BlueOrchard Impact Investment Managers | Member of the Schroders Group

BlueOrchard Microfinance Fund

Annual Impact Report 2023

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Executive summary

This year's edition of the BlueOrchard Microfinance Fund Impact Report 2023 (the “Report”) showcases the impact achievements of the BlueOrchard Microfinance Fund (also referred to as the “Fund” or “BOMF”). BOMF was founded in 1998 as a private and fully commercial microfinance investment fund and aims to obtain stable and attractive financial returns, while fostering financial inclusion. Based on assets under management (AuM), BOMF is the largest commercial microfinance fund in the world and holds the industry’s longest track record.

The objective of this Report is to highlight the Fund’s impact as of December 2023 and how it has contributed to expanding financial inclusion over 20 years in more than 50 emerging and frontier markets. The Report also reflects on lessons learned, and our views on what comes next in the pursuit of financial inclusion.

Strong impact footprint[1]

As of December 2023, the impact footprint of BOMF continues to be strong and the Fund remains true to its mission of providing financial services to the underserved. The Fund’s investments reached 53 countries, 165 financial institutions (FIs), and close to 1 million micro, small, and medium-sized enterprises (MSMEs) in emerging and frontier markets. The investees' end-borrowers were 81% female and 62% based in rural locations, demonstrating that most of the beneficiaries reached by the FIs in the portfolio were directed to financially underserved groups in the markets where they operate. Furthermore, the number of microenterprise loans are still the majority of MSME loans provided by BOMF investees, comprising 98% of the MSME portfolio, with SMEs representing the other 2%.

Resilience of FIs and MSMEs

Many BOMF investees and their clients operate in difficult macroeconomic, political, and geopolitical environments, exacerbated by external negative shocks such as the COVID pandemic and more frequent natural catastrophes due to climate change. Nevertheless, FIs in BOMF’s portfolio have shown resilience. The Report case studies illustrate how these investees have navigated difficult circumstances, with the help of good financial and risk management, responsible lending practices, and the use of technology. This was also possible since their end-borrowers (most of them MSMEs) have shown a strong ability to adapt to various challenges.

Higher engagement, better impact

Engagement with investees has remained essential, highlighting BOMF’s impact contribution. In April 2023, BlueOrchard launched its “Engagement Approach”, which outlines how thematic priorities are selected, provides a framework to classify levels of engagements, and presents the process for monitoring engagement activities. Most of our 2023 engagements have focused on ESG-related topics, such as expanding FI’s exclusions and promoting improvements in climate reporting and commitments.

Best-in-class impact management framework

Strong impact and responsible ESG practices must be measured and managed. At BlueOrchard we are constantly incorporating lessons learned into our impact management framework, B.Impact™. In November 2023, we launched upgraded versions of our Impact and ESG Scorecards, incorporating advancements in the automation of contextual data to enhance the measurement of impact potential. Additionally, in early 2024, our impact management framework underwent its most recent external impact verification, achieving top ratings across all categories for its alignment with the Operating Principles for Impact Management[2] (“Impact Principles”).

Maria Teresa Zappia
Chief Impact and Blended Finance Officer, Deputy CEO

Veronika Giusti Keller
Head of Impact Management

[1]All data in this report refers to figures as of December 2023, unless otherwise stated.
[2]For more information on the Impact Principles, visit www.impactprinciples.org.

BOMF impact dashboard

(as of December 2023)

Impact theme: Financial inclusion

53 countries receiving investments

165 institutions financed

100% beneficiaries in emerging markets

46% loans provided in local currency[3]

157.1m number of jobs created or maintained by MSMEs[4&5] supported by FIs

3.9m attributed to BOMF

32.5m MSMEs[4] supported by FIs in the portfolio

1m attributed to BOMF

81% female end-borrowers

62% rural end-borrowers

USD 14.9k average loan size to MSMEs[5]

163.6k medium

31.7k small

4.0k micro

[3] Local currencies are hedged on fund level to reduce risk.

[4] Micro, small, and medium enterprises.

[5] Details on the classification can be found on p. 17

About BlueOrchard

BlueOrchard is a leading global impact investment manager and member of the Schroders Group. With a legacy of over 20 years as a pioneering impact investor, the firm has made a significant impact on a global scale, supporting over 300 million people as of December 2023[6].

Our global team comprises over 140 professionals from diverse cultures, nationalities, and backgrounds. The team is united by a shared belief in the transformative power of impact investing. BlueOrchard's dedicated impact team consists of eight professionals. While independent, the team collaborates with the investment and other teams to ensure that impact is integrated throughout the investment process.

As an impact investment manager, our approach addresses social and environmental impact with the goal of generating a positive financial return. Our commitment to excellence has been acknowledged by our inclusion in prestigious rankings, such as the Impact Assets 50 list for two consecutive years, solidifying our position as one of the industry leaders[7].

BlueOrchard's investor base comprises sophisticated international investors from both private and public sectors.

Across its different asset classes, BlueOrchard has invested in more than 100 countries. Across its private debt portfolio, including blended finance strategies, BlueOrchard has invested in over 75 emerging and frontier markets since its inception.
These investments have been facilitated through a network of over 530 FIs and 12 companies in the climate insurance sector.

BlueOrchard's impact investment areas are centred around fostering positive change in the following key areas: inclusive finance, gender equality, education finance, climate insurance, energy efficiency, renewable energy, affordable housing, and health. Through the impact generated in these eight thematic areas, we contribute to sixteen out of the seventeen United Nations' Sustainable Development Goals (SDGs[8]).

140+
professionals

53%
of BlueOrchard's employees are women

USD 11+
billion disbursed since inception

100+
countries invested

USD 875+
million AuM bonds portfolio

[6] All data in this report refers to figures as of December 2023, unless otherwise stated.
[7] ImpactAssets, 2024.
[8] For more information on the Sustainable Development Goals, visit: www.sdgs.un.org/goals.

