responsAbility

Dark Green Impact 2022

Dark Green Impact in 3 minutes

https://youtu.be/kMgG9tg2Lno

Dark Green Impact in 3 podcasts

https://darkgreenimpact.buzzsprout.com

> Traditionally, the financial industry has always thought about maximizing financial returns. I would argue that we need to put equal effort into maximizing environmental returns.

Impact in-depth

Microfinance planted the seeds for impact investing today, which is a USD 2.3 trillion industry (as of 2020, according to the IFC). To get more in-depth on this topic, we interviewed Rochus Mommartz, CEO of responsAbility. In this three-part podcast, he reveals what it was like in the beginning, how a niche market was formed, how it expanded, and what the future looks like from his perspective as one of the original players on the journey since the beginning.

Rochus Mommartz has been in the industry for over 30 years. He was instrumental in creating regulatory frameworks that fostered financial inclusion globally.

> “One of the key benefits of FinTech is that you can bring certain costs down. And whenever you can reduce cost, you can achieve higher levels of financial inclusion.

> “Impact investing means direct impact on the ‘real sector’. You just have to ask yourself – if I do this investment, will something directly change? If the answer is yes, then that is impact investing.

Listen to the Podcast: Spotify, Apple Podcast, Google Podcasts or Amazon Music

Big changes in the pursuit of measurable, sustainable investing

The introduction of the European Union's Sustainable Finance Disclosure Regulation (SFDR) is redefining sustainable investing, which is causing a sustainability revolution for investors targeting impact. Our Impact & ESG Team responds to our key questions below.

The SFDR requires financial market participants to classify their investment funds into one of three categories: Article 6, 8 or 9, based on a product's objective with respect to sustainability. Why should investors pay attention to this distinction?
The SFDR defines – for the first time - what a sustainable investment is. All European market participants need to adhere to it and classify their products by this standard. This gives all participants in the market a collective understanding and base framework of sustainability and provides investors an especially useful tool to target specific sustainable investment objectives and identify investment products that align with their sustainability preferences.

Why should investors who target impact care about the SFDR?
Because the classification affects EU based impact investors. So, all of our funds are Article 9 funds (a rare species, as only 2.8% are labelled as such from the overall EU fund universe, according to Morningstar) as we have a sustainable investment objective and we measure it with key performance indicators. Hence, the SFDR is relevant to investors that want to target a specific sustainable investment objective, as they can now let the fund classification and public disclosure guide their investment decision and they can see how the products perform from a sustainability perspective.

What is sustainable investment (according to the SFDR*)?

'Sustainable investment' means an investment in an economic activity that contributes to an environmental or social objective. Environmental objectives can be measured by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste and greenhouse gas emissions, or on its impact on biodiversity and the circular economy. Investments with social objectives include contributing to tackling inequality or fostering social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the portfolio companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

*Source: REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures in the financial services sector

Most investment products available in Europe, however, are Article 6 or 8. These are products that either only consider sustainability risks in their investment decisions or they are products that promote environmental or social characteristics but do not have them as the overarching objective.

Asset managers offering sustainable products are accused of greenwashing their product range. How does the SFDR classification play into this?
With the introduction of the SFDR, there is now finally a common definition as to what a sustainable investment is – and what it is not. As already mentioned, all financial market participants within the EU must classify their product under either Article 6, 8 or 9. Therefore, this should be a game-changer for greenwashing in the financial sector, as they can no longer brand products as sustainable without also disclosing sustainability related information.

Can investors safely assume Article 9 products do not engage in greenwashing?
Yes, Article 9 products must have sustainable investment as the objective. Investors can also clearly see how specific products contribute to sustainability, to which sustainable objectives a product is contributing to and also, how the product integrates sustainability risks into its investment process.

All investment solutions offered by responsAbility fall under Article 9. How can I verify you are complying?
responsAbility's impact and ESG framework ensures that all investments contribute to a sustainable objective. Investors can get relevant information about what specific sustainable investment objectives responsAbility's funds are contributing to, how they deal with sustainability risks and how this is integrated into the investment process in both the prospectus of the fund and on our website.

Assume an investor would like to focus on contributing to climate change mitigation with her capital. How has SFDR changed the game for her?
She can now specifically search for Article 9 investment products that contribute to climate change mitigation. She can monitor how a fund attains its investment objective as measured by its key performance indicators. And as funds that have climate change mitigation as their sustainable investment objective are required to capture this in the fund prospectus, contributing to this objective is legally binding for the fund.

How will the classification required by SFDR influence the market for investment funds?
Finally, there is a legal framework in the market, which creates a collective understanding and language on what is sustainable. As there will be a common language, it should change the behaviour of many European investors, which will mean more focus on sustainability risks and criteria and hopefully more investment products that are sustainable. This is the trend that we are clearly seeing emerge.<

Questions to ask your investment advisor to ensure dark green impact:

What selection criteria are applied when defining the impact topics?

How can you be sure that the investments generate the desired impact?

Who is measuring the impact?

Does the impact measurement rely on existing standards? Which ones? Why these?

Additionality more than a buzzword

Additionality /əˌdɪʃəˈnæləti/
noun: the property of an activity being additional. It is a determination of whether an intervention has an effect, when the intervention is compared to a baseline.

Additionality, as described by Paul Hailey, Head of Impact & ESG at responsAbility:

Additionality, or contribution as it is also known, can seem like an unnecessary concept – isn't it enough just to invest in something that does good? But essentially it is asking the fundamental question – when you make an impact investment, how much of a difference is your money making? What would happen if it weren't there?

Of course, how an investment can have an impact, beyond the fact of investing in a company or product that is itself impactful, can vary considerably.

Financial additionality: the most obvious area in which an investor can contribute. The simplest way to look at this is to ask what share of a portfolio company's (or project's) funding an investment accounts for. Although it is quite simplistic, an investor providing 20% of a company's funding can arguably attribute 20% of that company's impact to their investment strategy/product.

