



IMPAKT·EU



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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

MIN.
30 000
JOBS CREATED/PRESERVED

MIN.
20 000
BENEFICIARIES AT THE BASE OF THE PYRAMID (BOP)

OUTCOME 2:
Financial Institutions (FIs) have access to new resources to boost sustainable growth and strengthen their impact practices

65%
FIs ADOPTING FORMALIZED IMM STRATEGIES (ESTIMATED 42 FIs ON A TOTAL OF ABOUT 64 INVESTED FIs)

15%
FIS PORTFOLIO INVESTED IN LABELLED GREEN PORTFOLIO (ESTIMATED PORTFOLIO €15 MILLION)

OUTCOME 3:
Social Enterprises (SEs) have proven their sustainability and demonstrated their mission towards society

25%
FUND SIZE INVESTED IN SUSTAINABLE SOCIAL ENTERPRISES (ESTIMATED 1.500 SEs DIRECTLY & INDIRECTLY SUPPORTED)

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 (FFG))

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).

1. The objectives refer to a €100 million fund size. The foreseen investment portfolio is composed by 80% Financial Intermediaries (60% in Eastern, 40% in Western Europe) and 20% direct investments in Social Enterprises. In case the fund size will be lower/higher than €100 million all estimations will be adapted pro-rata. The above 5 key impact objectives are set up based on proven indicators from independent impact studies using data coming from internal dataset



#1 CONTEXT

POVERTY AND SOCIAL EXCLUSION

According to Eurostat² 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 4 Member States: Romania (35.8%), Bulgaria (33.6%), Greece (27.5%) and Spain (27.0%). Other countries from Western Europe countries come out also with a significant percentage: Belgium (21%), France (19%) and Luxembourg (20%), just below the EU average!

DIFFICULT ACCESS TO CREDIT

Social exclusion goes along with financial exclusion. 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. According to the European Investment Fund³ **only 12% of microenterprises get bank loans**, mainly due to insufficient collateral and a weak risk profile while a majority of microentrepreneurs (52%) fear excessive paperwork and high interest rate. The bank loan rejection rate for microenterprises is much higher than for small and medium-sized firms.

FUNDING GAP

The total size of the target population for business microcredit in the Europe

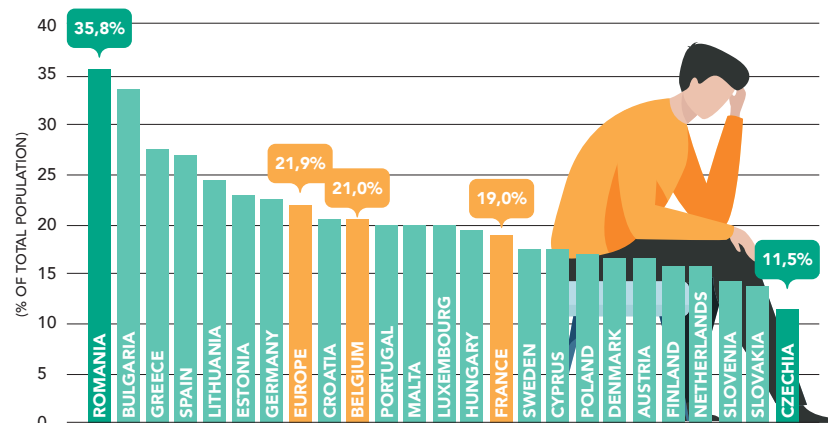
Member States is estimated at 30.7 million enterprises: the two largest target groups are self-employed and micro-enterprises (1 to 9 employees). When informal businesses are taken into account, the total target group population attains 69.3 million. **The total financing gap for EU countries is estimated at €12.9 billion**, implying a need for increasing supply of microfinance products for micro-enterprises and vulnerable populations; **this amount reaches €33.9 billion if including EU candidate' countries⁴**. Moreover, the potential demand for non-financial services (technical assistance, business coaching and mentoring) in the EU is estimated at **1.2 million clients** (excluding informal business) and is expected to increase in the next 10 years.

ENVIRONMENTAL CHALLENGES: THE 9 PLANETARY BOUNDARIES

In 2009, Johan Rockström and the Stockholm University led a group of 28 international scientists to identify the processes that regulate the stability and resilience of the Earth system. They propose a quantitative measure of the planetary boundaries within which humanity can continue to develop and thrive.

