

BlueOrchard

Achieving Social Objectives

Social Performance Report 2013



BlueOrchard
Microfinance Investment Managers



—
Peter Fanconi

Chief Executive Officer/Member of the Board

Expanding the access to financial products for micro-entrepreneurs and small businesses; Empowering them to manage their own financial future and improve their families' well-being; Supporting the healthy development of the communities in which they live. This is what microfinance is all about, and the ability to achieve these outcomes is what social performance management aims to assess.

In BlueOrchard's fourth annual Social Performance Report, we review the Social Performance Objectives that we as a company have defined for 2013/2014 and provide concrete examples of how these objectives are being pursued through our daily activities, the products we create for our investors, and the microfinance institutions in which we invest.

Outlining a strategy, defining objectives and measuring performance against these objectives is an essential part of successful business planning. In social performance management, while targets are not always easily quantifiable, it is critical to define where you want to go and how you plan to get there. Setting objectives allows you to be effective and efficient in deciding what activities to pursue. When Blue Orchard's Investment Team assesses the social performance management of microfinance institutions, one of the first items we look at is whether the MFI's board and management have set social performance objectives, and if these fit within the institutions's stated mission and vision.

Throughout the microfinance industry, there has been significant progress made to make social performance management more systematic and concrete. The Universal Standards for Social Performance Management that were released in 2012 developed benchmarks and yardsticks against which performance can be assessed. We have been actively involved in such industry initiatives and continue to support these developments. But it is not enough to say one wants to make a difference: by setting specific objectives, we aim to define and illustrate how BlueOrchard works to make that difference, helping in developing a sustainable, inclusive financial system worldwide.

In the name of the entire BlueOrchard Team, I thank you for sharing similar values with us. With this in mind I hope that you will enjoy the following pages!



—
Lisa Sherk

Head of Social Performance Management

Our Mission is to be a leading commercial microfinance intermediary, providing innovative financing solutions to institutions in emerging markets, and financial and social returns to investors.

Our Vision is to contribute to building a strong, healthy and sustainable inclusive financial system worldwide that empowers the working poor, and helps them to improve their standard of living and that of their families.

Social performance management is defined as putting one's mission into practice: this is done most effectively when the composite parts of an organization - board, management, and staff - work together towards achieving shared goals. At BlueOrchard, our starting point for setting the company's objectives is therefore to collect input and viewpoints from those who work on the ground directly with microfinance institutions, as well as those who maintain an ongoing dialogue with our investors. As such we aim to make our mission a reality for our multiple stakeholders: Microfinance institutions and the microentrepreneurs they serve, our investors, shareholders and staff. Taking this feedback, our objectives are drafted, defined and approved by senior management and ratified by the Board of Directors.

Implementation is the critical next step, and something that cannot be accomplished by only a few individuals. I would therefore like to take this opportunity to acknowledge all members of the BlueOrchard Team for their strong commitment and dedication to reaching our common goals. It is through their daily work that we all succeed to further the development of strong and sustainable inclusive finance. Many Investment Team members in particular have also made important contributions to assembling this report and I am grateful to each of them for their inputs, ideas and spirit. And lastly, I thank you, the readers of our Annual Social Performance Report, for your ongoing interest in microfinance and BlueOrchard's work in this dynamic field.

BlueOrchard's Social Performance Objectives

o1_

Enhance the company's social performance assessment tools and staff training on social performance management

o2_

Continue to innovate and develop products and services that are ever more appropriate for microfinance institutions and their clients

o3_

Continue active participation in industry-wide initiatives that contribute to responsible microfinance including funding of research projects on client protection, overindebtedness studies, etc.

o4_

Support investee microfinance institutions in their efforts to improve their social performance and impact and to share experiences and best practices amongst peers

o5_

Define and implement a company-wide environmental policy

o6_

Maintain high standards of timely and relevant reporting on social performance issues to investors

o7_

Explore initiatives to measure social impact together with microfinance institutions, practitioners and academic researchers

Incorporating the latest developments in social performance management in our investment process

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Enhance the company's social performance assessment tools and staff training on social performance management

The microfinance industry is highly dynamic and **BlueOrchard's social performance assessment tools and staff trainings are designed to keep pace with the latest evolutions and developments in the market.** One important area of focus over the past several years has been Client Protection: **An impressive 85% of MFIs financed by BlueOrchard-managed funds have now endorsed the Smart Campaign** (as well as BlueOrchard itself, an early signatory in 2008). Now those MFIs that meet high standards of implementation of the Client Protection Principles can be certified. In June 2013 BlueOrchard hosted a training provided by the Rating Initiative, which included an in-depth look at the work done by microfinance rating agencies in their role as Smart Campaign certifiers.

Interview_ Eleonora Castaldo, Investment Officer for Eastern Europe, attended the training, and later interviewed Borislav Petric, the Marketing Manager of EKI MKO, located in Bosnia Herzegovina (B&H) and a long-standing borrower of BlueOrchard-managed funds.

Q. EKI was one of the first MFIs to receive full certification of compliance with the Client Protection Principles. Congratulations on this important achievement! What were your motivations for applying for the certification in the first place?

