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insights

IMPACT INVESTING

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the editor's word

scaling up authentic impact

With the powers-that-be at the highest level calling for a global transition to a low-carbon economy, and technological innovations that can help lift millions out of poverty in the developing world, there is no shortage of opportunities – at least on paper. According to the latest figures from the Global Impact Investing Network (GIIN), the global impact market is worth no less than US$715 billion and growing fast. However, what seems like great news is tinged with the knowledge that the global finance gap in the world's efforts to combat the climate crisis is somewhere between US$2.5 and 4.8 trillion.

Successful impact investing involves stating clear, measurable, and intentional outcomes at the outset, and being able to accurately report the results to stakeholders.Therefore, impact investing has grown fastest within private markets, where all these things are easier to do thanks to majority stakes and direct oversight of company management. With liquidity constraints and longer investment cycles, this kind of impact investing hasn't grown as fast as the demand to deploy capital at scale. Listed impact investment opportunities and green bonds have allowed this money to gather, but soon enough, impact-washers appeared endangering the credibility of the entire concept.

In this third edition of NordSIP's Impact Investing Handbook, we have assembled a broad range of insights from unique investors' perspectives. Allianz Global Investors' Matt Christensen challenges investors to define acceptable returns, UBS Asset Management's Davide Guberti provides an in-depth update on Multilateral Development Bank debt, while Barney Coles at Capital Dynamics goes through the recent energy market shocks and what it means for renewable energy.

Meanwhile, TLG Capital proposes an innovative way to provide capital to SMEs in Africa and we catch up with Sophie Robé at FIIND Impact on the fit of impact investments for faith-based investors and with Marte Løfman at Grieg Investor on the appetite of Norwegian investors for this asset class.

Microfinance is one of the most concrete forms of impact investing and we investigated its current institutional appeal in Sweden. Last but not least, GIIN CEO Amit Bouri confirmed the need for scalability.

Aline Reichenberg Gustafsson, CFA

Editor-in-Chief

NordSIP

Credit: Nicgorski on Envato

On a Fasttrack to Meaningful Impact

by Julia Axelsson, CAIA

Given the increasing shortfall in investment capital needed to finance the UN Sustainable Development Goals, it has become obvious that the involvement of the private sector will be crucial going forward. To address this imperative, earlier this year, Allianz Global Investors (AllianzGI) announced the creation of a dedicated Private Markets Impact unit within its sustainable investment platform.

Entrusted with leading this effort is Matt Christensen, the firm's Global Head of Sustainable and Impact Investing. Sustainability veteran Christensen sounds genuinely excited about the opportunities that this new setup presents. Purposeful investments in private markets are certainly the right fit for this long-time proponent of impact additionality. At AllianzGI, he is determined to move beyond merely reducing 'footprints' - namely reducing the negative impacts of a company's own operations on the environment and society, be it a company's carbon or water footprint - and towards leaving an actual positive 'handprint'.

The Human Factor

According to his job description, Christensen is responsible for "accelerating the growth of impact investing" as part of AllianzGI's growing private markets platform." 'Accelerating' is the perfect term to describe what I'm aiming at here," he comments. "And the best way to do it is by finding the right people. For me, it always comes back to people," he says emphatically.

Hiring has therefore been high up on Christensen's agenda since day one. Yet, given the current demand for sustainability experts, attracting talent can be challenging. "Yes, it is a rather competitive marketplace," he admits. "But we have a lot going for us. Above all, we have the strong support of senior management, a clear vision for what we want to achieve and a differentiating offering. These three tailwinds enable us to attract talent."

Senior and experienced professionals seem indeed to be gathering quickly in AllianzGI's newly created dedicated Private Markets Impact unit. The team of twelve combines existing equity and debt investing expertise, headed by lead Portfolio Managers Martin Ewald (Blended Private Equity vehicles) and Nadia Nikolova (Development Finance & Private Debt), with a brand-new Impact Measurement and Management unit under the leadership of Diane Mak. Christensen reveals that he is looking to add more resources that should help strengthen the unit's developed markets private equity and private debt capabilities and expand the firm's offering.

Blended Finance to the Rescue

Blended finance is an area where AllianzGI's teams already have a reputation for being frontrunners. Earlier this year, at the G7 summit in Elmau, world leaders endorsed the innovative blended finance strategy initiated jointly by AllianzGI and the

Matt Christensen
Global Head of Sustainable and Impact Investing
Allianz Global Investors

European Investment Bank (EIB). The Emerging Market Climate Action Fund (EMCAF), officially launched during COP26 in November 2021, aims to finance climate mitigation and adaptation as well as environmental projects in Africa, Asia, Latin America, and the Middle East. The strategy is an excellent example of a concrete innovative, and market-led approach to mobilising private investments for climate-relevant infrastructure and enhancing multilateral finance and collaboration.

Grand pledges and high-profile endorsements aside, EMCAF is already making a real impact where it is needed the most, according to Christensen. To illustrate this, he uses one of the investments already made, the ARCH Cold Chain Solutions East Africa Fund. It is easy to grasp why it makes sense in the heat of Ethiopia, Kenya, Rwanda, Tanzania, and Uganda to channel money into greenfield assets in temperature-controlled supply chains such as storage and distribution of food and vaccines.

"We are really excited to be a part of this project which creates a positive impact on so many levels," says Christensen. "Temperature-controlled storage and distribution reduce post-harvest food loss. It contributes to emission reductions, as food waste eventually results in methane emissions. There is a clear social aspect to the project, too. Refrigerating improves food security and alleviates health problems," he explains.

Blended finance solutions seem a particularly good fit for this type of investment. "Ideally, the project would be successful, and the investors will get a healthy return," says Christensen. "If the business falters, however, this way of financing provides some protection that can ease investors' concerns and encourage investment in such areas. Successful blended finance projects feature the right combination of debt, equity and grant financing, the right seniority of investors in terms of absorbing losses and earning returns, and appropriate risk-mitigation measures."

What is an Acceptable Rate of Return?

While on the complex and somewhat controversial topic of impact investments' returns, Christensen feels compelled to elaborate. "I don't believe that impact investors need to trade financial returns for impact," he asserts.

"They should, however, ask themselves what constitutes an acceptable rate of return for them. I think of market-rate returns as a bandwidth, stretching between maximum impact and maximum financial return. You could aim for maximising one of these or try to find an acceptable point between the two extremes," he explains. "What is fascinating is that aiming for more impact often ends up supporting financial returns, too."

"I don't believe that impact investors need to trade financial returns for impact. They should, however, ask themselves what constitutes an acceptable rate of return for them."

According to Christensen, the old risk-reward equation doesn't fully capture the complexity of investing. "There is a missing link between the two," he says. "Unless we incorporate impact into the equation, we cannot account for the increasingly important non-financial risks and non-financial returns."

Managing What You Can Measure

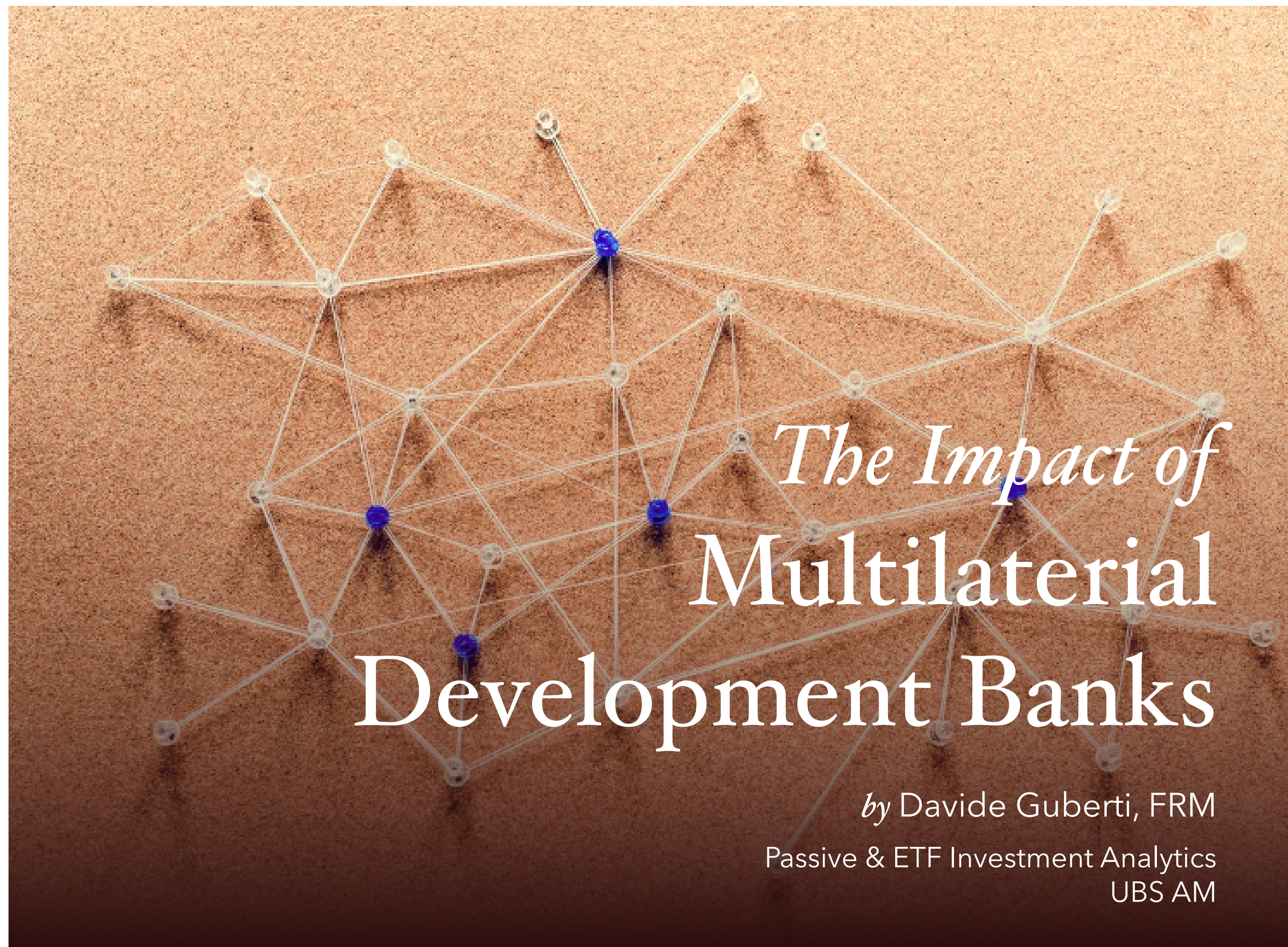
These non-financial risks and returns are, however, notoriously challenging to quantify. Even if an investment's impact appears tangible, it is far from a trivial exercise to measure its complex environmental and social outcomes and the interplay between them. "You need to go about it in a systematic and structured manner," says Christensen.