There are **9 global limits**: global warming, biodiversity erosion, ozone depletion, aerosol air pollution, ocean acidification, land use change (deforestation), disruption of the nitrogen and phosphorus cycles, introduction of new entities into the biosphere, and finally, disruption of

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



the freshwater cycle.

In 2022, we have just passed the critical threshold of the 6th planetary limit, which concerns the water cycle, with the evidence that widespread changes in soil moisture drive destabilization of ecological, atmospheric, and biogeochemical processes.

GLOBAL WARMING AND ENERGY CRISIS HAVE MORE IMPACT ON LOW-INCOME POPULATION

Global warming is becoming more and more a daily reality with tangible economic and social impacts. In 2022 large parts of Europe suffered intense heat waves, going over 40 °C in many places. The average temperatures in Europe during summer were the highest on record. The extreme heat also led to increased drought risks. **In August 2022 nearly 2/3 of Europe was threatened by drought - likely to be 'the worst for at least 500 years'⁵.** Extreme heat and reduced soil moisture increase the risk of forest fires. Droughts in Europe also affect food prices

and supply chains, exacerbating the cost-of-living crisis.

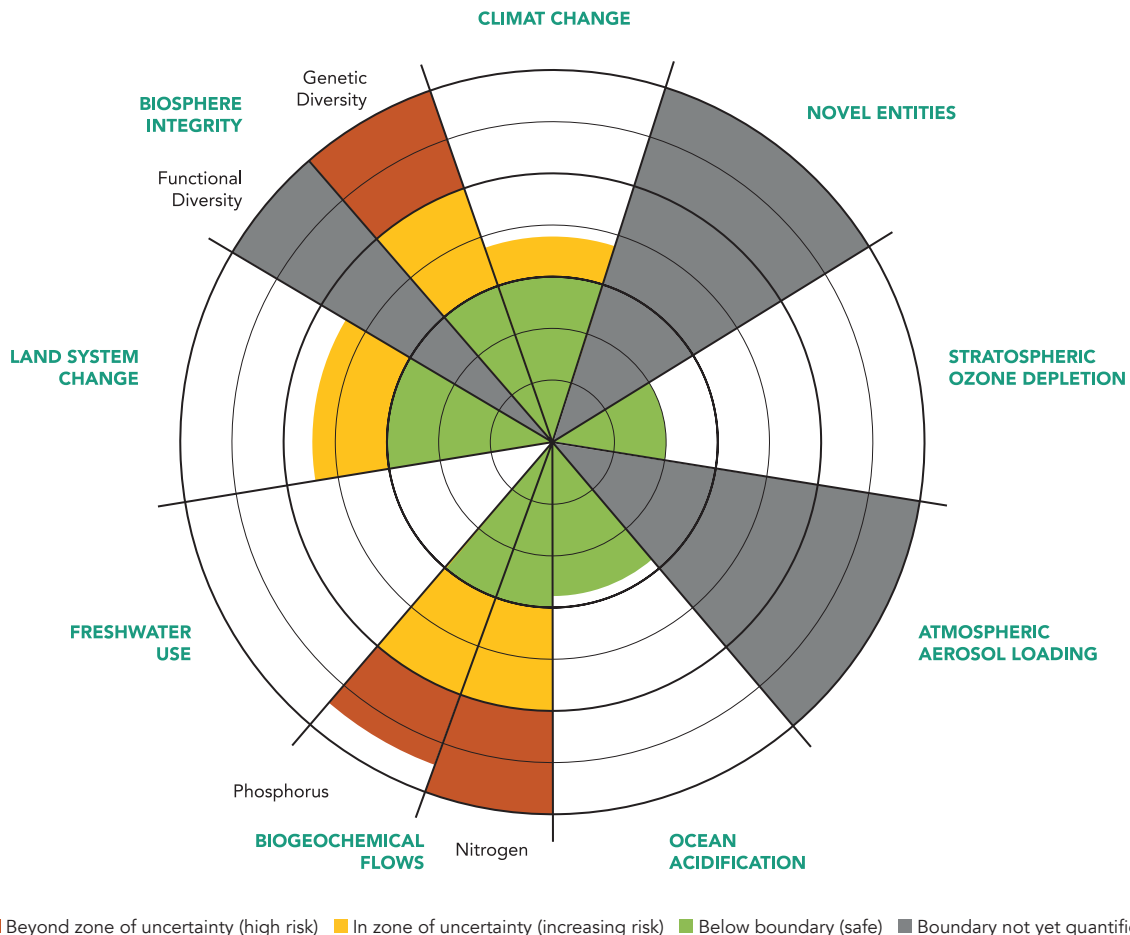
Ecosystems and biodiversity are rapidly deteriorating (only 23% of species and 16% of habitats are in good health)⁶. Habitat loss and fragmentation, unsustainable agriculture and climate change are leading drivers of this deterioration.

