



IMPAKT•EU



TC

THEORY OF CHANGE & IMPACT INDICATORS



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# IMPAKTEU: 5 KEY IMPACT OBJECTIVES

A theory of change details how an initiative (in this case the ImpaktEU Fund), contributes, through a chain of inputs, activities, outputs and outcomes, to intended results in terms of impact. The present Theory of Change (ToC) of ImpaktEU aims to be a compass for all stakeholders and to ensure their full alignment to the fund's impact ambition. It intends to set measurable goals to be reached over the lifetime of the fund. **To showcase ImpaktEU contribution to social cohesion and a more inclusive society we set ourselves 5 key**

**impact objectives which will be regularly measured and reported on.** These long-term objectives drive the investment strategy, encourage transparent reporting and will foster Impact Management & Measurement (IMM) implementation among ImpaktEU's investees.

In other words, if we miss these goals, a satisfactory financial performance for investors would not be enough to qualify ImpaktEU as a full success.

## OUTCOME 1:

**Fragile populations and excluded microentrepreneurs have improved their life conditions (indirect)**

35 000

DIRECT IMPAKTEU CONTRIBUTION IN PERMANENT JOBS CREATION

22 000

NUMBER OF LOANS TO BASE OF THE PYRAMID BENEFICIARIES

## OUTCOME 2A:

**MFIs and FIs have achieved sustainable growth and have increased their outreach (direct)**

80

NUMBER OF FI'S ADOPTING FORMALIZED IMM\* STRATEGY

19 000 000

DIRECT IMPAKTEU CONTRIBUTION IN NEW GREEN PORTFOLIO

## OUTCOME 2B:

**Social enterprises have proven their sustainability and demonstrated their mission towards society (direct)**

1140

NUMBER OF DIRECTLY FINANCED SOCIAL ENTERPRISES

## THE KEY STAKEHOLDERS OF THE FUND ARE:

### {1} THE FINAL BENEFICIARIES:

micro & social entrepreneurs who succeed in accessing funding and support to develop their business ideas

### {3} THE INVESTORS:

whose contribution to the development of the impact ecosystem at large, could actually go beyond their financial investment

### {2} THE DIRECT BENEFICIARIES OF IMPAKTEU SUPPORT:

financial intermediaries and social enterprises

### {4} THE MANAGER (IMPULSE) AND INVESTMENT ADVISER (FUNDS FOR GOOD)

It is to be noted that the realization of those key impact objectives is a contractual pre-condition to trigger a potential performance fee (based on an independent validation).

\* Impact Measurement and Management



## #1 CONTEXT

**Poverty and social exclusion.** According to Eurostat<sup>1</sup> in 2020, "there were **96.5 million** people in the EU at risk of poverty or social exclusion, representing **21.9%** of the total population. More than a quarter of the population remains at risk of poverty or social exclusion in four Member States: Romania (35.8%), Bulgaria (33.6%), Greece (27.5%) and Spain (27.0%). Other countries from Western Europe come out also with a significant percentage: Belgium (21%), France (19%) and Luxembourg (20%), just below the EU average!

Social exclusion goes along with financial exclusion. According to World Bank, **75% of unbanked people** (referred to as financially excluded) live in poverty. Although financial inclusion rates are globally high in Europe, inequalities among regions, gender, income, and age are still persistent: considering that 95% of adults in the Euro zone own a bank account in the Euro area, this reduces to 79% in Central Europe and only 63% in the Western Balkans.

**Difficult access to credit.** Access to credit remains one of the most important obstacles for fragile populations when trying to get out from the trap of poverty through seeking employment opportunities. **Only 12% of microenterprises** frequently get bank loans, mainly due to insufficient collateral,

high interest rates and excessive paperwork. The bank loan rejection rate for microenterprises is much higher than for small firms and medium-sized firms (7,2% compared to 1,5% and 2,1% respectively according to the European Investment Fund<sup>2</sup>).