The B&H microfinance sector was initially recognized in the world of successful case studies, with extremely high growth rates and strong portfolio quality. After this, we faced a crisis during which we learned that not all of us in B&H had had the same approach to clients. **Since EKI has always been very transparent and honest in doing business with its clients, we felt strongly that the certification process would be a very good way to demonstrate that.**

Prior to the SMART campaign certification, EKI had already done quite a lot in this area, constantly testing and verifying whether all the principles had been properly incorporated in EKI's business. Defining and incorporating the principles in our policies and procedures was not as big a challenge as actual practical implementation, which in our view is much more relevant and we saw the certification process as a good exercise to help us achieve this.

Q. What were the areas that you found most challenging to implement? Did you need to make changes to your policies or procedures in order to meet full compliance?

The SMART campaign certification is a well-designed and well-prepared process. It provides very detailed information about the principles and indicators covered. In our case, we needed to make some adjustments in some of the policies and procedures, mostly as related to regulating the protection of client data, strengthening the quality of communication with clients and making our complaints procedure more visible for the audience. But since we started preparing for it early, we did not find it difficult to comply with the certification requirements.

Q. Are clients aware of the certification that you have received? Do you think they factor this into their decision to be a client of EKI rather than other MFIs that are not certified?

We invested significant efforts in communicating the client protection principles to all our clients and staff. However, we still cannot say that our clients fully appreciate certification, at least not to the extent we would like them to do. Still, according to our studies, clients really appreciate our commitment to service. For us, this is a very positive feedback as we are aware that it has an impact on customers choosing EKI over our competition.



Photo provided courtesy of EKI MKO

EKI loan officer performing due diligence on a potential borrower

Q. Many industry participants have commented that the bar has been set very high for certification. Did you find it a difficult process?

Certification is not a complicated process if you have already demonstrated a commitment to meet the purpose of the client protection principles.

Q. What advice could you offer to other MFIs that are considering applying for certification?

We would encourage them to consider applying for certification. In any case, SMART client protection assessment is very relevant in terms of implementation of client protection principles in each institution. Also, it is important that as many of us join in as possible, as this will contribute to the quality of benchmarks and observance of client protection standards.



Photo provided courtesy of EKI MKO

Client of EKI MKO

THE FIRST CLIENT-PROTECTION CERTIFIED MFIs

In addition to EKI, four other MFIs borrowing from BlueOrchard-managed funds are among the first nine MFIs certified by the SMART Campaign on Client Protection:

- ♦ ProMujer Mexico
- ♦ Crezcamos (Colombia)
- ♦ Fundacion Mundo Mujer (Colombia)
- ♦ Partner (Bosnia Herzegovina).

Meeting clients' needs

o2_

Continue to **innovate** and develop products and services that are ever more appropriate for **microfinance institutions and their clients**

FINANCING IN THE RIGHT CURRENCY

Currency risk has been a longstanding issue in microfinance, where funding often comes from investors in the U.S. and Europe, while the end-borrowers of MFIs typically earn their livings in the local currency of their home country. **As the recent volatility in emerging markets currencies has shown all too well, if end-borrowers take on hard currency debt, they can expose themselves to significant risks.**

Fortunately, the number of hedging counterparties involved in a wide range of currencies in microfinance has expanded considerably over time and in the past several years, **Blue Orchard-managed funds have made loans in over 30 different local currencies across the globe.**

There are some cases, however, in which the local market for a given currency is so small and illiquid that it is either impossible to find a hedge counterparty, or hedges are prohibitively expensive. In these cases, to provide the appropriate financing to an MFI, unhedged exposures often need to be considered.

As an example of this, BlueOrchard recently arranged an unhedged loan in Vietnamese dong to an MFI in Vietnam, **Tinh Thuong One Member Limited Liability Microfinance Institution**, known as 'TYM.' TYM has become a leading



Photo provided courtesy of Tinh Thuong One Member Limited Liability Microfinance Institution

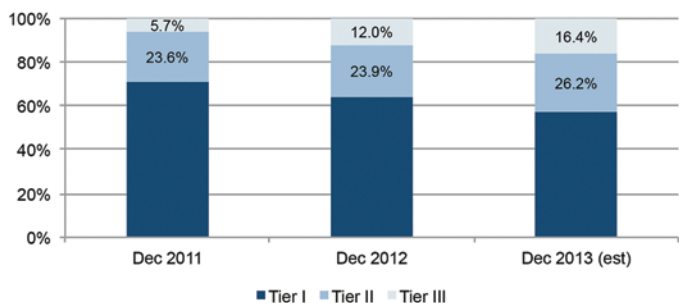
TYM client tending to her cattle

microfinance organization in the country serving over 82,000 low income women and their families in 10 Northern Vietnamese provinces, providing loans and savings products. **TYM** has an average loan size of less than USD 250 equivalent, and its clients are predominantly (78%) in rural areas. The MFI also provides microinsurance products to its clients as well as a variety of non-financial services, such as financial education, women's empowerment and various social activities.

