

FINDEV CANADA TRANSACTION SUMMARY

Locfund Next L.P.

This document provides an overview of the FinDev Canada transaction, including a summary of the anticipated development impacts and of the environmental, social and governance (ESG) assessment performed, potential risks identified, and related mitigation measures to be implemented.

LocfundNext

Transaction Description

Launched in August 2020, Locfund Next Fund provides financing to tier 2 and 3 microfinance institutions (MFIs) in Latin America and the Caribbean. Bolivian Investment Management (BIM), based in Bolivia, manages Locfund Next. BIM's vision is to work together with MFIs to increase financial inclusion through financing and support towards digital transformation. The transaction consists of a USD 7.5M senior loan from FinDev Canada and a USD 7.5M equity investment from the 2X Canada Facility: Inclusive Economic Recovery, a facility administered by FinDev Canada and funded by the Government of Canada through Global Affairs Canada. The equity investment by the 2X Canada Facility will contribute to mobilising additional capital from debt investors. The overall transaction into this recently qualified 2X Flagship Fund will help support financial inclusion and drive positive impact on women's economic empowerment.

Transaction Details

COUNTERPARTY	Bolivian Investment Management Ltd. ("BIM" or the "Manager") through its sub fund, Locfund Next L.P. (the "Fund")
DOMICILE OF INCORPORATION	Ontario, Canada
DOMICILE OF OPERATIONS	Bolivia
TERM OF FINANCING	Up to 7 years for debt 10 years for the 2X Canada equity portion
SECTOR	Financial Services
IFC PERFORMANCE STANDARDS TRANSACTION CATEGORY	Category FI-3
FINANCING PRODUCT	Debt and equity
FINDEV CANADA TRANSACTION AMOUNT	Up to USD 7.5M
2X CANADA TRANSACTION AMOUNT	Up to USD 7.5M
DATE OF TRANSACTION DISCLOSURE	February 7, 2022
DATE OF TRANSACTION SIGNING	June 10, 2022
DATE OF TRANSACTION SUMMARY PUBLICATION	September 10, 2022
2X CHALLENGE QUALIFYING	Yes, under Leadership (direct), Employment (direct), and Investments through Financial Intermediaries (indirect) criteria

Summary of Anticipated Development Impacts

The development impact value proposition of Locfund Next is to provide much-needed hard and local currency financing to small and medium-sized (Tier-2 and Tier-3) microfinance institutions, typically serving low-income and vulnerable populations, such as low-income women and informal women microentrepreneurs. The client MFIs are thus key actors in bridging the financing gaps faced by low-income individuals and microenterprises in the Latin America and the Caribbean (LAC) region which has been disproportionately impacted by the COVID-19 pandemic.

The impact theory of change below summarizes how Locfund Next will contribute to FinDev Canada's long-term development impact goals and the Sustainable Development Goals (SDGs), in particular to SDG1 (No poverty), SDG5 (Gender Quality), SDG 8 (Decent work and economic growth) and SDG 10 (Reduced inequalities).

Development Challenges:

- In LAC, 26% of the population do not have access to any financial services, and more women are unbanked than men
- Over USD 1 trillion in financing is needed for ~25 million of MSMEs
- LAC is severely impacted by COVID-19: fatality rate is twice higher than the global average and its pre-pandemic economic recovery is slower
- Lack of access to local currency financing for Tier 2 and Tier 3 MFIs



2X CANADA





MARKET DEVELOPMENT

- **Increasing financial inclusion:** Locfund Next provides local and hard currency financing and other types of financial products and services to MFIs, through which it aims to reach at least 200,000 end clients, including at least 50% women and 40% rural residents. The Fund estimates its indirect impacts to benefit some 2.4 million people in the LAC region. The Fund's intentionality in servicing the base of the pyramid is also demonstrated in that it tracks, on a quarterly basis, the average size of loans held in its (MFI clients') portfolio. The Fund targets an average loan size for end-clients under USD 1,500. Lower average microloan sizes are associated with wider access to financial services, especially for low-income women borrowers.
- **Strengthening capabilities and improving productivity of MFIs and their clients:** Locfund Next has a dedicated Technical Support Facility (TSF) which provides MFI clients with assistance on digital transformation, with additional components focusing on gender, ESG and climate change mitigation and adaptation. Improving digital literacy and capabilities in the finance sector is associated with wider financial and digital inclusion, as well as positive spillovers between sectors of the real economy.



