carbon economy

The evolution of transition finance

Transition finance has come a long way since its inception, with a diverse set of instruments to support issuers in achieving their sustainability targets, including US$ 488 billion in sustainable bonds and € 200 billion in sustainability-linked loans (SLLs).

What is a sustainability-linked bond?

Sustainability-linked bonds embed an environmental, social and governance (ESG)-related key performance indicator (KPI) that issuers commit to achieve, accruing additional payments to bondholders should they fall short. Unlike green or sustainable bonds, the funds raised with this instrument are not tagged to a specific use of proceeds but for general corporate purposes. This type of bond aims to further underpin the key role that debt markets can play in funding and inspiring companies that contribute to sustainability from an ESG perspective.

SLBs have five core components: a credible KPI; ambitious sustainability performance targets; meaningful changes in bond characteristics; verification and reporting. By complementing green, social, sustainability and transition bonds, SLBs should enable more issuers to tap the sustainable financing market and scale up decarbonisation, while serving a broader range of investors.

Sustainability-linked bonds (SLBs), many of which are linked to science-based targets today, are growing in popularity in recent months. This is in addition to the broader spectrum of sustainable financing instruments, for example sustainability-linked loans or sustainability-linked hedges such as the first issued by Hysan Development in Hong Kong.

There is still a long way to go though, and the urgency of decarbonising emissions intensive industries is of utmost importance given the scale of the climate crisis. Science-based targets in sustainability-linked bonds are a key mechanism in bringing investors along the corporate transition journey because they add credibility, transparency and accountability.

Science-based targets provide companies more specific goals and a practical road map to efficiently help limit global warming to 1.5°C by providing clear action plans in the companies' strategies to reduce their greenhouse gas emissions.

What's next for science-based targets and sustainability-linked bonds?

The International Capital Market Association (ICMA) – which aims to build a common language within sustainable capital markets – released the Sustainability-Linked Bond Principles (SLBP) in early June. The SLBPs provide guidelines for issuing these securities with structuring features, disclosure and reporting recommendations. They can be used by all types of issuers and are designed to bring credibility, transparency and progressive ambition to SLBs.

In September 2020, the European Central Bank announced that it would accept SLBs as collateral and that it could start buying them under its asset purchase programmes.

In order to progress the science-based approach, collaboration with industry experts is key. Many corporates are collaborating with scientists on disclosures, and the Science Based Targets Initiative – which strives for increased disclosure and transparency of corporate climate ambitions – has so far grown to include over 1 000 companies reporting.

SLBs may be new but they have already given more issuers the opportunity to finance their transition towards a low-carbon economy by accessing a wider pool of ESG investors.

1. This article was first published by the author here : https://globalmarkets.cib.bnpparibas/the-ascent-of-sustainability-linked-bonds/

Agnes Gourc
Co-head, sustainable finance markets
BNP Paribas

Who is using science-based targets within sustainability-linked bonds and why?

Corporates from a range of different sectors have started using sustainability-linked bonds, including the following transactions which BNP Paribas supported:

Italian energy group ENEL marked the beginning of the SLB market in September 2019 and chose to link its bonds to the United Nations Sustainable Development Goal (SDG) 7, to ensure access to affordable, reliable, sustainable and modern energy for all. ENEL set a target to increase its renewable energy installed capacity to 55% (from 46% as of H1 2019) of total capacity by the end of 2021 while reducing its CO_2 specific emissions to 0.23 kg/ kWheq by 2030 and reach decarbonisation by 2050. On top of issuing several similar bonds in different currencies, it also innovated by launching a sustainability-linked share buyback programme – including a SDG reward mechanism embedded in the price at which the company purchases its own shares linked to a target KPI

"The value of sustainability has been reflected in the demand mechanics and the pricing of the issue, enabling Enel to obtain a financial advantage equal to 20 bps compared with an issue of bonds without sustainability feature," explained ENEL in its media release.

