GIINSIGHT

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Using non-financial support to increase financial inclusion

ABOUT THIS BRIEF

This brief explores investment-level, annualized impact performance data contributed by investors to the IRIS+ *Financial Inclusion Impact Performance Benchmark*. Data pertain to direct impact investments – or investments made directly into companies or projects with the intent to create a positive, measurable social or environmental impact alongside a financial return – in financial inclusion. To reflect investment performance, data have been investment-weighted, or adjusted based on the ratio of investment amount outstanding to the enterprise value of the investee. Findings presented in this brief may be welcome insight as investors begin to explore what is driving patterns in impact results.

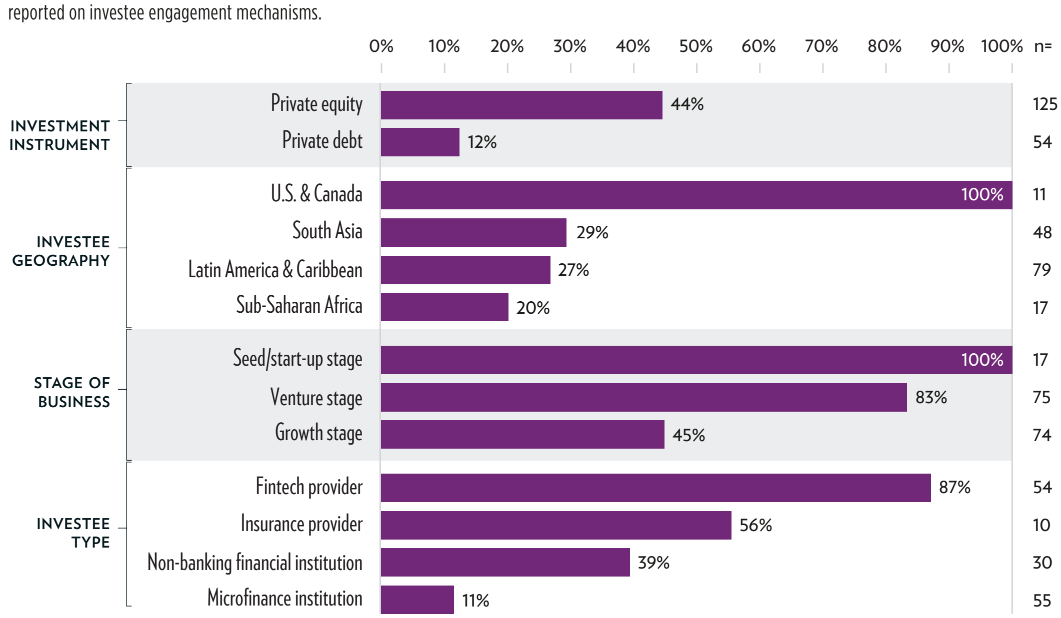
Insights based on impact data have the powerful potential to drive capital toward solving the globe's greatest challenges. As the body of available data on impact performance grows, impact performance analysis can unlock opportunities and allow investors to gain increasingly comprehensive, robust insight on real-world impact and the mechanisms through which they drive change. Non-financial support, including technical assistance, offered by investors to companies can be an effective mechanism to increase financial resilience and inclusive economic development. Often used to strengthen human resources and impact measurement and management (IMM), non-financial support can enable innovative product development, improve financial service quality, expand client reach, and build internal capacity that meets the needs of investees. Effective non-financial support requires a deep understanding of the regulatory landscape in which financial institutions operate, internal buy-in and practical incentives for investees to embrace change, tailoring to business needs, and local knowledge and presence.

Early-stage enterprises commonly receive non-financial support across emerging and developed market investments

Just under a quarter of investments that reported on engagement mechanisms offered non-financial support to companies, with variation across investment strategies and investee features. Non-financial support was more commonly provided through private equity investments (44% of private equity investments compared to just 12% of private debt ones), perhaps given these investors' more active ownership role or the prevalence of private equity investments among earlier stage companies. About 41% of developed-market-focused investments provided non-financial support, while 23% of emerging market investments did. This may reflect the need among underserved companies across market types and the use of inclusive financial services in both emerging and developed markets to reduce vulnerability.

Provision of non-financial support to companies across market segments

Each bar represents the proportion of investments in each market segment that provided non-financial support relative to all investments that reported on investee engagement mechanisms.



Source: Global Impact Investing Network (GIIN), 2022

GIIN GLOBAL IMPACT INVESTING NETWORK

Non-financial support was more commonly offered to earlier stage businesses. Naturally then, every seed- or start-up stage investee represented in this sample was offered support, while no mature companies received the same. Nearly nine in ten fintech investments provided non-financial support, highlighting the rapid growth of this relatively new service offering as compared to the more mature microfinance sector.

Investments providing non-financial support delivered stronger impact results across three financial inclusion indicators

Investments in the sample that offered non-financial support were associated with greater average impact results across three key performance indicators: (1) Clients actively using responsible financial services, (2) Micro-, small-, and medium-sized enterprises (MSMEs) responsibly financed, and (3) Decent jobs supported at or above a living wage.[1] Additionally, investments with a non-financial component saw stronger year-on-year increases in active clients and decent jobs supported as compared to investments without non-financial support. In fact, those investments without non-financial support experienced an average annual decrease across all three indicators, which could be driven by internal organization factors or external macro events. Findings reflect patterns in impact results across various sub-segments and do not necessarily indicate causality.