"At AllianzGI, we adhere to some simple principles that help us delineate the task at hand," he explains. "To start with, we are careful when screening and selecting investment opportunities. Assuming an impact enterprise view, we attempt to establish the impact proposition of the business we are investing in from the very beginning. Once the targeted impact outcomes are identified, we assess the materiality of the potential outcomes, the degree of additionality and the likelihood of impact delivery. This helps determine what impact results we measure and should aim to achieve."

According to Christensen, working in private markets comes with its own set of distinct features. On the one hand, there is the possibility of direct investor contribution. "In private markets, we can add value by working within the company and helping management to drive the impact agenda," he says.

On the other hand, the lack of data, reporting standards and common indicators makes it even more challenging to measure the impact of these investments. "KPIs abound in public markets, and there are plenty of frameworks and evolving standards," comments Christensen. "Private markets, however, are still lagging." Hence the need for developing a proprietary impact framework that leverages on market best practices where available to support the firm's rigorous measurement and management of impact over the lifecycle of the investment and ensure that impact is being delivered.

"The future growth trajectory of impact investing depends on asset managers demonstrating how the impact can be measured and reported," concludes Christensen.



The Impact of Multilateral Development Banks

by Davide Guberti, FRM

Passive & ETF Investment Analytics
UBS AM

What are Multilateral Development Banks (MDBs)

MDBs are supranational financial institutions dedicated to providing financial support and know-how for economic and social development projects. They were founded by sovereign states which contribute capital and provide guarantees allowing MDBs to raise funds in international capital markets at attractive rates. Given that MDBs are non-profit organizations, they are then able to provide loans to less developed countries at attractive conditions.

MDBs as a sustainable investment

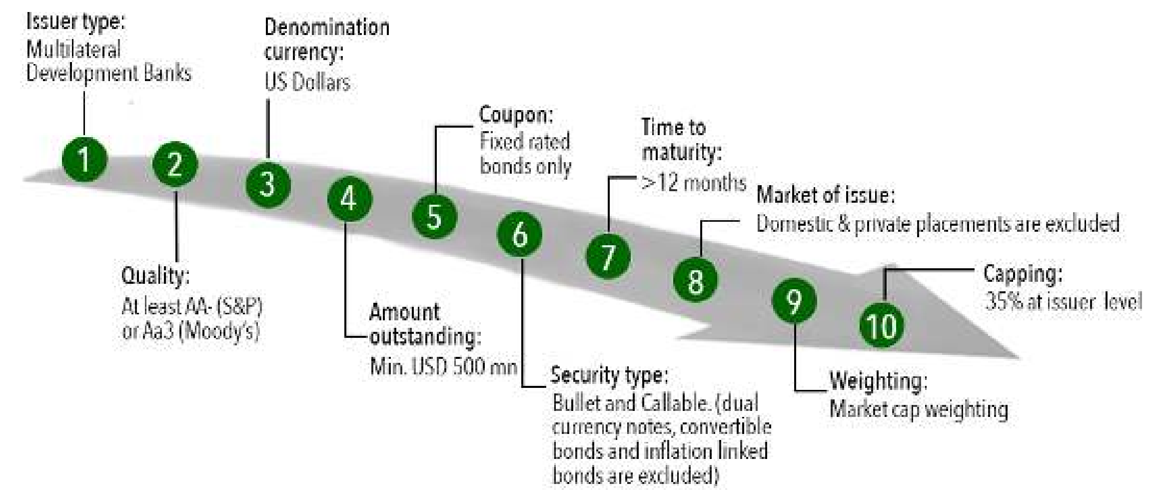
MDBs are backed by multiple sovereign member nations (including all G7 countries) which, in addition to their unique capital structure, allows them to receive a very high credit rating (usually AAA) from various credit rating institutions. Thanks to their high credit quality, MDBs can borrow at extremely low interest rate and use the proceeds to make loans for projects in developing county. Since MDBs lend at substantially discounted interest or provide grants to fund projects, they allow borrowers from developing countries to access credit at much more favorable conditions than those faced if they would borrow directly from private lenders.

Because MDBs lend mainly to lower-middle and middle-income developing countries, they often opened up bond markets in emerging market currencies for international investors, contributing to the economic development of these regions. Other sources of financial and technical assistance have emerged in recent years in the form of foundations, Non-Governmental-Organizations (NGOs) and other multilateral organizations, yet MDBs remain a vital piece of the international assistance mechanism given their scale and reach.

Most MDBs are active across all 17 of the UN Sustainable Goals (SDGs), and most projects and programs support multiple SDGs simultaneously. Looking at the "World Bank Group Annual Report 2021" we can see some recent examples of the types of impact projects that were financed by the World Bank Group:

- Respond to the COVID-19 Health Crisis & Partnering on Vaccines
- Investments in Climate Change
- Reduction of Countries' Unsustainable Debt Burdens
- Protecting Food Security by helping governments build robust and sustainable food systems
- Addressing the Global Learning Crisis (the World Bank is the largest source of external financing for education in developing countries)
- Boosting Social Protection Coverage
- Closing the Gender Gap

Figure 1: Index Construction



- Supporting over 30 Fragile and Conflict-affected Countries to address the COVID-19 Pandemic's Impacts

Even though each MDB bond proceeds cannot be directly allocated to a specific projects, the issuer institution is very transparent and discloses publicly every project's progress, outcome and ultimate impact.

Breaking down the index

Traditional bond indices typically contain only a small amount of highly-rated sustainable debt. In order to increase their allocation to sustainable debt, clients should invest in dedicated solutions that explicitly focus on these types of securities. One way to invest in this segment is through passive solutions, such as the one created by the collaboration between Solactive and UBS Asset Management: The Solactive Global Multilateral Development Bank Bond USD 25% Issuer Capped Index. The index is designed to capture a representation of bonds issued by the largest MDBs that have all G7 countries as members. In Figure 1 we highlight some key features of the index construction, that ensure robust portfolio construction. First, only high credit papers are eligible. Second, it includes only USD denominated fixed-rate securities with a time to maturity no less than 12 months. Third, to ensure liquidity, only large bond issues are eligible (min USD 500 m). Finally, the index is market cap weighted with an issuer cap of 25% to enhance diversification.

The index constituents include bonds from five different organizations as of August 2022:

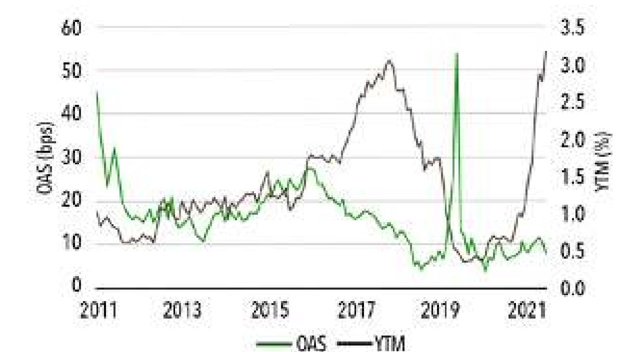
- World Bank Group comprising of the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC) and the International Development Association (IDA)
- Inter-American Development Bank
- Asian Development Bank
- European Bank for Reconstruction & Development
- African Development Bank

Each of the selected multilateral banks have a track record of robust performance, solid reputation, and play an important role in their respective regions. The weights of bonds issued by the World Bank, Asian Development Bank and Inter-American Bank are all at the maximum level of 25%. Overall, the index holds 97 different bonds with their individual weights ranging from 0.16% to 3.94% (August 2022).

Index facts and figures

In Figure 2 we show the historical Yield and Option-adjusted Spread (OAS) characteristics of the MDB Index since inception (2011). Looking at the Yield-to-Maturity (YTM) evolution over time, we can see that the MDB Index is strongly connected to the monetary policy actions followed by global central banks, particularly by the US Federal Reserve. This helps us to understand the recent sharp move upward of YTM for MDBs, which is linked to the monetary policy tightening implemented by several central banks to achieve their price stability objectives.

Figure 2: MDB spreads remain tight



Source: Solactive, UBS Asset Management. Data as of 31st August 2022

Figure 2 also shows that, thanks their very low default risks and reasonably high market liquidity, MDB bonds only have a modest spread above "risk-free" sovereign bonds. Interestingly, even though YTM increased substantially in the last year, the levels of Option-adjusted Spread (OAS) remained low. As of end-August 2022, the OAS offered on top of US Duration Matched Treasuries stands at 12bps, which is below the historical average of 16bps.

At times of high market stress, MDB bond spreads widen temporarily, mainly because of worsening liquidity conditions. In the chart we can see two main episodes: the Euro Debt crisis in early 2012 (where OAS peaked at 40bps), and the Covid crisis (OAS peaked at 54bps). On the other hand, it is interesting to see how these phases tend to be usually brief, with spreads reverting quickly and price losses being temporary and fully recouped as market conditions normalized.

