ZOOM

King Baudouin Foundation
Working together for a better society

IMPACT INVESTING IN DEVELOPING COUNTRIES

BELGIAN IMPACT INVESTORS AIM FOR RETURN AND IMPACT

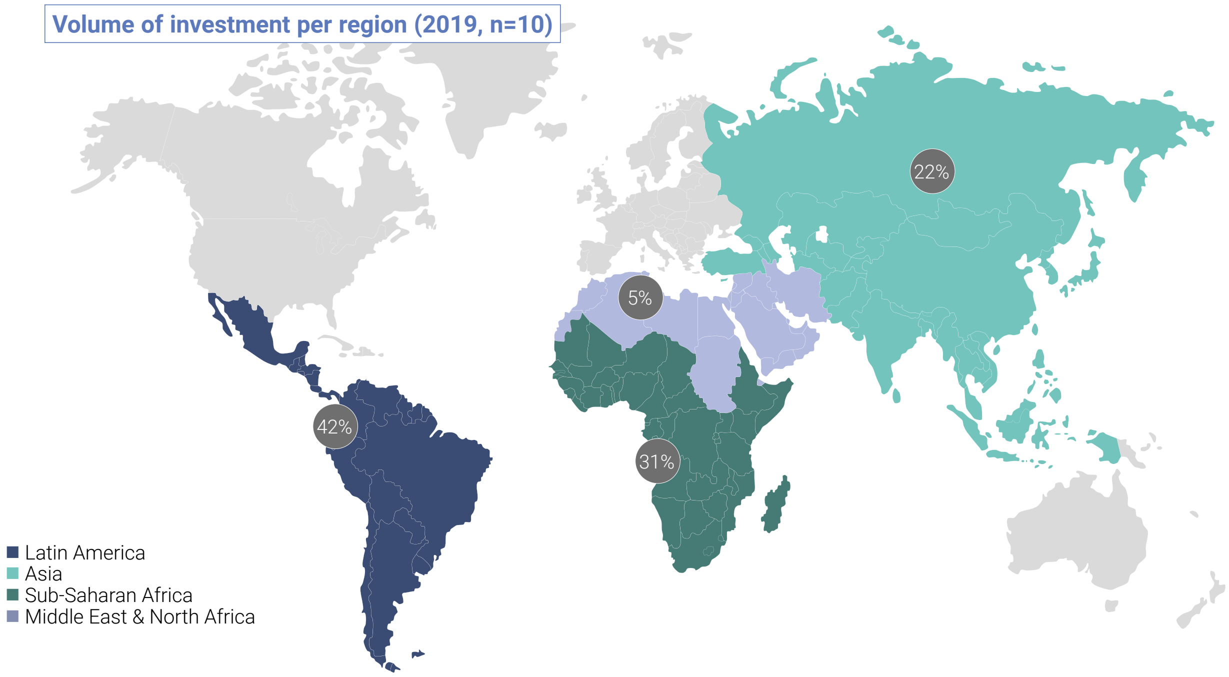
Impact investing is an internationally growing business, driven by investors who are not (solely) concerned about the financial return on their capital, but wish to have an impact on society as well. The King Baudouin Foundation aims to empower both individuals and organisations and therefore keeps up to date with innovative trends. In 2016 and 2018 it carried out the first mapping exercise on Belgian impact investors in developing countries. A new survey entitled 'Belgian impact investment for development', carried out by iPropeller, is now building on this, with figures available for the 2018 and 2019 fiscal years.

On the basis of a survey and interviews involving 13 identified investors, the study outlines the characteristics, trends and challenges facing this sector. This is intended to make the investors more visible to policymakers and the general public, and to feed the debate on this leverage for achieving SDG's.

AT A GLANCE

- Stabilisation of the portfolios over the last four years, with a total of 666 million euros invested in 2019 for the 10 responding investors.
- Two major players, BIO and Incofin, account for approx. 90% of the total.
- The region in which investments are made most frequently is Latin America.
- The 13 investors are mainly active in 'sustainable agriculture and fair trade' and 'financial inclusion' (mainly for microfinance institutions serving smallholders and farming cooperatives as **final** beneficiaries)

Volume of investment per region (2019, n=10)



WHO ARE THE BELGIAN IMPACT INVESTORS FOR DEVELOPMENT?