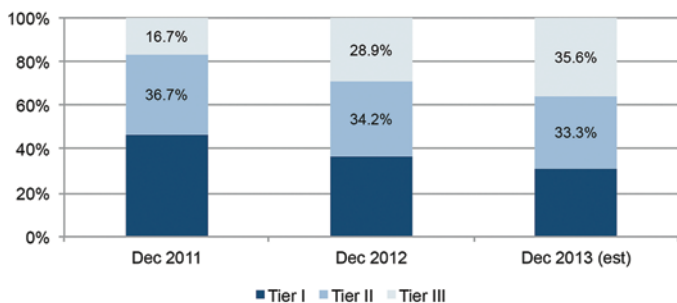
REACHING SMALLER MFIs

The **Microfinance Growth Facility (MiGroF)** was created in 2010 to support microfinance institutions in Latin America and the Caribbean by providing medium and long-term loans throughout the region, and BlueOrchard was named investment manager of the fund. In mid-2012, the fund's shareholders decided to increase the outreach of the fund towards so-called 'Tier II' and 'Tier III' MFIs, meaning those MFIs with total assets of less than USD 75mn and USD 30mm, respectively. **These smaller MFIs often aim to serve a poorer clientele, frequently combining their credit offer with non-financial products aimed to help their clients to use their loans effectively or otherwise improve other aspects of their life,** such as in health and education. As of September 2013, the majority (64%) of the MFIs reached by funding from MiGroF were Tier II or Tier III MFIs, accounting for 37% of the USD 97mm loan portfolio. Over the medium term, the fund expects to deepen more its outreach by increasing the number of clients belonging to these segments, while keeping an adequate balance of risk and return.

Total Exposure per Tier



Number of MFIs per Tier





Pro Mujer in Nicaragua began operations in 1996, as the second Pro Mujer affiliate established by the Pro Mujer International network. Based in León, Nicaragua, the MFI had a loan portfolio of USD 16 million as of

August 2013, serving more than 55,000 clients (97% of whom are women) with an average loan size of USD 286. The important role that Pro Mujer in Nicaragua plays in the lives of its clients, and their loyalty to the institution, was made clear during the crisis in the Nicaraguan microfinance market in 2008 and 2009. While many MFIs, impacted by the 'No Pago' movement in the country, saw their delinquency rates climb to 15 to 20% and higher, Pro Mujer's PAR30 + writeoffs peaked at less than 10% and remains far better than the market average today, at below 1%.

In addition to its credit products, Pro Mujer in Nicaragua offers medical services through clinics staffed with a physician and a nurse in all branches. All clients have access to basic health tests, such as blood pressure measuring, diabetes test, and measurement of body mass index (BMI). With the cooperation of the Linked Foundation, Global Partnerships, and PATH, the MFI designed an optional health package for its clients – called 'Vida Sana' – that can be acquired for an annual fee of USD 43. The health package's goal is the early detection of common and preventable illnesses. The MFI also has alliances with specialist physicians and laboratories so clients that need more specialized services can obtain sizeable discounts.



Photo provided courtesy of Pro Mujer International

ProMujer, Nicaragua clients receiving medical checkup services at one of the MFI's branch clinics

Pro Mujer in Nicaragua also provides trainings, free of charge at every communal bank meeting, on financial topics, such as money management and overindebtedness, and health and welfare-related topics, including domestic violence prevention, among others. Moody's Analytics completed a social performance assessment (SPA) of Pro Mujer in Nicaragua in October 2013 and assigned the MFI an SPA grade of SP2, the second-highest grade possible.

PROVIDING FINANCING FOR ENVIRONMENTAL PRODUCTS

In the context of analyzing the microfinance market in Asia, BlueOrchard recently developed a survey on its MFI universe to gauge interest and appetite for financing in the renewable energy sector. **The survey indicated that there is strong MFI interest for financing of biogas technology solutions for use by microentrepreneurs and low-income households** in South and East Asia.

A renewable energy source like solar or wind energy, biogas is produced through the breakdown of locally available organic matter, such as manure, sewage or green waste. It can be used for cooking, heating and lighting purposes and, when compressed, can replace fossil fuels for use in vehicles. What is more, the fermentation process applied in biogas production yields organic slurry, a secondary product which is highly effective as fertilizer. Thanks to recent developments in applied research, technology solutions such as biodigesters have become widely available for small-scale use across developing nations.

While demand for biogas technology has increased markedly, large-scale implementation is hampered by lack of financing as the required investment of USD 400 to 800 often exceeds the capital available to microenterprises and low-income households. Microfinance institutions have therefore started offering specific biogas loans allowing their clients to acquire the necessary equipment for productive purposes.

The study, conducted by the BlueOrchard investment team in Asia in 2012/2013, revealed that appropriate biogas financing solutions currently exist in Cambodia, Vietnam, Nepal, Indonesia, India, Bangladesh, Laos and the Philippines, where rural populations at the base of the pyramid have successfully adopted this innovative technology for multiple uses. Microfinance institutions participating in the survey highlighted the proven benefits to their clients, but also underlined the needs for both advisory services and funding to make such products widely available.

As part of its social and environmental mission, BlueOrchard is evaluating the possibility to allocate segregated funds to the further development of biogas financing solutions in collaboration with SNV and on behalf of KfW, and the German Ministry for Cooperation and Economic Development (BMZ).



Photo provided courtesy of SNV

Building a bio-digester in Vietnam

Contributing to the healthy development of the microfinance industry

o3_

Continue active participation in industry-wide initiatives that contribute to responsible microfinance including funding of research projects on client protection and overindebtedness studies.