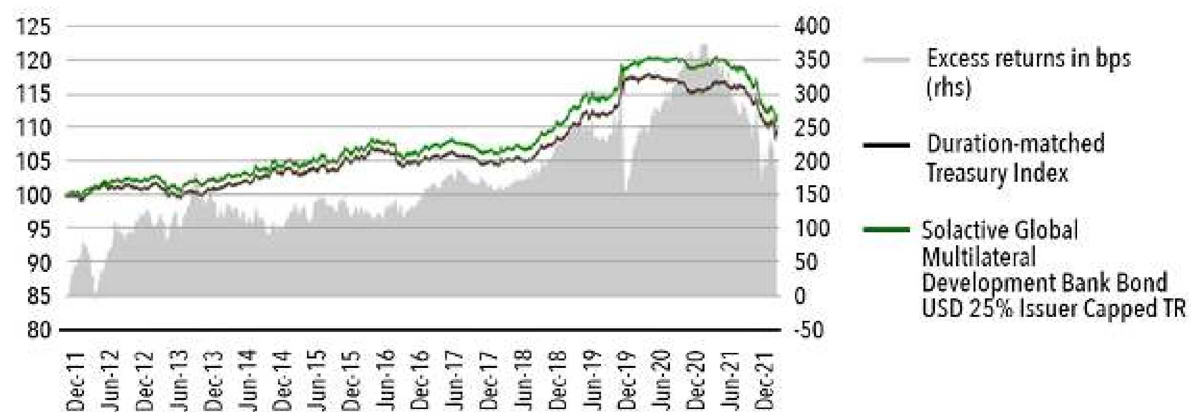
The additional yield of MDBs can be seen as a compensation for the slightly lower liquidity that MDBs offer relative to US Treasuries. Over long-periods, the yield premium has helped to achieve greater returns while keeping a risk-return profile very similar to a portfolio of duration-matched US Treasuries. As shown in Figure 3, the excess returns since inception stands at approximately 220bps.

The role of MDBs in an investment portfolio

As shown in the previous section, MDB Index risk return characteristics are very much in line with those of US treasuries. This, paired with the high credit quality (AAA-rated), confirms that MDB bonds belong to the safest component of asset allocation (alongside other government-related bonds).

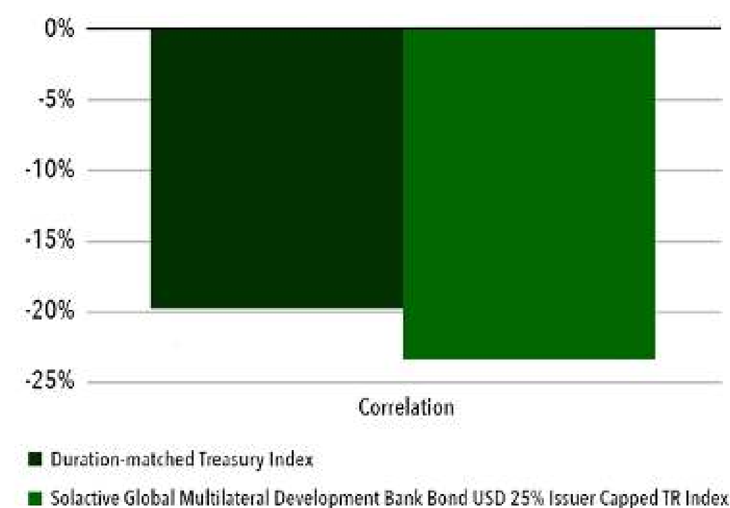
Since the role of the safest part of the portfolio is to diversify and offer protection during periods of high (equity) market stress, we expect MDB price dynamics to be unrelated to movements in the equity market. Figure 4 confirms that, if we take the MSCI ACWI Index as a proxy for the broad equity market, we can see how both our MDB Index and a US Duration-Matched Treasury Index (proxy for US treasuries), showed negative correlation in daily returns from the end of 2011 until today.

Figure 3: Long run total return comparison



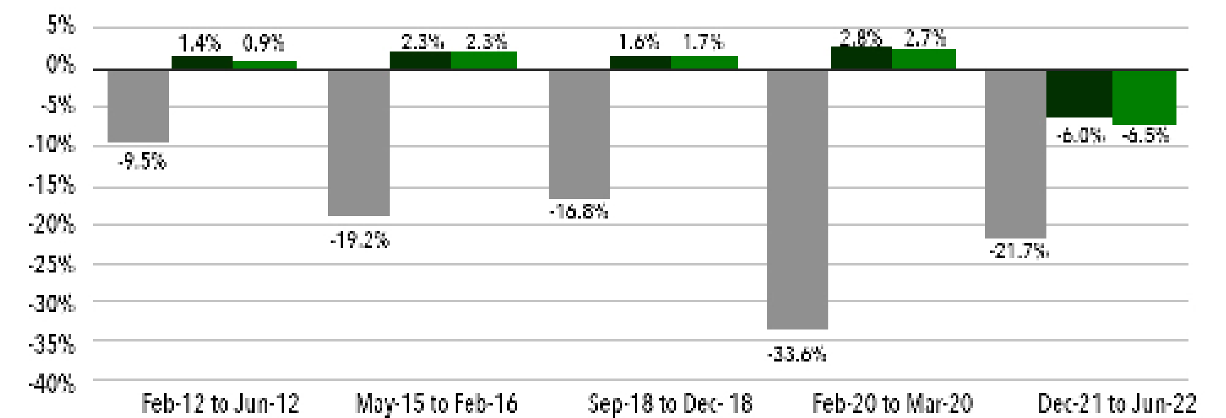
Source: Solactive, Bloomberg, UBS Asset Management. Data as of 31st August 2022

Figure 4: Negative correlation with MSCI ACWI



Source: Bloomberg, Solactive, UBS Asset Management. Data as of 31st August 2022

Figure 5: Performance in equity drawdown periods



Source: Bloomberg, Solactive, UBS Asset Management. Data as of 31st August 2022

Thanks to their generally low or negative correlation to equities, their prices tend to remain stable, or even go up, when equity prices fall. As a such, the main role of MDB in a portfolio is to diversify and offer protection during periods of high (equity) market stress.

In order to understand how this negative correlation has played out in some historic market sell-off events, in Figure 5 we have isolated five major global equity market corrections for the MSCI ACWI (since inception of the MDB Index in 2011). The chart highlights how MDB bonds have achieved moderately positive returns during four out of five episodes, confirming its diversification properties.

One of the most prominent example being the 2020 covid-crisis where, opposed to the -33% of MSCI ACWI, the MDB Index had a +2.7% return.

Out of the five cases, the only example where, during the equity market sell-off, MDB performed negatively has been 2022. The main reason for this exception is that in 2022, the equity drawdown coincided with a global monetary policy tightening (rate hiking cycle). Intuitively, because of interest rate risk, when market interest rates rise the prices of fixed-rate bonds fall, causing negative returns.

This explains why, along with MSCI ACWI, both the MDB Index and US Duration-Matched treasuries performed negatively during the period. Besides the recent negative performance, the chart showcases how the MDB index performed broadly in line with US Duration-Matched treasuries even during market-stress periods. This confirms that MDB have similar risk-return characteristics to US treasury, and therefore belongs to the safest component of the Asset Allocation.

Conclusion

Bonds of Multilateral Development Banks represent a sustainable investment opportunity in high-grade USD denominated debt. Thanks to their high credit ratings, they can be considered a liquid and low-risk form of impact investing. MDB bonds also offer true global diversification given the unique reach, breadth and variety of MDB activities across most of developing countries.

Additionally, in the long-run multilateral development banks have shown similar risk-return characteristics compared to US Treasury and also offered good historical returns thanks to the liquidity premium offered.

Florian Cisana
Head UBS ETF &
Index Fund Sales Nordics

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Renewable Energy Trends
& Responses to Recent Shocks

by Filipe Albuquerque

Credit: Fabian Wiktor on Unsplash

Barney Coles
Managing Director & Co-head of Clean Energy
Capital Dynamics

Fulfilling the climate commitments to keep temperatures from rising too far above pre-industrial levels made at the 2015 Paris Agreement puts the onus on energy infrastructure to transition from fossil fuels towards greener renewable energy alternatives. To pursue this goal, investors need to understand renewable energy markets.

Energy markets are characterised by long-term transition-friendly trends tempered by short term shocks, according to Barney Coles, Managing Director and Co-head of Capital Dynamics' Clean Energy team. "Long-term trends take place on a macro-scale where governments aim to set lasting policies committed to the green transition. Short term shocks are more idiosyncratic and reflective of the spill over of external issues onto energy markets," Coles explains.

Long Term Commitments to Carbon Neutrality by 2050

"Long term dynamics continue to enhance and support significant renewable energy project deployment globally. The last substantial development in this trend was last year's COP26 in Glasgow, which was meant to super-charge renewables and support the phasing out of fossil-fuels. Whilst there was disappointment that countries only agreed to 'phasing-down', rather than 'phasing-out' the use of fossil fuels, it still represented a major step in the right direction. We should celebrate the fact that for the first time there was a global consensus to endorse such a commitment," Coles says.

"This decision should continue to build momentum towards achieving net-zero carbon emissions by 2050 or earlier. That political commitment trickles down into policy change and government support that facilitates the roll out of clean renewables and decarbonisation. Overall, the long-term trend remains supportive and consistent with the continued appreciation of renewable energy assets," Coles adds.

Short Term Dynamics

"The shorter-term dynamics involve both the tail end of the impacts of the COVID 19 restrictions, and the fallout from the ongoing conflict in the Ukraine. The Omicron variant wave in December 2021 caused renewed lockdowns across Europe that extended the strain on industry supply chains and infrastructure; increasing commodity costs and rippling negatively through to businesses costs. From March 2022 onwards, the Ukraine conflict, the sanctions imposed on Russia, and their knock-on effect on energy prices have further rocked markets," Coles adds.

"Energy market prices clear on the marginal cost of electricity generation where supply meets demand, which in Europe remains typically from gas-fired

"Demand for energy is fundamentally inelastic, which is appealing to investors. But it also burdens consumers, particularly those with lower incomes, which creates an incentive for government interventions."

power stations. Given the limitations imposed on gas imports from Russia, supply has decreased across Europe, increasing wholesale prices across the Continent," Coles continues.

"In liberalised markets, power prices act as the market signal for new entrants, so a higher price dynamic incentivises new players to enter the market, which is favourable for low-cost renewables energy projects. At the present price, many previously unviable renewable projects could now have a sound business case, which if then delivered, over a longer term horizon should act to reduce and stabilise power prices whilst accelerating security of supply. In theory, therefore, the war in Ukraine could and should facilitate a faster rollout of cheap renewable energy projects than was previously expected," Coles argues.