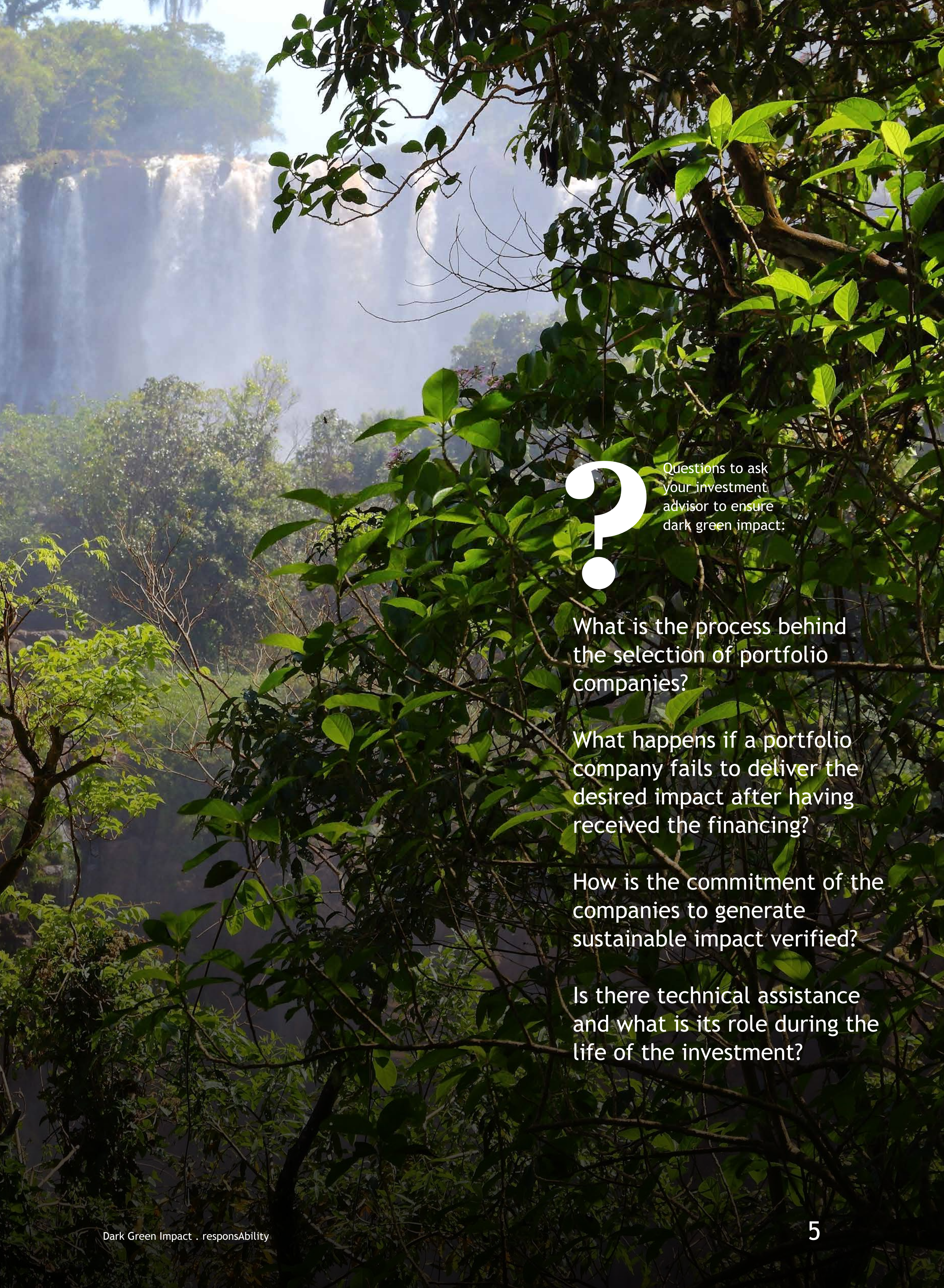
A more nuanced way to look at this is to examine what an investor is funding. In the case of a debt investment into a microfinance institution (MFI), the primary impact is in terms of helping the expansion of the loan portfolio to reach more low-income households and small businesses. For example, when providing USD 1 million of funding to an MFI with an average loan size of USD 500, it is reasonable to say that this investment will, on average, directly contribute to 2000 loans. If the average maturity period of those loans is 18 months, and the loan to the MFI is for three years, this amount doubles to 4000 loans. These loans are the direct consequence of this funding. The more specificity you have around the use of funds, the easier it is to demonstrate the direct contribution. Finally, the type of asset class or the loan tenor of the loan can have an impact on the degree of additionality achieved; for example, long-term financing is often much harder to obtain in many developing countries than short-term, due to perceptions of higher risk.

Mobilization: a variation on the above is the extent to which an investment may catalyse funding from other sources. For example, an investor providing equity or sub-debt can point to the amount of senior debt catalysed. Improvements made due to technical assistance provided can also achieve a similar effect. At a higher level, investors providing funding to a fund or bond can also catalyse other funding.

Value additionality: focusing more on non-financial aspects, this asks the question of what an investor contributes beyond simply providing their money. As a topic, it can intersect considerably with the concept of "engagement", which is frequently evoked in more mainstream ESG investing. For investors providing equity, this can relate to strategic input provided at board meetings or even shareholder votes. In some cases, impact investors will also provide technical assistance, using donor money to fund consultants to work on a variety of projects that seek to improve the company's impact. This can relate to training smallholder farmers on sustainable agriculture practices to improving health and safety standards at a renewable energy plant.<

Additionality with Paul Hailey

https://youtu.be/BNfeDDrGAY8



? Questions to ask your investment advisor to ensure dark green impact:

What is the process behind the selection of portfolio companies?

What happens if a portfolio company fails to deliver the desired impact after having received the financing?

How is the commitment of the companies to generate sustainable impact verified?

Is there technical assistance and what is its role during the life of the investment?

Intentionality more than a buzzword

Intentionality /ɪˈntɛnʃ(ə)nalɪti/
noun: the fact of being deliberate or purposive

Intentionality, as described by Paul Hailey, Head of Impact & ESG at responsAbility:

The above definition holds true in the investment world but with a slightly narrower perspective: intentionality means that you invest with the purpose of having a positive impact. In other words, walk the talk.

That said, there are still many investors who make grand claims about the good they are doing, but whose portfolios are not aligned with these noble intentions. Namely, marketing campaigns with pictures of Arctic ice must be followed by tangible action to address the climate crisis.

This aspect has made its way into the recent regulations on sustainable investing introduced by the European Union. Those aiming to be impactful – Article 9, or “dark green” funds – must describe how their product is having an impact. Under the green taxonomy, funds must also outline the specific areas within which they are benefitting the environment, following a strict set of technical standards. With the EU also set to introduce a social taxonomy, funds will be under more pressure than ever to demonstrate how impact is applied throughout their investment process, rather than just good wishes in splashy marketing materials.

At responsAbility, intentionality is at the core of what we do and has been long before it became a financial sector buzzword. All of our products apply two or three impact strategies, which describe the principal means by which the portfolio has a positive impact and contribute to the SDGs. The products then translate this impact thesis into action via an impact scoring system or other quantitative indicators/criteria (e.g. GHG emission reductions), which is used to establish eligibility and impact before we make an investment. Indicators demonstrating our contribution to the strategies are then monitored and reported to investors.<

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Questions to ask your investment advisor to ensure dark green impact:

How would you define the difference between “sustainable” investing and “impact” investing?

How does ESG fit into the impact investing picture?

What do you do to understand the environment in which the portfolio companies operate in?

Are there sectors/companies that are excluded by default?

Our impact strategy: 2 steps

STEP 1
Selection of impact strategies that target specific SDGs

Core SDGS: Climate Finance

Core SDGS: Financial Inclusion

Core SDGS: Sustainable Food

STEP 2
Management of each strategy, based on 5 dimensions to maximize impact

1. What problem are we addressing?
2. Who will benefit?
3. How big is the impact?
4. What is our contribution to the impact?
5. How do we address the risk?

Spotlight on Blended Finance

Crowding in (more) private capital to boost sustainable development

Fast forward to the future. Most likely, we will see that blended finance has played a crucial role.

Blended finance structures mobilize, or as economists say “crowd in” more private capital for SDG-focused investing in developing economies than through more traditional approaches.

However, while blended finance has morphed from niche to central topic on the agendas of private corporations, foundations and development banks, there remains some degree of confusion about what blended finance is and what it is not.

In a nutshell, blended finance mobilizes market-rate-seeking private capital and blends it with “catalytic” capital from public development and / or philanthropic parties. The providers of concessional capital aim to increase their social and / or environmental impact by mobilizing larger, more diverse pools of commercial capital from private investors.

All blended finance deals have these characteristics in common:

The transaction targets a financial return, matching market expectations of commercial private investors. Public or philanthropic parties at the table are catalytic: their concessional funding is leveraged to mobilize private capital - otherwise the risk would be too high and returns too low for commercial private capital to flow in.

The investment is aimed at having an impact towards social, environmental, or economic issues, targeting the UN Sustainable Development Goals, mostly in developing countries where capital is needed the most. But not every investor in a transaction necessarily has this motivation: some might be drawn by diversification, or the opportunity to enter a new market.