WOMEN'S ECONOMIC EMPOWERMENT

- **Supporting women's leadership:** Women represent 33% of the senior management (C-Suite) team at Locfund Next, above the 30% threshold under the 2X "Leadership" Criteria. The policies and procedures related to gender equality which BIM has already put in place support women in the workplace. Women represent 53% of the workforce at the Fund level, which is over the 40% 2X threshold for the finance sector. Commitment to implement additional measures to support the recruitment, retention, and career development of women employees, as well as to strive for continued gender balance has been reflected in the 2X Flagship Fund Memorandum of Understanding (MoU) and serves as a basis for the Fund's qualification under the 2X "Employment" Criteria.
- **Improving equal access to finance for women:** As of March 2022, MFIs supported by Locfund Next have a majority (~70%) women customers (individuals and businesses), which ties to Locfund Next's corporate social target to reach at least 50% of women end-clients. Thus, the current Fund's portfolio composition tilted towards MFIs specifically or disproportionately benefiting women makes it qualified under the 2X "Investments through Financial Intermediaries", or "Indirect" Criteria. Even more importantly, it demonstrates the strength of the Fund's commitment regarding gender equality and women's economic empowerment.



CLIMATE MITIGATION AND ADAPTATION

- **Climate change adaptation:** Part of the Fund's technical assistance offer to MFI clients includes support on climate-related topics, including provision of climate finance training and support for the development of tools to manage climate-related risks.

2XCANADA



Summary of Environmental and Social Assessment and Related Risk Mitigation Measures

FinDev Canada considers the transaction to be Category FI-3 (equivalent to Category C and specific to financial intermediaries), as our support to Locfund Next's portfolio will be directed towards MFIs engaged in business activities presenting limited adverse environmental and social (E&S) risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures. The E&S risks primarily lie with the end-clients of the MFIs Locfund Next may support due to their exposure to sectors such as agriculture or lending to vulnerable borrowers.

FinDev Canada completed a benchmark review of Locfund Next's E&S management capacity against International Finance Corporation ("IFC") Performance Standards ("IFC PS") 1 and 2. This consisted of a review of the Fund's E&S documentation, responses to a due diligence questionnaire to gather information, and client meetings. Site visits were not undertaken given the relatively low risk of this transaction.

Locfund Next's fund manager BIM presents strong management and a good understanding of E&S. In line with the recommendations of previous and current development finance institution (DFI) investors, BIM recently developed an ESG policy and process to systematically capture ESG risks in its clients' portfolios. FinDev Canada will seek to mitigate E&S risks via loan covenants and an Environmental and Social Action Plan (ESAP), helping to align the Fund with the objectives of the IFC PS over time.

FinDev Canada is of the opinion that adverse environmental, social or human rights risks associated with the transaction are low-to-moderate and will be mitigated by Locfund Next's adherence to loan covenants and successful completion of the ESAP. FinDev Canada does not anticipate Locfund Next having difficulty in maintaining regulatory compliance in the markets it serves. This review has been completed in accordance with FinDev Canada's E&S Policy.

An illustrative list of key documents reviewed is outlined below:

- Locfund Next
 - Locfund Next examples of Loan Contracts
 - Locfund Next Lessons Learned
 - Locfund Next Quarterly reports from September and December 2021
- Locfund Next examples of Investment Reports by Bolivian Investment Management
 - Agreement of Limited Partnership
 - ESG Policy and E&S Risk Management procedure
 - Environmental and Social Policies, such as on Gender, Anti-Harassment, Equal Employment Opportunity, Code of Ethics, and Child Labour prevention mechanism
 - Current ESAP
 - Environmental and Social due diligence reports

The following IFC PS were applied in FinDev Canada's assessment, in addition to host country requirements and the IFC Interpretation Note on Financial Intermediaries:

- IFC PS 1: Assessment and Management of Environmental and Social Risks and Impacts
- IFC PS 2: Labor and Working Conditions