Maintaining a well-functioning, healthy microfinance sector and developing useful industry-wide standards often requires cooperation among market participants. BlueOrchard is actively involved in several industry-wide initiatives where we feel that such joint efforts are particularly useful and effective. Research into overindebtedness (OID) is one such area: It is our firm belief that credit provided by microfinance is a powerful tool that helps microentrepreneurs build their business and increase family income. But if borrowers take on more debt than they can handle, it can become a burden rather than an enabling resource. **Avoiding overindebtedness is an area where cooperation among all stakeholders is critical.**

With this in mind, BlueOrchard joined forces with two other microfinance investment managers, Incofin IM and Oikocredit to fund and help design a study on overindebtedness in Cambodia, one of the most dynamic and active microfinance markets in the world. Research was conducted by the Cambodian Institute of Development Study (CIDS) and eight of the leading microfinance institutions in Cambodia. **The ultimate objective was to use this information to help identify effective ways to reduce the incidence of overindebtedness among microfinance borrowers.**

The main findings of the research were that:

- ♦ **Market saturation varies significantly across different regions** in Cambodia, leaving ample room for MFIs to focus expansion of their operations in areas where there is less competition and less coverage.
- ♦ While many borrowers do find that they sometimes struggle to repay their loans, only a fraction consider these struggles to be unacceptable, indicating that **they place a high value on their ability to access microloans.**
- ♦ **OID is strongly correlated with multiple lending**, and, to a lesser extent, also correlated with low financial literacy and education.
- ♦ Clients with **sufficient income from business activities alone** to repay their loans are less likely to encounter problems of OID than those who rely on other household income sources.

Interview_ Arthur Dumas, Investment Officer in BlueOrchard's Phnom Penh office, interviewed **Kea Borann**, the CEO of AMK, one of the eight MFIs that participated in the study, and a long-standing borrower of BlueOrchard-managed funds:



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Kea Borann, CEO of AMK

Q. The study found a strong correlation between multiple loans and overindebtedness. Why do you think that is? Why is it that clients take out multiple loans?

In highly penetrated areas, clients often have access to financial services from several MFIs. If lenders do not thoroughly evaluate clients' ability to repay, this can lead to situations where clients simply end up with far too

much debt compared to their income. These situations are especially worrisome when clients start to borrow from a new MFI to repay their previous loan.

Leading Cambodian MFIs have all put in place debt service coverage ratio (DSCR) limits to reduce the risk of overindebtedness for their clients, but borrowing from several sources quickly became a solution for clients willing to skirt those restrictions and borrow larger amounts sometimes well above their capacity.

An alternative explanation for clients to take multiple loans might be that they borrow only the amount they need for a specific activity, at a specific moment, in order to minimize their interest costs. If new financial needs arise in the meantime, then a client may look for another loan.

Q. How does AMK mitigate overindebtedness risks for its clients?

Mitigating overindebtedness risk has been a key focus for AMK for the past few years.

Our approach to mitigate OID risks for our clients relies on three main pillars: i) strong cash flow assessment and strict restrictions regarding cross financing, ii) adequate and innovative product design and, iii) given the level of saturation of some villages, reasonable growth expectations, with a focus on untapped areas.

In order to mitigate OID risks, MFIs must first of all adequately assess each client's capacity to repay. This has been a key focus for AMK, and we are constantly trying to improve our process. Including credit bureau's data in our cash flow assessment has been a key milestone in this regard. In order to further strengthen the accuracy of its cash flow assessment, AMK is currently working on a manual detailing the typical income and expense for the various type of business commonly run by its clients to provide concrete guidelines to its loan officers.

But all those efforts would be fruitless if policies were not applied in the field. In order to guarantee adherence to policies in its operation, AMK is allocating substantial resources for field staff training (for example, refresher training on cash flow analysis was conducted in the head office for all AMK loan officers during the first half of 2013) and has now fully integrated compliance with underwriting policies at the branch level in the internal audit process and as a key component of each branch manager's performance appraisal.

In addition to these efforts on the cash flow assessment side, AMK has also followed since 2012 a strict policy regarding cross financing. We started to track multiple loans in 2006, and our in-house research department started to dig deeper into this issue and to look for ways to mitigate risks for its clients in 2009/10 when the first signs of OID issues started to emerge along with the deterioration of the economy.

Our current policies are as follows:

- ♦ For group loans, whose maximum loan size is set at USD 250, clients with a total outstanding debt (including AMK and other lenders) below USD 500 are allowed to have two loans on top of AMK's loan. Group loan clients with a total outstanding debt above USD 500, however, are only allowed to have one loan on top of AMK's loan.
- ♦ For individual loans, AMK applies a 'single loan policy,' under which any prospective client who already has a loan from another MFI or bank automatically becomes ineligible for a loan from AMK.

On the product design front, we believe that the flexibility offered by our credit line product, which was launched in 2005 and currently amounts to 31% of our portfolio by number of loans, adequately addresses the need of clients for flexible drawdowns. This product, which is not currently provided by any other Cambodian MFI, allow AMK's clients to draw money at different times during their investment process while the interest is only charged on the actual amount drawn.

Finally, with regards to our expansion strategy, we do acknowledge that some areas are saturated and prone to OID issues, and have taken this into account into our growth plans. We are planning to grow our portfolio at a rate of 15-20% p.a. from 2014 to 2016, which stands substantially lower than most of our competitors, and we will focus our growth strategy on low- or even unpenetrated areas. We will also continue to actively monitor the saturation level of the market at the village level by maintaining our data sharing agreement and mapping exercise initiated in 2011 with other leading Cambodian MFIs, which led us to stop our lending activities in the most saturated villages.