In November 2020, French multinational company Schneider Electric issued the first sustainability-linked convertible bond, a zero-coupon bond that offers investors a premium in case the company underperforms sustainability objectives. Its three KPIs focus on:

- Delivering 800 megatons of saved and avoided CO_2 emission for its customers by 2025
- Increasing its staff gender diversity with women making up: 50% of new hires, 40% of front-line managers, 30% of leadership teams by 2025
- Training 1 million underprivileged people in energy management by 2025

Schneider Electric CFO Hilary Maxson commented: "This bond demonstrates the focus and commitment of the Group to ESG across its operations, business and culture and as a catalyst for its future growth."

The impact of the Covid-19 crisis on microfinance institutions

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Undoubtedly, the Covid-19 crisis was brutal in its sudden and widespread nature. Our habits have been shaken up and we have had to adapt in record time to cope with this very particular context. Microfinance institutions (MFIs) were no exception to this rule, as their activities were severely disrupted from Q1 2020, as were those of their clients.

The surveys conducted since March 2020 by the Grameen Crédit Agricole Foundation, ADA and Inpulse, three players in inclusive finance, have been used to analyse the effects of the crisis on their partner microfinance institutions and to detail the measures put in place to deal with it. The analysis of the answers formulated by a sample of 40 MFIs[1] allows us to observe the evolution of the "Covid-19 effect" over the past year.

This study shows that MFIs took adequate crisis management measures from the very beginning of the pandemic, particularly in the area of human resources : distribution of sanitary materials, recourse to teleworking, almost total absence of layoffs, etc. At the same time, most MFIs were able to maintain a responsible approach with their clients by restructuring loan contracts (85% of the MFIs surveyed), thanks in particular to the implementation of moratoria, often recommended by local regulators. In parallel, the health crisis was an opportunity for some to accelerate or initiate the digitisation process (50% of MFIs).

Microfinance institutions then found themselves in a context of gradual recovery. The study of the evolution of the MFIs' portfolio reveals a different chronology of this recovery depending on the region: the timid return to growth is apparent from the end of Q2 2020 for Sub-Saharan Africa and Europe, while the decline in outstanding loans is only reversed after the summer of 2020 (end of Q3) for Asia and Latin America & the Caribbean. During this period, risk management has been key to maintaining a certain balance. Institutions prioritised loan recovery (73% of MFIs), while adjusting their strategy to disburse new funding (93%), thus favouring their existing clients: the growth of the outstanding portfolio was mostly driven by the increase of the average loan granted rather than by the acquisition of new clients.

The outlook for MFIs: between vigilance and optimism

However, a return to pre-crisis standards is not yet in sight. The general improvement in conditions related to the crisis still hides many disparities according to national contexts and the size of the institutions. This is reflected in the structural increase in credit risk (PAR30) observed since the beginning of the crisis.[2] Visible in all regions of the world, it remains particularly pronounced for MFIs in MENA, Sub-Saharan Africa and South and South-East Asia, while the performance of the Europe and Central Asia regions has remained more satisfactory. This general trend highlights the continuing difficulties of clients whose activities are still limited or even disrupted. The economic outlook also highlights significant differences between the various sectors of activity.[3]

After more than a year of unprecedented crisis management and despite the many uncertainties that exist, microfinance institutions have proven their resilience and their ability to provide the best possible support to vulnerable populations. The inevitable financial difficulties in this context have been mitigated by their ability to adapt and to reconcile prudent management with the granting of new loans.

At the same time, the microfinance sector has been quick to organise itself: maturity deferrals by investors have preserved the liquidity of MFIs, and have rapidly implemented technical assistance programmes have contributed to this unprecedented effort. This is also a crisis asset to build on in the future.

Today, vigilance remains the order of the day. Nevertheless, a wind of optimism emerges from the testimonies of MFIs. They are looking to the future, nourishing new strategic reflections for the coming years. The orientation towards the agricultural sector (73%), which has emerged as a sector more spared by the crisis, the development of financial education programmes (40%) and the desire to provide more support to women (35%) are among the reasons cited for pursuing the development objectives set before the crisis. These are all reasons to continue the strong mobilisation of the microfinance sector with institutions to accompany them on the road to recovery.