The EU is also facing an energy crisis with dimensions that have not only economic, but also social and environmental negative impacts. Energy prices, which had already soared around the world after COVID-19 lockdowns were lifted, have been significantly increased by the war in Ukraine (energy prices rose up by 300% since the start of 2022⁷, and specifically, European gas prices soar 8 times their 10-year average⁸). Besides, some countries started to increase the consumption of wood. In consequence, the wood price has increased (prices for wood pellets, have nearly doubled in France, Bulgaria and

Poland). **The low-income households are the most affected** because they are more reliant on firewood than gas⁹. This also represents a high environmental deterioration (increase in illegal logging), pollution, and greater impact on public health (burning wood emits more carbon pollution per unit energy than burning coal)¹⁰. All this impact more and foremost the poorest and socially excluded people.

- 2. Eurostat, <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/edn-20211015-1>
- 3. EIF, European Small Business Finance Outlook, Working Paper 2018/53
- 4. Microfinance in the European Union: market analysis and recommendations for delivery options in 2021-2027, Final Report, May 2020, Frankfurt School, EMN, MFC
- 5. European Microfinance Network www.european-microfinance.org and Microfinance Center mfc.org.pl
- 6. Biodiversity, WWF, 2022, https://www.wwf.eu/what_we_do/biodiversity/
- 7. DW, Energy crisis, Ukraine top EU summit agenda, 2022, <https://www.dw.com/en/eu-leaders-to-discuss-europes-energy-crisis/a-63493893>
- 8. What is the Cost of Europe's Energy Crisis? <https://www.visualcapitalist.com/what-is-the-cost-of-europes-energy-crisis/>
- 9. My.europe, Europe's energy crisis: Wood industry booms before winter of discontent, <https://www.euronews.com/my-europe/2022/10/14/europes-energy-crisis-wood-industry-booms-before-winter-of-discontent>
- 10. Idem.

THE 9 PLANETARY BOUNDARIES



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.** Investors usually focus on the most profitable companies, while access

to finance remains much more difficult for smaller or younger companies, for which development stage financing is globally missing. Furthermore, there is **a global lack of debt and equity for socially driven FIs** that could support smaller Social Enterprises (SEs). The offer to SEs is not adapted to the specificities of that sector: the usual investors in SMEs are poorly equipped to support entities such as cooperatives, for example. Junior or mezzanine debt are interesting financing tools and avoid SEs founders getting excessively diluted. As a matter of fact, few investors have the capacity to support smaller and younger institutions on the long term and help them build on competencies to reach their maturity level.

FUNDING AND CAPACITY BUILDING NEEDS

In terms of volumes, the total funding needs estimated by the respondents to the EMN-MFC¹¹ survey, will amount to €53 million over 1-2 years for small players, €211 million for middle size players and

€674 million for large players. This would represent an estimated total market of **€300 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 2 or 3 times higher (€600 to €900 million). It should be noted that this figure does not include the needs of SEs beyond the microfinance sector. The needs of small MFIs and SEs include not only funding but also tailor sized (sometimes structural) technical assistance in building-up capacities. There is **a severe lack of advisory/mentoring services** which play an essential role in creating sustainable business models and improving services provided by FIs and SEs.

FUNDING NEEDS ESTIMATED OVER 1-2 YEARS

€53 MILLION

for small players



€211 MILLION

for middle size players



€674 MILLION

for large players



11. European Microfinance Network www.european-microfinance.org and Microfinance Center mfc.org.pl

GREEN AND CLIMATE-SMART FINANCE STILL LIMITED

Sustainable finance has become a priority for the resilience of the most vulnerable: green and climate-smart finance is among the 3 priority areas for financial inclusion¹². With green finance, there's a chance to build climate-smart financial inclusion strategies that **improve resilience of end-clients towards climate change and help them develop climate adaptation strategies**¹³. This area of investment has been seen by different players in the financial sector as a real opportunity. But despite the **€1 trillion** Green Deal and the **€100 billion** Just Transition Mechanism (that aims to create the necessary investment to help workers and communities relying on the fossil fuel value chain), it is doubtful that such mechanisms will reach out to the small entrepreneurs. The green dimension in microfinance sector is a growing interest but still in premature state in many European countries. The financing of green and smart-climate products developed by SMEs and MFIs is capable to generate an impact, on the scale of these institutions, not negligible, in terms of decarbonization of the economy, energy independence, contribution on the economy circle among others. For this, not only **financing but also more technical assistance for developing green products**, integrating ESG criteria in operations and measure extra-financial impacts will be necessary in the coming years in the microfinance sector.