Merchant Market and PPAs

According to Coles, investors should be aware of differing revenue risk approaches to investing into European energy markets. A renewable energy plant can either sell its output on the highly volatile spot market, or sell its output under a long term power purchase agreement (PPA) to a counterparty energy 'off-taker' for a fixed price (at a discount to the spot price), often times a corporate with specific energy needs.

"In the early days of the sector, governments provided direct subsidies to support the development of renewable energy infrastructure. Energy generators would get a fixed and generous price and that would support low-cost financing of these early projects. As the cost of the technology has fallen with time, renewables can now increasingly compete directly with fossil fuels in fully unsubsidized market settings, and the necessity of subsidies has faded away," Coles recalls.

With a solar park or a wind park able to profitably generate electricity in unsubsidised markets, the choice for revenue-earning is narrowed down to selling power in the wholesale markets, or contract under PPAs. "Our approach is to de-risk that volatility as much as possible in every single asset. The degree to which that is possible varies across European countries because every market is different, but Capital Dynamics' focus on additionality, sustainability, stability and de-risking means we have a preference for PPAs," Coles explains.

Front Ending Profits

Returning to ongoing market conditions, Coles warns that renewable energy investors who avoid PPAs and instead seek to make new investments underpinned by today's record high spot merchant energy prices should be aware of the potential future risks. "The recent spike in energy prices and asset profitability is expected to be temporary and largely dependent on the conditions facilitated by the present crisis," Coles warns.

"Investors with a longer-term investment horizon should be aware that they may be capturing the upside today, but they may also be exposing themselves to potential down-side later. Eventually, when the ongoing geopolitical upheaval passes, prices could fall faster than expected because of the rollout of more and lower-cost renewable projects," Coles argues.

Political Responses to the Crisis

This is not a criticism of the faster rollout of renewable energy projects per se. Coles merely suggests investors ought to be mindful of unintended consequences of investing "fully merchant" as opposed to strategies underpinned by PPAs, including in terms of the policy responses. "It's natural that high prices should lead investors to enter this market. Demand for energy is fundamentally inelastic, which is appealing to investors. But it also burdens consumers, particularly those with lower incomes, which creates an incentive for government interventions," Coles says.

Political interventions vary across Europe but there is a degree of harmonisation happening according to Coles. "The initial response has generally been the same, with governments across Europe imposing packages including 'windfall taxes' on the profits

"The integrated energy market for the whole Nordic region, Nord Pool, is one of the biggest and most liquid energy markets in the world. Because it is so liquid, a number of power trading counterparties, be that utilities, corporates or investment banks, trade there, creating a lot of options for generators."

of (fossil fuel) energy companies to smooth out the effect of the crisis," Coles explains.

Drivers of Renewable Energy Prices in Europe

Diversity is not limited to government action. It extends into market dynamics where different regulations, heterogeneous levels of renewable energy penetration, interconnection between markets and other supply and demand motivations can shift the bargaining power between energy 'generators' and 'off-takers'.

"The differences in prices across Europe are due to a multitude of reasons," Coles says. "The UK, for example, is an island nation that continues to lack large interconnection capacity with mainland Europe, whilst remaining undersupplied in renewables. The market expects the UK to be undersupplied for a long time, in part due to planning regulations limiting land use for renewables. This postponement in the rollout of renewable energy delays the displacement of higher marginal-cost gas-dependent generators, thereby pushing up the expected long-term power price in the UK," Coles explains.

"A long-term fixed PPA price is a function of the expectation of where long-term merchant prices will be. As a result, when you overlay a PPA onto this undersupply dynamic prices are inevitably higher in the UK than in the rest of Europe," Coles adds.

'Take or Pay' Versus 'Base-Load' PPA Contracts

At the same time, renewable contracts in most of Europe, burden the 'off-taker' with more risk than the power 'generator', contrarily to the prevailing conditions in the USA and in the Nordics. "The PPAs signed in the UK are normally 'pay-as-produced' contracts, where the purchaser of the power output, normally a corporate, agrees to pay the generator the agreed fixed price, regardless of when the energy is produced," Coles says.

This is because of supply and demand dynamics. "Although the UK presents a more extreme case than Spain or Italy, those countries also currently suffer from undersupply of renewables in the context of huge corporate demand for the green power. In this environment, the renewable energy project, as a scarce resource, has more bargaining power than the 'off taker'. This dynamic will last for a while but not forever as the experience of Nordic countries shows," Coles continues.

"In the Nordics the dominant contract is a 'Base-Load PPA' contract, where the weather risks are more equitably shared between the 'generator' and the 'off-taker'. In those contracts, the 'generator' is typically bound to deliver a certain volume of electricity within a specific timeframe, sometimes with binding floors and ceilings. Should there be unusually weak wind generation for an extended period of time such that the 'generator' is unable to meet the minimum amount of agreed-upon power, it is the 'generator' who has to go to the volatile merchant market and source the shortfall necessary to meet its obligations to the 'off-taker'," Coles continues.

The Nordic Market

Supply and demand dynamics also help explain why generators take more of the risk burden in the Nordics. "The integrated energy market for the whole Nordic region, Nord Pool, is one of the biggest and most liquid energy markets in the world. Because it is so liquid, a number of power trading counterparties, be that utilities, corporates or investment banks, trade there, creating a lot of options for generators," Coles explains.

"Broader industry confidence in Nord Pool make it also one of the lesser volatile energy markets in Europe. This price stability erodes some of the appeal of the 'as-produced' fixed-price PPAs, that are often priced at quite a large discount to prevailing wholesale market prices" Coles concludes.

Applying Innovative Structures to

SME Lending in Africa

by Filipe Albuquerque

The continent of Africa has the youngest population on Earth – coming in at an average age of 20. This stands in stark contrast to Europe's average age of 43 years and even Asia's 32 years. With the strongest demographics of any continent, accelerating technology adoption, and dramatic improvement in infrastructure, Africa is, can and should generate exceptional financial returns together with developmental growth.

However, the complexities of developing local expertise, breaking out of the poverty trap, bridging over local legal systems, project monitoring, scale, liquidity, risk and technical knowhow create hurdles to achieving this potential. Beyond these challenges, the COVID19 pandemic and the present global economic conditions have created a credit crunch where many small and medium sized enterprises (SMEs), the engines of growth in most developed countries, are further starved of capital across sub-Saharan Africa. TLG's mandate is to fill this gap – the "missing middle" – aiming to generate commercial returns with a social impact in some of the poorest, most under-invested countries on Earth.

TLG Capital's Vision

TLG Capital is a private credit manager founded in 2009 to overcome these challenges and explore commercial as well as impact-driven investment opportunities across sub-Saharan Africa. The company was set up by Isha Doshi and her co-founder Zain Latif, alumni of Lehman Brothers and Goldman Sachs, respectively.

Both are specialised in structured financing, an expertise they have applied over the past decade, working with various SMEs across the continent. "One of the problems in Africa is that credit deployed to the private sector only represents only 38% of GDP, on average, much less than in OECD countries," says Isaac Marshall, Investment Manager at TLG Capital.

"TLG's overarching impact thesis since our inception over a decade ago is that funding SMEs in Africa is a key pathway to prosperity. Of course, the very fact that they are under-funded is also what creates interesting commercial opportunities. The commercial and impact thesis at TLG is very much intertwined," concludes Doshi, who is also TLG Capital's CFO.

"We focus on SMEs across sub-Saharan Africa operating in the healthcare, financial inclusion and consumer goods sectors. We are also very focused on financing women-led businesses and companies that benefit women through their products and services."

Isha Doshi
Co-founder
TLG Capital

The Goldilocks Investor

Doshi and Latif started TLG Capital as a small operation that they could use to tap into investment opportunities in Africa, which seemed to be just the right size. They had commercial potential but were too small for large banks to fund, and too large for micro-finance to address. "We were seeing commercially appealing deals with high developmental and sustainability impact but that remained unfunded," Doshi explains.

Addressing this gap requires specialised knowledge. "Sustainable investment starts with a sustainable lending structure. Financing needs to be tailored to the cash-flow generating capacity of the investee company, the business' growth plans and the securities and collateral that the company can provide. A partner like TLG Capital has the open mind and expertise to engage with entrepreneurs on all these fronts," says Amanda Kabagambe, Partner and Head of East Africa at TLG Capital.

SME Investing in the SDGs

TLG Capital focuses on five Sustainable Development Goals (SDGs):