1. ADA, Inpulse, Grameen Crédit Agricole Foundation. 2021. «The impact of the crisis on microfinance institutions. Findings and perspectives».
2. CGAP, Symbiotics. 2021. «Snapshot: MFIs during the crisis
3. OECD. 2021. «OECD Economic Outlook, Volume 2021 Number 1

Maxime Borgogno
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FONDATION GRAMEEN CRÉDIT AGRICOLE
Microfinance & Social Business

Coping with the pandemic on the field. Three questions to OXUS Kyrgyzstan.

OXUS Kyrgyzstan (OKG) is a microfinance institution (MFI) which supports small and medium businesses in Kyrgyzstan through the disbursement of microcredit loans. Today the MFI counts over 9 000 clients, mainly located in rural areas.

© Didier Genti

How has the MFI been impacted by the Covid-19 crisis?

The Covid-19 crisis impacted OXUS Kyrgyzstan at three levels: its clients, its operations and its finances.

The economic slowdown of the country directly impacted 50% of our clients. First, 15% of clients' business activities were sustainably affected by the crisis, such as clients in the textile industry. Indeed, the textile industry particularly suffered due to the closing of borders with trading partner countries, which led to a lack of raw materials for 8 months and the incapacity to export goods. Second, 25% of clients worked in a sector stopped operating momentarily during the March 2020 lockdown. Our clients in the agriculture sector saw their revenue drop as they were not able to sell their products in food and animal markets which were temporarily closed. Those clients unfortunately did not benefit from exceptional furlough schemes at that time. Finally, around 10% of our clients needed relief to support their families and/or to buy medicine.

Together, these difficulties faced by its clients resulted for OXUS in a temporary increase of its portfolio at risk 30 (PAR 30) from 1.5% - 2% before the peak of crisis to around 5% end of 2020, a temporary stop of microcredit disbursements in the months of April and May which later got back to its pre-lockdown level in March 2021.

In order to support its clients and ensure business continuity, OXUS adapted quickly its operations. In the face of the lockdown and of social distancing measures, remote working was put in place for the first time. Loan officers, who could not physically meet with clients, reinforced the use of remote communication means.

In terms of finances, Covid-19 crisis decreased microloan reimbursement which led to lower cash inflow. On the other hand, OXUS had ongoing operational expenses which the MFI had to respect. Without drastic internal measures and exceptional external support, the institution would have faced a liquidity shortage. However, thanks to the special support of our lenders and shareholder, it was able to overcome this difficulty.

What were the measures implemented to minimize the negative outcomes of the crisis?

As a response to the difficulties mentioned above, OXUS developed a Business Continuity Plan with two simple objectives: protect its staff and clients during the crisis, and continue to serve its mission (support small and medium enterprises and the working poor). To fulfil these objectives four main measures were adopted.

The first measure was to protect clients and staff who continued the activity physically at the office by providing hygiene equipment, by disinfecting premises, and putting in place team rotation.

The second measure was to support our clients who suffered the consequences of Covid-19 utilising a case-by-case approach. Practically speaking, OXUS offered the possibility to some of its clients to reschedule their loan schedule and over half its clients benefited from this programme.

The third measure was to promote and reinforce the company's digital tools to maintain remote services with our clients. The percentage of clients who repaid through digital transfer money tools increased significantly from 11% of our clients in 2019 to 35% in April 2020 and continuously increased since then.

The fourth measure was to engage proactively in a continuous dialogue with our lenders and shareholder at each step of the crisis.

Among the various measures taken, our lenders provided a one-year extension on the debt principal repayments due which helped OXUS to have more liquidity at a time of need. This achievement was possible thanks to the unique handshake agreement signed between all the lenders and the institution. The support from the Microfinance Investment Vehicles (VIMs) was instrumental in safeguarding the activities of the organization.