BLUEORCHARD IS PROUD TO BE AN ACTIVE MEMBER / ENDORSER OF THE FOLLOWING INITIATIVES:



The Social Performance Task Force (SPTF) includes more than 1,000 members from MFIs, MIVs, rating agencies, networks and other market participants. BlueOrchard co-heads the AVOID Overindebtedness working group of the social investor sub-committee of the SPTF.



The Smart Campaign's Client Protection Principles are: (1) Appropriate product design and delivery (2) Prevention of over-Indebtedness (3) Transparency (4) Responsible pricing (5) Fair and respectful treatment of clients (6) Privacy of client data and (7) Mechanisms for complaint resolution. The Smart Campaign has recently launched a pilot certification program. BlueOrchard endorsed the Smart Campaign in 2008.

Signatory of



The UN-supported Principles for Responsible Investing (PRI), were launched in 2006 to promote the practice of responsible investing across multiple asset classes, while the Principles for Investors in Inclusive Finance (PIIF), provide a framework for responsible investment in inclusive finance specifically. The PRI maintains suggested practices and a wealth of resource materials for strong social performance management. BlueOrchard has been a signatory of PRI since 2008 and endorsed the PIIF in 2011.



In 2011 BlueOrchard endorsed the dual mission of Microfinance Transparency to facilitate the collection and dissemination of transparent microcredit product pricing and educate stakeholders and enhance their understanding of microcredit product pricing.



For the past six years, the BlueOrchard Microfinance Fund has received the Luxflag label which is provided to vehicles that comply with minimum requirements including transparency and investor protection.



BlueOrchard is a member of Eurosif (the European Sustainable Investment Forum), a pan-European network and think-tank whose mission is to develop sustainability through European Financial Markets. Eurosif affiliate members include institutional investors, financial service providers, academic institutes, research associations, trade unions and NGOs that represent assets totaling over EUR 1 trillion.

Sharing best practices

o4_

Support investee microfinance institutions in their efforts to improve their social performance and impact and to share experiences and best practices amongst peers

In our on-site due diligence trips, BlueOrchard not only evaluates the performance of the MFIs that we meet. **Through the questions we ask and the feedback we provide, we aim as well to spread awareness of social performance issues that we feel are important and developments taking place in the industry as a whole.**

We have also recently included a requirement in our loan documentation that all MFIs financed through BlueOrchard-managed funds provide social performance reporting to the widely used online source of microfinance data, the Microfinance Information Exchange, commonly known as 'the MIX.' Reporting on this platform supports MFIs in improving their social performance management by (1) identifying key areas of social performance management (2) allowing MFIs to compare their activities with those of their peers; and (3) demonstrating transparency.

SPOTLIGHT ON BEST PRACTICES

MFIs come in many different forms, including NGOs, banks, non-banking financial institutions, and cooperatives. **While their focuses lie in different areas – reflected in their diverse mission statements – each of these institutions has the potential to provide strong social performance management.** We highlight here some of the activities of several MFIs that have received among the top scores in BlueOrchard's social performance scoring system, SPIRIT.

Currently ranked as the 5th largest bank in Paraguay, **Visión Banco** is the market leader in the microfinance market with the largest network in the country, with almost 90 branches and 2,000 employees. **Visión** reaches over 290,000 borrowers and 200,000 savers and is **a full-service bank committed, as articulated in its mission statement, to 'economic development, employment creation and poverty alleviation.'** The bank received an A-social rating in 2012 from Microfinanza Rating and has endorsed the Smart Campaign's Client Protection Principles. **Visión** was a pioneer in introducing mobile banking several years ago and in 2013 the bank expects to deepen its use among two-thirds of its clients.

Visión created a social corporate responsibility department in 2005 and has established social objectives in its strategic planning. Each year **Visión** issues a sustainability report aligned to the Global Reporting Initiative, and has been a signatory of the UN Global Compact's principles since 2006, which aim to support fundamental principles on human rights, labor, environment and anti-corruption. In addition to its financial services, the bank provides technical assistance to clients, and has delivered courses on administration, sales and various agricultural techniques.

Utkarsh provides microfinance loans through group solidarity lending to the rural unbanked in Uttar Pradesh and Bihar – two of India's poorest and most populous states – currently with more than 234,000 clients. Utkarsh has a subcommittee at the Board level for Social Performance Management and appointed an independent director as the SPM director. The Board is closely involved in setting targets and measuring social and financial performance, reviewing internal audit reports and ensuring satisfactory closure of client grievances. The CEO reviews monthly reports on SPM and the Board receives a comprehensive report on a quarterly basis.

The bank also provides training to customers on how to manage their personal finances. In addition, 'Together for your house' is a joint program carried out with Habitat for Humanity which provides technical assistance in conjunction with financing from the bank.



Photo provided courtesy of Visión Banco

While working as a dental assistant, César Rodríguez decided to open his own clinic, beginning with only one client. With the help of a loan from **Visión Banco**, César was able to move to new premises and to buy new equipment to meet the requirements of today's demanding clientele. Today his 'Laboratorio Dental Rodríguez' has more than 60 clients.



Photo by Nikunj Oli, BlueOrchard Finance S.A.