To attract as much commercial capital as possible for impact investment projects, the blended finance investment product is set up in tranches: for example junior, mezzanine and senior. Each offers a different risk-return profile. The junior tranche typically attracts risk-tolerant concessionary capital, bearing any defaults first and thus addressing the main concern of institutional investors: the unknown and an often overestimated risk of investing in emerging markets or in new investment themes. The senior tranche, in contrast, is well hedged on the investment risk side: losses only occur after both the junior and mezzanine tranches have been totally eaten up by defaults. Yields or coupons are paid out in reverse order: the senior tranche is the first to receive a yield - but also the lowest compensation. The mezzanine tranche follows, while the junior tranche is paid out what is left over. These unique risk-return characteristics are attractive

Blended finance enables private and institutional investors to engage in impact investing with a safety net.

to institutional investors, which is why blended finance transactions are typically launched in formats familiar to institutional investors, for example as fund units of a Luxembourg SICAV. The senior tranche is often also structured as a bond.

A unique trait of blended finance structures is their ability to expand the definition of what constitutes a feasible investment. How so? Take a conventional investment proposal. Certain institutional investors may regard this particular investment as unsuitable based on expected risk-adjusted returns that are deemed unattractive. Restructuring this same investment opportunity in a blended finance vehicle by deploying catalytic capital provides a lower-cost layer of capital. This improves the risk return profile of the investment project, which, in turn, can enable the more risk-averse investors to reassess the opportunity as a suitable, good investment. This is an example of creating a “blended pool,” so that impact-focused investors can invest alongside a more diverse group of investors. Such blended finance creates investable opportunities in developing countries, which leads to more development impact.

responsAbility has a long track record of facilitating blended finance investment products, both by mobilizing private capital and as the investment manager. Take one of our climate funds: it pursues ambitious goals in climate change mitigation in developing countries and is one of the largest of its kind in terms of assets under management. Established in 2009 at the initiative of the German Government, the fund’s results clearly evince what blended finance can achieve: deliver on both bottom lines - impact and risk-adjusted returns.

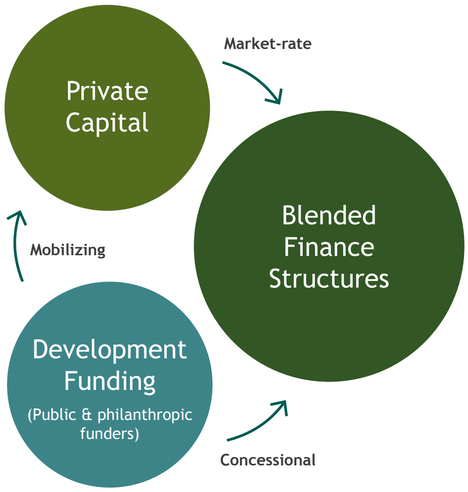
Our social bond is another case in point. responsAbility joined forces with Sida, the Swedish International Development Agency, and Danske Bank to contribute to the SDGs. Led by responsAbility, an innovative social bond was launched, bundling loans to innovative companies in capital-scarce regions which operate in the financial inclusion, healthcare and WASH (water, sanitation, hygiene) sectors - companies that have a measurable, positive social impact.

While it is important to note that it can only address the subset of SDGs that are investable, blended finance paves the way for a massive mobilization of private capital to scale-up investment into emerging and frontier markets. A scale-up that is critical to keeping the door open to achieving the UN Sustainable Development Goals.

Blended finance investments such as those mentioned above enable institutional investors to actively engage in new impact topics – with a safety net. So all signs point to its increasingly prominent role as investors seek new opportunities – and global development challenges loom large.<

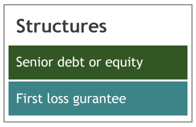
Source: https://www.convergence.finance/blended-finance

Blended finance for more sustainable portfolios

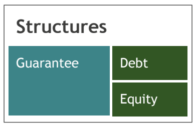


Example Structures

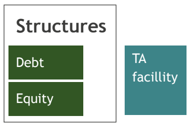
Private equity or debt funds with concessional public or philanthropic funding attracting institutional investments.



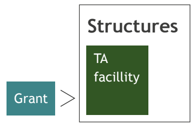
Bond or note issuances, often for infrastructure projects, with guarantees or insurance from public or philanthropic funders.



Grant funding from public or philantropic funders to build capacity of investments to achieve expected financial and social return.



Grant funding from public or philanthropic funders to design or structure projects to attract institutional investment.



The USD 2.5 trillion funding gap

The Sustainable Development Goals (SDGs) target a wide range of development challenges, from ending poverty and hunger to combating climate change. To achieve the SDGs, investment must be increased massively. According to the UN the annual funding needed to achieve the SDGs by 2030 is close to USD 3.9 trillion - substantially more than the estimated current SDG-focused funding of USD 1.4 trillion from domestic and international sources. The resulting USD 2.5 trillion gap exceeds official development flows and philanthropic commitments by far. According to the Organization for Economic Cooperation and Development (OECD), total official development assistance (ODA) reached a historic high of USD 161 billion in 2020, while private development assistance (e.g., development assistance from non-public sources like foundations, corporations, and NGOs) was around USD 45 billion. The shortfall in financing for the SDGs has been exacerbated by the onset of the COVID-19 pandemic and its impact on the economies of developing countries is clear: the OECD's Global Outlook on Financing for Sustainable Development estimates that developing countries could face an additional shortfall of USD 1.7 trillion in financing. Adding to the current annual financing gap of USD 2.5 trillion it would result in an annual SDG financing gap of USD 4.2 trillion.

Our themes and the investment process

We invest to change the outcomes of the most pressing issues of our time. Our expertise is greatest in climate finance, financial inclusion and sustainable food, so we dedicate the majority of our resources in these areas.

Climate Finance

We take action against the climate crisis, with off-grid renewable energy investments and energy efficiency solutions, using in-house tools to measure CO2 reduction. This boosts the environment and the economy while empowering people and contributes to a net zero pathway. Find out more from one of our Senior Investment Officers in Asia:

https://youtu.be/JfmwUiCdtyQ

Financial Inclusion

Access to finance drives economic growth and increases resilience in emerging economies. The market potential remains vast as FinTech is creating new business models that go well beyond traditional microfinance. In a nutshell, financial inclusion finances the growth of Micro, Small and Medium Enterprises (SMEs). Learn more from our Head of Financial Inclusion Debt:

https://youtu.be/ev-iG47i4BU

Sustainable Food

With the ever increasing demand, investing in sustainable agriculture improves food quality, ensures the stability of the supply chain and reduces food waste and loss. This creates better livelihoods for farmers, protects biodiversity and reduces emissions, as well as helps to sustainably feed an ever-growing population. See an example from one of our portfolio companies:
https://youtu.be/GAkDsGzpQII

How do we actually proceed with an investment? Depending on the particular investment theme, there are slightly different investment processes, however here is a good example of what this looks like overall:

Example of the Investment Process

PHASE 1 **Sourcing & Screening**	> Investment strategy linked to impact: we target specific SDGs and manage each strategy based on 5 impact dimensions while also completing a tactical allocation > Local deal sourcing > Impact screening (the 5 impact dimensions: what is the problem, who will benefit, how big is the impact, what is our contribution to the impact, how do we address the risk)
PHASE 2 **Assessment & Credit Analysis**	> Country and market risk analysis > Eligibility guidelines compliance > Institutional due diligence > ESG compliance
PHASE 3 **Investment decision**	> Credit approval, including rating & transaction limitations > Investment decision
PHASE 4 **Investment execution**	> Investment execution
PHASE 5 **Investment supervision**	> Investment supervision > Monitoring of impact and ESG performance

From ESG Screening to Targeted Impact Outcomes

To measure, manage and mitigate a portfolio company's Environmental, Social and Governance risks, we use the ESG Engagement approach. We also actively target positive impact. To quantify this, we use a framework from the Operating Principles for Impact Management and metrics that utilize industry definitions (IRIS+, GOGLA, 2X).