What are the lessons an MFI can learn more than a year after the beginning of the crisis?

Even though the Covid-19 pandemic continues to create uncertainty, OXUS' analysis of the crisis so far has resulted in some few takeaways:

Lesson 1: A clear Business Continuity Plan enables the MFI to be more agile.
Lesson 2: The protection of clients and staff is key for the organisation to overcome the crisis.
Lesson 3: Constant dialogue with shareholders and lenders helps building financial resilience.
Lesson 4: Digitalisation is no longer a potential additional offer to clients. It is a repayment methodology an MFI must be able to offer.

According to the World Bank, the Kyrgystan's poverty level will increase by 11 points in 2020, and push 700,000 people below the national poverty line. As such, microfinance will have a key role to help individuals left out of the traditional financial sector in overcoming in the long run the crisis.

So far, OXUS, like many other MFIs, has shown resilience during the peak of the crisis and is now experiencing a rebound with pre crisis level of microcredit loan disbursements etc. OXUS is therefore confident for the future and the growth and development possibilities ahead.

Denis Khomyakov
CEO
OXUS Kyrgyzstan

Feedback from Afghanistan: when financial inclusion goes hand in hand with heath response[1]

In Afghanistan, where only 15% of adults have a bank account, the term «financial inclusion» is particularly relevant. With this in mind, the NGO ACTED has developed an impact microfinance network, OXUS, to offer a complementary development tool to the population.

In February 2020, the country already plagued by conflict for 40 years shows multiple vulnerabilities : a deteriorated security situation[2], a fragile health system[3] and internal displacements of the populations,[4] exposing it to the propagation of the virus. ACTED and its sister microfinance institution, OXUS, decided to combine their expertise and experience of nearly 30 years in the country to respond to this "crisis within a crisis".

It all started in March with an ACTED programme to respond to the Covid-19 crisis: public awareness campaigns on barrier measures, distribution of hygiene kits, installation of disinfection and hand-washing stations... Very quickly, the shortage of masks was felt very strongly, while a strict lockdown was declared. To cope with this situation, an unusual idea emerged : using the OXUS customers network, many of whom work in the textile industry, to develop a production unit for reusable masks[4]. The project was validated in close coordination with the public authorities.

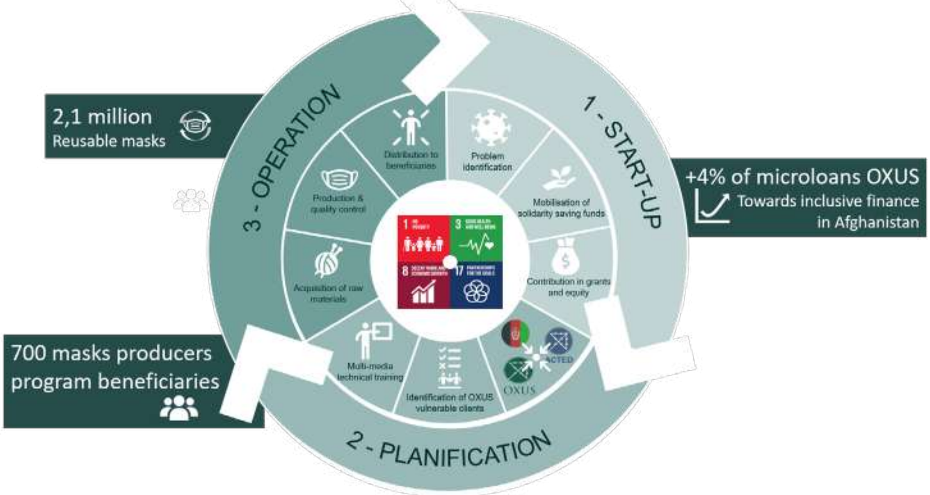
Once trained, the clients reorient their activities to make masks and benefit from an income in the process. In two months, 2.1 million masks were produced, allowing the maintenance of employment for 700 micro-borrowers, and contributing to a progressive un-lockdown and the rebound of the local economic activity

Solidarity savings funds are sent and then relayed by public subsidies and the association's own funds: ACTED acquires the raw materials locally and supplies the MFI's branches. Once trained, the clients reorient their activities to make masks and benefit from an income in the process. In two months, 2.1 million masks were produced, allowing the maintenance of employment for 700 micro-borrowers, and contributing to a progressive un-lockdown and the rebound of the local economic activity.