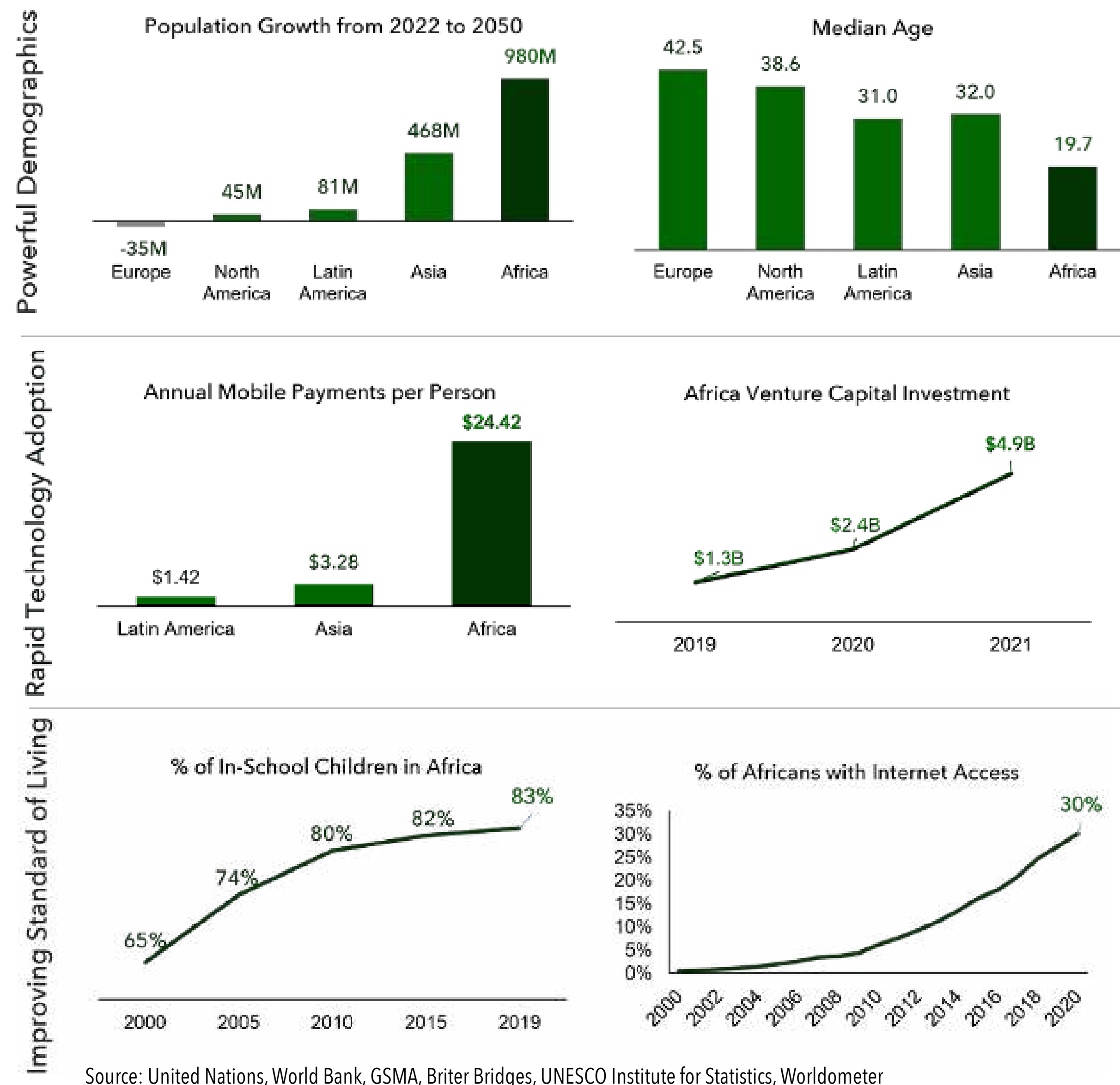
- No Poverty (SDG 1)
- Good Health and Well-Being (SDG 3
- Gender Equality (SDG 5)
- Decent Work and Economic Growth (SDG 8)
- Industry, Innovation and Infrastructure (SDG 9).

"We focus on SMEs across sub-Saharan Africa operating in the healthcare, financial inclusion and consumer goods sectors. We are also very focused on financing women-led businesses and companies that benefit women through their products and services. The ESG process takes place in parallel with financial and commercial analysis and we map how our prospective companies contribute to any of these five SDGs," Doshi explains.

"Our first investment was an AIDS and malaria drugs manufacturer in Uganda, Quality Chemicals. It is a world class WHO-accredited pharmaceutical manufacturing plant which is now expanding its offering to include oncology and sickle-cell treatment among others. TLG was the first private investor into the company. The company started a joint venture with Indian drug maker Cipla to create a pharmaceutical manufacturing facility in Uganda (CiplaQCIL). Other early investments in the TLG story include a Ghanaian cancer treatment facility, a healthcare clinic in Liberia, a bank in Zimbabwe and an agricultural project in Southern Africa. More recently we have backed mobile banks for the unbanked, equipped pharmacies with digital delivery services, and built bus stops and public toilets in Nigeria." Doshi adds.

Another company, TLG Pharma also supplied high

Figure 1: Demographics, tech adoption, and improving quality of life support increasingly prosperous African economies

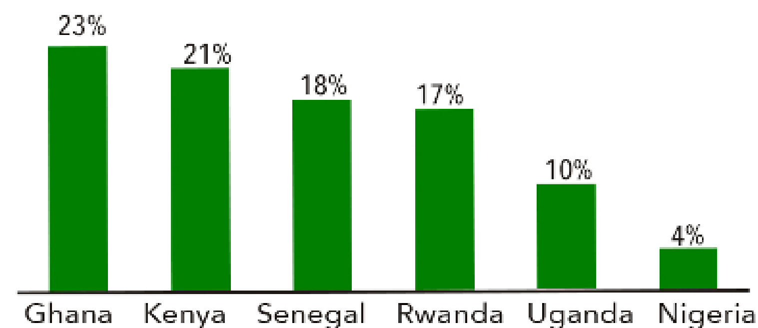


Source: United Nations, World Bank, GSMA, Briter Bridges, UNESCO Institute for Statistics, Worldometer

Figure 2: In Africa, it is easier to get a microloan or a corporate bond issuance than it is to get an SME loan

"The Missing Middle": Small and Medium Enterprises cannot get loans

Percent of African SMEs with Access to Credit



Source: Review of Development Finance Vol. 8 Iss. 1, ICMA, World Finance, Credit Bureau Association of Nigeria, World Bank, PwC, Central Bank of Kenya, African Economic Research Consortium, IFC, World Bank, STIAS, CSIS, TLG Capital 2022

Amanda Kabagambe
Partner and Head of East Africa
TLG Capital

quality face masks to hospitals in Benin & Togo to help protect healthcare workers on the frontlines during the COVID19 pandemic, distributing 284 million essential medications since TLG's 2018 investment. On the FinTech front, in 2021 TLG Capital invested in FairMoney, a mobile bank for the 60% of Nigerians without a bank account.

The Challenges of Private Equity in sub-Saharan Africa

"None of our motivations or goals have changed over the last decade. However, we have certainly learned a lot and these lessons are reflected in changes we have made to our deal structures. Being a private equity investor in sub-Saharan Africa is often a difficult proposition. Nascent capital markets and the lack of buyers make exits difficult, cash flows via dividends can be limited, and currency depreciation often erodes returns. It is also difficult to embed real exercisable rights into minority equity positions," Doshi says.

Timing and achieving exits are the most difficult aspect. "As asset managers, we make a commitment to our investors to exit by a specific time. It is very hard to exit private minority equity positions in sub-Saharan Africa due to lack liquidity. Only one of the companies we have invested in to date has managed to achieve an Initial Public Offering (IPO). And even when a company is listed, local stock exchanges are thinly traded so real liquidity and sensible pricing is often times not achieved," Doshi continues.

Private Debt with Equity Upside and Downside Protection

"These hurdles made self-liquidating instruments , such as debt, more appealing than equity, particularly as we are still able to structure equity upsides into our investments and take board seats, which simultaneously allows us to play a private equity-like active role in shaping and monitoring companies," Doshi explains.

"Private credit US Dollar investments with anywhere from 10-16% returns are relatively common in our pipeline, with some deals coming in much higher if equity upsides are achieved. This beats historic African private equity returns, while achieving a lower level of risk. Being a senior credit investor ensures we are higher up the capital structure in the event the company runs into trouble. This, combined with our policy of protecting our downside in each investment with realizable collateral or uncorrelated layers of protection, has helped us achieve a consistent level of exits with positive returns to date. Downside protections include SWIFT bank guarantees and insurance wraps while realizable collateral include liquid securities which the company or entrepreneur may be able to ring-fence or receivables from well-known multi-national corporations which are pledged to us," Doshi continues.

"Fast-growing African companies often don't fit the capacity of local commercial banks to provide credit. Banks could be unwilling to provide credit due to the company's idiosyncratic or sector risk or because it simply lacks the financing solutions necessary, including in terms of asset financing or working capital loans," Kabagambe adds.

Combining Structured Finance Expertise with Impact

Faced with this opportunity, TLG Capital's structuring expertise is its edge. "We are one of only a few investors doing structured credit in African markets. This allows us to tap into a risk profile that is lower than equity and which also brings down SMEs' cost of financing. We've done 30 deals with 19 exits to date and we've seen several workouts, where the company has defaulted but TLG still succeeded in exiting with a positive return. This is important from an impact perspective as well as a commercial one. Successful exits and positive returns will attract further investment to the continent and help recycle capital into other high impact businesses.

Because impact is at our core, we work with entrepreneurs to ensure they have the support they need through difficult times," Marshall argues.

TLG's structuring expertise allows it to provide a layered investment. Kabagambe illustrates a recent experience as an example. "Consider a company that wins a contract to provide a new service but needs a US$5 million 5-year loan to finance this expansion. Despite owning US$7 million in property to supply as collateral, the business receives unviable quotes of 19% interest with 1 to 2-year maturity from local banks. Because African banks have difficulty providing long-term capital, it can be difficult for them to finance long term loans even if collateral is adequate and the business is viable. This is an opportunity for credit funds with longer term capital," Kabagambe explains.

Partnership with Swedfund

TLG Capital's structuring expertise is not the only front on which it can help its investee companies. "Sustainable investment can often be made better if investee companies can be supported from time to time with one-off 'boosts' – whether this be in technology, training or during a difficult time (for example, the pandemic). Success can hinge on a partner that understands what it takes to build a company, particularly in markets which remain under-developed. One-off consultancy and advice services which consider and provide funding around factors such as technology, logistics, environmental protection or gender inclusivity should not be under-estimated," Kabagambe argues.

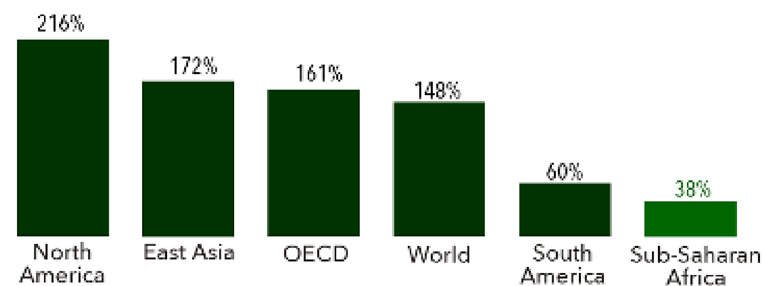
For TLG Capital, Swedfund has been that partner as well as a significant external investor since 2018. "Swedfund gave us the opportunity to showcase our experience and track-record to a more institutional investor audience interested in both financial returns and impact. We have been able to engage with them on issues such as climate change, gender equality and active monitoring of impact metrics. They have been extremely forthcoming in providing tailored assistance to our investee companies," Doshi adds.

