A journey through Green Bonds, Microfinance, Impact Investing and ESG

3RD DESTINATION: IMPACT INVESTING

With participation of:

Sustainability is like a heartbeat that goes on, stronger every day: human resources are becoming literally meaningful as "human"; whereas certain economic and financial concepts are to be rethought forever.

Hopefully in five to 10 years-time, we won't even be discussing ESG, since all investment funds will be socially responsible.

Marco Vernia, Sperling & Star

I can't change
what has been
But I can change
what will be...
It's time for action!

Luca Bruni, BZZ Advisory

Impact investing is not just about green bonds, microfinance and climate transition solutions, it also requires engagement by voting and creating a dialogue with the company in which the industry is investing.

Jean-Philippe Donge,
BLI - Banque de Luxembourg Investments S.A.

Introduction

By Marco Vernia, Sperling & Star
Luca Bruni, BZZ Advisory
Patricia Kaveh, Crédit Mutuel Investment Managers*

Every long journey begins with a first step.

Lao Tzu

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This ancient and concise proverb perfectly summarises our journey. It started in April 2019 over a coffee. Over the last two years we have witnessed an incredible proliferation of articles, posts and initiatives around sustainable finance, ESG, socially responsible investments, impact investing, green finance and other assimilable topics.

Our team was already at a point where this was part of our reflection process, although primarily driven by personal considerations and convincement. Then something changed. While brainstorming about the opportunity to concretely contribute to the positive momentum of sustainable finance to the widest extent, we had the idea to join our energies and to channel those towards the realisation of a professional journey through the composite universes of **Microfinance, Green Bonds, Impact Investing** and **ESG.**

Conscious of the existing problems surrounding the definition of sustainable investment – and in this respect we refer to the recent report published by IIF SFWG – The case for simplifying sustainable investment terminology (October 2019) - we therefore decided to avoid slippery disquisitions around what exactly sustainable finance is and, thus, to align with the broad agreed conclusions drawn by this Report: "Exclusion, Inclusion and Impact have been used here for illustrative purposes, as they are the most commonly cited industry terms to describe the respective investment approaches".

This document aims to provide something different. The focus has been brought to the little voices of a plethora of diversified and international market players, their experiences on the ground, their daily challenges, their stories, their successes and their failures. Without imposed terminological guidelines, all of them have been able to freely express themselves, so to share authentically their passion, their joy, their frustrations and their hopes for a brighter future where the maturity of the "macro" organisations (i.e. international, intergovernmental bodies, etc.) better match the "micro" playground, made by an appreciable biodiversity of market players of different sizes and backgrounds. Theory and practice coming together - possibly hand in hand.

We have therefore privileged a pragmatic approach broken down into four **workshops**, each one is organised around a specific topic, with external speakers drawn directly from the financial industry, internal speakers working at BLI - Banque de Luxembourg Investments and attendees coming from all sectors of the financial universe. We had an agile format of around 60 minutes, a limited number of attendees to facilitate and incentivise the interaction with the speakers and between the attendees themselves, freedom to ask unplanned questions – but also freedom not to respond "live" if too tricky. This allowed us to collect incredibly rich and diversified feedback and opinions. For each of the four workshops the debate proved to be spontaneous, real, wide and always relevant.

This paper is therefore designed to illustrate the main conclusions reached for every session, without any pretension to draw universal truths applicable to the whole universe of markets and market players.

While we fully accept the intrinsic limits of our exercise, we also recognise the value and interest of the debates triggered by our four workshops. Some of the attendees decided to remain anonymous, whereas some others accepted to be named. Some were convinced supporters of sustainable finance (to the widest meaning of the term), while others were focused on the "green-washing" risks and attitude. Some invested time, money and energy to boost the sustainable economy, others declared waiting for more convincing evidence. Both positions are equally respectable and valuable to us, since they both contributed the harmony of opposites and made this paper possible.

We did not try to force consensus around the topics discussed, and genuinely accepted all views and positions, by only asking participants to remain – at all times – respectful of the opinions of others - even in cases of disagreement. We constantly sought a constructive exchange supported by personal experiences, all valuable. Luckily, we succeeded.