Environmental, Social and Governance risks

Rigorous ESG process applied to all investments

Screening	Categorize Portfolio Company ESG risk	Carry-Out ESG Due Diligence	Investment Decision	Monitor ESG Mitigation Actions
Reputation check and compliance with Exclusion List	High	Environmental and Social Due Diligence	Record ESG Assessment and Action plan in Investment Memorandum	Periodic review of ESG performance
Anti Money-Laundering & Corporate Governance	Medium	Client protection evaluation		
Human Resources and Labor Policies	Low			

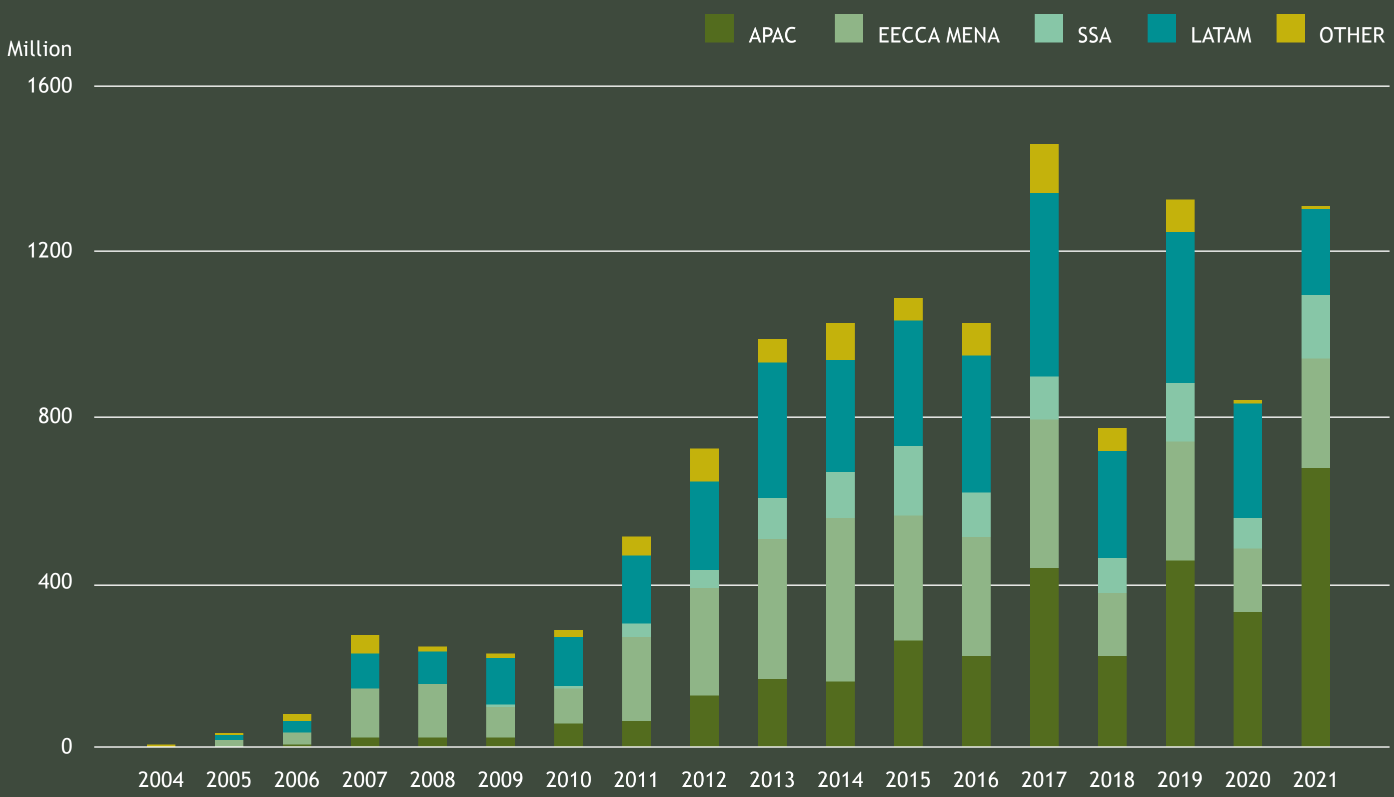
Example: Our Impact Strategies for Financial Inclusion

Impact Strategies

The Dimensions	Provide access to financial services	Create jobs by supporting Micro and SMEs	Support gender equality through women's economic empowerment
1. What problem are we addressing?	Financial exclusion, a barrier to development and resilience-building	Credit gap to micro and SMEs despite urgent need to create jobs	Persistent gender gap in access to finance
2. Who will benefit?	1.4 billion adults without access to finance	Small businesses and their employees in the developing world	More than 1 billion women globally
3. How big is the impact?	KPIs selected pre-investment e.g. a) number of clients (total, female, rural) b) number of products offered c) portfolio yield		
4. What is our contribution to the impact?	Helping FinTech providers to expand and reach larger numbers of customers	Financing growth of loan portfolios for financial institutions lending to small businesses	Investing in businesses that serve and support women borrowers
5. How do we address the risk?	Extensive ESG analysis and impact monitoring in place across all investments, engagement on environmental & social issues across all investees		

Impact in the Global context

Our top 10 investment countries make up almost half of all investments since inception (USD 5.5 bn vs. 12.5 bn). However, it is clear that Latin America has made serious improvements in development since 2003, as countries like Peru are no longer in our top 10. The investment universe has clearly shifted from a focus on Latin America in earlier years, to the Asia-Pacific region. With the growing population and the need for sustainable food production to meet the demand, this trend is expected to continue for years to come.



Top 10 countries with the most invested by responsAbility since inception:

1. India
2. Peru
3. Cambodia
4. Georgia
5. Costa Rica
6. Ecuador
7. Armenia
8. Mexico
9. Panama
10. Vietnam

USD 2 billion

invested in sustainable food

USD 18 million

in 2021 for our first investments in the Health and WASH space

USD 1 billion

invested in climate finance

42.5 million

tonnes of CO_2 savings by our climate funds since inception

Impact on the Ground:

Access to Clean Water in India

The goal

Connect 5 million people with drinking water by 2026 in rural areas across India, where over 80% of the rural population has no access to potable piped water.

Meet Brandon

https://youtu.be/Jhgv66zgpcU

The company making it happen

Rean WaterTech, an integrated water technology and infrastructure company, focuses on populations who have never had access to clean piped water, thereby seeking to improve the health of the nation.

Rean specializes in turnkey water-supply and waste-water projects in rural and semi-urban areas in India. They are unique in their capacity to not only design and build, but also to operate drinking water assets and infrastructure. Their project portfolio includes design-engineering, water pipe installation, protective coating services, water treatment plants, last mile connectivity to households, and long-term operations and maintenance.

“It takes passion and courage,” says Rean WaterTech CEO Hitesh Arora, “but with our sustainable foundation, Rean will be the most valuable water company in India.” And since 80% of the company consists of ambitious engineers, referred to internally as Rean’s ‘wizards’, passion and courage are easy to come by.

When asked about his experience at Rean, one of the ‘wizard’ engineers Saffurahaman Middya stated, “Being a young company, there is a lot of outside-the-box thinking and implementation of new ideas on the ground. This gives me confidence, which for any engineer is a necessity."

Water projects in the Rean portfolio

Project:
Balaghat Multivillage Rural Supply Scheme

Location:
Madhya Pradesh, Central India

Status:
Designed, built and operated by Rean, it supplies potable tap water to over 100 villages and over 100,000 people.

Project:
Ratangarh Sujangarh Water Supply Project

Location:
Rajasthan, Western India

Status:
In the design and build phase, with a 2000 km pipe network that will connect 260 villages (roughly 450,000 people) to piped water.

Additionality in Infrastructure: driving the transition to clean energy in Botswana

Monya Bassingthwaighte has spent her career focused on renewable energy investments in emerging markets. She is passionate about equality and making a difference in the climate crisis.