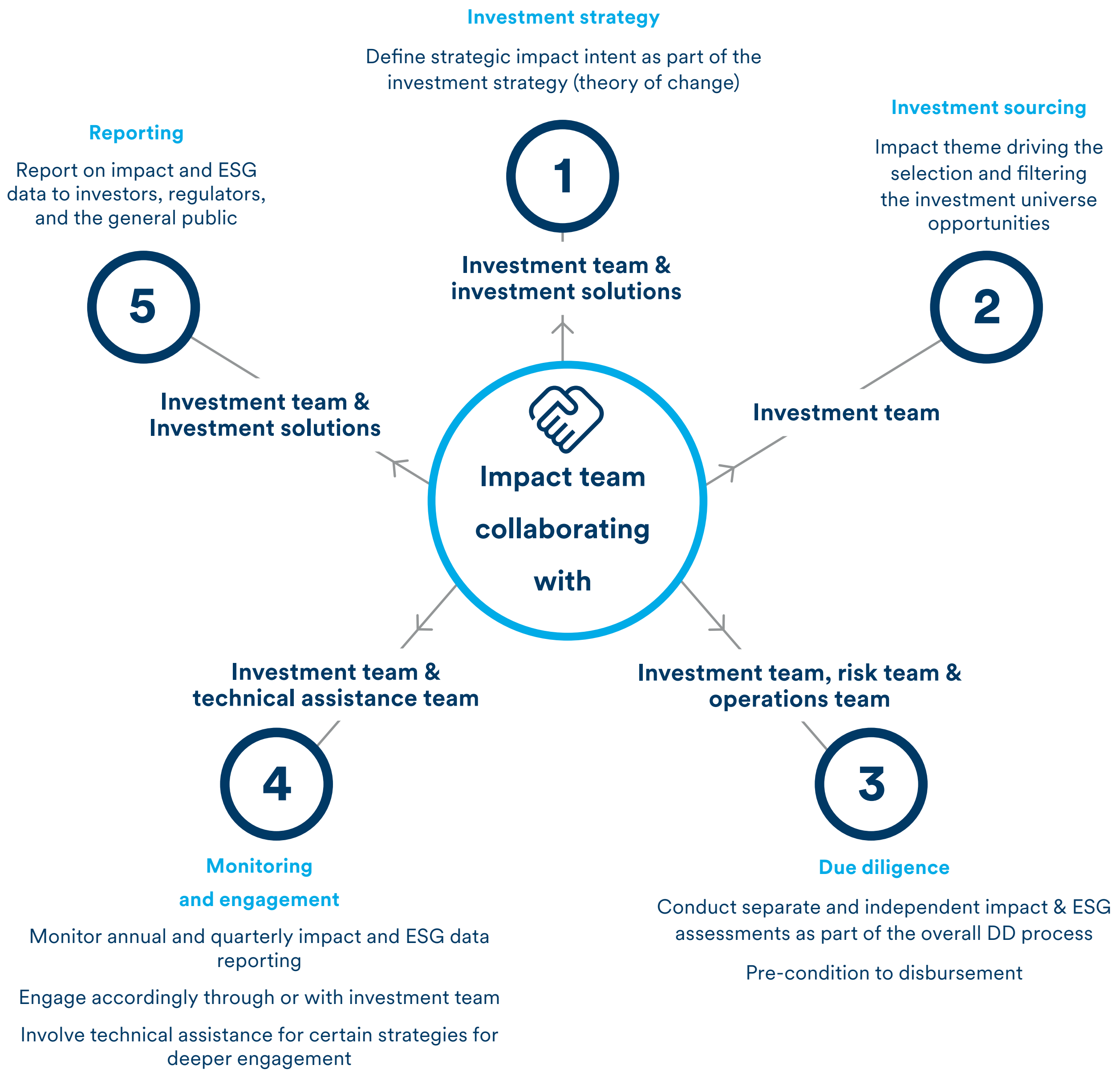
Impact management at BlueOrchard

BlueOrchard maintains a rigorous ESG and impact management practice, which has been refined based on 20+ years of experience in impact investing.

We commit significant resources to developing proprietary ESG and impact management tools that track the Fund's impact and ESG performance and help identify a suitable universe of investments. This has enabled the Fund to deliver stable financial returns and a clear, demonstrable set of impact results to our investors.

B.Impact™ framework

The B.Impact™ framework is a comprehensive impact management and ESG assessment framework, applicable across asset classes and impact themes. The framework covers sustainability performance, impact potential, and SDG alignment. The framework is governed by dedicated policies, procedures, and proprietary Impact and ESG Scorecards.



B.Impact™ framework

ESG

Assesses an investment's **risks and practices** in relation to three categories:

- Environment
- Social
- Governance

ESG assessment – conducted using a dedicated tool, the ESG Scorecard, evaluating the practices of investees that could result in ESG and sustainability risks.

Impact

Assesses the **potential impact** of each investment along five dimensions:

- What – Investment Intent
- How Much – Impact KPIs
- Who – End Beneficiaries
- Contribution – Value Added
- Risk – Impact Risks

Impact assessment – conducted using a dedicated tool, the Impact Scorecard, evaluating the potential impact of each investment.

SDG

Provides an **SDG mapping and alignment** at investment and fund level:

- SDG Universe
- SDG Material Assessment
- SDG Impact KPIs Matrix
- SDG Reporting

SDG mapping – impact KPIs[9] mapped against the UN SDGs on an investee and fund level.

aligned with

RepRisk · Operating Principles for Impact Management · GIIN · Microfinance LuxFLAG Label · Signatory of: PRI Principles for Responsible Investment · IMPACT FRONTIERS

[9] Key performance indicator(s)

Our ESG assessment process

All investees in BOMF's portfolio are thoroughly assessed through a proprietary tool called the ESG Scorecard. The ESG Scorecard evaluates actual or potential adverse impacts on Environmental, Social, and Governance factors that could have a material negative impact on the value of the investment and/or on the achievement of any sustainability objectives.

The ESG Scorecard is based on an extensive ESG questionnaire that collects investees' information on material ESG factors. The ESG questionnaire is a core element of the investment due diligence, and its completion is mandatory for all prospective investments prior to disbursement and on an ongoing basis during the lifecycle of the transaction.

The ESG Scorecard is completed and reviewed in a two-step process by BlueOrchard's investment team and finally approved by the impact management team or by the Impact Committee, which includes impact and risk members. This dual approach has been designed to ensure quality of data and to minimise any potential conflicts of interest. All investment proposals must contain completed and approved ESG Scorecards.

Enhancing our focus on consumer protection

Responsible lending practices are critical for financial inclusion to deliver on its social and economic development potential. Customer protection is the factor with the highest weight in the ESG Scorecard, evidencing our focus on consumer protection during our ESG assessments.

The Scorecard includes minimum requirements related to customer protection (for example, the existence of adequate complaints mechanisms) that would highlight any important gaps that would trigger additional due diligence and engagement.

In addition, all FIs in the BOMF portfolio are required, under our loan agreements, to maintain transparent and equitable lending practices and must document and provide specific details to our investment and impact teams on their lending and collections practices.

Accelerating climate commitments for a sustainable future

BlueOrchard, as a member of the Schroders Group, has committed to Net Zero by 2050, whilst agreeing to the further inclusion of asset classes to the Group's Science-Based Targets Initiative (SBTi) at or before 2040. To achieve this objective, we are taking several steps. The first one is to start measuring the carbon footprint of our funds under management, including BOMF. We have included climate reporting in all our ESG questionnaires and have added several climate-related KPIs to our annual data request.

From our experience so far, few FIs in developing countries are measuring their carbon footprint, in particular Scope 3 greenhouse gas (GHG) emissions[10]. Therefore, we have received very limited data directly from our investees. To overcome this issue, in 2023 we partnered with the Joint Impact Model[11] ("JIM") to obtain estimates on FIs' GHG emissions (Scope 1, 2 and 3). The JIM is an independent model based on PCAF (Partnership for Carbon Accounting Financials) methodology, specifically developed for institutions operating in emerging markets. While there are limitations on all models, this tool has allowed us to shape our engagement strategy and prioritise engagement activities with FIs that have larger estimated emissions.

On the other hand, we are also observing many BOMF investees taking significant steps in their environmental commitments. For example, Produbanco in Ecuador was a founding member of the Net-Zero Banking Alliance[12], committing to reach Net Zero at the latest by 2050, including its loan and investment portfolios. To achieve this target, the bank has established a decarbonisation roadmap of the milestones to be achieved by 2030 and 2050. Also, the bank issued the first sustainable bond in Ecuador with the purpose of expanding their SME and green portfolios. In BOMF's last loan to Produbanco in December 2023, the Fund is supporting the expansion of their SME and green portfolios that include financing projects in renewable energy, energy efficiency, and water efficiency, among other eligible green activities. Given Produbanco's leading position in the financial sector in Ecuador[13], we believe they can serve as key player in the promotion of better environmental practices not only to other FIs in the region, but also to their clients by accompanying them in their decarbonisation pathway.

We are continuously innovating and evolving our tools to better capture our impact. With this in mind, we added a new section to our Impact Scorecard dedicated to climate and green finance in a way which allows us to further understand the green finance portfolio of the FIs and the kind of activities they finance. In our annual ESG monitoring assessment, we found that 17% of investees in the BOMF portfolio reported having green loans, which includes loans such as energy efficiency loans, sustainable agriculture, or sustainable transport.

[10] Scope 3 GHG emissions in this context refers to the emissions of the FIs portfolios.
[11] For more information on the Joint Impact Model, please visit www.jointimpactmodel.org.

[12] For more information on the Net-Zero Banking Alliance, please visit www.unep-fi.org/net-zero-banking/
[13] www.produbanco.com.ec

Our impact assessment process

BlueOrchard carefully assesses the impact potential of each investment. We do this using the Impact Scorecard, a tool tailored for this purpose. The Impact Scorecard is an input for origination and is used to monitor the progress toward achieving the intended impact objective. For each investment, the investment team inputs data for a new Impact Scorecard, which is then reviewed and approved by the impact team. The information contained in the impact assessment is regularly monitored.