Isaac Marshall
Investment Manager
TLG Capital

"We have worked with Swedfund's technical assistance team to install solar panels and digitize patient records in our healthcare clinics in Liberia, fund ultrasound equipment related to maternal health in our pharmacies and GP surgeries in Nigeria and provide protective equipment to our healthcare investees during the pandemic. Swedfund has helped us with ESG advice and impact monitoring and process considerations, even providing training for the TLG team to ensure it was consistently and intentionally building impact and gender lens into the investment process from pipeline stage through to exit," Doshi concludes.

Figure 3: African credit access is the lowest on earth

Credit Provided to Private Sector as % of GDP



Source: World Bank 2020

Having Faith in Impact Investing

by Julia Axelsson, CAIA

FIIND Impact, an Amsterdam-based investment advisory boutique dedicated to impact investing, has achieved a lot in the two years since its launch. "As a company, we want to be a catalyst for change," says Sophie Robé, co-founder and Chief Executive Officer. "We want to inspire others to invest responsibly and commit to a net positive impact on people and the planet in line with their unique values."

A visionary leader, Robé is a veritable impact investing veteran. Before dedicating herself to FIIND Impact, she founded and co-headed Phenix Capital, a frontrunner in introducing institutional investors to impact investing. During her 8 years at Phenix, the company successfully ran seven summits, gathering the largest asset owners and inspiring numerous institutions to build impact mandates.

Together with co-founder Maarten Toussaint, Sophie created FIIND Impact which focuses on advising investors to align their portfolio with their value. Combining in-depth impact and financial expertise, the company supports foundations, family offices, institutional investors but also non-profit and governmental organisations in investing and mobilising capital into impact investing. "We envision a world in which institutional and private capital is a force for good and a solution to the world's most pressing problems," says Robé. "We envision a world in which money moves to where it is really needed."

Reconciling ethics with financial needs

True to this vision, in December 2020, FIIND Impact embarked on an exciting new journey, the Faith Impact Project. Inspired by the 2019 in-depth study by the Global Impact Investing Network

"It is evident that we are at a pivotal moment in time where we can influence the trajectory of our planet's climate, but we must act fast, and we must act now."

(GIIN) on faith-based investments, and with the support of a philanthropic foundation, the project has already started to produce research results. To enhance the quality and credibility of the results, they are continuously reviewed by religious scholars, climate experts and investment professionals.

The starting point for the Faith Impact Project was a realisation that impact investing could be a perfect match for many faith-based organisations (FBOs). Traditional investment portfolios often force FBOs to compromise their values for financial returns. Impact investing, on the other hand, offers the possibility of reconciling ethics with financial needs.

It allows FBOs to direct their assets into investments that are both faith-aligned and financially sound and to contribute to a more environmentally sustainable and socially just world. "The moral argument for impact investing is certainly a valid one for faith-based organisations," says Robé. "Our faiths all embrace long-held traditions of championing human welfare. The state of the world today presents additional reasons to transition from traditional, financial-returns-only investment practices to solutions-oriented investing."

Shared values, and challenges

The Faith Impact Project explores five major world religions: Catholicism, Protestantism, Judaism, Islam, and Buddhism. Once the overarching values in each are identified, the conclusion is that despite the faiths' numerous differences, they all provide an ethical code or moral guidance for humans to live by to ensure the common good and prosperous existence for all. "Based on these findings and building on previous works, we arrived at five overarching themes that are shared among major religions, including stewardship, justice, solidarity and compassion, balance, and peace."

A natural next step is to align these common values with the most pressing global issues. The project chose Climate as the first theme to explore in more detail, a logical starting point. The conclusions of the latest IPCC reports are unequivocal, ascertaining that the global average temperature has already increased by approximately 1°C since pre-industrial times because of human interference in the planet's natural homeostasis. "It is evident that we are at a pivotal moment in time where we can influence the trajectory of our planet's climate, but we must act fast, and we must act now," says Robé, conveying the sense of urgency.

Finding the right framework

"As we are investment specialists and not climate experts, we looked for a reliable source to identify effective solutions," explains Robé. "We found that partner in the Drawdown Solutions Framework." Founded in 2014, Project Drawdown® is a non-profit organisation that seeks to help the world reach "drawdown", i.e., the future point in time when levels of greenhouse gases in the atmosphere stop climbing and start to decline steadily.

"The reason why we choose to collaborate with Drawdown is that we wanted to show the breadth of possible solutions available for investors. The project uses multiple platforms, including a book, website, articles, and an excellent podcast, to disseminate its material and to make it accessible to anyone from a ninth grader to a politician," adds Robé.

Central to the Drawdown project is the compilation of a list of the "most substantive solutions to global warming". A team of more than 200 scholars, scientists, policymakers, business leaders, and activists has been involved in assembling the list of technologically viable, existing solutions.

Sophie Robé
Founder & Chief Executive Officer
FIIND Impact

These are categorised into nine sectors: electricity, food, agriculture and land use, industry, transportation, buildings, land sinks, coastal and ocean sinks, engineered sinks, and health and education. The solutions simultaneously address several critical social and cultural issues, such as empowering girls, reducing population growth, and changing our diets and consumption patterns.

Where climate solutions and faith meet

Perhaps extra pertinent for the Faith Impact Project is that the Drawdown Solutions Framework demonstrates a thorough understanding of the inherent interconnectedness between faith and climate solutions. "Thousands of books and articles have addressed climate change in the past forty years," writes Paul Hawken, the author of Drawdown, the book. "However, when Pope Francis penned 'Laudato Si, On Care for Our Common Home', his encyclical letter on the environment, it was as if a veil of obscuring jargon was lifted.

The scientific issue of global warming was given a fully human dimension, thoughtful and caring. [...] Laudato Si is a message from the Church, to be sure, and it is a message from the heart, suffused with compassion and unflinching in its analysis of the causes of global warming and its unjust and inequitable impact on the poor. In this message, global warming is illustrated – perhaps for the first time – as a universal and moral issue, not only an environmental issue."

Throughout the history of humankind, faith-based values have been the cornerstone of our society and civilisation. However, there is a new and unexpected role for FBOs as large asset owners to shift at least some of their investments into a responsible portfolio with a net positive social and environmental impact.

"In order to do that, we will need to prepare and support FBOs as well as their Fiduciary Intermediaries, to identify their faith-based values and, ultimately, align them with the most pressing global issues," concludes Robé.

Credit: Biletskiy on Envato

Nudging Institutions *Towards Impact*

by Julia Axelsson, CAIA

Independent investment advisor Grieg Investor, part-owned by Norway's mighty Grieg Group, was founded in 1998. In the two decades since, the firm has established a reputation in the Norwegian market for being true to its principles of transparency, objectivity, and responsibility. Some 130 institutions, such as pension funds, family offices, municipalities, insurance companies and foundations, count on Grieg Investor to advise them about their investments. Hoping that this broad array of clients might provide a valuable proxy for the adoption of impact investment strategies among Nordic asset owners in general, NordSIP reached out to Marte Løfman, Head of Impact Investing at Grieg Investor. She shared her insights about Norwegian institutional clients' interest in the field, the challenges they face currently, and the way forward for impact investing.

Løfman entered the world of finance ten years ago after briefly working with development aid in Uganda and for the foreign service in Brazil, putting into practice her academic expertise in sustainable development and international political economy. "I believe moving capital is hugely important to achieving the world's sustainability goals," she says, commenting on what motivated her to pursue a career in finance. "In Grieg Investor, where I started working six years ago, I saw an investment advisor with a quite unusual approach to responsible and sustainable investing and a rising focus on impact investing," adds Løfman. To illustrate this with a specific example, she talks excitedly about the firm's proprietary reporting tool, Grieg Enigma, which gives clients a 24/7 overview of a range of sustainability factors in the thousands of companies they invest in. "The thinking behind this in terms of transparency is something I really like, and which, luckily, is becoming mandatory through SFDR now," she says.

Gauging client appetite for impact

In her current role, Løfman has the opportunity to work with asset owners from all parts of society and with varying sustainability preferences, from foundations with clear mission statements to families with high-impact ambitions and labour unions focused on protecting worker's rights. "Although some of our clients allocate money to impact investments, typically, such mandates comprise just a small part, around 5% of the portfolio," she explains. "It varies, however. One of our clients has the ambition of bringing allocation up to 25%." Clients with allocation to impact are typically family offices and foundations, but Grieg Investor is also seeing increasing interest from other client groups.

Løfman is careful to point out it is client preferences that ultimately determine the allocation to impact investments. There is much to consider, even after establishing interest in this type of investment. "Impact investments don't always fit neatly into a classic financial portfolio construction, so this is something we spend time discussing with clients," she says. "In the strategy process, we try to exemplify impact investing and illustrate its financial and operational consequences for those interested. Only a small portion of the fund universe is made up of

Marte Løfman
Head of Impact Investing
Grieg Investor

what we would define as impact funds, and these are often illiquid structures, like private equity or private debt, which are asset classes not all our clients have in their strategy."

On a quest for additionality

With the global impact offering expanding rapidly for the past few years, Løfman finds it easy to source new investment ideas. "But the road from sourcing new ideas to actual investment recommendations is long, and few managers will pass the mark," she warns. "On the one hand, we see more and more managers combining strong impact and financial skills, and even being able to provide a track record. On the other hand, there has clearly been also an increase in 'impact washing'."

Løfman observs that the term 'impact' has been somewhat diluted over the years. "We have seen a growing number of strategies aligning with sustainability outcomes, whereas those that are really generating sustainability outcomes are fewer and further between. Additionality has, therefore, become more important to us when trying to distinguish between managers, even if, technically, it is not part of the widely accepted GIIN definition of impact investing," shares Løfman. "Additionality is obviously difficult to assess, but we try. In practice, though, we select both managers who align with and generate impact, depending on client preferences," she adds.

Impact managers under the loop

While speaking of assessment criteria for impact funds, Løfman mentions two particularly important ones: a clear theory of change and high impact potential. "A strong link between impact and financial return is important for us, too," she says. "We have historically not recommended any managers with 'concessional return' profiles[1]," she adds, wondering immediately after if this could perhaps become the case in the future.