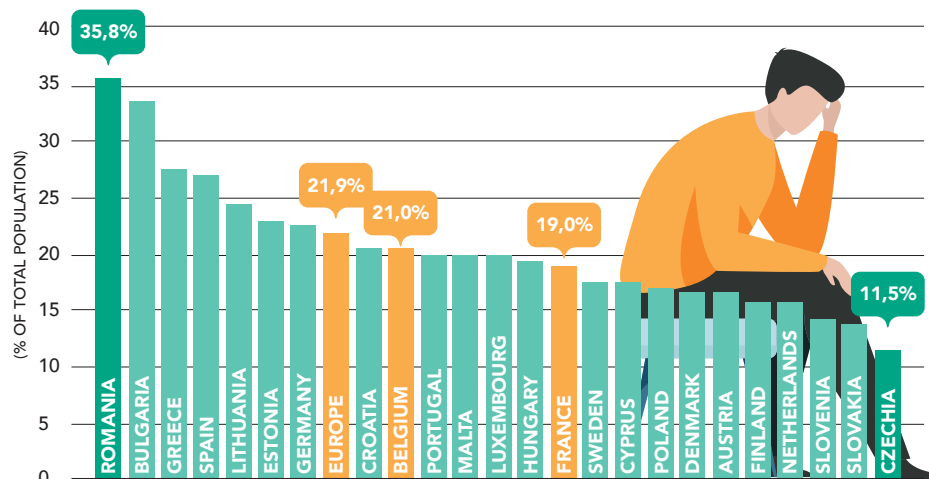
**Funding gap.** The total size of the target population for business microcredit in the EU member states is estimated at **30.7M enterprises**: the two largest target groups are self-employed and microenterprises (1 to 9 employees). When informal businesses are taken in account, the total target group population attains **69.3M**. The total financing gap for EU countries is estimated at EUR 12.9 billion,

implying a need for increasing supply of microfinance products for microenterprises and vulnerable populations; this amount reached **EUR 33.9 billion** if including EU candidates countries<sup>3</sup>. Moreover the potential demand for non-financial services in the EU is estimated at **1.2 million** clients (excluding informal business) and is expected to increase in the next 10 years.

### Microfinance & Social entrepreneurship.

The microfinance sector has received increasing attention and support in the past two decades in all countries across Europe, with a recognized contribution in the stimulation of employment, Fighting social exclusion and poverty reduction.

## PEOPLE AT RISK OF POVERTY OR SOCIAL EXCLUSION IN THE EU, 2020



The request for microfinance products has been growing substantially in the latest years and is still far from its full market potential, estimated at **over 2.7M microloans/year** within the EU-28. This figure is in constant growth and the corresponding portfolio is around **17.4 bn/year<sup>4</sup>**.

The social enterprises (SEs) ecosystem has been expanding and became increasingly relevant in Europe, mostly thanks to the capacity to respond to socio-economic societal needs. According to the European Commission, there are already **2 million social enterprises** in the EU, representing 10% of total enterprises but they lack the means to start and/or grow.

## 2MIO SOCIAL ENTERPRISES IN THE EU



## MARKET PROBLEMS

**Funding instruments and their limitations.** Thanks to dedicated programs the European Commission has been investing in MFIs and SEs since 2010, through guarantees, equity, loans, grants, and technical assistance. Even if microfinance and social entrepreneurship have received support and political attention by the European institutions (Progress Microfinance, EaSI Program, Social Business Initiative, brand-new Social Economy Action Plan) improving fund availability remains the most important area of work for the coming years. In general the funding offer remains too fragmented, with a lack of visibility on funding opportunities. Existing instruments are often not adapted to the needs of small MFIs and SEs. Moreover, funders are also confronted to the imperative of fast investing higher budgets, leading to an incentive to deliver higher ticket sizes.

**The supply of funding to FIs is incomplete and unequal.** Debt supply sometimes exceeds demand for more mature institutions, while there is a lack of funding available for smaller projects. Furthermore, there is a global lack of debt

and equity for socially-driven financial intermediaries (FIs) which can not ensure high returns. Funders usually focus on the most profitable companies. Access to finance remains much more difficult for smaller or younger companies, for which development stage financing is also globally missing. The offer for SEs is not adapted to the specificities of the sector: the funders that usually invest in classical companies are poorly equipped to support such entities as cooperatives, for example. As a matter of fact, few funders have the capacity to support smaller and younger institutions on the long term and help them build their long-term competencies and bring them to maturity.