Clients of Utkarsh, participating in their monthly group meeting

Samutkarsh Welfare Society, set up by **Utkarsh** and funded by a fixed portion of the MFI's pre-tax income, provides vocational training for self-employment, market linkages and financial literacy trainings. After a study showed that most of **Utkarsh's** clients do not have access to primary health care facilities, Samutkarsh introduced health camps to educate clients and provide free medical checkups. More than 3000 people were offered basic health checkups such as blood test, sugar test, pregnancy test, etc. in such health camps over the past year. **Utkarsh** has endorsed the Client Protection Principles and has formulated its policies and processes to comply with these principles. The MFI also has a written business code of ethics which is aligned with the Reserve Bank of India's fair practice code and industry code of conduct.

Below are some highlights from Utkarsh's policies and procedures :

- ♦ **Utkarsh** will not lend to borrowers who already have two other microloans and to clients who have over IDR 30,000 (approx. USD 500) in debt.
- ♦ At the start of each group meeting, **Utkarsh** credit officers inform clients of their rights and duties.
- ♦ A toll free number is printed on the borrower's passbook where clients can report any mistreatment or other issues. On a monthly basis, a grievance redressal committee checks if all the complaints have been satisfactorily settled; cases are closed only after approval from the committee.
- ♦ To ensure appropriate collection practices, **Utkarsh's** internal audit team scores credit officers on ethical behavior and collects feedback from clients.

Promoting environmental protection

o5_

Define and implement a company-wide environmental policy

BlueOrchard currently has in place an environmental policy that addresses both our own practices as a company and the assessment of MFIs on their environmental policies and practices. All BlueOrchard offices subscribe to standardized policies regarding the use of recycled paper, minimizing the use of non-biodegradable products and the extensive use of recycling facilities where they exist.

In our assessment of borrower MFIs, our social performance scorecard SPIRIT looks at whether the institution has a well-articulated environmental policy and/or provides financing to clients that is specifically earmarked for the purchase of energy-saving, 'green' products.

As of 30 September 2013, **33% of MFIs borrowing from BlueOrchard-managed funds either had an environmental policy in place, or provided green products, while another 21% did both.**

GREEN PRODUCT FINANCING BY MFIS

Financing energy saving products has multiple benefits: In addition to avoiding environmental degradation through carbon emissions and deforestation, **energy efficient products also bring costs savings, particularly helpful for the low-income groups that MFIs serve, and 'clean energy' is free from the harmful health impacts of other energy sources.** As reported by an MFI in Uganda, clients saw a number of benefits from the solar home systems it helped to finance, including improved respiratory health and cost savings, both resulting from reduced burning of kerosene for lighting, and also say that their children are able to study at night. 'Green Product financing' is a relatively new phenomenon but one that has been taken up quickly by many institutions across the globe as shown by a selection of examples below.



Photo provided courtesy of Fondo de Desarrollo Regional (Fondesarco)

Client of Fondesarco in Peru, with a solar panel purchased with a Fondenergia loan

EXAMPLES OF GREEN PRODUCT FINANCING BY MFIs



Partner participates in Bosnia's Solar energy as the future of sustainable development project, and offers financing to start the production of solar collectors, efficient heating systems and other renewal energy products. As of June 2013, 20 Bosnian manufacturers had started the production of solar collectors as part of this project.



MDO Arvand in Tajikistan has recently introduced loans specifically aimed for the purchase of solar batteries, energy-efficient stoves, housing heat insulation, wind-mills, etc. This product will be promoted actively during the coming months as households prepare for winter.



Araratbank OJSV in Armenia offers loan products for financing energy efficiency solutions for both individual and business clients. Together, outstanding loans under these products currently total USD 1.8 million.



COMIXMUL in Honduras had disbursed USD 322K in loans to purchase solar panels as of October 2013. The MFI is in the process of redesigning the product to finance smaller solar panels, thus making it more accessible to poorer clients. It also plans to roll out a product specifically designed for the finance of energy efficiency stoves in 2014.



In Mongolia, XacBank's EcoBanking Department began providing financing for energy efficient stoves in 2010 and currently has USD 1.7mm of loans outstanding across three different eco-product lines: consumer, housing and SME.



Fondesurco in Peru offers its loan product 'Fondenergia,' launched in a pilot project in 2011 to finance solar water heaters and ovens with the assistance of MicroEnergy International and the Luxembourg NGO ADA. It is expected to be available in all of the MFI's branches by the end of November 2013.



Amret in Cambodia offers loans to clients to purchase bio-digesters and currently reaches nearly 1,000 clients with this product, for a total outstanding amount of more than USD 200K.



Microcred Senegal is in the pilot phase of its CleanTech project, in which clients can lease solar energy products (batteries, lamps, radios, solar refrigerators).



KWFT in Kenya offers a wide range of clean energy products to its clients, including loans to purchase biogas digesters and solar energy products. Active in the renewable energy area since 2010, KWFT now provides more than USD 6 million of such loans to more than 49,900 clients.



HKL in Cambodia offers a loan product for the specific purpose of investing in biogas digesters, solar energy, wells/water distribution, water tanks and filters, latrines, and other renewable energy products.