[1] 'Concessional return' refers to a below-market rate of return, i.e., sacrificing some financial gain to achieve a social or environmental benefit

"While there is a lot of positive momentum on sustainability in finance these days and things are very different from when I entered the industry ten years ago, much of it is simply talk. Not enough money is moving into investments that really generate impact"

"Impact should be clearly integrated into any fund we recommend," continues Løfman. "And not just in terms of investment themes, but also in the team, investment process, active ownership and reporting. Integration of impact KPIs in incentive structures is also something we assess, but it is not a hard criterion as it is still quite new to the industry. A high bar for 'do no significant harm' is another important criterion, and an area where we see managers becoming more thoughtful, perhaps thanks to the framework underpinning the EU taxonomy," she adds. Another concept highly relevant in this context that she mentions is that of 'impact risk'. "What if the intended impact does not occur, or if you generate unintended effects?"

Løfman does not feel at liberty to name any specific investments that Grieg Investors have recommended to their clients. Still, she mentions a recent example that illustrates the kind of investments the advisor feels comfortable with. "We chose this particular fund, focused on combatting climate change, after carefully mapping the climate investing space. Our decision was based on our conviction in the manager's ability to deliver climate impact and to manage the portfolio in a prudent manner," she explains. "What differentiates it from many other funds in the climate space is a focus on 'hard to abate'-sectors and flexible deployment of both company equity and asset financing. The fund has developed a sophisticated framework to guide the selection of assets with high climate impact. The impact objective actually comes before the financial objective, but we believe that the manager and strategy are well-positioned to also deliver competitive risk-adjusted returns," she adds.

Trust, but measure, too

"It helps, of course, that the manager and the fund are a spin-off of an investment platform we know well and have developed trust in over a decade," says Løfman emphasising the importance of building confidence in the manager's ability to deliver on impact.

Trust aside; there is a clear need for measuring the delivered impact, a notoriously difficult task. "I've heard people state that there are somewhere between 100 and 400 standards out there for reporting impact," she exclaims. "We deal with this challenge by recognising that although difficult, we still require managers to make 'best effort' and use all available and relevant frameworks and data. We expect them to go beyond reporting of outputs, to outcomes and impact, where possible," she says.

Integrating impact investments within the overall portfolio reporting can be even more challenging, according to Løfman. "At a broader level, we report on many sustainability indicators to our clients investing in equities and fixed income, but few of these have a clear link to impact. Some ESG-data providers are attempting to assess positive contributions to the SDGs. Still, it often ends up being more of an overview of how the companies you invest in relate to different SDGs than reporting on your actual impact as an investor."

At the end of the interview, Løfman confesses that, over time, she has become slightly disillusioned with what she once saw as the 'great potential of capital'. "While there is a lot of positive momentum on sustainability in finance these days and things are very different from when I entered the industry ten years ago, much of it is simply talk. Not enough money is moving into investments that really generate impact," she says.

Løfman's recipe for changing this unfortunate situation spells government action. "There are many barriers to impact investing, and I believe we need more government action if these are to be overcome and we are to see larger chunks of institutional capital flowing into impact investing," she concludes.

Credit: Grigory Bruev on Envato

Sweden's Microfinance Landscape at a Glance

by Julia Axelsson, CAIA

Viktor Andersson
Head of Microfinance
Trill Impact

Microfinance is coming of age. Technically, microfinance funds have been around since the late 1990s, yet few investors were aware of them prior to 2005, the year that the United Nations declared 'International Year of Microcredit'. Awarding the Nobel Prize to Mohamed Yunus and Grameen Bank in Bangladesh in 2006 gave the sector another push, attracting growing attention from investors. It took a few more years, however, for the normally trailblazing Nordics to get on board.

The origins

"When I joined SEB as an ESG specialist in 2010, after working abroad for several years, I was surprised that impact investments and microfinance were still nascent in the Nordics despite their strong growth in the rest of Europe," recalls Viktor Andersson, Head of Microfinance at Trill Impact and one of a few microfinance veterans in Sweden. He started probing the interest among the bank's clients and soon realised that some institutions were actively looking for such products. He found support among his institutional sales colleagues and, after successfully lobbying for a couple of years, SEB launched the first Swedish microfinance fund in 2013.

According to Andersson, circling microfinance among impact alternatives was a logical choice. "Channelling capital to low- and middle-income entrepreneurs in emerging and frontier markets is a way of financing positive impact that is intuitive and easy to explain to end investors," he says. "When you introduce a completely new product on a new market, you need to keep things simple." It was also easier to build critical volumes in a microfinance debt fund than it would have been in a broader-themed private equity or private debt impact fund. In just six months, the new fund managed to attract more than SEK 400 million.

Not surprisingly, it was the Church of Sweden that stepped up to provide seed capital to anchor the new fund back in 2013. Early adopters of impact investing, the Church of Sweden was already well-acquainted with microfinancing. Years earlier, the institution had participated in establishing Oikocredit , a social impact investor and worldwide cooperative with decades of experience in promoting sustainable development through investments.

Picking up speed

Fast forward to today, and there is hardly a sustainability-minded institutional investor in Sweden unfamiliar with microfinance. Pension providers, insurance companies, foundations and family offices are increasingly willing to put their money into the asset class that offers both an attractive financial return and a contribution to socio-economic development for a part of the population usually excluded from the financial system. The other Nordic countries have been somewhat slower on the uptake, but the speed of investments seems to be picking up there as well.

These are busy times for Camilla Löwenhielm and Hanna Holmberg, portfolio managers of SEB's microfinance strategy. "We are used to it by now; it has been the same schedule every year since 2013," says Löwenhielm. "We launch a new Microfinance fund each year with closings in May and September." As the successful strategy is approaching its tenth anniversary, it now boasts some USD 1 billion in assets under management.

Andersson, who left SEB in 2017 and has since moved on to Trill Impact, launched a new microfinance strategy in July 2020 with seed money from several Swedish institutional investors such as Skandia, Kåpan and Nordea Life & Pension. The demand for

“We wanted to find a manager with a deep understanding of all aspects, from assessing MFIs and their clients to having local knowledge and expertise in the legal aspects. And, of course, exhibiting a deep commitment to making a difference and a willingness to contribute to evolving the market.”

Johan Guggi
CIO Multi-Manager Solutions
Handelsbanken Fonder

Camilla Löwenhielm
Portfolio Managers
SEB

“Demographics in emerging markets and the need to lift the growing population out of poverty is definitely a tailwind for this type of investment. Microfinance is the future.”

microfinance is solid, according to him. “By now, there is hardly any Swedish institution that isn’t familiar with the strategy,” he says. “They have all heard the pitch, either from SEB, us or our strategic partner Nordea Asset Management.”

Handelsbanken Fonder has also invested a substantial amount in microfinance, according to Johann Guggi, CIO Multi-Manager Solutions. They have chosen a different path, however, opting for external managers. “We felt that, in a way, microfinance was one of the most complex investment areas,” explains Guggi. “We wanted, therefore, to find a manager with a deep understanding of all aspects, from assessing microfinance institutions (MFIs) and their clients to having local knowledge and expertise in the legal aspects. And, of course, exhibiting a deep commitment to making a difference and a willingness to contribute to evolving the market.”

Eventually, Guggi and his colleagues chose to invest with BlueOrchard. “The deeper we did our due diligence, the more impressed we were by the people and processes within BlueOrchard. We spent many hours with the team, and they could give us very clear answers to our questions. Since investing, they have continued to uphold a high standard and help us develop our understanding even further,” he adds.

Partnering up

It is not just Handelsbanken Fonder in need of external help. Managing a microfinance strategy is about finding the right partners, it seems. With more than 10 000 MFIs around, it is a tremendous job trying to figure out which ones are trustworthy and profitable. To do this, Löwenhielm and her colleague rely on the expertise of their investment advisor, Symbiotics. To stand a chance of handling this fractured and complex investment universe, the company employs over 150 employees and has offices all around the globe.

“Out of thousands of institutes offering microfinance, we have identified some 300 as our core investment universe, and we currently invest in around half of those,” she says. “Symbiotic does a thorough due diligence on each of them that we can use in our analysis.” Governance and social criteria are equally important as the financial ones when assessing institutes.

Trill Impact partnered up with another field expert, Developing World Markets (DWM), for their microfinance offering. Andersson sounds truly satisfied with the cooperation. “By partnering with DWM, we have access to the expertise of one of the leading global impact investment firms, with a longstanding track record in microfinance and impact transactions since 1994,” he says.

How to measure impact

“I know our investments make a difference, as I have seen it with my own eyes,” says Löwenhielm referring to her extensive on-the-ground experience. In a previous life, she used to work for a microfinancing institute in Mexico, not unlike the ones she invests with now. Spending hours on local buses visiting poor communities, trying to assess the creditworthiness of farmers and small-business owners, has given her a unique insight into the nature of the business.

The issue of measuring the impact, however, is rather complicated. “What we can quantify is the number of people we reach with our loans. We can segment those into women and men, rural and city dwellers. We can demonstrate that we are operating in tough markets there is a strong lack of long term local currency financing.”

Andersson, too, admits that measuring the impact of microfinance is a challenge. He points out that a microfinancing strategy should be careful to measure its direct effect only, i.e., financial inclusion. Any other positive loops that such financial inclusion might result in are to be considered as side effects. To assess this, DWM conducts a survey on an annual basis with all the MFIs in their investment universe. Typical KPIs are the number of end lenders reached, the number of first-time lenders, the gender composition of the borrowers, etc.

It is essential, however, not to add to the MFIs already heavy administrative burden just for the sake of reporting and measuring. “We’d much rather ask them how they themselves measure the impact and collect the data they already have,” says Andersson.

Löwenhielm also points us in the direction of a recent report produced by 60 Decibels, an end-to-end impact measurement company. “The work they do is amazing,” she says. “They have interviewed directly almost 18 000 microfinance clients in more than 40 countries around the world. They have talked to the people in their local vernacular and gathered data on how the loans have affected their lives and improved their wellbeing.” Based on the interviews, 60 Decibels has compiled a Microfinance Index to measure the social impact performance of microfinance institutions.