THANKS TO THE SOCIAL ENTERPRISES, EVERY CONTRIBUTION HELPS THE SOCIETY!

The SEs ecosystem has been expanding and became increasingly relevant in Europe, mostly thanks to the capacity to respond to societal challenges. SEs have particularly proven that they can be part of the solution to environmental challenges like global warming addressing the main causes of carbon emissions such as housing, mobility and food.

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 their business.

MICROFINANCE IS ALSO PART OF THE SOLUTION

The microfinance sector is recognized to make significant contribution in the stimulation of employment, fighting social exclusion and poverty reduction. 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 2.7 million microloans/year within the EU-28. This figure is in constant growth and the corresponding portfolio is around 17.4 billion/year¹⁴.

Despite all the attention and support received by the microfinance sector over the last two decades, the potential is still growing and so the needs, in order to reach out to more entrepreneurs and quality jobs. When it comes to green finance, the microfinance sector is convinced that it could play a much bigger role but needs adequate tools and financial instruments to fulfill this role

12. Financial Inclusion Compass 2022, <https://www.e-mfp.eu/resources/financial-inclusion-compass-2022-english-edition>.

13. European Microfinance Platform, "The Financial Inclusion Compass 2022 The e-MFP Survey of Financial Inclusion Trends"

14. Evers&Jung, EMN-MFC, 2017

#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 understand ImpaktEU's contribution to 2030 UN SDGs and its own impact objectives.

MATRIX OF IMPAKTEU KEY ToC INDICATORS

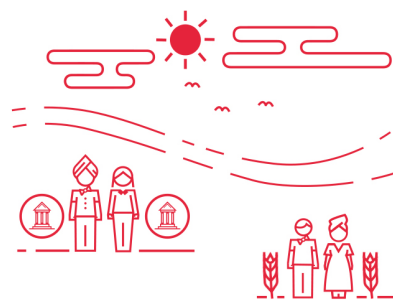
KEY IMPACT INDICATORS (HOW IMPAKTEU MEASURES CONTRIBUTION TO UN SDGs)	IMPACT Thanks to ImpaktEU the financial EU ecosystem will become more inclusive and environmentally sustainable. We want to build a platform of responsible investors and financial institutions contributing to reduce social inequalities while taking care of the most fragile populations and our environment. We want to boost job creation making economic growth more sustainable and inclusive. We want to shape a greener Europe for everyone, reducing the environmental footprint of our society. We want to grow a new generation of social entrepreneurs and investors bringing disruptive models and innovative solutions to generate social impact.	
	Investments in both FIs and SEs will exhibit the following thematic: social inclusion, sustainable mobility, sustainable housing, sustainable food and relocation.	
	1. Fragile populations and excluded entrepreneurs have improved their life conditions and developed their business (direct/indirect). KEY OUTCOMES: <i>Social integration, job creation, poverty reduction, sustainable loan programs</i>	# jobs created/maintained % green/sustainable portfolio (housing, mobility, food & agriculture) # loans to smallholders # loans to fragile populations (BOP) % cumulated annual growth rate (portfolio MFIs)
	2. FIs have access to new resources to boost sustainable growth and strengthen their impact practices (direct). KEY OUTCOMES: <i>Investment readiness, sustainable growth, extended outreach, ESG empowerment, digitalization, energy efficiency, climate change/mitigation products</i>	# FIs with IMM/ESG system in place # FIs with increased non-financial services % green/sustainable portfolio (housing, mobility, food & agriculture) % cumulated annual growth rate (portfolio FIs)
3. Social enterprises have proven their sustainability and demonstrated their mission towards society (direct). KEY OUTCOMES: <i>Sustainable growth, participative governance, green transition, circular economy</i>	# social enterprises directly supported (housing, mobility, food & agriculture, industrial relocation) % survival rate after 2 years % cumulated annual growth rate	
4. Investors have gained better access to MFIs, ethical FIs and SEs, and the impact investing market has grown significantly (direct/indirect). KEY OUTCOMES: <i>patient capital, enhanced corporate commitment, public private partnerships, improved EU funding ecosystem</i>	# first time investors in SEs/MFIs (non-listed assets) # investors engaged in TA coaching/mentoring # catalyzed impact investments	
KEY PERFORMANCE INDICATORS (HOW IMPAKTEU MEASURES OWN PERFORMANCES)	OUTPUTS Direct investments (<i>senior loans, subordinated loans, equity participations</i>) Technical assistance & advisory services (<i>TA missions, IMM/ESG missions</i>) Investors raising awareness & animation (<i>investors missions & field visits</i>)	% transactions in Tier 2 & 3 € avg loan size # TA missions benefitting beneficiaries € avg amount/TA action # coaching/mentoring missions performed by investors # FIs field visits by investors
	ACTIVITIES Investment activities Technical assistance activities Investors raising awareness activities	# due diligences # shareholder activism: participations to BoD # TA projects formulated Y financial & technical reports # coaching/mentoring missions performed or contributed by investors
	INPUTS Investment capital by ImpaktEU (€100 million debt and equity) TA grant from funders (€1 million + 200k in-kind by investors) Investment, BDS & ESG expertise by Impulse Investment and mentoring expertise by FFG Investment and mentoring expertise by investors	% Assets Under Management % grants for TA % TA equivalent investors volunteers # days mentoring investors volunteers # days external TA experts mobilized