The Impact Scorecard has been built using the Five Key Dimensions of Impact Performance, initially developed by the Impact Management Project[14] (IMP). It includes an analysis of the investment's impact intent, impact KPIs, information on the target stakeholders (for example clients, employees, and/or planet), and assesses the Fund's contribution while considering the potential risks that may hinder the intended impact from being achieved.

To accurately evaluate each dimension of the Impact Scorecard, it is crucial to consider the relevant context. For instance, when an FI aims to extend its reach to 100 thousand rural beneficiaries, determining whether this is a "very high" or "moderate" ambition requires an understanding of the current circumstances. Understanding the context aids in assessing the level of stakeholder needs within a specific country, as well as the existing supply. This corresponds to the general context and in relation to the specific impact theme targeted by the investment. For instance, when evaluating the necessity for enhanced access to finance for micro-borrowers, the percentage of account ownership among the adult population in the country is examined. This assessment was automated within the Scorecard's latest upgrade in 2023, facilitating a more comprehensive evaluation process.

[14]The Impact Management Project was created in 2016 and developed the IMP framework in 2017. The logic facilitated by the IMP in its early work is reflected now in resources found on the Impact Management Platform and Impact Frontiers websites.

Driving impact: The power of engagement in impact investing

An attribute that distinguishes impact investors from traditional ones is the contribution or additionality they seek to bring, i.e., the investor's efforts that result in outcomes that are likely better than what would have occurred otherwise. This contribution can take different forms and the Impact Scorecard distinguishes two complementary types of investor contribution.

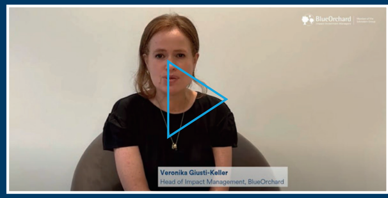
First, considering the extent to which BOMF enables the investee to create impact by providing capital in countries where there is urgent need, the characteristics of the capital provided (for example if the terms of the loan are adjusted to their needs), how BlueOrchard compares to other investors in terms of flexibility and speed, and whether the investee would have likely received the capital otherwise.

For example, Mikrofin, a leading microfinance institution in Bosnia, received its first loan from BOMF in 2001. At that time, BOMF was one of the first commercial international investors for Mikrofin and this, together with their strong financial and social performance, enabled Mikrofin to keep growing and attract additional capital from various sources.

As of December 2023, Mikrofin reached 69 thousand borrowers, keeping its strategic focus on serving MSMEs in Bosnia and providing affordable housing loans.

Second, through engagement around ESG and impact topics. In 2023 we engaged with 22 investees specifically to improve their implementation of exclusion criteria, either by adding some new activities to their existing lists, or to formally incorporate them in their internal policies and procedures. These commitments are formalised either in the loan agreements or through engagement letters.

Learn more here



External verification

As part of our commitment to transparency, responsible practices, and comprehensive disclosure, in 2019 BlueOrchard was among the founding signatories to the Impact Principles. The Impact Principles are the industry standard for integrating impact throughout the investment lifecycle, which are now hosted by the Global Impact Investing Network[15] (GIIN), of which BlueOrchard is a member. A key cornerstone of the Impact Principles is principle 9 that requires an annual disclosure of the impact practice alignment with each of the other 8 principles, as well as a regular external independent verification of the impact practice of the signatories.

BlueOrchard engaged BlueMark, an independent provider of impact verification services in the impact investing market, for the third time to undertake an independent verification of the alignment of BlueOrchard's impact management and measurement system with the Impact Principles. In February 2024, BlueOrchard finalised its latest independent verification and achieved the highest rating across all categories, securing a position on BlueMark's 2024 Practice Leaderboard. The results of this independent verification reflect the integrity and quality of BlueOrchard's impact management framework, its rigorous implementation, and its tested monitoring and reporting.

Externally verified: BlueOrchard's impact management framework is best-in-class

BlueOrchard achieves highest rating across all categories in third-party verification by BlueMark[16]

	Operating Principles for Impact Management	BlueOrchard (all asset classes)	Peer group median*
Strategic Intent	1. Define strategic impact objective(s), consistent with the investment strategy	**ADVANCED**	ADVANCED
	2. Manage strategic impact on a portfolio basis	**ADVANCED**	HIGH
Origination & Structuring	3. Establish the Manager's contribution to the achievement of impact	**ADVANCED**	HIGH
	4. Assess the expected impact of each investment, based on a systematic approach	**ADVANCED**	HIGH
	5. Assess, address, monitor, and manage potential negative impacts of each investment	**ADVANCED**	ADVANCED
Portfolio Management	6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately	**ADVANCED**	MODERATE
Impact at Exit	7. Conduct exits considering the effect on sustained impact	**ADVANCED**	MODERATE
	8. Review, document, and improve processes based on the achievement of impact and lessons learned	**ADVANCED**	MODERATE
Independent Verification	9. Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment		

*Median includes Impact only managers and allocators in Private Equity, Private Debt and Public Debt. Scoring hierarchy for external verification: Advanced: limited need for enhancement at present, High: a few opportunities for enhancement, Moderate: several opportunities for enhancement, Low: substantial enhancement required.

[15]For more information on the Global Impact Investing Network, visit www.thegiin.org.
[16]Note: Logos are the property of their respective entities. As of February 2024. Source: BlueOrchard, BlueMark.

The BlueOrchard Microfinance Fund (BOMF)

Impact strategy

An Article 9 Fund under SFDR[17], BOMF has a track record of over 20 years in financial inclusion. BOMF's impact objective is to expand access to financial services in developing countries and frontier markets that are historically unserved or underserved, with the objective of supporting economic and social prosperity. As of December 2023, the Fund has supported nearly 1 million MSMEs.

BOMF provides senior and subordinated debt to microfinance and other financial institutions in emerging and frontier markets. These in turn cater to the needs of low-income borrowers and MSMEs who have difficulty accessing funding or who have been underserved. The capital allows individuals and MSMEs to finance their businesses in sectors such as agriculture, trade, and service, as well as paying for school fees and health expenditures. By generating such outputs and outcomes, the Fund aims to reduce inequality in emerging markets.

Financial inclusion is a critical lever for economic and social development. It increases resilience against economic shocks and negative externalities, especially for the poorer and more vulnerable populations[18]. It supports the growth of MSMEs, contributing to the creation/maintenance of jobs, particularly in less developed countries[19].

While there has been much progress in financial inclusion with average bank account ownership rising from 51 % in 2011 to 76% in 2021, there are still 1.4 billion adults without a bank account, and MSMEs still face significant barriers to adequate financial services[20].

UN Sustainable Development Goals addressed

Through providing loans to microfinance and other financial institutions targeting low-income groups and MSMEs, the Fund allows them to participate in productive activities and move out of poverty.

Through providing loans to microfinance and other financial institutions targeting women, the Fund allows them to have access to financial services and participate in productive activities, leading to empowerment and inclusion.

Through providing loans to microfinance and other financial institutions targeting SMEs, the Fund fosters employment and economic growth through SMEs.

Through providing loans to microfinance and other financial institutions targeting low-income groups or immigrants, the Fund allows them to have access to financial services and participate in productive activities, leading to empowerment and inclusion.

Through providing loans in emerging markets, the Fund mobilises private capital and promotes the investment viability of the respective regions to strengthen the global partnership to achieve the SDGs.

[17] Sustainable Finance Disclosure Regulation.
[18] Innovations for Poverty Action, 2019: Building resilience through financial inclusion: A review of existing evidence & knowledge gaps.
[19] For more information on how SMEs contribute to job creation, see World Bank SME Finance .
[20] World Bank, 2021: The Global Findex Database.