**Funding and capacity building needs.** In terms of volumes, the total funding needs estimated by the respondents to the EMN-MFC<sup>5</sup> survey amounts to €53M over 1-2 years for small players, €211M for middle-size players and €674M for large players. This would represent an estimated total market of €300 million to €500 million in the next 5 to 10 years to cover only the needs of small MFIs that responded to the EMN-MFC survey. A broad extrapolation to the remaining 66% of MFIs on the market that did not respond to the survey

could bring to a total potential market two or three times higher (€600 million to €900 million). It should be noted that this figure does not include the needs of SEs financiers beyond the microfinance sector. The needs of small MFIs and SEs include not only funding but also tailored (sometimes structural) technical assistance in building-up capacities. There is a severe lack of advisory services which play an essential role in creating sustainable business models and improving services provided by MFIs and SEs.

1. Eurostat, <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/edn-20211015-1>

2. EIF, European Small Business Finance Outlook, Working Paper 2018/53

3. Microfinance in the European Union: market analysis and recommendations for delivery options in 2021-2027, Final Report, May 2020, Frankfurt School, EMN, MFC

4. Evers&Jung, EMN-MFC, 2017

5. European Microfinance Network [www.european-microfinance.org](http://www.european-microfinance.org) and Microfinance Center [mfc.org.pl](http://mfc.org.pl)