When you speak to Monya Bassingthwaighte, Principal for Direct Investments in Climate Finance at responsAbility, it is immediately clear that she cares deeply about driving the renewable energy transition across Sub-Saharan Africa, coming from South Africa herself. Given the breadth of her work, we were curious what her most exciting project was this year, and she said without hesitation, “Botswana”.

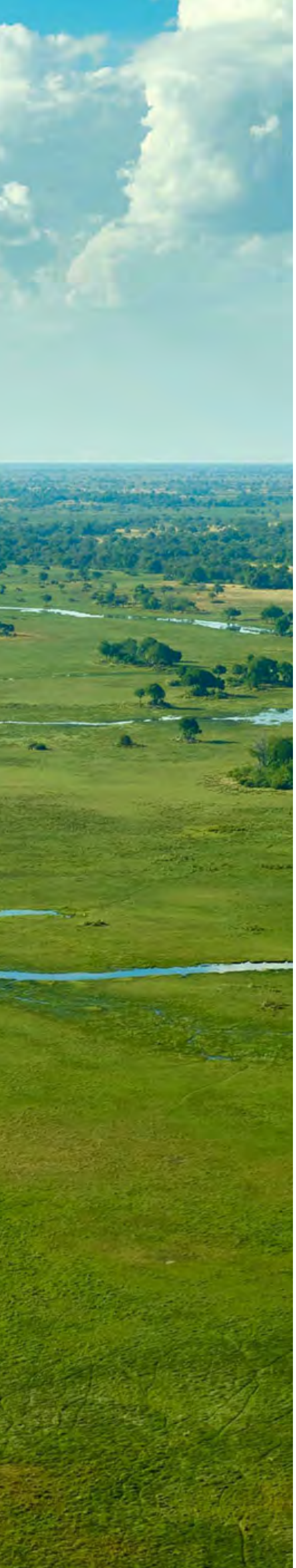
Q: Why are you excited about Botswana?
M: We’re financing the very first grid-connected renewable energy utility projects!

Q: Why is this important?
M: The majority of the power plants in the country are either coal-fired or diesel. Additionally, the power generated is not sufficient to meet demands, which results in energy needing to be imported via the South African Power Pool and emergency diesel being burned. But fortunately, the government has become really committed to adding renewable energy to the grid, with a national energy road-map, including renewables.

Q: How did you find this opportunity?
M: As I have a long-standing relationship with the developer, Sturdee Energy (Sturdee), they approached me to assess our appetite for financing the two projects. It was clear that local lenders would be unable to because they did not have the project finance experience, namely, long term non-recourse project finance debt. Also, a lot of lenders are geographically too far away. You need to understand the parties and the region in order to do the deal, because not everything is perfect, so experience and a hands-on attitude are crucial. Otherwise, all the other investment banks would be there. So this was a great place for responsAbility to step in.

Q: So Sturdee Energy won the tender for renewable energy development?
M: Yes! They won the first solar project, and ap-


JCB



Meet Monya

https://youtu.be/Ff7R3ZAaXLk

“

This is the first of its kind in the country, so it will have a significant demonstrative effect.

proached us to do the financing, as no one else could bring the experience to the table that was needed. And having worked with the founders of Sturdee in the past, I knew what we were getting: a small and knowledgeable team and two founders who are absolute machines. To me, they are the epitome of what a developer should look like, as opposed to other developers I have seen that have very high annual costs and large teams with very little output.

Q: And how big are the projects?
M: The projects are small, with a combined capacity of 4 megawatts (MW). But for the Botswana Power Corporation (BPC) and the country, the projects are of vital importance as they are the first IPP or private renewable projects in country. They serve as the precedent for the broader roll out of renewables in Botswana, so we had to get things right. This was a big deal, because we could see that we were creating real additionality in the realm of infrastructure. For me, this is our purpose. This is why I do what I do, and I love what I do.

Q: What was the additionality?
M: First, I think everyone in the market would have thought it was impossible to finance two small projects on a non-recourse project finance basis. We managed to find a way to create a solid project finance structure while being practical and rational about what we needed in the transaction. This meant we didn’t just follow what had been done in the past on large-scale utility projects. Secondly, these projects will be directly offsetting carbon, because at the moment all energy generated in Botswana is heavily carbon intensive. Thirdly, this is the first of its kind in the country, so it will have a significant demonstrative effect. Lastly, the work Sturdee did with the various government entities, such as on the negotiation on the Power Purchase Agreement (PPA) with BPC, has never been done before. So for both Sturdee and the Botswana entities, the additionality was that they were able to learn a lot from this experience which should increase their capacity for getting renewables on the grid in the future.

Q: There are a lot of “firsts” here, so did you need Technical Assistance (TA) for support?
M: This absolutely could not have been done without TA. Project finance has notoriously high transaction costs, and although we tried to streamline as much as possible, there are costs that cannot be avoided. For instance, we needed local lawyers to review the land, to confirm local laws and acquire relevant permits. Then, technical advisors were needed to confirm that the technical designs were adequate and to monitor the construction of the plants, which are in remote areas. Roughly USD 100,000 of TA funding was needed, including the coverage for costs associated with managing ESG risks (environmental, social and governance). TA is absolutely essential, where the demonstration effect and additionality are so massive.

Q: Will this solve the energy problem in Botswana?
M: No, these projects are too small but they will be a part of the solution. But now, because of the processes these projects have gone through, the hope is that the larger projects which are in the government pipeline will be implemented smoothly and more clean energy will come on line faster. Plus, we have managed to make a positive impact in our small way.<

Looking forward: the future and sustainable food

responsAbility has been dedicated to financing sustainable food since inception. Our financing has enabled the local processing of organic cashews in Togo, keeping jobs in the country and adding value to the community. Or in Bolivia, we have provided Technical Assistance to the largest exporter of quinoa globally in order to reduce wind erosion and increase sustainable farming practices. And in India, we have provided financing to the leading agricultural services provider, creating better opportunities for farmers by focusing on integrated post-harvest services, such as aggregation, storage solutions, financing solutions and market linkages. Now, we are focusing on what must be done for a sustainable food system in the future.

Future Focus: Latin America

According to estimates, USD 350 billion per year of investment is needed to transform the global food system to be sustainable and unlock USD 4.5 trillion in new business opportunities per year.

While we continue our important work in emerging markets globally, a key focus area for us going forward is Latin America, which we see as the garden of the world. Investments here are key, especially because nutrient-rich fruit and vegetables are needed to feed an ever-growing population both in a healthy and sustainable way.

Land, natural habitat, water. Latin America has more suitable land for rainfed cultivation than the combined land from all other regions in the world, outside of Sub-Saharan Africa. It has enormous biodiversity and multiple climate zones, making it ideal for multiple growing seasons and both tropical and temperate varieties of fruits and vegetables. It also has one-third of the world's fresh-water resources. Given these factors, it has become the only region globally that exports more produce than it imports. Not surprisingly, the sector has had 4x growth over the past two decades. And with demand for healthy food on the rise, it is primed to grow more.

Commercial advantages. Many exporters are vertically integrated, owning farms and packaging plants, plus they are highly experienced with strong commercial networks in place that are highly diversified, also geographically. And given their long experience in the sector, they have sophisticated operations with state-of-the-art cold chain and packaging technology, which is crucial to capitalize on the year-round supply of diverse produce and growing seasons that often counter those in the Northern Hemisphere.

Future Focus: Agri-Tech

One of the most profound developments of the past decade has been how technology transforms business. The same applies to food and agri-business. In India, a great example is Samunnati, one of responsAbility's portfolio companies. From precision farming to smart warehousing to satellite-based crop monitoring, Samunnati actively promotes the use of the latest technology and aims to facilitate its use with farmer collectives around India, indirectly impacting more than 2 million farmers. Entering the realm of FinTech, Samunnati has also developed a QR based virtual card that allows farmers to pay directly for inputs or other resources from their loan account. Linked to a specific list of registered merchants, it ensures that the loan is being used for its original purpose.