In addition, we decided to include in each of the four sections of this paper four specific "views": the **expert's corner**, the **lawyer's corner**, the **millennial's corner** and **BLI's corner –** as main sponsor of the entire cycle of workshops.

Thank you all, speakers, attendees, thank you to the supporters, but also to the detractors and the undecided. Each of you played an important role and we hope this document will also be "yours".

**Crédit Mutuel Investment Managers is in charge of the distribution of BLI products.*

Executive summary

Opportunities

Opportunities	Challenges
Engagement	Coaching and mentoring
Building bridges	Impact measurement
Awareness and Regulation	Retail investors left aside?

Engagement

Impact investing is intimately linked to the underlying dimension of “**engagement**”. Although definitions contain implicit limitations and approximations and sometimes compromises, they have the merit to enable an intellectual alignment on any given concept. Therefore, in a nutshell, the dimension of engagement is about making a difference, providing a positive contribution, creating a sort of “cause-and-effect relationship between the capital deployed and a set of targeted social or environmental outcomes [1]”.

In simple words giving out real money to the real economy. There is a plethora of very-small, small, and sometimes even medium-size entrepreneurs out there who cannot find adequate means to finance their needs.

They are usually left out from the traditional financing channels that often apply a figures-driven criteria and guarantees-based parameters. What we are talking about today [2] is a different approach, based on the clear will, the intimate belief and the intention to provide concrete opportunities to those entrepreneurial projects that “do not necessarily fit in the squared boxes of traditional finance and financing methods”. **Thus, giving a chance to those individuals who are too quickly excluded from the traditional financial system**.

Building bridges

Impact Investing “materialises” the chance to **build a bridge between passion(s) and finance**. From a figurative point of view, building a “bridge” fundamentally means being able to connect two sides that were previously separated - hence to fill a void. But not only that, it also means bringing two edges of the same fabric closer together in order to improve their mutual use, extension, and ideally the overall quality, without being detrimental to the single component. There’s a sort of optimisation involved here. Obtaining financial returns for underlying investors on one hand, and indulging, listening to your passion(s) should not be seen as a dichotomy. Of course, the projects that you may want to support must be carefully and thoroughly analysed, understood, assessed in the light of your own

1/
Source “Impact Investing: History & Opportunity” - Athena Capital Advisors, 2017.

2/
Important here is to make a clear distinction; philanthropy is not falling within the scope of the workshop. We remain in the sphere of finance, therefore of legitim expectations of financial returns for investors. It’s crucial to make this assumption to avoid possible confusion and/or misunderstanding.

values and objectives and, only after that, selected. The selection process remains important. Not all dreams can be realised, just as not all bridges can be built.

But once a decision has been taken to "build that bridge", and therefore to support a specific project and entrepreneur, a deep knowledge of the project itself - as well as of the underlying people that are the drivers of that project - becomes essential to increase the chances of success. The bridge you intend to build must be solid, accurately monitored throughout all the phases of its construction, regularly analysed and assessed. Maintenance is also key. The builder is warned…

Awareness and Regulation

There's an **increasing interest – but also awareness on the market – around impact and sustainable investing**.

Upcoming new EU regulations are also steadily pushing towards this direction. Now, focussing specifically on "awareness", interesting are the four final considerations of the "GIIN Global Survey of the State of Impact Measurement and Management Practice" [3].These are worth a mention and instrumental to our reflections:

- Impact investors seek to create many different types of impact, i.e. most of them target more than one impact theme and the average investor targets four;
- Impact investors actively seek to understand and manage their impact;
- Impact investors embed Impact Measurement and Management (IMM) into the core of their activities;
- The industry has made significant progress, even though challenges in IMM still persist.

Engagement remains at the centre of the actions taken by those investors eager to have a positive impact with their investment(s). Even though much has been done to promote impact investments – and the underlying engagement, to a different extent, of involved investors – the way ahead is still long. However, it's worth recalling here that with its recent "**Disclosure Regulation**" [4], the Commission's greater objective is fundamentally to re-orientate capital flows towards sustainable investment (and so, "one should assume, stay away from investments that are not considered sustainable" [5]). The direction taken by the EU is therefore encouraging.