Theory of change

IMPACT	Reduced inequalities and greater economic inclusion for all	Sustainable economic growth through jobs created by MSMEs	Mobilisation of private investment for emerging markets	
OUTCOME	Increased access to financial services for MSMEs and under-served populations in emerging markets, including people in rural locations and women	Increased access to financial services for MSMEs, supporting job maintenance and job creation	Increased access to finance for partners in emerging markets	
OUTPUT	Transparent impact reporting: to demonstrate investee's progress towards achieving impact objectives and maintaining sustainable practices	Increased availability of resources for financial institution: to provide financing to MSMEs and other underserved populations in developing and frontier markets	Improved sustainability practices: through active engagement with investee companies, the Fund works to improve their sustainability practices	Private sector investments: increased capital for financial inclusion lending and higher volume of private sector investments in emerging and frontier markets globally
ACTIVITY	ESG and impact assessments to select investees that fulfill BOMF's impact mandate	Debt financing to financial institutions that cater to the financial needs of MSMEs or underserved individuals in developing countries; in local currency where possible	Engagement with investees, as part of BlueOrchard's engagement framework	Diligent monitoring of progress against impact targets and for sustainable practices
INPUT	Proprietary imact framework B.Impact™	Dedicated and independent impact team with 8 sustainability and impact experts	Private capital	
PROBLEM	While there has been much progress in financial inclusion with average bank account ownership rising from 51% in 2011 to 75% in 2021, there are still 1.4 billion adults without a bank account; about half of unbanked people include women from poor households in rural areas or out of the workforce[21]	40% of formal SMEs in developing countries have an unmet need of USD 5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending; SMEs in emerging markets generate around 7 in 10 jobs[22]	Developing countries have an estimated USD 4 trillion investment gap per year to achieve the objectives of the SDGs by 2030[23]; public investments alone cannot fulfill this gap and there is an imminent need to scale up private capital	

[21] World Bank, 2022: Financial Inclusion Overview.
[22] World Bank, 2019: SMEs Finance.
[23] World Economic Forum, 2023: Why trillions are needed to bridge the SDG financing gap.

Impact performance indicators

Portfolio impact KPIs

46%
loans provided
in local currency

53
countries receiving
investments

165
institutions financed

32.5m
MSMEs supported
by FIs in the portfolio

1m
attributed to BOMF

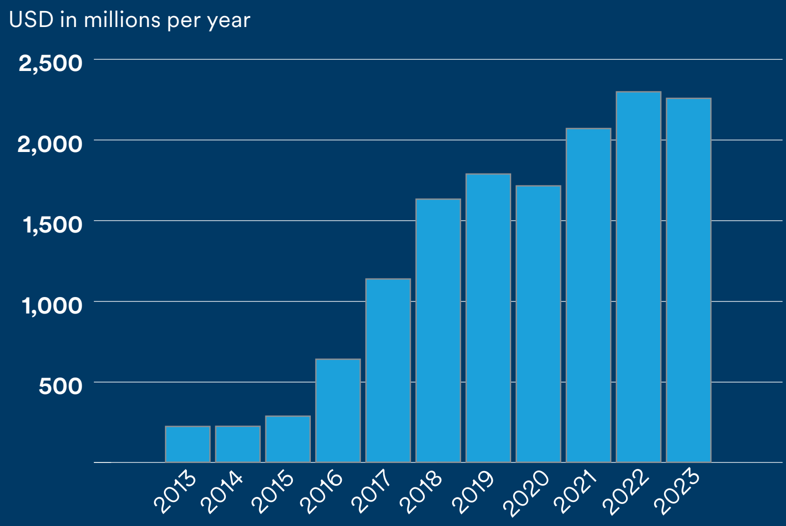
USD 14.9k
average loan size
to MSMEs

163.6k
medium

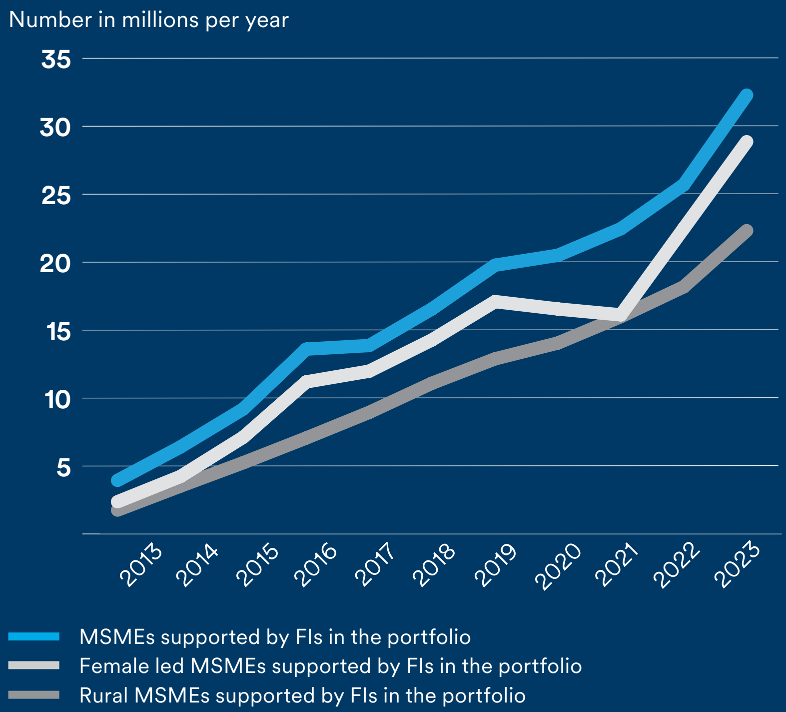
31.7k
small

4.0k
micro

BOMF outstanding investment volume (trend over the last 10 years)

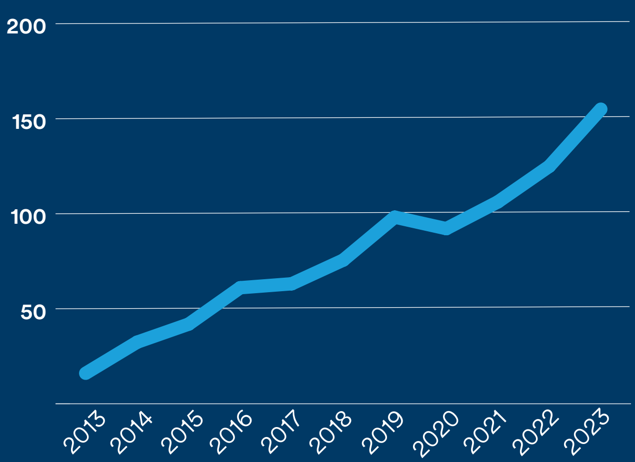


MSMEs supported by FIs in the portfolio



Jobs created or maintained by MSMEs supported by FIs in the portfolio

Number in millions per year



157.1m
by FIs in the portfolio

3.9m
attributed to BOMF

Methodology
The size and classification of the underlying MSME clients are based on their loan size at origination (in USD). The following applies:

-Micro
if loan is below USD 15k at origination.

- Small
if loan is between USD 15k to USD 150k at origination.

- Medium
if loan is between USD 150k to USD 250k at origination.

For the number of jobs created, the number of MSMEs are multiplied with the average number of employees for each enterprise size category as defined by the IFC.

[24] Based on reported data with 78% coverage
[25] Based on reported data with 77% coverage.

SDG alignment

1 NO POVERTY

32.5m
MSMEs supported by FIs in the portfolio

31.9m
micro-borrowers supported by FIs in the portfolio

USD 14.9k
average loan size to MSMEs
- micro: 4.0k
- small: 31.7k
- medium: 163.6k

29.5m
rural end-borrowers reached by FIs in the portfolio[24]

62%
rural end-borrowers reached by FIs in the portfolio[24]

USD 2.3bn
investments in developing countries providing access to financial services

5 GENDER EQUALITY

39.8m
number of female clients reached by FIs in the portfolio[25]

81%
female clients reached by FIs in the portfolio

8 DECENT WORK AND ECONOMIC GROWTH

31.9m
micro-borrowers supported by FIs in the portfolio

594k
SMEs supported by FIs in the portfolio

157.1m
number of jobs created or maintained by MSMEs supported by FIs in the portfolio

10 REDUCED INEQUALITIES

32.5m
MSMEs supported by FIs in the portfolio

31.9m
micro-borrowers supported by FIs in the portfolio

USD 14.9k
average loan sizes to MSMEs

29.5m
rural clients reached by FIs in the portfolio

62%
rural clients reached by FIs in the portfolio[25]

USD 2.3bn
investments in developing countries providing access to financial services

17 PARTNERSHIPS FOR THE GOALS

USD 2.3bn
investments in developing countries providing access to financial services

Portfolio breakdown

As of December 2023, BOMF supported 165 FIs globally. The top five holdings, comprising 15% of BOMF's portfolio, are long-standing partners of the Fund (3 have been investees for more than 15 years). These institutions are banks committed to the expansion of responsible financial services to the MSME sector. For instance, Credo in Georgia focuses on supporting MSMEs primarily in the agricultural sector or rural areas. Another example is KMF, a bank in Kazakhstan, which serves mainly MSMEs, with around 93% of their portfolio in this segment as of December 2023.