Based on a prior selection of 25 players, 13 Belgian investors fit the criteria for further research: Alterfin, Belgian Investment Company for Developing countries (BIO), BRS Microfinance Coop, Close the gap, Chroma, Durabilis, Incofin, Inpulse, Kampani, King Baudouin Foundation, KOIS Invest, LadyAgri Impact Investments Hub and Oikocredit Belgium.

Impact investors in Belgium come in all shapes and sizes: there is considerable diversity in legal structures, the size of portfolios and the origin of their capital. They all aim not only to achieve financial returns but also to have an impact on society. To do this they use a wide range of financial instruments, and invest in very diverse sectors in developing countries.

The 13 Belgian investors questioned include both private and public, small-scale and large-scale investors. The choice of governance structure is often related to the origin of the capital - family capital, private funds or public funds.

FINANCE FIRST OR IMPACT FIRST?

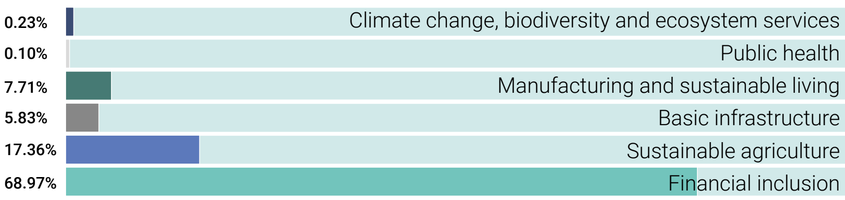
It is not possible to draw a clear line between organisations focused solely on impact and organisations primarily aiming on a financial return. There is a continuum from organisations not expecting any financial profits at all, through social enterprises seeking mainly to make an impact on society and reinvesting any profits in their activities, to socially motivated businesses.

All 13 participants aim to have an impact on society. For more than half of the investors in the study this is their main driver. 2/3 of the investors, a bit more than 2 years ago, target market-rate financial returns or preservation of capital; 1/3 accept a return below the market rate (which is not stable nor homogeneous across the sectors of the investees). The investors often also offer technical support to their investees – through grants, in return for token payments or via networking opportunities.

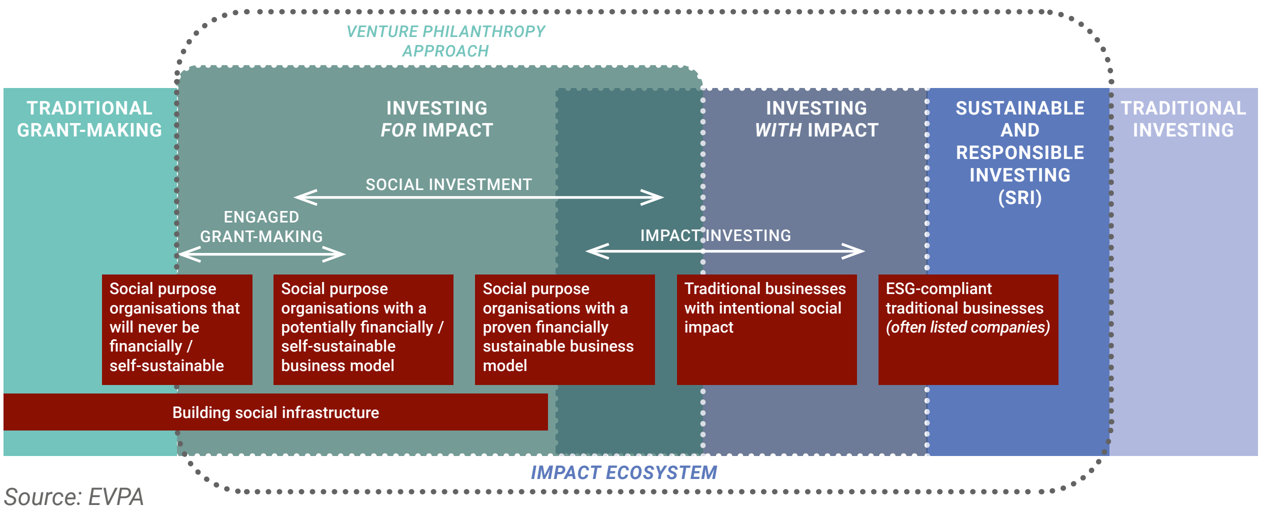
WHAT DO BELGIAN IMPACT INVESTORS LOOK LIKE?