Challenges

Coaching and mentoring

Being engaged and providing (only) financial support to little/local entrepreneurial projects may not be enough. Concrete cases showed that an effective support is often a combination of financial and coaching/mentoring programmes. Money provided is the fuel of those targeted projects and allows them to move from embryonal ideas and discussions into action. Nevertheless, a proper and customised coaching and mentoring programme for the targeted entrepreneurs provides room for manoeuvres.

To turn an attempt into a little success story, both fuel and a steering-wheel are necessary, in addition to a valid project.

3 / *Global Impact Investing Network (GIIN) – The State of Impact Measurement and Management Practice, 2017.*

4 / *Regulation (EU) 2019/2088 on Sustainability-related disclosures in the financial services sector. The Disclosure Regulation was published on 9 December 2019 and entered into force on 29 December 2019, and will have a staggered application. Its provisions relating to applicable firms will apply from 10 March 2021 and its product-level provisions will apply from 30 December 2022 (though it should be noted that its firm-level rules will have impacts on product disclosures from 10 March 2021).*

5 / *https://www.wildgen.lu/our-insights/article/eus-position-esg-sustainability-related-disclosures-financial-services*

Impact measurement

Here we look at the 'real' social impact an investment can have and how it can be measured. Broadly speaking, and by way of introduction, **qualitative aspects** and returns are often difficult to be measured and quantified as opposed to pure financials and figures, quantitative by definition. This general premise is corroborated by the results that emerged from the GIIN Global Survey 2017 already mentioned above, which provides a clear message.

The results revealed that 83% of the interviewees (the latter being impact investors) stated that it is essential for them to understand the type of impact they have with their investments, so it is important to measure and manage it. **Understanding, measuring** and managing are three cornerstones of an approach targeting engagement.

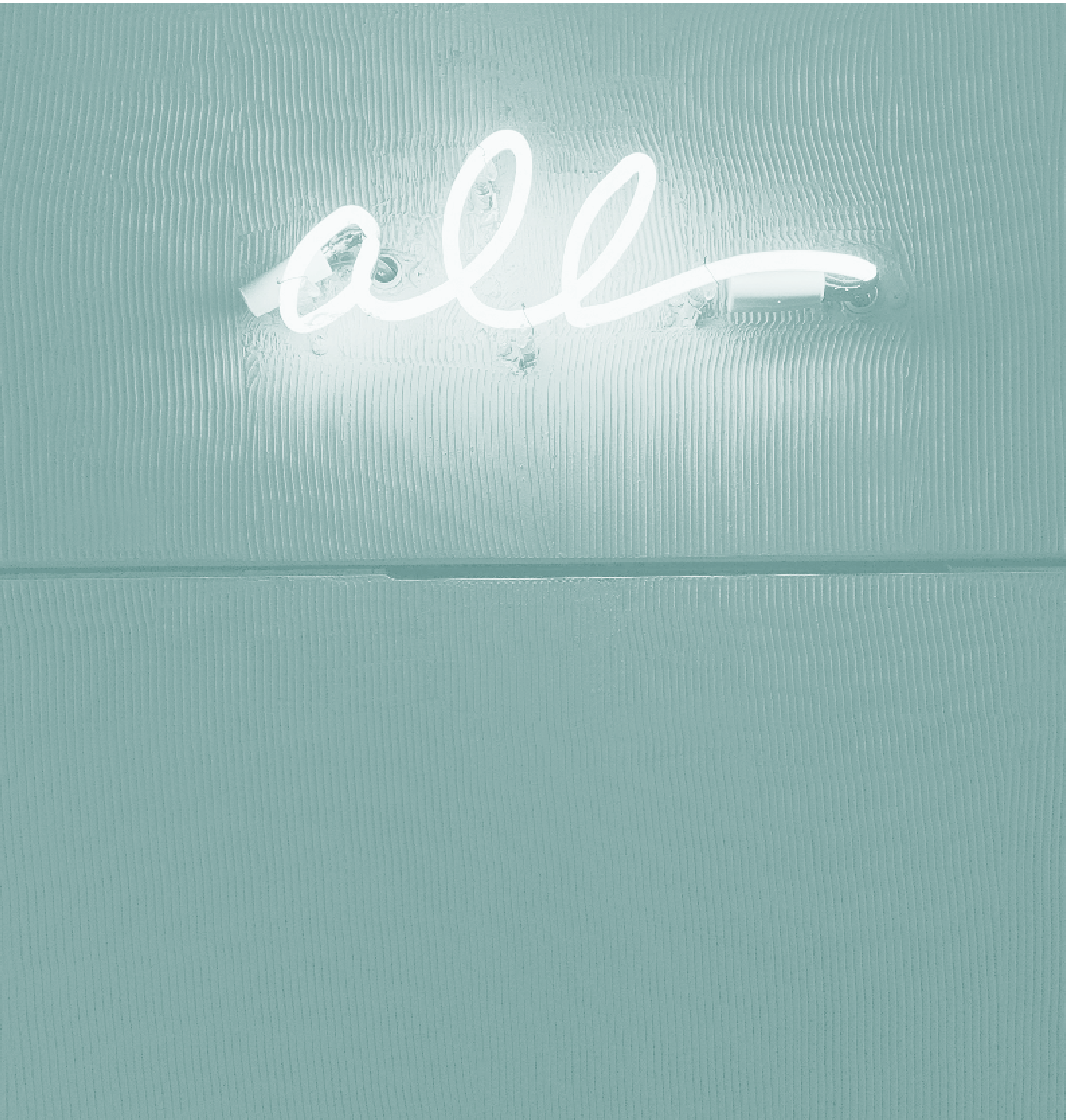
Looking at the **tools** that impact investors may use to measure and manage their impact (so called IMM), those may vary – among others – between IRIS metrics, SDGs, B Analytics and the UN Principles for Responsible Investments [6]. However, it is also widely recognised that several **challenges** remain in this area of measurement, these include: fragmentation of approaches, integration of impact management and financial management decisions and transparency of impact performance [7].