Another great example is in Nicaragua, in the region where the highest quality coffee beans are produced in Matagalpa

Key facts about food production

Emissions: Food systems generate up to one third of global greenhouse gas emissions. The largest emissions come from clearing forests for farms, from livestock, and from the use of synthetic fertilizers.

Need for sustainable solutions: Food production accounts for up to 80% of global habitat destruction, for 70% of global freshwater consumption and about 30% of total energy use.

Nutrient deficit: More than three billion people around the world were not able to afford a healthy diet while at the same time around 1.9 billion people globally are overweight or obese.

Waste: Approximately 40% of food produced is either lost or wasted, yet almost 700 million people are undernourished. But wasted food isn't just a social problem, it is an environmental one. When food is lost in the value chain, we also lose all the energy and water it takes to produce, store, transport, and package it. In addition, when food rots in fields or in landfills, it produces methane, a greenhouse gas at least 28 times as potent as carbon dioxide.

and Jinotega. The coffee crops here are highly vulnerable to climate change due to geographic positioning, where catastrophes — such as hurricane Mitch in 1998 — are inevitable. Combining expertise with entrepreneurial drive, our portfolio company Aldea Global initiated a project to equip farmers with digital technology that provides crucial insights into their crops during the agricultural cycle to mitigate climate risks and increase productivity for their specialty coffee. With the support of responsAbility's Technical Assistance Team, Aldea Global developed a mobile application that provides timely information to farmers, including weather forecasts, to help them plan for planting, fertilization, and spraying, as well as practical guidance, e.g., on soil conservation practices. The overall goal is to put farmers in a position to be more resilient and to enable them to increase their yields and incomes. Long-term, Aldea expects that the app could be upgraded for other crops and benefit a larger number of farmers.

Harnessing technology in the sustainable food sector is key to addressing pain points and to improving productivity and transparency along the value chain. It is also important to note that it is also the key tool for protecting those who represent the most vulnerable populations in developing countries: women, rural populations, the elderly, and migrant workers.<

M&G and responsAbility: Impact Investing at Scale

An interview with William Nicoll, Chief Investment Officer of M&G's Private and Alternative Assets group and Chair of the Board at responsAbility.

William Nicoll is Chief Investment Officer, M&G Private & Alternative Assets Group. He became the Chair of responsAbility's Board of Directors in 2022. Previously, he was Head of Institutional Fixed Income and Co-Head of Alternative Credit.

M&G acquired responsAbility in May 2022. What made it an attractive addition to M&G's current business?
It is important to M&G that we use our financial power as a force for good, and so we have been reshaping M&G to support a more sustainable future. When we heard that responsAbility was looking for a new strategic investor, we realised it was a unique opportunity to accelerate what we were doing. responsAbility has fantastically deep expertise in impact investing, particularly in emerging markets, where it brings on the ground knowledge. This expertise complements M&G's existing capabilities beautifully, along with responsAbility's strong underlying business fundamentals.

What were the main drivers for M&G to get into impact investing?
Impact investing is important for M&G's purpose as a business: to help people grow their savings for the future, while making the world a little better along the way. We launched our first impact strategy for institutional investors in 2017 and have built on this since. We know that addressing the world's biggest social and environmental challenges is going to need innovation, change and new technologies; being able to provide capital that contributes to this is exciting.
How do you think a combination of responsAbility and

“

Impact investing is important for M&G's purpose as a business: to help people grow their savings for the future while making the world a little better along the way.

M&G will help to create an even greater impact?
responsAbility has ambitious growth plans and M&G is well positioned to help them. We’re a major global investor with distribution and investment capability in Europe, the Americas, Asia Pacific and Africa, so we will be able to bring responsAbility’s products to a much larger client base. Alongside this, M&G have strong expertise in scaling funds and private asset businesses, ensuring that as strategies grow, they do so in a sustainable way.

What compatibilities are there between the current sustainability-focused departments at M&G and responsAbility?
The world is a big place and there are a lot of opportunities out there: together we can cover more ground, benefit from our experience in different sectors, and potentially make bigger commitments.

What lessons have you/M&G learned from this acquisition process?
It has been remarkably smooth and fast, which is a good sign. This is a deal that both sides wanted to do and where there is a common understanding of the potential going forward.

What are your main goals with the acquisition of responsAbility in the near term?
The first priority is to ensure we take time to get to know each other better – to build relationships across both investment teams and distribution teams that will result in opportunities for both sides.

What is your vision for impact investing at M&G over the next 10 years?
It's refreshing to see the straightforward and focused approach that responsAbility takes to impact investing – this is something that M&G can learn from and benefit from more broadly. Our objectives are clear: to help all of our clients get access to the best impact strategies available and use our financial power to deliver returns for clients that are both financial and contribute more broadly to making the world a little better.

How much do you think the EU regulation on sustainable finance (SFDR) will change the landscape for the finance industry?
It already has changed the industry significantly: we’ve seen a major shift of assets into sustainably-oriented funds in the last two years. Ultimately though, if we are to meet the UN Sustainable Development Goals and Paris climate goals, the world requires an even bigger shift to sustainable investment. And for that to happen, asset managers like us need to redouble our efforts to find new investment opportunities that meet our customers’ requirements, both financially and in terms of impact.

What are your thoughts about increased scrutiny from government authorities regarding greenwashing? What structures does M&G have in place to prevent this?
It is vital that investors have trust in financial products and we welcome any action from authorities that maintains that trust. Care and integrity are two of our core values at M&G and we aim to be thoughtful and rigorous in our investment approach, and honest and transparent in how and what we communicate about our products. It matters to us that we do what we say we do. We have seen the same cultural values embedded in responsAbility.

Finally, which impact investing topic do you think should be the main focus for both investors and entrepreneurs?
Climate change, biodiversity, social-cohesion and inequality in general are areas with significant risks to the future of human society. We need to channel much more money and energy into solving these, and other issues, while we still have the time to do so.<

Impact investing trends:

From niche to power-house

10 years ago, the Rockefeller Foundation, in collaboration with the Global Impact Investing Network (GIIN) published a report that was seen as too bold. Impact investing, they predicted, would reach between USD 400 million to USD 1 trillion in volume over the next 10 years. At the time, the predictions were dismissed as wishful thinking.

The doubters have been proven wrong. According to the International Finance Corporation (IFC), the market's assets under management have reached USD 2.1 trillion - doubling even the most optimistic experts' predictions. The pandemic has added additional momentum: "Impact investing has seen a boost in popularity during the COVID-19 pandemic due to increased awareness of climate change and social challenges such as unequal access to healthcare and racial and gender inequality," the IFC concludes in its latest annual market survey.

Long the preserve of private market investing, the public markets' various assets are seeing a strong increase in issuance. In 2020, social bond issuances increased eightfold over 2019 while sustainability bond issuances grew by a factor of three over the preceding year, and green bonds broke the USD 1 trillion barrier in cumulative issuances.

With impact investing's rise in a world struggling with unprecedented crises, the question begs as to where impact investing is headed next. What trends are likely to shape impact investing's next stage? Where are the opportunities when we know there is a USD 2.5 trillion gap in financing needed to deliver the Sustainable Development Goals (SDGs) by 2030? Here's a look at a few trends we are interested in and where investor interest is sparking the most.

