

# BlueOrchard

## Raising our SPIRIT Social Performance Report 2014



**BlueOrchard**  
Microfinance Investment Managers



## RAISING OUR SPIRIT

Dear Reader,

In last year's Social Performance Report, we provided an overview of BlueOrchard's social performance objectives for 2013/2014 -- the goals and aspirations that lie at the center of our work to make sustainable, inclusive finance a reality for more and more of the world's working poor.

First among these objectives was enhancing the tools that BlueOrchard uses to assess the social performance of the institutions that we help to finance. Accordingly, during the course of 2014, we have made significant efforts to update our main social performance assessment tools, keeping pace with the strong dynamism of the microfinance sector.

Five years ago we developed the first version of BlueOrchard's in-house "Social Performance Impact Reporting and Intelligence Tool," better known as simply "SPIRIT." Systemically applied to all microfinance institutions (MFIs) that receive funding from BlueOrchard-managed funds, SPIRIT provides us with important information on how MFIs work to achieve their mission, how they compare with their peers and where they can improve their performance.

Microfinance is a sector marked by strong growth and innovation and it is therefore critical to constantly incorporate new developments into our SPIRIT assessment tool.

In addition, many professionals in microfinance have worked together on industry-wide initiatives to make social performance assessment more effective, more efficient and more systematic.

As such, we have successfully managed to incorporate the latest developments in both aspects in our update of SPIRIT. Our goals are twofold: To improve the quality of our assessments in this evolving market and at the same time allow MFIs to spend their time efficiently, focusing on providing valuable products and services to their clients, with less time required for what can sometimes be redundant administrative reporting. In the pages that follow, we provide an overview of what changes have been incorporated and why, and highlight the activities of specific MFIs that show particularly strong dedication and performance in the various areas assessed by SPIRIT.

We also had the pleasure again this year to host key decision makers and investors to see firsthand how our staff and partner MFIs operate in the field. At the end of the report, we share with you some of their impressions and results they perceived.

We thank you for your continued interest in this rewarding field and hope that you enjoy this year's edition of our social performance report.



**Peter Fanconi**  
Chief Executive Officer  
Member of the Board



## BLUEORCHARD'S NEW SPIRIT

Social Performance assessment is a **fundamental part of the investment process** at BlueOrchard, standing alongside our Financial Performance assessment to make sound investment decisions to **help microentrepreneurs and SMEs prosper** with access to a fair and inclusive financial system.

We are pleased to report that BlueOrchard's "Social Performance Impact Reporting and Intelligence Tool," SPIRIT, is being upgraded this year to a new version 5.0, to maintain the rigor of this assessment process. Our upgrade has centered on both **incorporating the latest market developments** as well as enhancing the tool's efficiency through a **greater alignment with other tools** – both internal and external. Some of the principal changes are as follows:



**Lisa Sherk**  
*Head of Social  
Performance Management*

### Industry Developments

Since our last upgrade of SPIRIT in 2011, there have been important developments in the microfinance industry. **Smart Campaign Certification** – a third party, objective confirmation that an MFI incorporates the seven Client Protection Principles into its daily operations – began in 2013. **"Green loans"** – specific loan products for microfinance clients to finance the purchase of ecologically friendly products – have become increasingly prevalent. **Credit bureaus** now exist in more and more countries, including important microfinance markets such as Cambodia and India, allowing MFIs to receive systematically more detailed information on borrowers to avoid over-indebtedness. While elements from these areas were included in the last version of SPIRIT, we have incorporated them more explicitly or with a greater weighting in the new version.

### Category Names

The category names of SPIRIT are now aligned with the six areas covered by the **Universal Standards of Social Performance ("USSPM")**, launched in 2012, plus a seventh on "Promoting Environmental Protection." By aligning the top line SPIRIT categories with that of the USSPM, we aim to help further the industry-wide goal of standardizing key elements of social performance, just as standard categories and indicators are used in financial analysis.

It is important to highlight however, that how we score responses, which elements we find to be the most important and how we interpret data will remain very much a matter of our internal analysis, thus **maintaining the rigor of BlueOrchard's own assessment**.