Impact results in financial inclusion with and without non-financial support

	PROVIDED NON-FINANCIAL SUPPORT			DID NOT PROVIDE NON-FINANCIAL SUPPORT		
	Investment-weighted average	Average annual change	Percent annual change	Investment-weighted average	Average annual change	Percent annual change
Clients actively using responsible financial services	101,068	257	21%	10,575	(1,903)	6%
MSME clients responsibly financed	9,195	1,882	27%	2,793	(1,807)	34%
Decent jobs supported at or above a living wage	72	0	8%	27	(3)	6%

Note: Excludes one to six outliers across key performance indicators. All figures reflect average annual impact results.
Source: Global Impact Investing Network (GIIN), 2022

Investors most commonly use private debt and private equity to influence impact results through their capital. Interestingly, two financial inclusion indicators – active clients and decent jobs supported – demonstrated stronger impact results across both private equity and private debt investments that provided non-financial support as compared to those that did not. Due to insufficient data availability, findings on MSME clients responsibly financed could not be segmented by asset class. Among private equity investments, the number of active clients increased by 21% each year for those investments with non-financial support compared to just 4% among those without. Though the number of decent jobs supported each year grew by 11% among both private equity investments with and without support, those with a non-financial component supported nearly double the number of decent jobs each year at 92 jobs compared to just 51.

Meanwhile, among private debt investments, the number of active clients increased by 1,820 each year when non-financial assistance was provided and decreased by 811 without. Similarly, private debt investments also supported 10% more jobs each year compared to 5% more decent jobs among private debt investments without a non-financial assistance component. Non-financial support may be an especially effective strategy when coupled with investment terms that offer opportunity for more active engagement, such as a seat on the company's Board of Directors. In fact, across this set of private equity investments, 99% had a seat on the investee's Board, though naturally this may also reflect the nature of equity investments. Across asset classes, it seems clear that opportunities exist for non-financial support to be leveraged in a variety of ways to influence impact results.

1 Decent jobs are those that respect the fundamental rights of the human person as well as the rights of workers in terms of conditions of work safety and remuneration and also includes respect for the physical and mental integrity of the worker in the exercise of their employment (ILO).

Opportunities to increase the value-add of non-financial support in financial inclusion

1. **Leveraging non-financial support to address the needs of vulnerable clients:** Especially during a time of crisis, such as the COVID-19 pandemic, investors can leverage technical assistance to deliver financial services to underserved, hard-to-reach populations efficiently in response to real-time needs. For example, the CDC Group deployed technical assistance as part of its COVID response to support financial inclusion investees in capturing quality customer data, adapting financial products and processes to meet changing client needs, and conducting staff trainings.

2. **Relying on partnerships to support scaled delivery and holistic product design:** Many investors offer technical assistance facilities to support capital deployment and often work with institutional partners to increase the scale and effectiveness of financial health outcomes. There exists significant opportunity to pool resources and learnings across institutional investors and asset managers. For instance, FMO, the CDC Group, and Triple Jump have developed a network of technical assistance practitioners to enhance collaboration among stakeholders and share learnings on best practices in delivering technical assistance.

3. **Tailoring technical assistance by sub-sector to increase effectiveness:** As a more mature sector, microfinance is seeing less technical assistance as compared to newer spaces, such as fintech, across investments in this sample. However, technical assistance may still be tailored to maximize effectiveness and deliver business value to more mature investees. BlueOrchard's technical assistance facility for its Microfinance Initiative for Asia (MIFA) Fund illustrates this, offering COVID-19 training for microfinance institutions to support business operations, liquidity management, cost reductions, and long-term recovery.

IRIS+ METRICS FEATURED IN THIS BRIEF

CLIENTS ACTIVELY USING RESPONSIBLE FINANCIAL SERVICES

Client Individuals: Active (PI9327)

Operational Certifications (OI1120)

Repayment Capacity Analysis (PI4733)

Non-financial Support Offered (PD9681)

MSMEs FINANCED RESPONSIBLY

Client Organizations: Microenterprises (PI9713)

Clients Organizations: SME (PI4940)

Operational Certifications (OI1120)

Repayment Capacity Analysis (PI4733)

Non-financial Support Offered (PD9681)

DECENT JOBS SUPPORTED AT OR ABOVE A LIVING

Jobs in Directly Supported/Financed Enterprises (PI4874)

Decent job are those with specific policies in place at or above a living wage. For more detail on these policies, see the 'decent jobs' key performance indicator in the Financial Inclusion Impact Performance Benchmark.

Find more insights on the impact performance of investments in financial inclusion, sample characteristics, and methodological choices in the *Financial Inclusion Impact Performance Benchmark*. For more information about increasing gender equality through financial inclusion, see IRIS+. To join the impact performance benchmark, contribute your impact data to the IRIS+ List.

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