Climate Action

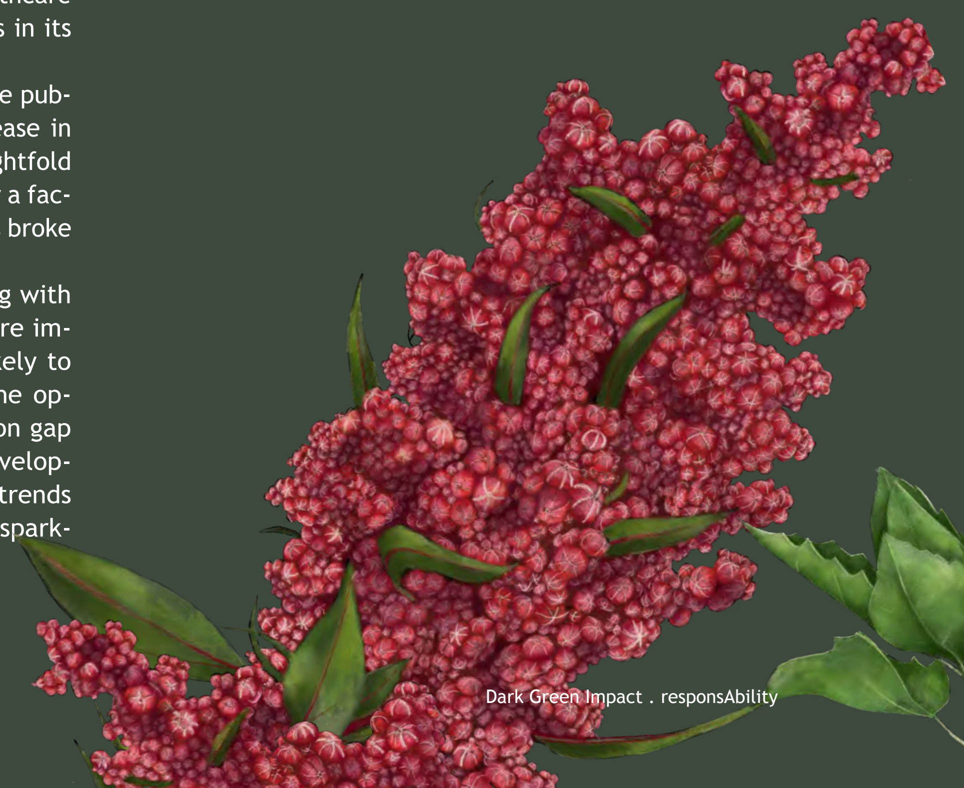
Renewable energy has been at the front and centre of climate finance for some time, and Commercial and Industrial (C&I) Solar will remain an ideal segment for investment, as the advancement of technology coupled with the (now) lower price, means big wins for small and medium sized enterprises, who have a lot to gain from clean, cheaper energy.

Energy Efficiency will also remain as a key area, as efficiency measures such as LED lightbulbs, heating and cooling methods and proper windows can reduce emissions by 80% per year.

Improving Energy Access, be it to solar, wind, or hydropower, will continue to be critical for developing markets that are hungry for reliable, clean power due to unreliable grids, remote locations and unsafe alternatives for light, heating and electricity.

With the global transition to a low-carbon economy accelerating, transition to net zero investing will also be offering new opportunities to investors, who are shifting their strategies from targeting low-carbon emitting portfolio companies to investing in high carbon emitters on the most robust decarbonisation path. In fact, such companies' progress in creating credible net zero strategies is a crucial element to achieving net zero, as excluding high carbon emitting sectors (such as steel, cement, plastic, aviation and shipping) forgoes the opportunities created by the climate transition, both from an impact perspective and from a financial perspective.

There are many other developments in this space, from forestry initiatives, to improvements in the design of a carbon credit market, and we are constantly looking for new ways to invest to drive CO2 eduction.



Food Systems

responsAbility has been financing agriculture and food SMEs in developing countries for over 15 years and has been instrumental in providing the long-term financing and strategic support that is often needed by smaller players.

But investing in this sector now goes well beyond traditional agriculture, as it is clear that today's food systems contribute to one third of human-caused greenhouse gases (GHG) and accounts for up to 80% of global habitat destruction. This status quo is no longer affordable.

So food systems transformation is emerging as another area of investment that is crucial to fight climate change. This means investment in climate-smart agriculture, completely re-thinking how food is produced and how to integrate regenerative agriculture into the current systems. Another key area is financing innovative businesses along the food value chain that support reducing food loss and waste and ensuring that smallholder farmers not only receive their share of the profits but are trained in sustainable farming methods.

An area that remains unexplored by responsAbility but which continues to gain steam is alternative protein production. An estimated USD 1 trillion in annual revenue is projected to come from alternative protein sources as the market for plant-based meat and plant-based dairy products is estimated to grow by 30% annually over the coming 10 years.

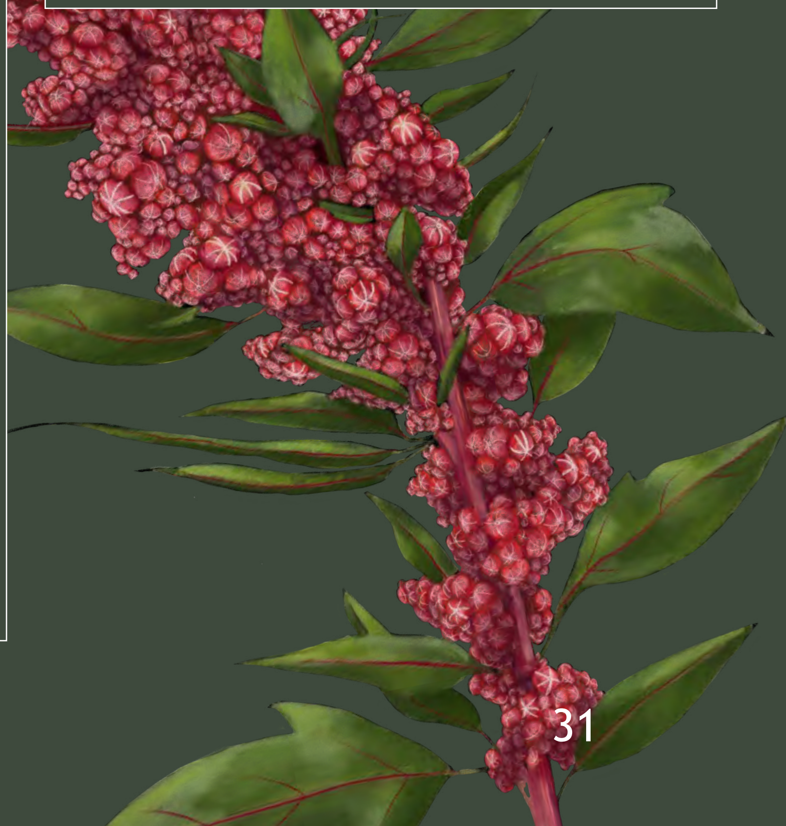
So as investors continue to realize that climate risk also means investment risk, more capital should be flowing in the direction of sustainable food production and food systems.

FinTech (Financial Technology)

There are 4.7 billion internet users worldwide. Of those users globally, Southeast Asia, Latin America, the Middle East & Africa represent the fastest growing third of those users. This increased connectivity suggests there are great opportunites here for FinTech to create access to financial and digital services that have never been seen before and that will transform these economies.

FinTech is a particularly exciting segment for investors to deliver impact since, to reach the 1.4 billion people who still do not have a bank account, you need what only fintech can offer: scale, speed, and mobile-phone accessibility.

There are two major gaps that make the digitalization of Southeast Asia, Latin America, the Middle East & Africa a massive opportunity. The first is that while internet access and usage in these regions is already growing rapidly, the spread of impactful digital services is still in its early days, so there is much need for investment here. The second gap is that despite the need for continued growth in the digital economy, the capital to fund the local companies that drive digital growth is still lacking. responsAbility is looking to capture this opportunity by targeting the digital leaders of tomorrow in emerging markets and enable them to scale up to the next level.