Keeping investors informed

06_

Maintain high standards of timely and relevant reporting on social performance issues to investors

BlueOrchard is committed to keeping investors informed of developments in social performance management and outreach data for the funds that we manage. In addition to the annual Social Performance Report, regular reporting for all of our funds includes a specific section on social performance issues, including monthly MFI profiles and outreach data on the BlueOrchard Microfinance Fund.

BlueOrchard also participates actively in industry-wide reporting on this front, including the Reporting Framework of the UN-supported Principles for Responsible Investment (PRI). With currently 1,200 signatories in 50 countries representing USD 34 trillion in assets under management, the PRI has become an industry standard for both asset owners and asset managers committed to incorporating ESG principles into their investment analysis and practice. BlueOrchard has been a signatory of the PRI since 2008, has voluntarily submitted progress reports every year and participated in the two-year consultation process to enhance the PRI reporting standards.

Interview_ Heide Jimenez Dávila, BlueOrchard's Head of Investor Services and Communications, interviewed Emilie Goodall, the Head of Environmental and Social Themed Investing, PRI, who led the inclusive finance consultation process with asset owners and investment managers:



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Emilie Goodall, Head of Environmental and Social Themed Investing, PRI

Q. Mandatory disclosure of PRI reporting is new this year. What motivated this change?

Previously all signatories were required to report to the PRI, but publication of responses was voluntary. Now, a subset of the reported information will be published on the PRI's website. This was a decision taken by the PRI Advisory Council in response to increased demand for signatories to the PRI to demonstrate how they are implementing the Principles.

Transparency has always been an important element, it being the sixth PRI Principle and fifth PIIF Principle. **In addition to accountability and transparency, the Reporting Framework's objective is to support learning among signatories.** This is offered via a private assessment report that signatories will receive, which provides a reference of their progress, both over the years and relative to their peers.

Q. Inclusive finance is one of the asset classes for which you have created a specific module. How does this reflect recent developments in inclusive finance?

There are a number of responsible investment initiatives in this field already, such as the Smart Campaign, Social Performance Task Force, and MFITransparency. The inclusive finance module of the PRI Reporting Framework pulls these together, building on the CGAP MIV Disclosure Guidelines, to create the first transparency and accountability framework for both direct and indirect investors in this field.

Q. What are some of the key indicators, and how are they categorized?

The Framework aims to capture the answers to **these eight fundamental questions:**

- ♦ Who are you? (A basic profile of your organization)
- ♦ How do you approach responsible investment?
- ♦ Do you take ESG factors into account (if you work with external managers)?
- ♦ How do you incorporate ESG issues into your investment process?
- ♦ How do you practice active ownership?
- ♦ Do you encourage ESG disclosure from the entities in which you invest?
- ♦ How much of your responsible investment activity do you disclose?
- ♦ To what extent do you collaborate and/or promote responsible investment?

Q. How will asset owners and the wider investment industry benefit from this information?

A signatory that just recently joined the PRI and/or PIIF may be encouraged to see that they already have certain elements in place and the Framework can provide guidance for the next steps they might take. Those who have been implementing responsible investment for some time may find the practices shared by other signatories helpful in developing their own approaches, for example in other asset classes.

The fact that there now is a standardized set of information will make it easier for asset owners to compare information between managers, which is an excellent starting point for discussions when selecting, assessing and monitoring managers.

Looking at impact

07_

Explore initiatives to measure **social impact** together with microfinance institutions, practitioners and academic researchers

Various MFIs are developing cost-effective, innovative systems to evaluate their specific impact on their clients' lives. One such institution, financed by BlueOrchard-managed funds, is **Sembrar Sartawi**. **Fundación Sartawi** is a rural-focused credit NGO operating in Bolivia that serves close to 14,000 principally agricultural clients. Since 2009, Sartawi has complemented its credit offer with technical assistance services provided by the **Sembrar Institute**, a not-for-profit institution working since the 1980s in supporting the development of the country's agricultural sector. Sartawi's mission is to 'provide financial services with a holistic approach to rural producer populations who do not have access to adequate financial and productive services and who are principally organized in agriculture value chains.'

In 2012, and with the support of the Inter-American Development Bank's Multilateral Investment Fund, Sartawi began the development of specific systems to measure social impact and manage risk, namely MEDIS (Measurement of Social Performance and Impact), GEMA (Environmental Management) and GIRAS (Management of Information on Agricultural and Systemic Risks). This is a long-term project expected to produce its first series of meaningful results by 2016.

Interview_ Gustavo Muchotrigo, Investment Officer in BlueOrchard's Lima office, spoke with César Peña, National Operations Officer and Juan Ponce de León, National Organization and Methods Officer of Sembrar Sartawi on these projects and their importance to the MFI.

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Q. What are Sartawi's expectations on MEDIS, GEMA and GIRAS?

Our management team believes that these tools will allow the institution to objectively measure the fulfillment of Sartawi's social mission on an ongoing basis (with MEDIS) and provide key decision-making information inputs for risk management of agricultural lending activities, taking into account factors such as statistics of climate conditions on the areas where clients are located (with GEMA and GIRAS).

Q. How will MEDIS work?

As of Q3 2013, MEDIS was integrated into Sartawi's core system. We define three main aspects to measure impact:

(i) changes in the capitalization of the household, (ii) increase of farm productivity, and (iii) increase of income and equity of the household. Evaluations will be made in two ways: A comparison between groups of clients that have been clients of Sartawi for a longer vs shorter period of time; and bi-annual comparisons of indicators of long term clients at a certain date vis-à-vis the same indicators when they first became clients of Sartawi.