Top 5 holdings

- JSC Credo Bank
- ProCredit Holding
- TBC BANK
- Produbanco
- KMF

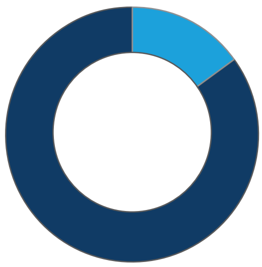
ESG assessment process

26% low ESG risk

74% medium ESG risk

In line with BOMF's investment guidelines and objectives, we invest in FIs with low and medium ESG risk ratings. An FI with a low ESG risk typically has a low-risk exposure and relevant policies and processes in place to manage those risks sufficiently. An FI with a medium ESG risk would typically have all key policies in place – such as a code of conduct and human resource policy – as well as an active grievance mechanism and governance structure to oversee material ESG risks. They are categorised as medium-risk because in comparison to low-risk investments, they could have some gaps in ESG management capabilities but minor or negligible ESG risk exposure. Alternatively, they could have a medium ESG risk exposure in their portfolio, with limited scale and duration, and strong capabilities to manage those risks. All FIs must have adequate customer protection policies and procedures, including to identify and address over-indebtedness.

Impact assessment process[26]



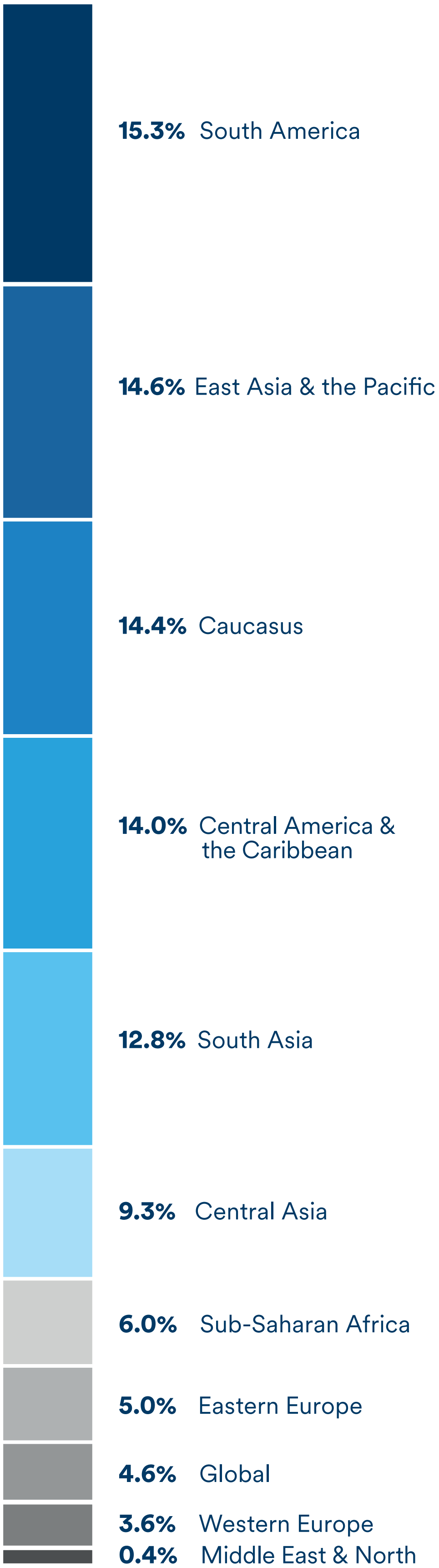
15% very high impact

85% high impact

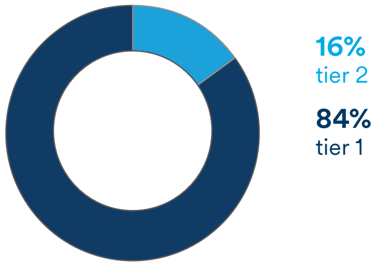
In addition to the ESG criteria, BOMF investments fall into the category of high or very high impact as per our Impact Scorecard assessment. An investment with a very high impact score typically has a high or very high impact in terms of scale ('How Much') and targets beneficiaries ('Who') that are clearly underserved in terms of the context they live in – for instance, fragile or unequal regions – and socioeconomic status or demographic features.
In addition, the Fund incorporates contributions from both a financial and non-financial perspective ('Contribution'), and the investment contains a low level of impact risk ('Impact Risk').
An investment with a high impact score typically has a high or very high scale of impact but does not target the most underserved population exclusively, or the investee operates in a region that has less dire needs. Alternatively, the investment can have a medium scale of impact but targets the most underserved beneficiaries in the region of operations.

[26] Does not include any loans that have a credit risk loan classification.

Regional exposure breakdown



Financial institution tier breakdown[27]



Tier 1

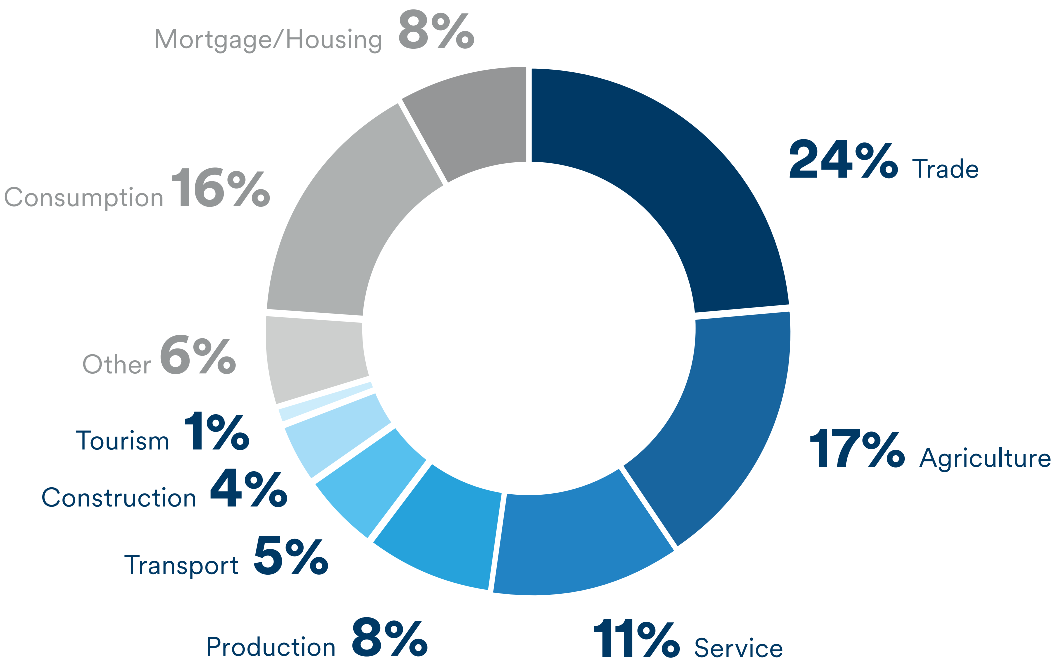
- Well managed and profitable
- Sustainable as a business model
- Min USD 75 million in assets
- Min 5 years in operation

Tier 2

- Promising
- Transforming and growing
- Min USD 30 million in assets
- Min 3 years in operation

[27] Tier 3 is defined as less than USD 30 million.