The principal goal here is to make **reporting more streamlined for MFIs**, who too often need to spend excessive resources on providing the same information in slightly different formats to multiple investors.

### Alignment with BlueOrchard's Financial Tools

Some areas of Social Performance assessment overlap with Financial Performance assessment. Most notable here is the issue of over-indebtedness: If clients take on more debt than they can handle and default on their debt, the MFI may suffer financial losses. From a social perspective, the client may suffer profoundly. Properly analyzing a borrower's repayment capacity is the first line of defense against over-indebtedness, and we therefore have made an **explicit link between our assessment of an MFI's underwriting strength** (as measured in BOSCO, BlueOrchard's Credit Scoring System) in the SPIRIT section on "Responsibility to Clients."

A summary description of SPIRIT is as follows, with detail on each category, and the achievements of specific MFIs, on the subsequent pages.



BlueOrchard is proud to be an active member/ endorser of the following initiatives:



## 1. DEFINE AND MONITOR SOCIAL GOALS

Social Performance is defined as “the effective translation of an institution’s mission into practice in line with accepted social values.” The starting point of our analysis is therefore looking at each MFI’s mission statement and how it works to see that it is making this mission a reality. In this section of SPIRIT v5.0 we look at the following elements, among others:

- Does the MFI’s mission statement clearly identify its **target market**, how it aims to serve this market and what social outcomes it hopes to achieve?
- Are specific, **measurable social goals** included in business planning?
- What is the MFI’s actual **outreach** and does this match its mission statement?
- Does the MFI actively **monitor their clients’ progress** over time?
- Has an objective third party validated the MFI’s social performance management – through a **social rating, social audit** or other external assessment?

Imon International, a borrower of BlueOrchard-managed funds since 2007, is an MFI in Tajikistan that has clearly defined its social goals and systematically monitors and measures its progress against these goals. Providing mostly individual loans to rural borrowers, as well as trainings and other non-financial services, Imon currently reaches more than 82,000 clients. Since receiving a deposit license in 2013, it has been expanding its services to savings as well. In August 2014, the MFI received an impressive A+ social rating from *Microfinanza Rating*.

Imon’s mission statement is:

***“To promote sustainable economic development and improve quality of life in Tajikistan by ensuring reliable access to financial services for the economically active members of the population.”***



The MFI tracks its performance against specific social targets as follows: Among its stated social goals are the following:

- Attracting women and youth to entrepreneurship
- Increase the level of financial education
- Creating new jobs by creating new businesses and expansion of existing ones
- Improving living standards
- Increase youth access to education
- Increase farmers’ (or clients with agribusinesses) awareness

Social Indicators	YTD as of June 2014	% of target
“Get ahead!” business development training participants	689	101.1%
Startup loans disbursed	466	122.9%
Financial education trainings participants	569	227.6%
Education loans disbursed	133	88.7%
Agricultural consultations provided	617	116.0%
Construction technical assistance	2,691	107.6%
New job places created	3,356	134.2%
Increase of active female clients	2,609	109.8%
Increase of youth among clients	5,707	121.5%
Increase of small loans	3,456	110.7%
Increase of loans disbursed in rural areas	9,652	121.9%



## 2. ENSURE BOARD, MANAGEMENT AND EMPLOYEE COMMITMENT TO SOCIAL GOALS

Articulating social goals only goes so far if an MFI does not ensure that **all levels of the organization share in the commitment to achieve them**, and actively work to attain these goals in their daily work. In this section of SPIRIT we look at what measures an MFI has taken to ensure that its board, management and staff are able to effectively put the MFI's mission into practice. Is there a board or management level committee for social performance management and/or a “social performance champion” on the board”? Does senior management address social performance issues specifically and in a systematic fashion? Do **incentives for field staff** emphasize quality as much as growth?



