Macro crisis, micro solutions? Microfinance as a lever against poverty?

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Introducing Incofin IM

**International impact investor**

- Emerging markets focused impact investment manager
- More than **20 years of experience**
- Supported by a **diverse and loyal investor base**
- **EUR 1 billion** committed assets under management
- We provide **private debt, private equity** and **technical assistance**
- Sectors: **Financial inclusion, agriculture, food & nutrition**, and **water**
- European **AIFM**¹ license (European passport) since 2014

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**Some of our investors**

- **42m** end-clients
- **330 000** smallholder farmers and collectors served
- **68%** rural borrowers
- **USD 75 million** premiums received by investees through certifications
- **60%** women active borrowers
- **854 000** hectares of sustainably cultivated land

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¹ Alternative Investment Fund Manager
Microfinance as a means, not as a goal in itself

The relevance of microfinance for an impact investor

Incofin’s Mission

Driven by a strong interest for business solutions that promote inclusive progress, we want to improve the lives of the more vulnerable or less privileged people. By doing so, we are committed to deliver fair returns to our investors.

Why do we support microfinance – what does microfinance achieve?
- Enabling and fostering entrepreneurship
- Smoothens income/consumption and helps to absorb shocks
- Catalysing social dynamics (gender, self-confidence, dignity,..)
- Platform for the supply of a wider range of services (such as SME loans, housing loans, crop insurance,..)

But:
- Microfinance is not a panacea
- Incofin diversified its own portfolio beyond microfinance into areas with high direct impact (eg SME finance, agri value chains)
“Microfinance” has evolved over time

Product diversification – sophistication - digitization

• 20 years ago: mainly group lending/village banking (solidarity loans)
• Group lending can be valuable but has shortcomings:
  • Forced (unfair) solidarity in case of default of a group member
  • MFI passes costs of credit analysis on to group members
  • Lack of customization of the product
  • Underlying businesses may not be profitable (Duflo) → micro-borrowers are not necessarily entrepreneurs
  • Risks of over-indebtedness in case of aggressive providers
• In order to enhance impact, individual loans have increasingly been offered (and demanded)
• Growing importance of SME-loans, which have a direct impact on economic activity, employment, value creation (eg DR Congo: no SME-lending prior ProCredit Bank entering the Congolese market – Banco FIE, Bolivia)
• Solid MFI banks offer wide range of products including insurance products, agri-loans, housing loans and technologies (payment systems, digital services)
Client-Centricity is key

**Microfinance has been under attack for aggressive lending**

- **Client Protection** is a bare minimum (client protection principles – *do no harm*)
- One can/should expect MFIs to aspire improving their clients’ lives and have appropriate procedures and products → scoring based on Universal Standards for Social Performance Management (*do good*)
- In a nutshell, what matters:
  - **Understanding** the clients’ needs
  - **Measuring** clients’ situation (satisfaction/progress/outcome rather than output)
  - **Responsible** attitude and caring
  - Responding adequately with **adapted products and services**
Examples of excellence in MFIs

Do no harm
- Actively monitoring refinancing levels preventing over-indebtedness
- Never seizing a land title

Do good
• Crop insurance (weather stations based)
• Agri App (price of crops, farming techniques,..)
• Single women pension fund: “Happy old age”
• Empowerment of women leaders and women customers

AMK - Cambodia

<table>
<thead>
<tr>
<th>Key figures AMK</th>
<th>Dec 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td># Active accounts</td>
<td>962,000</td>
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<tr>
<td>Loan portfolio</td>
<td>374 m USD</td>
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<tr>
<td>Average loan</td>
<td>914 USD</td>
</tr>
<tr>
<td># Villages covered</td>
<td>13,009</td>
</tr>
<tr>
<td># Staff</td>
<td>3,176</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>11,7%</td>
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Microfinance as a laboratory for other impact sectors

The Impact Industry emerged from the proven business model of microfinance

- Microfinance demonstrates that “it is possible to develop viable businesses at the bottom of the pyramid”
- The Impact Investment Industry represents an estimated 715 bn USD (GIIN Impact Survey 2020)
- 33% annual growth rate in period 2015-2019
- Microfinance only represents 8% of Impact Investments
- Main sectors include in descending order:
  - Renewable energy
  - Financial sector excluding microfinance
  - Forestry
  - Food & Agriculture
  - Microfinance
- Impact Investments were enabled by the success of the microfinance investment model