Retail investors left aside?

Impact investments are generally available for institutional/professional investors and not to retail clients. That's a pity given that retail investors would also be interested in investing their savings into products that have both an economic return and a positive social impact. The challenge here is to bring the right product to the right people. Often the foundations of impact investing are fit for alternative vehicles such as SIFs and RAIFs. Then, one must be a qualified investor to be able to invest money into the product. There's a good number of potential new clients out there, such as retail clients, that do not have 125,000EUR to put into a fund, so to some extent it is also a problem of products.

6 /
U.N. Principles for Responsible Investment, UNEP Finance Initiative and UN Global Compact, https://www.unpri.org/

7 /
GIIN – The State of Impact Measurement and Management Practice, first edition.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The lawyer's corner

By Edouard d'Anterroches, Stibbe Avocats

Impact financing — EuSEF managers, where are you?

At the end of 2019, Grete Faremo, Under-Secretary-General at the United Nations, declared that the implementation of the 17 SDGs would require a global investment of about 89 trillion US dollars. The funds gathered by worldwide philanthropy represent hardly 1% of that amount every year. The issue is therefore to find the missing 99% to achieve the financing of the SDGs.

In this regard, public and private investors have to develop innovative solutions and partnerships. The asset management industry has been very early solicited in this regard as it has proven, far before the UN adopted the SDGs, that it was able to develop innovative solutions and investment products to achieve these goals. According to the Global Impact Investing Network (GIIN), impact investment fund structures represent about USD 15 billion worldwide.

Europe has always been at the edge of impact investment innovation, underpinned by a strong nexus of private and public managers and investors, including prominent development finance institutions (DFIs). In order to facilitate the fund-raising activities of impact finance managers, taking into account the limited size of the impact finance investment funds and the need to limit the burden of the costs to run such structures, the European legislator has decided to create a dedicated label for investment funds targeting social undertakings. Such investment funds provide funding to social undertakings that act as drivers of social change by offering innovative solutions to social problems, and promote smart, sustainable and inclusive growth.