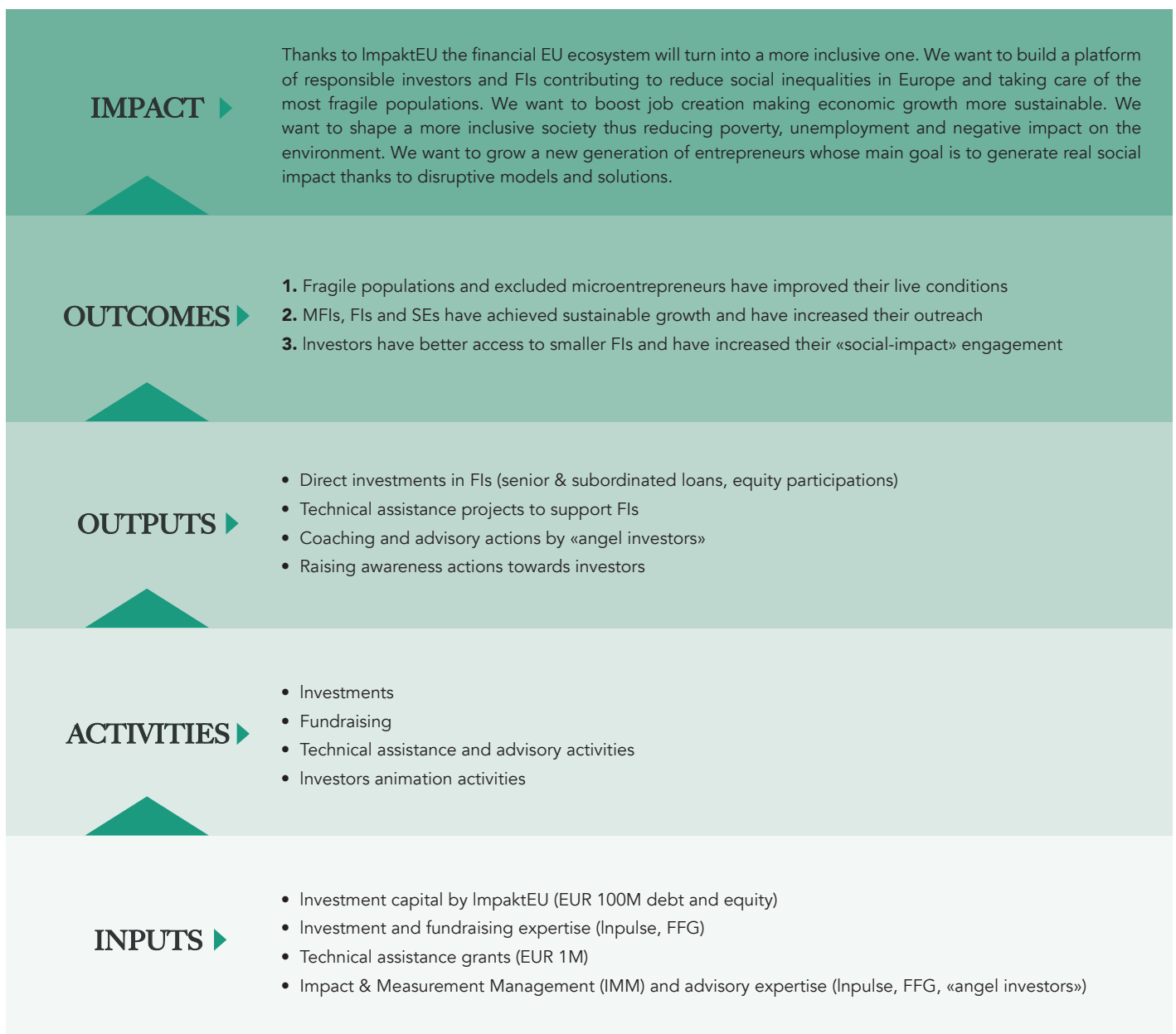
## #2 IMPAKTEU THEORY OF CHANGE

### THEORY OF CHANGE: WHAT IS IT?

A Theory of Change (ToC) is essentially a comprehensive description of how and why a desired change will happen.

The primary purpose of ImpaktEU ToC is to explain the process in achieving the envisioned positive impact for the Fund. To that purpose the expected changes are mapped into a logical framework to show the chronological flow between the different stages. The core components of ImpaktEU ToC are: inputs, activities, outputs, outcomes and impact. Through outlining the causal linkages among these, we clarify the process that will allow the changes to happen. For each stage we identify key indicators to demonstrate if ImpaktEU is on track in delivering the intended impact. In depth follow-up of the ToC indicators helps to better understanding ImpaktEU's contribution to 2030 UN SDGs and its own impact objectives.