**Banco FIE in Bolivia** was one of the first MFIs financed by BlueOrchard-managed funds. It has shown a strong commitment to social performance since its inception as an NGO in 1985, a commitment it has continued to demonstrate after its transformation to a fully licensed bank in 2010. Banco FIE reaches nearly 250,000 borrowers and 800,000 savers through its nation-wide network of branches, the most extensive in Bolivia. The bank's structure is designed to explicitly address Social Performance issues at all levels of the organization and maintain staff, management and board alignment with its mission.

### Board:

The Deputy President of the Board is in charge of leading and monitoring the Corporate Social Responsibility (“CSR”) efforts of the bank. He meets twice annually with the bank's CSR committee, set up at the management level and presents CSR advances to the board and audit committee.



### Management:

The bank has a specific CSR management committee, which is in charge of implementing the social objectives set by the Board.

It currently has the following specific projects:

- Update the bank's social rating every two years
- Obtain Smart Certification by 2015
- Monitor the poverty level of clients using the Progress out of Poverty Index
- Comply with the social indices of the Global Reporting Initiative (GRI)
- To support national and regional social projects in Bolivia

### Staff:

Induction for all new employees includes training on the bank's mission and social goals. All employees accept and sign a detailed Code of Ethics. The Human Resources department organizes several focus groups each year to monitor compliance with the mission.

*Photo copyright: courtesy BancoFie*





### 3. DESIGN PRODUCTS, SERVICES, DELIVERY MODELS AND CHANNELS THAT MEET CLIENTS' NEEDS AND PREFERENCES

In SPIRIT v5.0, this area has been allocated one of the highest weightings – it is, after all, the **substance of what client-focused microfinance offers**: Services and products that meet the needs of lower-income populations that have traditionally been excluded from mainstream banking services.

What we assess here is therefore the **range** of services an MFI provides, both financial and non-financial and **how** these services are delivered. Does the MFI offer differentiated credit products

to meet client needs, while maintaining a balance appropriate to the MFI's capacities? Does it also provide savings, insurance, remittances, and/or payment services? Does it provide services that help the MFI's target clientele use the financial products more effectively, such as financial education, business development services, as well as general well-being, such as health? Does the MFI actively solicit client feedback and incorporate it systematically to make sure products are meeting the clients' needs?

RANGE OF CREDIT PRODUCTS	OTHER FINANCIAL PRODUCTS & SERVICES	NON-FINANCIAL SERVICES	INCORPORATING CLIENT FEEDBACK
<ul style="list-style-type: none"> <li>-Micro</li> <li>-SME</li> <li>-Agricultural</li> <li>-Leasing</li> </ul>	<ul style="list-style-type: none"> <li>-Savings</li> <li>-Insurance</li> <li>-Payment services</li> <li>-Remittances</li> </ul>	<ul style="list-style-type: none"> <li>-Financial Education</li> <li>-Business Development</li> <li>-Other (Health, Women's empowerment)</li> </ul>	<ul style="list-style-type: none"> <li>-Focus groups</li> <li>-Exit Surveys</li> </ul>

Crezcamos in Colombia, a borrower from Blue-Orchard-managed funds since 2011, is an MFI that stands out for its strong commitment to provide appropriate products and services to low income groups in rural areas in the country's North East. Crezcamos currently provides credit to nearly 70,000 borrowers, with almost 60% located in rural areas.



Responding to the specific risks faced by agricultural producers, Crezcamos is currently piloting an innovative crop insurance product for clients in its Rionegro branch. With its initial target market comprised of its 9,000 agricultural borrowers, the MFI believes that more than 250,000 agricultural producers in the region could benefit from crop insurance.

In addition to this specific project, the MFI strives to design products and services to meet client needs as a fundamental part of its ongoing business:

- Client feedback is systematically incorporated in product development through focus groups, "client breakfast", post-disbursement (for 50% of clients) and exits surveys.

- Through its Crediagro product, Crezcamos finances 66 different types of agricultural activities. Amortizations are made to conform to the client's cashflows.

- All loan products are disbursed in local currency, so that clients do not take on currency risk.

- Payment services are provided to clients, such as mobile phone recharging, utility payments, and international transfers.

- Affordable insurance policies are also offered, and used by more than 85% of borrowing clients.