Sector exposure breakdown



Productive loans

Trade
Small shops selling a variety of products, typically employing 1–2 people. Products will normally include fresh and packed food and small household goods.

Agriculture
Small to medium-sized farms where the owner cultivates different products that are sold on the local market. Producing a variety of crops mitigates risk. These farms may also raise livestock.

Service
Loans to the service sector cover a range of businesses, including selling meals, accounting services for SMEs, or IT services. These loans are typically working capital loans.

Production
Mostly loans to manufacturing such as tailors, handicraft, furniture production, or metal works.

Transport
Asset financing for the acquisition of two-wheeler and three-wheeler vehicles. Another example would be taxi operators or small urban buses.

Construction
Loans to construction companies support part of the construction project – for instance floors, bathrooms, or woodwork. Developers are generally not part of the portfolio.

Tourism
Small hotels or hostels, tourist guides.

Other loans

Other
Loans to education providers, health centres, or other specific loans.

Consumption
Individual borrowers have a wide range of applications for consumer loans ranging from paying school fees for children, health expenditure, agribusiness, and asset acquisition that enhances the quality of life for households.

Mortgage/Housing
Loans for housing improvements or incremental housing (building the house in incremental steps) are typically small-size investments that help microentrepreneurs improve the quality of their homes.

Thematic spotlight: Resilience of FIs and MSMEs in difficult times

Financial inclusion is a fundamental pillar in economic and social development and is explicitly featured as a target for the achievement of various SDGs. Research shows its significant benefits, particularly in increasing resilience against negative shocks[28]. This is particularly true for poorer and more vulnerable populations as they are often less prepared and have lower coping mechanisms. In addition, SMEs also face a significant funding gap, with the International Finance Corporation (IFC) estimating that 40% of formal MSMEs have an unmet financing need of USD 5.2 trillion every year[29]. Additionally, it is estimated that SMEs create more than 50% of jobs and contribute to around 40% of national income in less developed countries[29]. Access to adequate financial services, especially in difficult times, can support their growth and maintain or create jobs in local economies.

BOMF's portfolio FIs address the financial inclusion needs in emerging and frontier markets, where the financial gap is more pronounced. Many emerging countries operate in high-inflation and volatile macroeconomic and political environments. In recent years, additional negative shocks have emerged, including the COVID pandemic, increased natural catastrophes resulting from climate change, and geopolitical conflicts. Throughout its long track record of over 25 years, BOMF has navigated through various local and global crises, with limited impact on the overall performance of the Fund[30]. This resilience is attributed to the FIs in the portfolio, its end-borrowers, and their ability to withstand challenges over time. During the COVID pandemic, FIs across many jurisdictions offered to restructure loans to clients who were particularly affected by lockdown restrictions and whose payment capacity had significantly deteriorated. This flexibility provided MSMEs with breathing space, allowing them time to adjust their activities and ultimately comply with their new repayment schedules. As an example, Credo Bank in Georgia actively followed this approach, resulting in a well-performing restructured portfolio. In addition, Credo's response to the COVID pandemic included strengthening its digital infrastructure, which gave them a competitive edge by offering enhanced digital services during the pandemic.

On top of the COVID pandemic, conflicts such as the one between Ukraine and Russia caused significant uncertainty in some countries. In Moldova, for example, the World Bank states that the spillover effects of the conflict impacted the economy and household incomes[31], reflected in a sharp economic downturn of -5% in 2022, followed by a small growth of 0.8% in 2023[32]. Nevertheless, Microinvest, a BOMF investee, continued to grow its portfolio during those years, thanks to the strong management team that has positioned the institution as a leader in the MSME segment in Moldova.

Ecuador provides another example of resilience. As an oil-dependent country, it is susceptible to the volatile nature of international oil prices. Coupled with a history of significant political turmoil and multiple instances of sovereign bond defaults, including in 2020, the country faces considerable challenges. Despite this, BOMF investees in Ecuador have demonstrated a solid track record of payments over the years. These institutions have remained stable and achieved continued growth in their MSME portfolios. For us, several factors have contributed to this, including the professional management teams that had prior experience in dealing with external shocks, and providing appropriate financial products to end-borrowers that were not exposed to export or oil markets. Ecuadorian investees maintain a high level of diversification in their asset and liability structures, with long-term relationships with borrowers and lenders. It is also worth noting that investees have high operational efficiency since Ecuador has operated with interest rate caps since 2007.

[28] Innovations for Poverty Action, 2019: Building Resilience Through Financial Inclusion: A Review of Existing Evidence and Knowledge Gaps.
[29] World Bank, 2019: SMEs Finance.
[30] BlueOrchard, 2023: Do microfinance investments contribute to efficient portfolio diversification?
[31] For more information on the impact of the conflict in Moldova, please see Moldova Overview: Development news, research, data | World Bank.
[32] World Bank Open Data | Data.

During peaks of crisis, institutions managed to strike a balance between higher liquidity buffers and focus on collections, while continuing to support their end-borrowers when they needed it the most. For example, Procredit Ecuador's approach is to work very closely with their SME clients and consider their individual needs. This personalised assessment allows them to identify and manage risks transparently with their clients. Their objective is to be close to their borrowers in good times, while also understanding their challenges to address their needs during difficult times. This approach allows them to build enduring relationships with their clients[33].

BOMF and its investees aim to support the financial inclusion of individuals and MSMEs who are often also navigating through these difficult environments. During client visits conducted by BlueOrchard's investment teams, we witness first-hand the remarkable ability of microenterprises to adapt quickly to challenges. In Peru, restaurants were forced to close for several months during the COVID pandemic, and they transformed their premises into local shops, selling groceries. They also very quickly started offering deliveries, as demand grew. A survey performed by the Centre for Financial Inclusion[34] reported that capacity to change was a key determinant for success during the pandemic. Resilient MSMEs demonstrated their ability to adapt by implementing effective inventory management strategies, introducing delivery services, and harnessing the power of social media as a marketing tool.

Ultimately, we believe that strong leadership and good management, with previous experience in handling crisis, have allowed FIs and MSMEs to adapt and succeed. FIs actively managed their capitalisation, halting planned dividend payments, maintaining ample liquidity levels, and preparing stress scenarios to anticipate potential negative impacts. Similarly, the appropriateness of financial products has been crucial in supporting MSMEs and maintaining a healthy portfolio quality. These products include loans provided in local currency, with amortisation schedules tailored to the business cycles of MSMEs and avoiding lump-sum payments. Additionally, the group methodology has proven to be instrumental in ensuring the success of

Boosting resilience: empowering women for success

Women face long-standing inequalities, including in financial inclusion. And while there has been progress over the last decade, the gap is still very high. Only 68.5% of women had access to financial accounts in developing countries in 2021, compared to 74.2% of men[35]. The evidence on the benefits of focusing on gender-inclusive financial products is increasing and includes more equitable financial decisions in the end- borrower's households, more productive investments, and better adaptative capacity to respond to external shocks[35]. As of December 2023, 81% of beneficiaries in BOMF's portfolio are women. At BlueOrchard, we perceive this as both a challenge reflecting the gender financing gap, and an opportunity to cultivate an underserved customer group that plays a pivotal role in driving socio-economic growth in the respective countries.

Many BOMF investees specifically target women, with some even serving 100% female clients. MBK Ventura, for example, a microfinance institution in Indonesia, provides working capital to almost 1.4 million women, of which 75% live below the poverty line. They provide finance without collateral using group-based financing, as well as individual financing without collateral to individual female entrepreneurs.

[33] Banco Procredit (Ecuador), 2022: Memoria de Sostenibilidad.
[34] Center for Financial Inclusion, 2022: Preparing MSMEs for Future Crises: Lessons from COVID-19.

[38] UN Women and UN DESA, 2023: Progress on the Sustainable Development Goals: The Gender Snapshot 2023.