### TOC LOGICAL FRAMEWORK



# MATRIX OF IMPAKTEU KEY TOC INDICATORS

KEY IMPACT INDICATORS (HOW IMPAKTEU MEASURES CONTRIBUTION TO UN SDGS)	IMPACT	Thanks to ImpaktEU the financial Eu ecosystem has turned into a more inclusive one. We want to build a platform of responsible investors and FIs contributing to reduce social inequalities in Europe and taking care of the most fragile populations. We want to boost job creation making economic growth more sustainable. We want to shape a more inclusive society thus reducing poverty, unemployment and negative impact on the environment. We want to grow a new generation of entrepreneurs whose main goal is to generate real social impact thanks to disruptive models and solutions.	
	OUTCOMES	<p>1. Fragile populations and excluded microentrepreneurs have improved their life conditions (indirect). <i>KEY OUTCOMES: Poverty reduction, social cohesion, financial inclusion, reduced inequalities, job creation, women empowerment</i></p> <p>2. MFIs and FIs have achieved sustainable growth and have increased their outreach (direct). <i>KEY OUTCOMES: Investment readiness, sustainable growth, extended outreach, ESG empowerment, digitalization, new green/social/mobility products</i></p> <p>3. Social enterprises have proven their sustainability and demonstrated their mission towards society (direct). <i>KEY OUTCOMES: Sustainable growth, extended outreach, participative governance, agricultural transition</i></p> <p>4. Investors have better access to smaller FIs and have increased their "social-impact" engagement (direct/indirect). <i>KEY OUTCOMES: patient capital, public private partnerships, investors engagement, improved EU funding ecosystem</i></p>	<p># jobs created/maintained # loans to fragile populations (BOP)</p> <p># FIs with IMM/ESG system in place # FIs with increased non-financial services % sustainable &amp; green portfolio % cumulated annual growth rate (portfolio FIs)</p> <p># social enterprises directly supported % survival rate after 2 years # agriculture transition projects % cumulated annual growth rate</p> <p># first time investors in SE/MFIs (non-listed assets) # investors engaged in TA coaching/mentoring # catalyzed impact investments</p>
KEY PERFORMANCE INDICATORS (HOW IMPAKTEU MEASURES OWN PERFORMANCES)	OUTPUTS	<p>Direct investments (<i>senior loans, subordinated loans, equity participations</i>)</p> <p>Technical assistance &amp; advisory services (<i>TA missions, IMM/ESG missions</i>)</p> <p>Investors raising awareness &amp; animation (<i>investors missions &amp; field visits</i>)</p>	<p>% transactions in Tier 2 &amp; 3 € avg loan size</p> <p># TA missions benefitting # beneficiaries € avg amount/TA action</p> <p># coaching/mentoring missions performed by investors # FIs field visits by investors</p>
	ACTIVITIES	<p>Investment activities</p> <p>Technical assistance activities</p> <p>Investors raising awareness activities</p>	<p># due diligences # shareholder activism: participations to BoD</p> <p># TA projects formulated Y financial &amp; technical reports</p> <p># coaching/mentoring missions performed or contributed by investors</p>
	INPUTS	<p>Investment capital by ImpaktEU (€100M debt and equity)</p> <p>TA grant from funders (€1M + 200k in-kind by investors)</p> <p>Investment, BDS &amp; ESG expertise by Inpulse</p> <p>Investment and mentoring expertise by FFG</p> <p>Investment and mentoring expertise by investors</p>	<p>% Assets Under Management</p> <p>% grants for TA</p> <p>% TA equivalent investors volunteers</p> <p># days mentoring investors volunteers</p> <p># days external TA experts mobilized</p>



### #3 IMPACT REPORTING: WHAT INDICATORS?

Based on ImpaktEU ToC, specific reports will be produced annually to measure and score the SDGs achievement of investees. Indeed, capitalizing on Inpulse tools, ImpaktEU will take the UN SDGs as the key language to show our contribution to global sustainable development. Such Impact Measurement & Management system are aligned with the Universal Standards of the Social Performance (USSPM) Task Force, the Global Investing Network (GIIN-IRIS) guidelines and the Smart Campaign for client protection principles. The environmental performance is evaluated in line with the CERISE Green Index and so, the effects of climate change on investees portfolios. Additionally, women empowerment is now analyzed in more depth through the benchmarks available from the 2xChallenge initiative. Good governance control is heavily inspired by the European Code of Good Conduct for Microcredit provision.



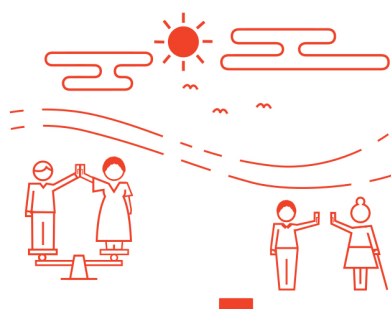
#### IMPACT SDG INDICATORS



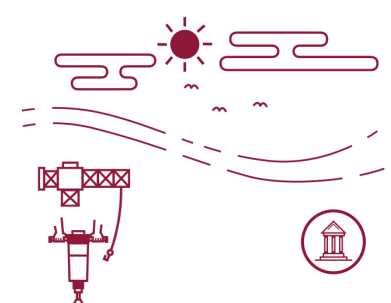
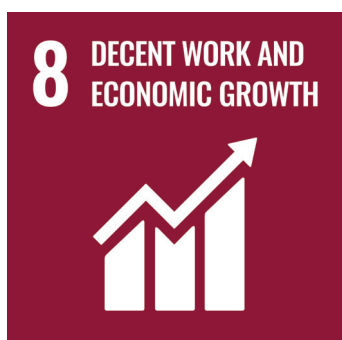
- # Bottom of the pyramid clients (n° loans < GNI pc)
- % Alone-parent families
- % Rural clients
- % Educational needs loans
- # Breadth of outreach (# total final beneficiaries)
- % Rural financial inclusion (% rural loans) – East
- % Rural financial inclusion (% rural loans) – West
- # Extra-EU clients