- Crezcamos offers financial education courses to clients to help them use their loans effectively.



## 4. TREAT CLIENTS RESPONSIBLY

An impressive 86% of MFIs financed by BlueOrchard managed funds have endorsed the Smart Campaign's Client Protection Principles. But endorsement is just the starting point: In this section of SPIRIT v5.0 we delve into the policies and procedures of MFIs to see how they incorporate the fundamental principles of responsible lending into their policies and procedures. We put a strong emphasis on the rigor of the MFI's underwriting procedures as this is a critical process to prevent over-indebtedness of clients.

A higher score in this section of SPIRIT is given to MFIs that have been



Keeping clients first  
in microfinance

Smart Campaign certified or have received strong assessments in the area of client protection in a rating, social audit or other formal third party review. Smart Campaign certifications began in early 2013, and as of September 2014, 23 MFIs worldwide had been certified, including 18 MFIs that have received funding from BlueOrchard-managed funds.



The Sri Lankan MFI, LOLC Micro Credit Ltd. (“LOMC”), is one such institution. Borrowing from BlueOrchard-managed funds since 2013, LOMC provides individual loans, leasing products and group loans to nearly 200,000 borrowing clients and is the leading funder of agricultural implements to small farmers in Sri Lanka.



A synopsis of LOMC's report, along with all other certified MFIs, is publicly available on the Smart Campaign website, underscoring the importance of transparency in this process. These reports can be found at <http://www.smartcampaign.org/certification/certified-organizations>



LOMC's certification, performed by MCRIL Rating, confirms the MFI's adherence to each of the seven principles:

Client Protection Principles	Examples of standards assessed
<i>Principle 1</i> <b>Appropriate Product Design and Delivery</b>	Products are designed that are appropriate to client needs; client feedback is sought for product design and delivery.
<i>Principle 2</i> <b>Prevention of Over indebtedness</b>	Strong processes are used to verify repayment capacity of clients; credit bureau data is checked systematically (when applicable).
<i>Principle 3</i> <b>Transparency</b>	The total cost of the loan, including all charges, is communicated to clients both verbally and in writing.
<i>Principle 4</i> <b>Responsible Pricing</b>	Market-based, non-discriminatory pricing is applied and excessive fees are not charged.
<i>Principle 5</i> <b>Fair and Respectful Treatment of Clients</b>	Clients are informed of their rights; both in-house as third party collection staff are trained on fair and responsible treatment of clients.
<i>Principle 6</i> <b>Privacy of Client Data</b>	Client confidentiality is protected with appropriate technology systems.
<i>Principle 7</i> <b>Mechanisms for Complaint Resolution</b>	Clients are aware of how to submit complaints; the complaints resolution system is active and effective.

Ms. Niranjala Sarojani, living in North Western Province in Sri Lanka, took out a loan of LKR 25,000 (~ USD 200) from LOMC to improve her business of trading dried fish. Upon the advice of LOMC staff, she also now saves part of her monthly income, which has more than doubled to Rs. 45,000 (~USD 350). She hopes someday, to purchase a three-wheeler of her own.

*Photo copyright: courtesy of LOLC Micro Credit Ltd.*





## 5. TREAT EMPLOYEES RESPONSIBLY

The way an organization treats its employees reflects a lot about its dedication to social responsibility and assessing MFIs' policies towards staff has always been an important element of SPIRIT. **Microfinance institutions offer attractive local employment opportunities and can also set a positive example for other employers in the country.** In this section of SPIRIT we look at how human resource policy is formalized and communicated to staff, if it provides equal opportunity to all and has appropriate training. We assess staff turnover and look at how the MFI evaluates and compensates its personnel and if it provides them with opportunities for advancement within the organization.



**Kenya Women Microfinance Bank Limited**, a borrower from Blue-Orchard-managed funds since 2009, is a market leading MFI in Kenya. Beginning as an NGO in 1981, the MFI is now a licensed bank and reaches more than 240,000 borrowers and nearly 400,000 savers. KWFT has the largest branch network in the country, with 70% of its clients located in rural areas.