USD 295.5m
total assets

Tier 1

272 employees

72 loan officers

16 branches

Microinvest is an FI with over 21 years of experience in serving the MSME sector in the Republic of Moldova and has been a BOMF investee since 2009. The FI is the leader among non-bank organisations[36] and ranks 5th in loan portfolio volume within the banking sector. The institution targets financially underserved entrepreneurs, primarily in rural areas of the country, as 64% of their end-borrowers are rural clients. By the end of December 2023, Microinvest had reached over 40 thousand clients.

Even through the economic, geopolitical, and climate challenges faced by the country, the FI has continued to support financial inclusion of local businesses, particularly in agriculture, as over 31% of its portfolio is in this sector. While agriculture plays a significant role in the Moldovan economy, employing 30% of the country's population[37], this is a sector which is also highly sensitive to climate change. In 2020, a drought caused a drop of over 26% in agricultural production, resulting in significant negative impacts on agricultural employment. The conflict in Ukraine also impacted Moldova, affecting supply chains and trade, resulting in higher business costs for Moldovan producers and exports[38]. Over the years, Microinvest has remained committed to supporting MSMEs, also during crisis times. They have achieved this by their deep understanding of the markets where they operate. For instance, as part of their catering to the agricultural sector, Microinvest has developed a specialised methodology for analysing and understanding agribusiness, offering tailored loan products that cater for the specific needs of this sector. The institution prides itself on supporting its customers by offering tailor-made financial solutions, helping them become more resilient.

"We accompanied our clients not only in good times, but also went through crises together (...). I would say that resilience even in adverse environments is part of our DNA, and this is how we became a top five financial institution in Moldova,"

said Dmitrii Svinarenco, CEO of Microinvest, in an exclusive interview for BlueOrchard[39].

40k	**USD 5.8k**	**67%**	**45%**	**64%**
active borrowers	average loan size	of MSME lending	female clients	rural clients

[36] For more information on Microinvest, visit www.microinvest.md.
[37] World Bank, 2021: Moldova: Special Focus Note: Moldova's Vulnerability to Natural Disasters and Climate Risks.
[38] FAO, 2023: The Republic of Moldova: Rapid Response Plan, The Republic of Moldova: Rapid response plan, March–December 2023 (fao.org).
[39] BlueOrchard, 2023: Microinvest - Microfinance in Moldova.

Vasile Munteanu

Agroferma,
Republic of Moldova

Vasile Munteanu is a young entrepreneur and founder of Agroferma, a business that produces sheep cheese and curd that is sold at local fairs and offers deliveries throughout its municipality. He received a loan from Microinvest to build a new sheepfold and production facility that helped him grow its business. For Vasile, starting a business came with challenges as he does not come from a family of sheep farmers. Since his experience was limited, the first breed of sheep was not very productive and milk production was small. Through research, trial and error, and perseverance, he understood that feeding was the most important input and developed its own fodder recipe. He also acknowledges the need for constant adaptation to succeed.

“The climate and the soil, everything is changing, and the knowledge in this area is also changing a lot, and we have to keep up with them”.

Today, at the age of 30, Vasile has developed 3 productive breeds of sheep and has ambitious plans to keep growing his product offering.

"We want to develop these sheep breeds further; they have adapted well to the climate, and we already know how to care for them. We also want to start producing cheeses, pass a course to receive the necessary certification, and bring a new, packaged product – goat’s milk.”

Vasile also believes that the loan from Microinvest helped him achieve his goals much faster than he would have been able to if he had tried to set the business up on his own.

“Everything went very well, I received it *(the loan)* quickly, paid it on time, and achieved my goals.”

USD 2.7bn
total assets

Tier 1

5.3k employees

3.3k loan officers

186 branches

Caja Arequipa is the leading institution of the Municipal Savings Bank system in Peru. Created 38 years ago, its purpose is to democratise access to credit for small and micro businesses and contribute to the financial inclusion of the population least served by traditional banking. As such, 73% of their portfolio is directed to MSMEs and the FI served 593 thousand credit clients and 1,393 thousand deposit clients as of December 2023.

Micro and small businesses represent 96% of Peru's total companies and generate more than 70% of jobs[40]. However, only 52% of adults are banked[41], and 8 out of 10 micro and small businesses are informal, making their access to credit difficult, which often leads to informal loans outside the financial system.

Challenges for MSMEs intensified in 2020 during the COVID pandemic. To support their customers, one of Caja Arequipa's first actions was to reschedule 75% of total loans to provide clients with the opportunity to restructure their businesses and rethink loan repayment plans. This resulted in the deferment of a significant portion of the income and the contraction of interest margins. However, by implementing operational efficiency measures and process improvements, Caja Arequipa maintained a portfolio growth of over 7.2% at the end of 2020, and over 16% at the end of 2021, while also attracting 53 thousand new clients in the 2020-2021 period.

During this adverse circumstance, Caja Arequipa put significant efforts into supporting its clients, thus fulfilling the main objective and purpose of the institution.

Hear from Maria Pia Palacios, Director and President of the Board of Caja Arequipa.

593.0k active borrowers | **USD 4.3k** average loan size | **73%** of MSME lending | **51%** female clients

[40] ComexPerú, 2021: Micro and Small Businesses in Peru.
[41] IPSOS, 2021: Banking.

Alexandra Deza

Food Industries Group "Calesi", Peru

Alexandra Deza is a 27-year-old entrepreneur. A native of the city of Arequipa, in the south of Peru, she obtained a loan from Caja Arequipa in 2022 for 50 thousand soles (USD 13,500) to grow her food concessionary and bakery business: Food Industries Group “Calesi”.

Alexandra successfully participated in a business training program called "Kallpa Warmi" (which means "strong woman" in Quechua) provided by Caja Arequipa. This training enabled her to enhance her business skills even further.

Alexandra now owns various restaurants and provides employment to several women, many of them seeking financial autonomy. Her team also includes single mothers and women with no prior cooking experience.

“As business entrepreneurs, we have to accept that we can’t grow by ourselves, we need someone’s hand, and when they give you their hand, they are giving you their trust and believing in you. And this is what Caja Arequipa does with us.”

LENDINGKA₹T

Simplifying MSME Finance

USD 423.3m
total assets

Tier 1

741 employees

Lendingkart is one of the largest completely fintech non-bank financial companies (NBFCs) in India, offering business loans to underserved Indian MSMEs. Founded in 2014, the FI's mission is to create financial agility for MSMEs, enabled by technology and its data-first approach. This is especially relevant in India, a country where account ownership has doubled between 2011 and 2021[42], with digital payments growing from 35% in 2017 to an estimated 40% in 2023[43].

Over the last decade, Lendingkart has demonstrated tremendous business growth driven by its technology-led financing strategy which not only digitised the customer journey and lending operations, but also used proprietary credit analytical tools and machine learning algorithms to assess the creditworthiness of its borrowers.

They offer a fully digitised service to the client from loan initiation to the disbursement and collection processes. The institution currently has clients in more than 4,000 cities and towns throughout 28 states and 6 union territories in India. As of December 2023, Lendingkart had around 127,610 borrowers and a gross loan portfolio of USD 264m, with an average loan size of USD 2,000.
The COVID pandemic had a severe impact in India with business interruptions that put a strain on both Lendingkart and its clients. The institution demonstrated its ability to swiftly adapt to the rapidly changing environment and successfully adjusted its processes accordingly.

127.6k active borrowers	**USD 2.0k** average loan size	**100%** of MSME lending	**70%** rural clients

[42] World Bank, 2021. The Global Findex Database: India Country Brief.
[43] OMFIF, 2023: India's digital leap in financial inclusion.

Hari Kishan

**Hari Industries,
India**

Hari Industries is a business dedicated to manufacturing bottles made of glass, plastic, and rubber. It was founded by Hari 13 years ago and he currently employs 11 workers, out of which 6 are women.

Hari believes that success requires hard work, but also capital support to seize opportunities. When he received an unprecedented order that required more resources than what he had at the time, he sought support from local banks and friends.

However, Hari ultimately found the solution in Lendingkart, as the application process was very efficient. He was able to complete the loan process online in just a few minutes, and within 3 days he had the necessary working capital.