Focus on risk: Belgian investors - 12 out of 13 - prefer to finance

Volume of investment per sector (2019, n=13)



Volume of investment per financial instrument (2019, n = 13)



Source: EVPA

organisations during the growth phase. They often also provide support right at the beginning, with nine investors supplying start-up capital. Eight of the investors invest in mature organisations or stay on board when the organisation becomes more mature.

Open to the public: More than half of the impact investors invite investment by the general public. They raise funds through their newsletters, through word of mouth advertising, using their own channels and niche channels, and increasingly also through crowdfunding.

Sector : The most popular sector for these investments is 'financial inclusion', which includes microcredit and microfinance. This sector, however, serves a very diverse range of end-users. Microcredit can be used by farmers, small shopkeepers and tech start-ups. The two largest players also have a large number of 'financial inclusion' activities, which skews the proportions. Without those two, 'sustainable agriculture and fair trade' would be the most important sector. There is little or no investment in climate change and education.

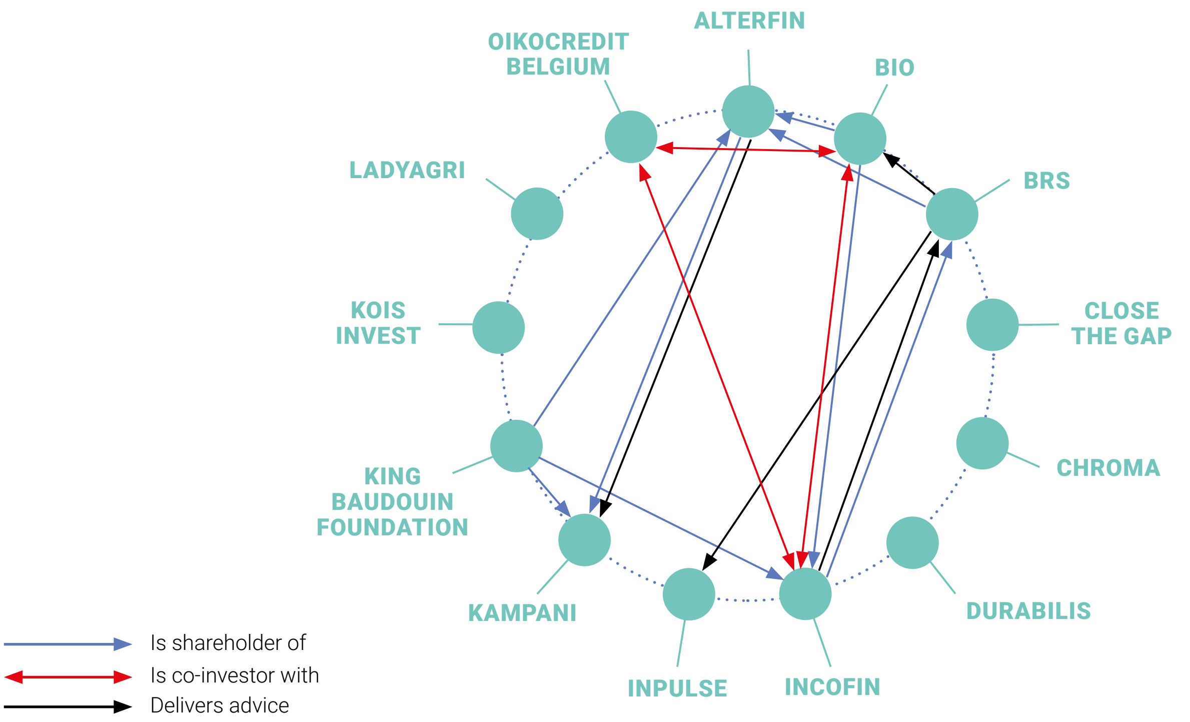
Financial instruments: There is a difference between the financial instruments that Belgian impact investors wish to use in an ideal scenario (most of them prefer equity) and what they do in practice. Investments mostly take the form of loans (88%) with capital making up a far smaller proportion (equity - 12%).