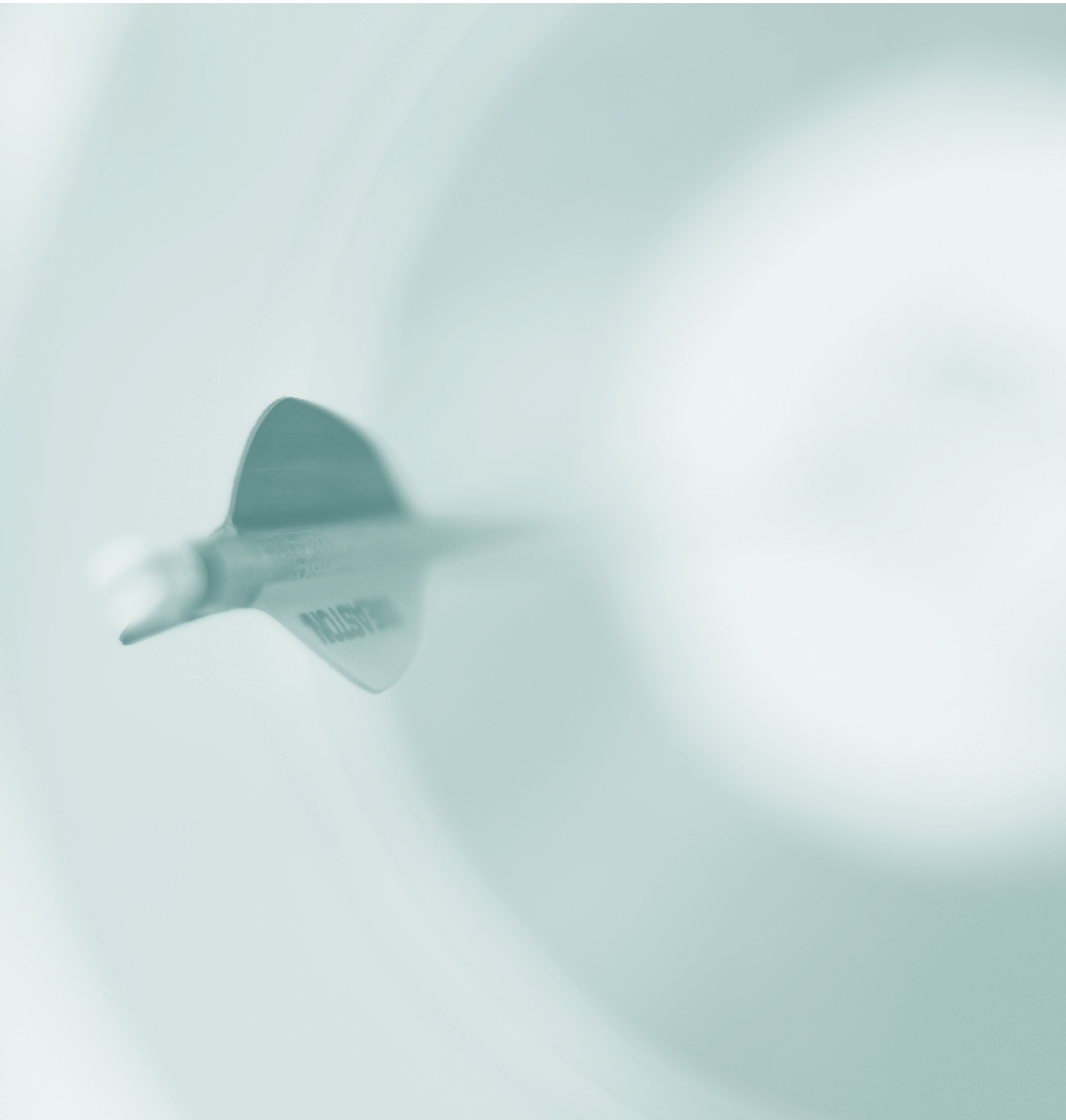
The regulation on social entrepreneurship funds (**EuSEF**) will support qualifying portfolio undertakings that have the achievement of a measurable and positive social impact as their focus. In this regard, the EuSEF's investment policy shall be limited to qualifying assets. **EuSEF is a label that allows managers authorised to manage such EuSEFs to benefit from a marketing passport to professional investors for their EuSEFs, although such managers would not qualify as fully-fledged alternative investment fund managers (AIFMs)**.