#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 Impulse tools, ImpaktEU will take the UN SDGs as the key language to show our contribution to global sustainable development. Such tools 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



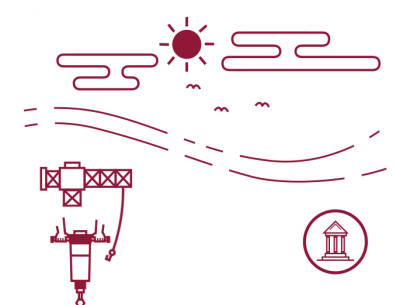
- # Bottom of the pyramid clients (n° loans < GNI pc)
- % Lone-parent families
- % Rural clients
- % Educational needs loans
- # Breadth of outreach (# total final beneficiaries)
- % Rural financial inclusion (% rural loans) – East
- % Rural financial inclusion (% rural loans) – West
- # Extra-EU clients



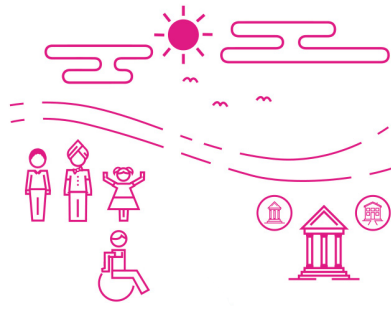
- % Agriculture/livestock portfolio
- % Micro-enterprises in agriculture
- % N° Loans to smallholders farmers



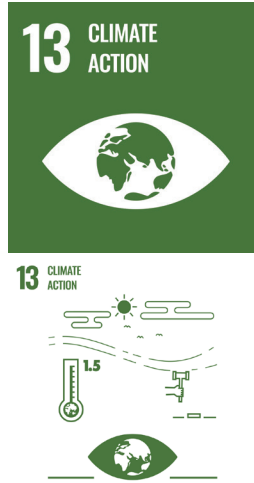
- % Women in senior managerial positions (FIs)
- % Loans to women
- # Women clients
- % Loans to women for business development
- % Women in the workforce (FIs)
- # Business funded by women
- % Financial products for women
- # FIs offering additional benefits to women



- # 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 3 years)
- % 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
- % 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)



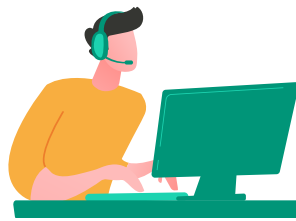
- # Green loans
- % Investees with environmental exclusion list
- % Investees with environmental strategy
- % Monitoring internal ecological footprint
- # Energy efficiency loans
- # Renewable energy loans
- # Sustainable agriculture project (bio, ecological trans)
- # Greenhouse gas emission reduction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

PERFORMANCE INDICATORS (OUTPUTS, ACTIVITIES)



INVESTMENTS

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



TECHNICAL ASSISTANCE

- # TA missions
- € average 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
- # 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@impakteu.eu