- % Agriculture/livestock portfolio
- % Micro-enterprises in agriculture
- % N° Loans to smallholders farmers

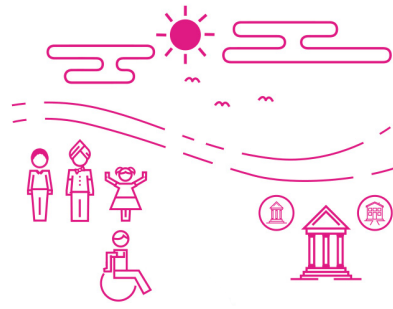


- % Women in senior managerial positions (FIs)
- % Loans to women
- # Women clients
- % Loans to women for business development
- % Women in the workforce (FIs)
- # Business funded by women
- % Financial products for women
- # FIs offering additional benefits to women

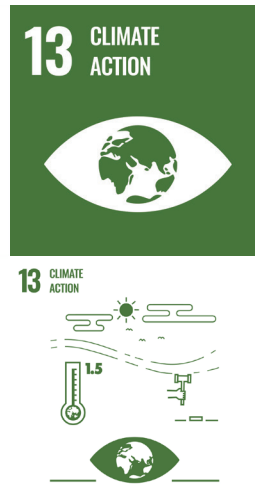
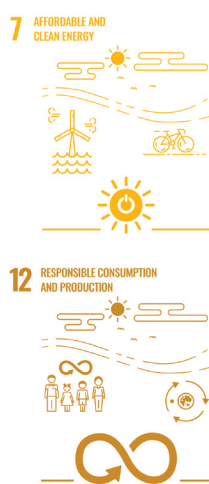


- # Jobs maintained/created
- # New business created
- % Microenterprises financed
- % Income generating activities portfolio
- # Business transitions from informal to formal
- # Start up financed
- % Enterprises survival rate (after 3Y)
- % Cumulated annual growth rate (portfolio FIs)
- # FIs from Tier3 to 2/1
- % Staff satisfaction in MFIs and SEs (staff satisfaction rate)





- # Unbanked / financially excluded clients
- # Youth financed
- # Refugee financed
- % of clients with low academic background (to be defined)
- % Smart Campaign investees
- % FIs offering non-financial services
- % Housing improvements portfolio
- # First time investors in SE/MFIs (non-listed assets)
- % Invested by DFIs (DFIs funding/total fund size)



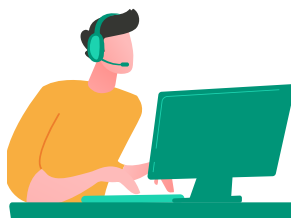
- # Green loans
- % Investees with environmental exclusion list
- % Investees with environmental strategy
- % Monitoring internal ecological footprint
- # Energy efficiency loans
- # Renewable energy loans
- # Sustainable agriculture project (bio, ecological trans)
- # Greenhouse gas emission reduction (PCAF)

## PERFORMANCE INDICATORS (OUTPUTS, ACTIVITIES)



### INVESTMENTS

- € avg loan size
- € avg equity size
- # loans
- # equity participations
- # subordinated loans
- # senior loans
- % transactions in Tier 2 & 3
- € transactions in Tier 2 & 3
- € direct investment in social enterprises
- # investees with cooperative or participatory governance
- # deals originated
- # eligibility files
- # due diligences
- # shareholder activism: participations to BoD
- # investors & impact reports



### TECHNICAL ASSISTANCE

- # TA missions
- € avg amount/TA action
- # TA actions to implement ESG system
- # consultants
- # TA missions to implement IMM/ESG system
- # TA projects formulated
- # TA projects approved
- # Y financial & technical reports



### INVESTORS RAISING AWARENESS

- # field visits with investors
- # investors engaged in coaching/mentoring
- # of Board positions held by investors/ experts appointed by the Fund
- # Implementation of an impact study



Need more information?  
Contact us by e-mail at [info@impakteufund.eu](mailto:info@impakteufund.eu)