This label has had limited success so far. Although the legislative framework, that was initially too restrictive, has been amended [1] to enlarge the scope of eligible target investments through the expansion of the definition of the concept "positive social impact", it has also authorised larger managers (AIFMs) to continue to benefit from the EuSEF label and has limited the administrative burdens and costs of the passporting formalities.

However, the conditions applied by regulators to grant the EuSEF label to small size fund managers are very restrictive as they require a high level of substance and competence in the country where the manager is located. This has proven to be a complex exercise, not only in Luxembourg but also in other European jurisdictions.

Certainly, a better understanding of the conditions to get this label, which today do not appear to be excessive considering the substance requirements applied across all EU jurisdictions, is certainly something the industry should work on to promote this label.

1/ *Regulation (EU) 2017/1991 of the European Parliament and of the Council of 25 October 2017 amending Regulation (EU) No 345/2013 on European venture capital funds and Regulation (EU) No 346/2013 on European social entrepreneurship funds OJ L 293, 10 November 2017.*



The expert's corner

By Nicolas Crochet, CEO Funds For Good

Impact Investing: reconnecting financial investments with the real economy

Impact Investing was born with the objective to offer investment solutions, where investors have the certainty of generating a tangible and positive impact through their act of investing.

Led by very similar convictions, and convinced by the fact that successful companies need to place all stakeholders at the centre of their business models, the founders of Impact Investment solutions have invented different models to permit such investments.

Impact Investments can be achieved by investing into companies that strive to contribute positively in a certain section of society. This may also become possible if the fund itself generates a tangible and concrete impact, through donating a portion of its fees or performance to social or ecological charities. Impact investment products can, for example, be classified as such:

- No or very little return on investment, but very high impact: the investor's money is generally invested, for the long run, in private (unlisted) debt or equity of projects that have a strong social or environmental objective, but very limited financial return potential.
- Market-like returns, investor's money is invested in:
    - Either more classic products, but where a portion of the fees of the fund is donated to social or environmental projects, thus generating impact;
    - Or invested in listed or quasi listed debt or equity solutions, that generate a tangible impact, such as green bonds, social bonds, or micro-finance debt instruments.
- Hybrid products: with such products, investor's money is split between the first and second types presented above.

Given the sudden rise in interest from investors in investment products that offer much more sense to them, the financial sector has been very creative in order to provide clients with solutions that generate impact. As this has been the case with ESG funds, some products present very strong impact solutions, while others may seem dubious. It is of tremendous importance that investors pay a lot of attention to the approach proposed by Investment Managers. Also, labels or audit reports can help investors in their analysis.

Companies like Funds For Good have opted for a very transparent solution, where the company donates a significant portion of its income and working time to manage a pure social and local project, where all clients and stakeholders are invited to take part on a volunteer basis.

What we now know for sure, is that with the success that Impact Investments are witnessing today, investors are now conscious that there is a way to re-connect their own investments with a social or environmental dimension. We are most likely writing the first pages of a very long and positive story, which may help steer our world in a better direction.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NEXT LEVEL

By Mouhamed Seck, Co-founder INTERNWAY, Member of KRYPTOSPHERE®

Impact investing: How to create value through Crowdfunding in African emerging countries

In Africa, despite the efforts made by governments such as low interest loans or free rate loans for small businesses in Senegal with the DER ''Delegation à l'Entreprenariat Rapide", **unemployment rates** are still very high.

This mainly impacts young people who are the physical and financial supports of their families. According to the World Bank, **young people represent 60% of unemployed people** [1]), which is why we have seen a huge increase in the number of entrepreneurs in the region. However, **raising funds** for these entrepreneurs is really difficult due to bank conditions such as warranties and high interest loans and also because of a lack of investors - especially in French-speaking countries of Africa.