Digitalization: Thanks to online meeting tools, the need to travel is decreasing. Due diligence, for example, can be carried out remotely. For investees, the major digital innovation is in mobile payment, especially within the microfinance sector in Africa. Additionally, investees consider several innovative solutions such as a digital market pricing platform, GPS-tracking in agriculture, telemedicine and artificial intelligence in microfinance.

Connections and collaborations

The diversity of the small Belgian market for impact investing for development leads to a certain richness, especially since there is a lot of collaboration between investors. Connections come in many different forms: co-investing, offering technical/financial advice of fund management services, investing in one another and being shareholder or part of the investment committee (see graph). Informal personal interactions are of course common as well and hence strengthen the capacity of each other's actions.

Furthermore, the Belgian impact investors' market is well-connected to the broader international impact community, with NGO's, specialized consultants, interest groups…



CONCLUSIONS AND REFLECTIONS

The 'Belgian impact investment for development' sector is still evolving. The study identified ongoing evolutions and some trends that will be decisive during the next few years.

- Several new and innovative actors have entered the sector, some of which participated in this study. Still, **no two investors are alike**, whether it is in geographic focus, sector focus, ownership and sources of funding, ticket sizes... Overall, there's an **increase in openness** to involve the general public in some investment tools.

- A remarkable shift : several investors indicated that they target **market-rate returns whenever possible**. At the same time, they also partook in deals with below market-rate returns. In 2016-2017, most investors targeted either below market-rate returns or capital preservation.

- Structured approaches to social impact measurement and management are becoming the norm, with most impact investors having formalized their **impact performance management methodologies**, mostly developed in-house in the absence of a universal standard. Investors indicated that they find the Sustainable Development Goals (SDGs) a useful taxonomy to structure their thinking, actions and evaluation.

- **Local embeddedness** is increasingly important: travel has decreased and is substituted by engaging local actors or having staff on the ground (even before the covi19 pandemic).

- New focus areas are becoming apparent, often driven by **technology**, a trend that's here to stay. Most notable are digital technologies and green energy supply.

- Even though direct investments to local businesses remain dominant, we noticed a relative **increase in indirect investments** via funds and hybrid instruments.

- The majority of Belgian investors **collaborate** with at least one other investor and several have taken joint initiatives to address the general public. They expect to collaborate even more in the future.

COVID-19 PANDEMIC

In 2020, the consequences of the pandemic are mixed, with some investees in the health sector seeing greater demand, whereas many investees struggle with decreased revenues, lower demand and logistical difficulties caused by lockdowns and/or disrupted supply chains. Consequently, several investors expect a higher default rate and/or have extended credit lines where possible. Most investors expect reduced or no growth with no new deals in the immediate future. Overall, the Belgian impact investor community indicates that the pandemic has underscored the importance of impact investing to the larger public and institutional investors.

READ MORE

The full report on the study by iPropeller can be downloaded, free of charge, from **www.kbs-frb.be**.

"Study on Belgian impact investment for development", 2021, 58 p

The report includes the profiles of 11 out the 13 Belgian impact investors that participated in the study.

bio-invest.be	oikocredit.be	durabilis.eu
alterfin.be	inpulse.coop	chroma.eu
incofin.com	brs.coop	close-the-gap.org
kampani.org	koisinvest.com	lady-agri.org

King Baudouin Foundation

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KING BAUDOUIN FOUNDATION

The King Baudouin Foundation's mission is to contribute to a better society.

The Foundation is an actor for change and innovation, serving the public interest and increasing social cohesion in Belgium and at the international level. We seek to maximize our impact by strengthening the capacity of organizations and individuals. We also stimulate effective philanthropy by individuals and corporations.

The King Baudouin Foundation is a public benefit foundation. The Foundation was set up in 1976 on the occasion of the 25th anniversary of King Baudouin's reign.

With thanks to the Belgian National Lottery and to all donors for their valued support.

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