Q. Why is it important to Sartawi to track this information? How will you use it?

With MEDIS, we aim to answer questions such as:

Does Sartawi reach its market target with suitable products and services, not only through credit but also with technical assistance? Do these products and services generate a tangible impact on clients? And is this impact sustainable in the long term?

With over 60% of our portfolio lent to clients engaged in agriculture and livestock activities, customizing managerial tools to the specifics of our target market is crucial for Sartawi to get a better knowledge of our clientele.

We also recognize the importance of environmental protection and eco-friendly measures in assuring that these changes are sustainable in the long term. It is for this reason that we are developing the GEMA system in parallel with MEDIS in order to get integrated, and meaningful, results.



Photo provided courtesy of Fundación Sartawi

José Luis Kala cultivates squash, pumpkins, and arracacha, a starchy root vegetable that is a popular food item and major commercial crop in South America. He currently sells his products in local markets in La Paz and fairs in his hometown Coroico but is hoping to expand his production and sales further in the country. He took his loan from Sembrar Sartawi in order to buy seeds and prepare the land for planting. Repayments were timed to coincide with the harvest season of his products, which is every four months, and he has therefore been able to make his payments on time easily.

Snapshot of outreach data

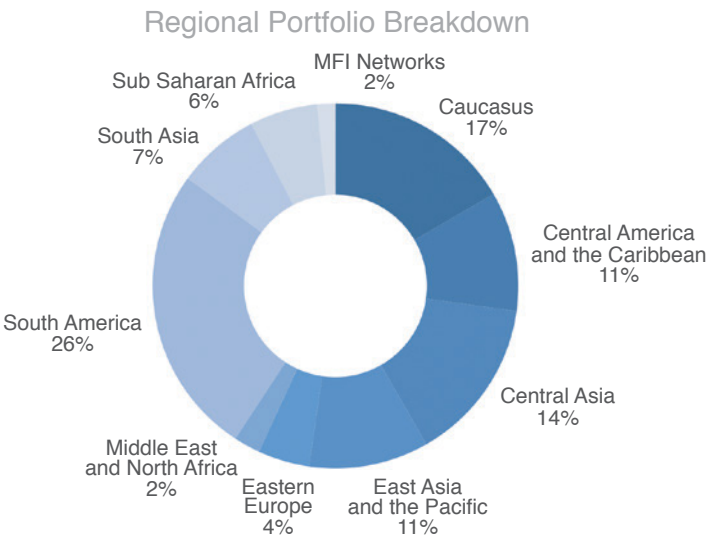
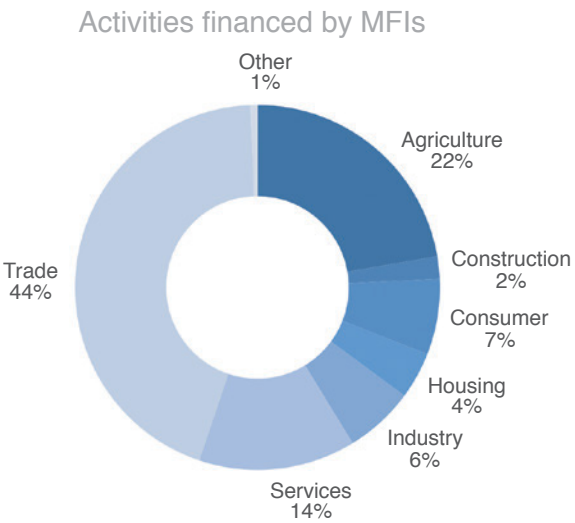
Funds managed by BlueOrchard provide senior and subordinated debt, in local currency and hard currency to microfinance institutions throughout Africa and the Middle East, Asia, Eastern Europe and Latin America.

These funds include:

- The BlueOrchard Microfinance Fund
- The Microfinance Enhancement Facility ('MEF'), as co-manager
- The Microfinance Growth Facility ('MiGroF'); and
- The Microfinance Initiative for Asia – Debt Fund ('MIFA')

SOCIAL PERFORMANCE DATA FOR MFIS IN BLUEORCHARD-MANAGED FUNDS (as of 30 Sep 2013) :

Total # of borrowers:	20.2 million
Total # of savers:	13.4 million
Total # of employees:	126,277
% of MFIs' borrowers who are female	60%
% of MFIs' borrowers who live in rural areas	44%
% of MFIs endorsing the Smart Campaign	85%
% of MFIs with an exclusion policy on lending	95%
% of MFIs reporting on social indicators to the MIX	75%
% of MFIs with an external social rating	42%
% of MFIs with environmental policy and/or eco products	54%



BlueOrchard Finance S.A. was founded in 2001 as the first commercial manager of microfinance debt investments worldwide. To this day, the company has deployed in excess of USD 2bn in loans to microfinance institutions, providing access to microcredit to over 30 million individuals across 50 countries.

Investors in BlueOrchard-managed funds include private and institutional investors, supranational institutions as well as renowned foundations. The company employs highly experienced staff with backgrounds intraditional and development finance including 24 investment professionals in Geneva, Zurich, Luxembourg, Lima, Phnom Penh, Bishkek, Tbilisi and Nairobi.