Living our values

Impact data for responsAbility

SDG	INDICATOR	2020	2021	Change
5 GENDER EQUALITY	Share of female staff	45%	47%	+2% pts
	Share of women in leadership team	28%	32%	+4% pts
	Share of female board members	13%	13%	0%
8 DECENT WORK AND ECONOMIC GROWTH	Number of staff	233	218	-7%
	Number of nationalities	35	34	-3%
13 CLIMATE ACTION	Emissions created[1]	478 t CO_2eq	316.5 t CO_2eq	-33.8%
	Emissions offset	1,700 t CO_2eq	1,700 t CO_2eq	0%
15 LIFE ON LAND	Emissions offset via forest protection	1,700 t CO_2eq	1,700 t CO_2eq	0%
17 PARTNERSHIPS FOR THE GOALS	Total assets under management	USD 3.4 bn	USD 3.66 bn	+8%
	Products managed	15	16	+7%
	Portfolio companies	422	453	+7%

1. This number excludes emissions created by portfolio investments.

responsAbility during Covid-19

The Covid situation threw a number of challenges our way, such as recruitment process changes and creatively rethinking our onboarding processes. However, as flex-work was already in place prior to Covid and with a brilliant IT team, we did not face any issues with remote working. The Covid situation has re-affirmed for us that with patience, teamwork, solution oriented thinking and resilience we can deliver results, even through a pandemic.

Looking on the bright side: positive outcomes from the pandemic working environment

> Lower emissions due to reduced amount of travel
> Increased flexibility in hiring talent in any of our locations
> Improved support of agile work in interdisciplinary teams across locations, while continuously exploring new collaboration technology
> New ways of strengthening relationships with clients and partners, working virtually
> Successful transition from onsite due diligences to virtual
> Increased trust and confidence in self-organized and remote work

Diversity and Inclusion at responsAbility

Aminata Meite is a Senior Investment Officer for the Financial Inclusion Debt Team in Sub-Saharan Africa.

Pamela Herrera is an Invesment Officer for the Financial Inclusion Debt Team in Latin America.

Younes Bouaziz is a Senior Investment Officer for the Financial Inclusion Debt Team in Eastern Europe, the Middle East and North Africa.

Harriet Jackson is an Investment Officer for responsAbility's Sustainable Food Debt Team.

Initially a "grassroots initiative" from members of our staff, our working group on gender and diversity was institutionalized in 2020. Now fully supported by the Executive Management, there has also been an outpouring of support for Diversity & Inclusion (D&I) from our HR department and our co-workers in general.

Our mission is to propose initiatives, analyze and advise on internal policies in order to further strengthen the inclusive environment we already have at responsAbility. While we initially focused on gender inequality, over the past two years we have expanded our focus to other types of diversity criteria. This includes but is not limited to cultural and ethnic diversity as well as sexual orientation. We also strive to offer our co-workers sources of knowledge, articles, blog posts, and training to foster awareness on D&I topics. Today, our advisory group consists of 4 staff members from very different backgrounds and geographies: Latin America, Sub-Saharan Africa, Europe and the Middle-East. Our genuine interest in advancing D&I matters in the workplace and in society as a whole springs from our own personal experiences with discrimination. We are grateful to be able to learn from and tap into these experiences so that we can comprehend and perhaps communicate D&I issues more holistically.

Furthermore, as investment professionals for responsAbility, our goal is not only to support companies with good financial fundamentals, but also to constantly be on the lookout for portfolio companies and long-term partners who also display strong commitment and continuous improvement in ESG matters, and who also contribute to the UN Sustainable Development Goals.

responsAbility's
Diversity & Inclusion Team

Meet Aminata & Younes:

https://youtu.be/mTdklpYLaRU

Reporting: our impact in numbers

SDG	INDICATOR	2020	2021	Change
1	Number of clients / smallholders	89.2 mn	98 mn	+9.8%
	Average loan size from microfinance institutions1	USD 1,420	USD 1,578	+11.1%
	Remittances received	15.5 bn	15 bn	-3.4%
	Customers of insurance products	7.75 mn	8.81 mn	+12.9%
2	Rural customers of financial institution portfolio companies	37.1 mn	36.6 mn	-1.3%
	Gross loan portfolio in rural areas	21.5 bn	28.39 bn	+32.1%
	Number of smallholders financed	939,214	962,683	+2.5%
	Payments made to smallholders	1.28 bn	1.0 bn	-21.9%
3	Gross loan portfolio in health	1.05 bn	1.11 bn	+5.7%
4	Gross loan portfolio in education	656 mn	624.5 mn	-4.8%
	Staff trained	323,893	565,691	+74.7%
	Customers for financial literacy programs	1.30 mn	2.82 mn	+117.7%
	Customers receiving business develpment training	272,684	261,213	-4.2%
5	Number of female clients	47.3 mn	42.9 mn	-9.3%
	Number of female staff	122,467	129,315	+5.6%
	Share of female senior management	33%	28%	-5.0% pts
	Share of female board members	20%	24%	+3.7% pts
7	Number of people provided with access to energy	19.3 mn	20 mn	+3.6%
	Total clean energy capacity installed	744 MW	1,111 MW	+49.3%
8	Number of staff	293,051	382,031	+30.4%
	Number of SME clients	2.2 mn	2.55 mn	+15.7%
9	Average number of new products introduced in the last 3 years	6	6.9	+14.3%
	Processing units built/expanded	52	53	+1.9%
12	Certified investees	32	32	0%
	Hectares under sustainable management	935,824	1,008,261	+7.7%
	Certified hectares	521,012	586,059	+12.5%
13	Energy savings per year	669 GWh	678 GWh	+1.3%
	Clean energy generated	1,998 GWh	2,282 GWh	+14.2%
	Annual CO_2 emission reductions	1.36 mt CO_2/year	1.41 mt CO_2/year	+3.7%
	Gross loan portfolio in energy efficiency and renewable energy	USD 3.3 bn	USD 3.4 bn	+4.1%

Please note that all ratios are calculated on the basis of institutions reporting all data required.
1. Calculated as average loan size from portfolio companies categorised as microfinance institutions.
2. & 3. 2020 number revised basis additional data obtained from portfolio companies

Comments to Impact Data

While many markets continue to suffer the impact of the pandemic, many others saw a significant rebound in activity over the course of 2021. The number of clients grew overall, while other economic activity such as remittances remained stable.

In rural areas, this growth was also seen at the level of number of smallholders, although the amount shown in payments to smallholders dropped significantly due to one trader dropping out of the portfolio. Conversely, the increase in total loan portfolio in rural areas was boosted by two large, rural focused financial institutions entering our portfolio.

The effects of the pandemic are also mirrored in the sharp increase in training or education for both staff and customers (previously much harder to do in-person), as well as a sharp uptick in employee numbers overall, which are now closer to 2019 levels.

Finally, 2021 saw a large increase in new clean energy installed from our investees in the renewable energy space, where 11 investees have reported new projects in 2021, compared to only 6 in 2020.

Videos and Podcasts

Dark Green Impact in 3 minutes
https://youtu.be/kMgG9tg2Lno

Dark Green Impact in 3 podcasts
https://darkgreenimpact.buzzsprout.com

Additionality with Paul Hailey
https://youtu.be/BNfeDDrGAY8

Climate Finance
https://youtu.be/JfmwUiCdtyQ

Financial Inclusion
https://youtu.be/ev-iG47i4BU

Sustainable Food
https://youtu.be/GAkDsGzpQIl

Meet Brandon
https://youtu.be/Jhgv66zgpcU

Meet Monya
https://youtu.be/Ff7R3ZAaXLk

Meet Aminata & Younes
https://youtu.be/mTdkIpYLaRU

PUBLISHING INFORMATION
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Since 2016, responsAbility has been offsetting the carbon emissions of its activities.

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