What’s next?

Andersson is confident that microfinance has further to grow and that it will not be as much of a niche sector going forward. “Impact investments, and microfinance, will inevitably constitute a larger portion of institutional clients’ portfolios in the future,” he asserts.

“The need for investments in this area is still growing,” agrees Guggi. “Hopefully, we and other market participants can continue to develop both existing investments and new possibilities to create financial opportunities and impact with the investments we do.”

Löwenhielm, too, sounds generally upbeat about the future of microfinance. “Demographics in emerging markets and the need to lift the growing population out of poverty is definitely a tailwind for this type of investment. Microfinance is the future,” she concludes.

Scale, Integrity & Gathering Momentum

by Filipe Albuquerque

Credit: Atlas Composer on Envato

Amit Bouri
CEO
Global Impact Investing Network (GIIN)

Impact investing is reshaping the future of financial markets as increasingly people are considering the societal and environmental impact of their investments in addition to their financial returns. Founded in 2009 by Amit Bouri, its CEO, the Global Impact Investing Network (GIIN) is one of the main organisations galvanising the effort of these investors.

The GIIN is focused on growing and deepening the market for impact investments in an ethical manner. "Our strategy is based on scale with integrity. How do we move more capital in a way that will have high integrity of impact," says Bouri, an alumni of the Harvard's Kennedy School of Government, the Kellogg School of Management, Bain & Company and the Rockefeller Foundation.

Growing Through New Partnerships

Bouri is keen to emphasise the new partnerships and tools developed by GIIN during the last 12 months. "We've seen a lot of progress in impact investing, both on the scaling up and on the integrity fronts. In terms of scaling up impact investments, we are encouraged by the growing interest from pension funds, asset managers, such as the TELUS Pollinator Fund for Good, as well as corporates such as PayPal and the Visa Foundation, among other companies. We recently partnered with them to launch the GIIN's corporate impact investing initiative, which aims to help corporations better deliver on their environmental and social goals, by connecting company leaders with a new set of tools and resources," Bouri says.

"This initiative hopes to unlock much-needed capital and technical skills that are currently sitting on the side-lines. Corporations are critical to scaling the most promising solutions for the pressing challenges in our local communities and around the world. By working with impact investors, companies can discover new possibilities to help build a sustainable, just, and inclusive future. It is exciting to see a corporate movement, dedicated to re-defining 'business as usual' when it comes to corporate investing and asset management," Bouri adds.

Integrity Through Transparency

Nevertheless, Bouri is mindful of the fact that growth could dilute the integrity of the GIIN's commitment to sustainable finance. To address this concern, the GIIN has equipped itself and its members with a set of metrics and data analytics meant to enhance transparency. "The importance of integrity in the mission of the GIIN is crucial to fight greenwashing. We've done a lot of work on impact metrics and we continue to see growing interest in IRIS+, a system for measuring managing and monitoring impact developed by the GIIN with over 20,000 users across the world, which helps investors make sure that their efforts translate into actual impact results," Bouri explains

"If an investor wants to invest in a manner that helps advance some specific goal, IRIS+ can guide them to the strategies and metrics available to translate that intention into practice and understand their impact performance. IRIS+ covers sectors and themes such as

"Our strategy is based on scale with integrity. How do we move more capital in a way that will have high integrity of impact?"

agriculture, clean energy, financial inclusion, climate change mitigation, biodiversity, gender equity, and racial equity," Bouri explains.

"As an extension of the work that we've doing on IRIS+, the GIIN also launched a new impact performance benchmark as a way in which we can bring impact investment analytics to the finger-tips of investors and highlight the results that they are achieving. It helps measure performance on two dimension. First, it compares performance relative to peers via a composite benchmark. The second dimension is to look at performance compared to what is needed in the world, such as the UN Sustainable Development Goals (SDGs) or the Science-Based Targets. The first benchmark we launched focused on financial inclusion. The second one will be on agriculture, before moving on to clean energy.

Impact Investments in a Turbulent World

Discussing the ongoing geopolitical tensions dominating the Northern Hemisphere and their economic ripples across the world, Bouri considered the ways in which these spilled over into impact investments. "There's been a lot of tragedy and disruption in global systems, be it peace, stability and energy markets, in the wake of this conflict," Bouri says.

"There's a global and a local dimension when it comes to the impact of the conflict on impact investments. From a global dimension, the conflict has increased interest in sustainable energy and the need to build more sustainable food systems to avoid local food shortages. On the local dimension, the experience of places that are further downstream in terms of the conflict, like Brazil and sub-Saharan Africa, has highlighted the need for more impact investments to address the needs in those markets," Bouri explains.

"We're not at a stage where it has been possible to implement this, but there has been a lot of discussion about the role that impact investment can play in helping war-torn countries rebuild. Once the security situation has improved, and conditions allow for foreign direct investments (FDI) to come into the country, I think that there will be a lot of investors that would be interested in participating in the reconstruction of the Ukraine and in doing so in a way that is sustainable," Bouri continues.

The GIIN Investor Forum 2022

Despite the complex environment prevailing across societies and markets across the globe, Bouri argues that the upcoming GIIN Investor Forum taking place between October 12 and 13 offers impact investors the opportunity to regroup and push forward with the impact agenda.

"We are very excited to host the GIIN Impact investment Forum again after a three year hiatus. This is a community that has an important role to play in the world. There will be over 1200 attendees from more than 60 countries to listen to more than 30 hours of content provided by over 175 senior speakers, from large institutions as well as very specialised boutique players. The Forum is designed to benefit both active impact professionals and those interested in the industry's growth," Bouri says.

"This is a moment when the world cannot afford underperformance from impact investments. The focus of this conference echoes our mission. We will focus on how to move capital at scale, with integrity and generating impact. The conference will explore four main themes: Capital mobilization, Impact measurement and management, Climate finance and Regeneration," Bouri adds.

The discussions on capital mobilization will focus on achieving impact and returns at scale. Asset owners are looking for ways to understand the real-world outcomes of institutional asset owners' and faith-based asset owners' investments and set targets for the positive impact they wish to achieve.

"We don't expect 100% of global assets will come to be defined as impact investments. But we do hope that they will play an instrumental role in our transition to a sustainable world and that impact thinking needs to be part of the way that all investors think about their portfolios."

A workshop on impact measurement and management will dive into the practice of societal and environmental impact measurement to help investors with accessible, rigorous, and actionable data collection and reporting on impact.

Presentations about Climate finance will offer investors opportunities to share best practices to scale innovative climate solutions, including nature-based and tech-based solutions, in order to reverse the harmful effects of climate change.

The panels on regeneration will focus on marine ecosystems, the blue economy, circular economy, sustainable agriculture and analyse new ways to drive systemic change through approaches like shared ownership, stakeholder partnerships, and restoration..

Participants include several participants from the Nordics. Maria Håkansson, CEO of Swedfund, Karoliina Lindroos, Head of Responsible Investment at Ilmarinen Mutual Pension Insurance Company, and Jonas Skattum Svegaarden, CEO of Katapult Ocean will contribute to the conference.

Sean Kidney, CEO of the Climate Bonds Initiative, Bess Joffe, Head of Responsible Investment at Church Commissioners for England, Sophie Robé, CEO at FIIND Impact Foundation, Maria Teresa Zappia Deputy, CEO, BlueOrchard and Head of Sustainability & Impact at Schroders Capital, Schroders, Brunno Maradei, Global Head of Responsible Investment at AEGON, Oyin Oduya, Impact Measure and Management Practice Leader at Wellington Management will also contribute their perspectives on impact investments.

A Long Term Journey

According to Bouri, the conference comes at a time of momentum. "Impact investors must embrace courageous leadership and practical action and the need to anchor their work in the context of what is happening in the world. Our goal is to help investors understand their role in their communities, projects and companies and how impact investments can drive a systemic shift to a world that is just, sustainable and inclusive," he says.

"To this effect we want to help them learn how to use IRIS+, our impact performance tools and how they can use better frameworks to move impact capital at scale across asset classes. We will also be publishing our latest data on the size of the impact investing market. However, it is important to understand that the GIIN is not focused on the size of the market or any other single market. Success should be thought of on the growing sophistication of impact investors and the spread of impact investment ways of thinking to the rest of the financial sector and the economy," Bouri adds.

"We want to transform the way that the market operates at its most fundamental level. We don't expect 100% of global assets will come to be defined as impact investments. But we do hope that they will play an instrumental role in our transition to a sustainable world and that impact thinking needs to be part of the way that all investors think about their portfolios. Impact should be part of the investors' considerations when thinking about value, figuciary duty and success," Bouri explains.

"This won't happen in a year, but the conference, the dialogues and all the action that the GIIN drives throughout the year plays an important role in driving this transition," Bouri concludes.

about our partners

As a leading active asset manager with over 600 investment professionals in 20 offices worldwide, we manage €578 billion in assets for individuals, families and institutions. Active is the most important word in our vocabulary. Active is how we create and share value with clients. We believe in solving, not selling, and in adding value beyond pure economic gain. We invest for the long term, employing our innovative investment expertise and global resources. The parent company, Allianz SE, is one of the leading financial services providers worldwide.*

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*Data as at 30 June 2022

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Top rating (A+) for Clean Energy Infrastructure Strategy

Highest ranking for commitment to sustainability

Highest ranking for commitment to sustainability

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TLG Capital is a high social impact lending fund focused on SMEs across Africa. TLG's largest external investor is the Swedish government and the firm has won 'African Credit Fund of the Year' for the past three consecutive years. TLG has been investing in the continent for more than a decade with 30 completed deals and 19 successful exits (6-37% IRRs). TLG has offices in Kampala and London with deal origination spanning 28 countries.

TLG believes that commercial and social returns can and should go hand in hand. We've financed businesses including:

- the only WHO-accredited manufacturer of HIV/malaria pills on the African continent in Uganda
- digital enabled microfinance institutions that have provided $300mn in loans to underbanked populations in Nigeria, Uganda, Malawi, and Kenya since TLG's investment
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September 2022

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