Suraya, a beneficiary of this joint action, says: "When my textile business suddenly stopped due to the lockdown, I had no money to buy food for my 6 children and myself. One day, OXUS contacted me and offered to train me and sew masks at home. By making 5,500 masks I earned enough to buy protection from the pandemic, to support ourselves and to pay back our interest on the loan."

The context of Afghanistan and the absence of "shock absorbers" in the event of a crisis incite us to imagine new solutions based on complementary expertise and hybrid financing, for immediate, relevant and truly impactful responses. At the time of writing, Afghanistan is on the brink of a catastrophe. Nevertheless, ACTED and its microfinance subsidiary remain mobilised with the Afghan population and hope to continue their humanitarian action in the country.

Acted's mask programme



1. This article was writen in July before the Taliban took control of the country on last 15th of August.
2. According to a UN report on Afghanistan and the UN Human Rights Office , the total number of civial killed in 2020 stands at 8, 820 (3 035 tués et 5 785 blessés).
2. According to the WHO, Afghanistan has 4 doctors per 10,000 people and only 150 hospitals in the country: http://www.emro.who.int/afg/programmes/health-system-strengthening.html contre 3,500 contre 3500 et 2660 en 2012 en France selon l'OCDE (données 2019).
3. IOM estimates 380,000 displaced by 2020: baseline mobility assessment results (jan-dec 20), https://www.humanitarianresponse.info/en/operations/afghanistan/idps
4. Source : Afghan Microfinance Association, Newsletter 43 : https://mailchi.mp/5791a68097d4/ni67hjjl1q?e=b0d6abf48e

Aurélien Daunay
Vice-CEO
ACTED

Tailor-made training to accompany African MFIs during the health crisis

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The health crisis linked to Covid-19 very quickly put microfinance institutions in a complicated situation. How can they continue to carry out their mission in the context of a health crisis and strict social distancing measures, which often deprive the population of the possibility to carry out income-generating activities? Microfinance institutions (MFIs) have also been confronted with the need to adapt their operating conditions by reinforcing health measures, while maintaining close monitoring of their clients.

In order to provide the best possible support to the sector, SIDI and FEFISOL, the ACTES Foundation under the aegis of the Terre Solidaire Foundation, and the Grameen Crédit Agricole Foundation, have been identifying the financial and technical needs of their partners since the beginning of the crisis. Two priority needs emerged: financial support for the acquisition of equipment necessary for the continuation of activities (masks, gloves, computers, laptops/tablets to facilitate teleworking) and technical support for liquidity management.

In April 2020, the MAIN network (Microfinance African Institutions Network), which brings together more than a hundred African MFIs and of which SIDI is a statutory member, sent out a questionnaire to all its members in order to collect their needs and find out what type of support the network could offer them. The analysis of this questionnaire revealed that many of the MFIs questioned had encountered major liquidity problems from the start of the crisis. In such a context, continuing to serve their clients became increasingly complex. MFIs quickly experienced a significant drop in repayment rates from their clients, sometimes as a result of the regulatory requirement to reschedule outstanding loans. However, the MFIs themselves had to continue to meet their operating costs and, for the most part, repay the loan instalments due.

MFIs as a whole have shown great responsiveness and resilience, notably through their flexibility. However, some institutions have expressed the need to acquire the knowledge and tools to enable them to manage their liquidity effectively and to formalise scenarios and fine-tuned stress test analyses. SIDI, in association with the above-mentioned structures, and jointly with the MAIN network, have therefore decided to combine their strengths and resources to offer their partners training on the subject of liquidity risk management from the summer of 2020.