In addition, there is also a **very low rate of banked people**. In 2018, the information notes of the Central Bank Of West African states [2] show some indicators of this. We can take the example of some countries of the West Africa Economic and Monetary Union such as Togo with a rate of 23.8% which is higher than the Niger one which has 6.5% of banked people. These figures are very important in order to understand the potential of **financial inclusion** solutions in Africa.

Thanks to **mobile money**, which is the most common way to exchange money among African peoples, financial inclusion makes a real boom into the continent providing to everyone the possibility to **send, receive, lend or borrow money** among other services. We can take the example of M-Pesa [3] among others, a microfinance and mobile phone money transfer system in Kenya, which was launched in 2007 and which reached one million users in eight months. Today, millions of people use mobile money in West Africa. It is also facilitated by the **penetration rate of smartphones which is going to reach 70% in the African market by 2024** [4].

How can we help the entrepreneurs and associations raise funds in Africa?

Combining all these situations and solutions, we can say that a method of raising funds by collecting money from a large number of people from small to high amounts thanks to their mobiles could be a good solution to finance various projects such as, **VSEs and SMEs in Africa**. This way of fundraising is called Crowdfunding. This type of fundraising is already successful in many countries. One example is Kickstarter [5], which has financed 156,000 projects from 2009 to 2019 [6].

Crowdfunding in Africa could be much more accessible because of the boom in financial inclusion solutions. This would allow people of all social classes, individual and institutional investors to discover and invest in projects which will have a **strong sustainable impact** (job creation, development aid, reduction of

1 / *https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS*

2 / *https://www.bceao.int/sites/default/files/2019-02/Note%20d%27information%20-%20n°%2056%2C%204e%20trimestre%202018.pdf*

3 / *https://www.safaricom.co.ke/personal/m-pesa*

4 / *https://afrique.latribune.fr/africa-tech/telecoms/2018-12-02/en-afrique-le-taux-de-penetration-des-smartphones-atteindra-70-en-2024-799538.html*

5 / *https://www.kickstarter.com*

6 / *https://www.shopify.fr/blog/les-meilleurs-sites-de-crowdfunding-pour-financer-votre-projet*

illegal emigration among others). It will also allow the African populations to use their savings, which is most of the time put into tontine, to invest in local projects, with benefits in return, thanks to mobile money solutions that can be integrated on the Crowdfunding platform.

What are the problems in Crowdfunding?

Problems of trust, transparency, payment and monitoring should be addressed and a solution to solve them can emerge from new technologies such as **Blockchain**.

For example, a lot of users of the Crowdfunding platform are facing issues getting their money back when the soft cap (minimum amount required to validate a campaign) is not reached in time. This problem can be solved with smart contracts that allow automated processes based on validation conditions. This would reduce intermediates and long waiting times.


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trading with in any asset class.

BLI's corner

By Maxime Smekens, BLI - Banque de Luxembourg Investments S.A.

Engagement/Impact Investing — BLI's approach

At BLI, impact investing dates to the 2000s. At that time, for us, it was already about combining financial returns and social impact. We took note of the fact that various events and initiatives in the past – among which the Millennium Development Goals – have led investors in the financial world to appreciate the fact that creating long-term value involved factoring in sustainable development. We have built up expertise in the management of funds and portfolios that offer a combination of consistent financial returns and social impact. Starting in 2010, we launched a series of three microfinance funds. More recently, we have integrated the Sustainable Development Goals in our investment methodology. We score countries according to both ESG and SDGs factors. We optimise our portfolios based on those criteria.

Sustainability is the cornerstone of our Impact Investing approach. Therefore, we have used different strategies which can be implemented on a stand-alone basis or in combination:

- **ESG integration**: consideration of ESG factors and non-financial elements in the analysis process.
- **Impact investing**: investments made with the intention to generate positive, measurable social, and environmental impact alongside a financial return.
  - Liquid Impact: Green/social bonds;
  - Alternative Impact: e.g. Microfinance, Project Finance, Housing, etc.

We apply these dimensions in a discrete and progressive manner to the entire bond fund range.

I can do things you cannot,
you can do things I cannot.
Together we can do
great things.

Mother Therese of Calcutta

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NEXT DESTINATION:
ESG