"With time being a precious commodity for any business owner, Lendingkart's efficiency allowed me to swiftly invest in meeting customer demands, thus accelerating my business growth. I used to do business before too, but with Lendingkart I got the confidence to move faster."

lula

USD 94.8m
total assets

Tier 2

165 employees

36 loan officers

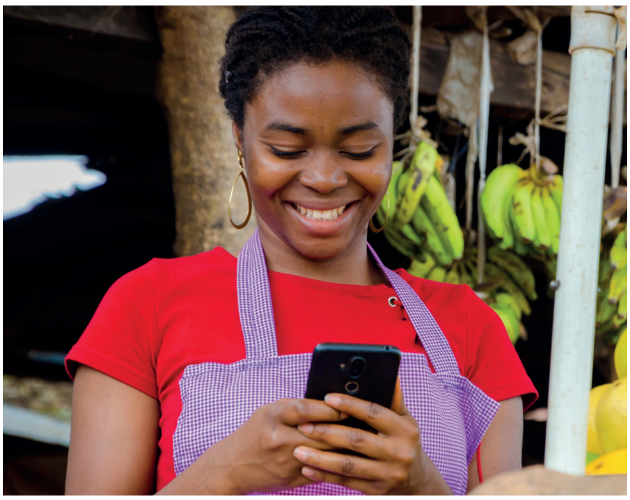
Lula is a technology-driven, online SME funder in South Africa. Its mission is to address cash flow challenges faced by SMEs, offering various types of financing for those seeking everything from bridge finance and working capital to inventory and equipment financing.

Owing to the efficiency derived from the digital platform, Lula has been able to significantly broaden its reach. In August 2021, they had 1,751 borrowers, but as of December 2023, that number had grown to 7,355, with an average loan size of USD 9,130.

While South Africa has made significant progress in expanding access to financial services (over 81% of the population over the age of 16 have a bank account, compared to 63% in 2010[44]), there are still several gaps to address. Active usage of existing accounts remains low, and access to finance for SMEs remains an important challenge in the country[45].

Lula aims to empower SMEs by providing funding to businesses that often struggle to access finance from traditional banks. Around 80% of Lula's clients are accessing business term funding for the first time when they engage with Lula.

Lula also provides education to their clients to increase their business resilience in the face of challenges. This includes providing webinars, conducting trainings, and offering support via an online forum for SMEs in South Africa to connect and support each other by sharing insights, experience, and tips for business owners.



7.4k
active borrowers

USD 9.1k
average loan size

80%
of MSME lending

[44] FinMark, 2020: Finscope South Africa Overall Databook, in Financial Sector Conduct Authority, 2022, Financial Sector Outlook Study.

[45] OECD, 2022: Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard. South Africa.

Roxanne Schumann

**Growing Paper,
South Africa**

Roxanne Schumann is one of the founders and Managing Director of Growing Paper, a company that manufactures 100% recycled handmade paper products, like business cards, envelopes, and note-books. Roxanne founded her company 14 years ago and currently employs 40 people.

Roxanne believes that being a female entrepreneur has given her a unique perspective to face business challenges by embracing her values.

"Our production doesn't follow a rigid assembly line; it dances to the rhythm of nature. As we faced the unpredictability of weather patterns and environ-mental shifts, we learned to adjust, to pivot, and to find innovative solutions. This adaptability isn't just a business strategy; it's a reflection of the tenacity that women entrepreneurs exhibit every day."

She views the management of Growing Paper as not just about running a business, but also empowering a community and providing employment opportunities.

She believes that the loan she received from Lula supported Growing Paper's needs effectively.

"Lula has given us the peace of mind in having funds available whenever cash flow is an issue, in the form of their Revolving Capital Facility. When a challenging cash flow situation arises, we have the peace of knowledge that we can make use of this facility and repay it within the amount of months of our choice."

The way forward in financial inclusion

Looking back at the past 10 years, we have witnessed that financial inclusion has made progress in reaching more remote populations, especially with the help of technology. However, this progress has not been equal for all. According to the Findex Database[46], out of the 1.4 billion adults worldwide who do not have a bank account, the majority are women, individuals living in poverty, and those with limited education.

Therefore, we expect financial inclusion to continue having a prominent role in facilitating the achievement of the SDGs. As the world faces new challenges, we must also reflect on how responsible financial inclusion can be applied so that it maximises its impact. We believe the following areas can play a key role in further advancing this potential and, at the same time, present good opportunities for impact investing in financial inclusion.

Increased focus on gender and underserved populations

Addressing the gender gap in financial inclusion is paramount. Understanding the barriers and enablers for underserved groups can help FIs adapt their strategies and product offerings more effectively. In line with this ambition, BlueOrchard's Impact Scorecard includes specific impact objectives related to gender diversity in, allowing us to measure and track progress over time. Additionally, we have expanded our ESG questionnaire to include gender and diversity data at the FI level, recognising the catalytic role of diverse leadership.

Supporting the growth of green portfolios

Climate change poses a significant threat to sustainable development, with the most vulnerable populations being disproportionately affected by natural disasters. For instance, agriculture is severely impacted by climate change, and around two-thirds of the world's population in extreme poverty depend on it as their livelihood[47]. Also, poorer populations are often less prepared, uninsured, and have lower coping mechanisms.Supporting the increase of capital and resources for FIs to develop and expand their green loan offering is crucial for fostering resilience and transitioning to a low-carbon economy. BOMF is actively seeking to support this expansion (see Produbanco Ecuador example, page 9) and we are also working towards improving data collection to better capture the positive impact of these portfolios.

Responsible management of fintech

Financial technologies and the digitalisation of traditional financial services have the potential to accelerate inclusion through efficiency and scale, as was demonstrated by the progress seen in the Global Findex report published in 2022[48]. BOMF already funds fully digitalised FIs, enabling greater accessibility to financial services for historically excluded MSMEs and individuals (see case studies Lendingkart and Lula, pages 28 and 30). However, it is essential to address the challenges faced by fintech companies. Lack of regulation in this rapidly changing and growing industry means that risks associated with responsible customer protection practices are also higher[49]. Adequate due diligence to minimise risks of over-indebtedness and data misuse, among others, becomes critical.

Enhancing climate commitments

Over the course of 2024, in collaboration with Schroders, BlueOrchard is developing a decarbonisation framework for its funds under management, including BOMF. The framework will examine the alignment of investments and portfolios to Net Zero, enabling us to understand the position of our investees today and engage with them to drive climate efforts over time. The framework combines this alignment component with a climate solutions identification tool to enable us to systematically identify where our investments are driving real-world decarbonisation. It incorporates industry-recognised standards from leaders such as the IIGCC (Institutional Investor Group on Climate Change) and SMI (Sustainable Markets Initiative) to systematically identify investments driving real-world decarbonisation.

BOMF aims to support FIs that are actively embracing these challenges and striving to innovate with cross-cutting solutions that leverage technology to address the needs of underserved populations. To implement this ambition, BlueOrchard relies on B.Impact™, our rigorous impact management framework that has been constantly evolving since we started our impact investing practices over two decades ago. We are committed to continue strengthening our tools in the future, to make the most of the new opportunities in financial inclusion and maximise the Fund's impact footprint.

[46] World Bank, 2021: The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19.
[47] BlueOrchard, 2020: Rethinking Climate Finance.
[48] Same source as footnote 46.
[49] Schroders, BlueOrchard, 2023: Financial Inclusion: why it matters for investors.

Abbreviations

AuM: Assets under Management

bn: Billion

BOMF: BlueOrchard Microfinance Fund

ESG: Environmental, Social and Governance

FI: Financial Institution

GHG: Greenhouse Gas

GIIN: Global Impact Investing Network

IMP: Impact Management Project

JIM: Joint Impact Model

k: Thousand

KPIs: Key Performance Indicators

m: Million

MSMEs: Micro, Small and Medium Enterprises

PCAF: Partnership for Carbon Accounting Financials

SBTi: Science Based Targets Initiative

SDGs: Sustainable Development Goals

SFDR: Sustainable Finance Disclosure Regulation

USD: US Dollars

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