MFIs as a whole have shown great responsiveness and resilience, notably through their flexibility. However, some institutions have expressed the need to acquire the knowledge and tools to enable them to manage their liquidity effectively and to formalise scenarios and fine-tuned stress test analyses.

The MFIs participating in these training sessions were divided into several groups, both English and French speaking. These groups were composed prior to the sessions in order to bring together MFIs with similar issues and common characteristics. While the Covid-19 crisis affected all MFIs, its effects were unsurprisingly different depending on the general context of the country (degree of openness to borders, political context), the type of MFI (those operating in rural areas, for example, were more resilient), their size, etc.

The training took place in three skill-building sessions for each group, in the form of webinars, with three main objectives: to train the MFIs' management team on liquidity risk management; to provide a simple asset/liability management toolkit for MFIs; and to provide personalised support based on the work done by participating MFIs.

Practical courses were offered on an excel tool developed for this support, allowing the elaboration of hypotheses and projections and the monitoring of the impacts of the selected hypotheses on the MFI's management ratios. The tool also makes it possible to define alert thresholds for a certain number of indicators. The tool is the result of collaboration between the consultants, the consortium members and the participating MFIs, who also contributed to its improvement. In addition to these group sessions, the consultants offered individual coaching sessions for those MFIs that wanted it.

A total of 35 african MFIs and one haitian MFI, mostly-small scale, attended the training programme. Each of the three sessions gathered about 60 participants. The evaluation of the programme took the form of short surveys at the end of each webinar and a final evaluation of 50 questions answered by 30 MFIs. The quality of the content, the format of the webinars but also the overall satisfaction were addressed. In the vast majority of cases, the MFIs responded that the training had met their expectations, that the tool developed was adapted to their problems and that they were enthusiastic about using it after the programme was completed.

It was through proactive cooperation between the actors, investors, the foundation and the local network, that an adapted and rapid response could be provided to the MFIs in the field. The evaluation of the training cycle also underlined the importance of digital finance for the continuation of MFI activities, a digitalisation that has accelerated in this context.

Isabelle Brun
External Communication Manager
SIDI

COVID-19's impact on the digitisation of Microfinance

Has Covid-19 sped up or slowed down the digitisation of microfinance? A CGAP survey on digitisation suggests that the impact to date has been mixed but that the pandemic is likely to serve as a longer-term catalyst for digitisation.

In the second half of 2020, CGAP gathered information on nearly 160 microfinance institutions (MFIs) to better understand how they were using digital technology to better serve more customers. Not surprisingly, all of these institutions were preoccupied with managing the challenges of the pandemic. The findings from CGAP's interviews with MFIs, MFI groups and funders are anecdotal and self-reported, but they suggest that the pandemic affected MFIs' digital initiatives in different ways.

Some MFIs had suspended early-stage digital initiatives, particularly any initiatives that were not directly focused on the immediate priority of loan portfolio recovery. As the COO of one MFI group told us, "We have to recover loans or there won't be anything to digitise."

But other MFIs were leveraging their digital capabilities, and even developing new digital solutions, to better navigate the challenges of the pandemic and deliver value for both the business and its customers.

MFIs that had invested in remote and digital distribution channels before the pandemic were able to build on those solutions to reach clients and continue operations, even as branches closed amid lockdowns. In Jordan, Microfinance for Women moved over 30% of its loan disbursements to customer e-wallets by September 2020, and its clients were making 22% of their repayments through remote payment points. Long before the crisis, Bancamia had equipped its ambulatory commercial officers in Colombia with a mobile app. At the time of the survey, these officers had used the mobile app to enroll 270,000 customers for government subsidy payments and process 82% of the MFI's loan applications since 2019. In Peru, the Caja Municipal de Ahorro y Crédito/Arequipa used digital channels to coordinate with clients and reprogram over 60% of its loan portfolio.

In addition to developing digital distribution channels, some MFIs had been making significant progress with automated loan processing and decisioning platforms before COVID-19. Some MFIs suspended these operations in their global lending reduction in the early phases of COVID. In the uncertain economic environment, MFIs were understandably cautious about lending in general and about the accuracy of new algorithmic decisioning models, in particular. At the same time, MFIs with digital loan origination platforms were able to switch quickly to remote work and virtual meetings.

Covid-19 has had a mixed impact on MFIs' digitisation initiatives, but it has also demonstrated the value of digital solutions and will likely catalyse more of these initiatives. The next few years will reveal more about the enduring value of digitisation.

Mark Flaming
Consultant
CGAP

Building customer focused digital transformation strategies

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Thanks to the collaboration of ADA-REDCAMIF, Fundación Hermandad de Honduras OPDF (HDH) managed to implement initiatives for the intelligent digitisation of its operational processes, the development of its businesses and new products, in order to improve the experience of their customers.

HDH is an entity committed to financial inclusion and projects oriented to the innovation of digital strategies that contribute to better transparency, and provide a better service with the use of technology, with a customer-centered approach. In regard to the latter HDH applies the Digital Transformation Projects strategy promoted by ADA-REDCAMIF. In addition to its comprehensive care model that takes advantage of technological advances, this strategy also contributes to financially include excluded populations, mainly inhabitants of rural communities where HDH finances agricultural activities.

The need to carry out a digital transformation arises from a strategic issue of being able to serve rural areas, where the majority of its customers are (85.2%) and to optimise operating costs. With this initiative, the institution benefits from better operating efficiency, reduced transaction costs, better response time, internal control and information for customer management, among others.

HDH's digital transformation strategy has a customer-centric approach, around the following principles:

- Focusing the business dimensions based on the end users.
- The goals and impact of the strategy are measurable, in terms of return and satisfaction.
- Development of tools aimed at good service and simplification of business management processes.
- Convergence and integration of each system
- Sets the guidelines for development and innovation
- Empowers the client in the management of their services

To create and strengthen its initiatives, the entity received technical assistance and support from ADA-REDCAMIF and as a result, three projects have been implemented in Honduras:

1. The Smart Business Management Module which automates and manages the entire business area in a more intelligent and dynamic way, it is an omnichannel that facilitates the access and referral of information. Therefore, it generates greater productivity and increases the level of customer service.

2. The Collection Module which streamlines the recovery processes in an effective and controlled manner through mobile technology (tablet and bluetooth printer), directly serving customers in the field and entering rural areas in a timely manner. Likewise, it allows collaborators to maintain a continuous commercial relationship via information from billing (loan payments and deposits to savings accounts), payment commitments and collection procedures for arrears.

3. The Mobile Application which allows the MFI to interact directly with customers. Through the application, they receive and manage products and services (from credits to telephone recharges) and financial education. Additionally, most of the processes work on automation.

The pandemic accelerated the digital transformation processes and HDH managed to scale up on this issue and quickly respond to its clients and their needs.

The implementation of these projects allowed maintaining a close relationship with clients despite long quarantines and social distancing.

Making all these changes has not been easy. There are many obstacles that have had to be overcome; however HDH will continue innovating and reinvent itself to provide a better experience of financial and non-financial services to its clients.

Andrea Rosales
Communication manager
Red Camif

Pauline Becquey (Managing Director, Finance for Tomorrow) :

"Impact investing requires a "software" shift to seek, from the outset, financial performance in conjunction with ecological and social performance"

Pauline Becquey is Managing Director of Finance for Tomorrow. In this interview for the Impact Finance Barometer, she analyses the levers to be activated to accelerate the development of Impact Finance and the positive trends and developments of this type of finance.

The OECD estimates the annual financing needs to achieve the MDGs at between 5,000 and 7,000 billion euros, this before the health crisis. In this context, impact finance, a very recent phenomenon, appears to be an essential means of achieving these financing objectives. How is this finance perceived by financial actors ? Is there a real awareness on the part of these actors of the need to modify financing models ?

The financing needs are enormous to meet the challenges of social and environmental transitions. In France, the SSE has long excelled in social impact and is clearly opening up its field of action to the environment : in private equity, impact investing has been developing strongly for several years by targeting specific impacts.

The objective is now to drive the transformation of all players to integrate more holistic and systemic processes into their investment and financing activities in order to effectively organise the convergence of the entire ecosystem.

In France, the creation of the impact finance marketplace group, at the initiative of the Minister Olivia Grégoire, which brings together more than 80 players within the Finance For Tomorrow working groups, is proof of the enthusiasm and mobilisation of French financial players in this approach.

The enormous weight of the stock of past investments and financing is, however, the real challenge of the desired global transition. The reference framework of the 17 UN Sustainable Development Goals (SDGs) offers a common frame of reference linking the macro and micro situations : these 17 crucial issues are accompanied by 169 quantified targets to be reached by 2030, which we are still a long way from achieving, even though time is pressing for action. Nevertheless, in 2020, the impact investment market represented 715 billion dollars worldwide (compared to 502 billion in 2019). In France, iiLab estimates in its State of the French Impact Investment Market reached 4.4 billion euros in assets as of 31 December 2019, with annual growth of 9%. Compared to the transformation required, the resources currently deployed are still very inadequate.

Hence the need to accelerate strongly in this direction thanks to Impact Finance : a useful finance launched in a co-construction dynamic which must imperatively go to scale in order to prove its effectiveness in meeting the challenges of the transition.

What do you think are the most effective tools for redirecting financial flows to impact investing?

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 beneficial effects. It is based on the pillars of intentionality, additionality and impact measurement.

Impact investing requires a "software" shift to seek, from the outset, financial performance in conjunction with ecological and social performance, while controlling the occurrence of negative externalities. This also requires financial actors to adopt a clear and transparent methodology describing the causal mechanisms through which their strategy contributes to the environmental and social objectives targeted, as well as the methods for measuring the achievement of these objectives.

Each actor in the impact chain will have to prove its effectiveness and additionality. One of the difficulties is precisely to translate international issues and targets, in particular the Sustainable Development Goals, into operational reference frameworks that can be used and measured by financial actors. The question of measuring impact is therefore essential, as it completes and gives substance to the additionality announced. Shared measurement tools and access to data across the value chain are key to ensuring this measurement.

The development of impact finance also requires the removal of other obstacles : for example, the fiduciary duty of investors, which is the subject of the PRI (Principles for Responsible Investment) report "A Legal Framework for Impact" (July 2021).

The health crisis, by revealing the fragility of our models, has reminded us of the necessity and urgency of accelerating social and environmental transitions. More than a year after the beginning of this crisis, what do you think are the positive signals that make it possible to envisage a real transition of finance towards a sustainable model (green taxonomy, taxation of corporate profits at the global level, etc.) ? How are France and Europe positioning themselves in this transition towards impact finance ?

The situation is critical in terms of environmental and societal emergencies, and the latest IPCC report and the current health crisis will not deny this reality. We can change this reality, transform it into an enviable project. Finance has a responsibility to assume and the development of Impact Finance fully meets this objective.

This "software" transformation of finance is encouraged by European regulations that push to go beyond the sole vision of risks to the economy but also focus on the impacts of financial activities in environmental and societal terms : this double materiality guides and organises the ongoing convergence of finance and investment towards this crucial notion of impact. Taxonomies, SFDRs and CSRDs are weaving a general framework that is gradually activating all financial actors to organise this transformation.

In Europe, many governments (France, UK, Germany) are promoting and supporting initiatives to promote and operationalise Impact Finance, seeking to bring on board all professionals, financial actors and the various modes of investment and financing. Central banks and financial centres are also fuelling this necessary and desirable movement.

The framework is therefore gradually being put in place to facilitate this transition.

Interview by Baptiste Fassin
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