To successfully maintain this vast nation-wide network, the MFI counts on the **dedication and hard work of more than 2,500 employees**, including more than 1,300 loan officers. In an annual employment survey conducted by Deloitte and Touche, KWFT was awarded 2nd and 3rd place as the “Best Place to Work in Kenya” in 2012 and 2013 respectively.

The survey assesses employee satisfaction with respect to the level of supervision and direction, inclusion in decision-making processes, career

development, remuneration, work life balance, operational effectiveness and their sense of confidence in the organization.

Annual staff turnover at KWFT is typically near 10-11%, and management targets a reduction in this level to 8%. Recent changes to its human resources including improvements in non-monetary benefits, recognizing good performance by issuing staff recognition letters and introducing an **employee stock ownership program (ESOP)**. The MFI also offers a comprehensive health insurance that covers employees and their dependents, a gratuity scheme in which employees have access to funds after three years, group pension scheme and accessibility to an interest free car loan. KWFT has an annual budget of approximately USD 225,000 to USD 340,000 to facilitate staff training.

Training is available to all staff members, with new joiners taken through induction training. In addition, subsequent trainings are provided on credit risk analysis and customer care.



## 6. BALANCE FINANCIAL AND SOCIAL PERFORMANCE

As successful MFIs have shown across the globe, it is clear that **strong financial and social performance can exist side by side**, and in many instances enhance one another. An institution that has a stable financial foundation will be able to expand its services to meet the needs of more clients that need its service and provide the confidence to its clients that it will be around over the long term. By the same token, an institution that demonstrates that it cares about its clients' well-being, passes along financial benefits to its clientele and shows a commitment to helping develop the wider community can maintain greater client loyalty and more reliable demand for its services into the future.

In this section of SPIRIT we assess how MFIs aim to **maintain a balance between their financial bottom line and their commitment to serve their clients**. Do they pass along efficiency gains through better pricing on products and lower interest rates? Do they maintain reasonable levels of compensation for executives and senior management? Do they contribute to wider community development?

**Alter Modus**, a borrower from BlueOrchard-managed funds since 2013, is a non-bank financial institution in Montenegro. While it faces little competition in the market, and thus has strong pricing power, Alter Modus has made a commitment to pass along efficiency gains to its clients and has progressively reduced interest rates over the years. The effective interest rate on its principal microcredit products currently ranges from 21-28%, reflecting a decline of approximately 14 percentage points over the past ten years.

Loan pricing is set based on the cost structure of the institution and as the MFI grows its portfolio and benefits from greater economies of scale, it is able to lower the ultimate cost of its lending products. Alter Modus is optimistic that it will be able to continue with the trend of decreasing interest rates and in the next 12 months plans an additional decrease of two percentage points. In the words of the MFI's Executive Director, Mr. Luka Djurovic, "Our main focus is on our relationship with end-clients and never ignoring their needs."

The MFI is transparent on its salary structure and compensation of management is reported to the Central Bank of Montenegro. Salaries for senior management members are based on the results of an external survey which reviewed around 1,500 companies across the Balkans, while compensation for all employees is set between a range of 15% below and 15% above the market average.



Alter Modus also provides financial support to community projects that promote education and entrepreneurship, including competitions on the "best business ideas" of local university students, and most recently, a project to rebuild and reopen kindergartens in the Old City of Bar. Ms. Damjanović Vidaković, head of Public Relations of Alter Modus describes how the MFI sees itself in the wider community: "Recognizing the importance of social responsibility, we continuously strive to monitor and promptly react to the interests of our employees, customers and the communities in which we operate."



**ALTER MODUS**

## 7. PROMOTE ENVIRONMENTAL PROTECTION

While environmental activities were incorporated in the prior version of SPIRIT, in our updated version this is now a stand-alone category, emphasizing its growing importance.

Nearly all institutions financed by BlueOrchard have **exclusion** lists that prohibit the financing of activities that are particularly harmful to the environment, such as large scale drift net fishing, use of particularly hazardous chemicals or radioactive materials and so forth. There are many MFIs that also take a **strong, proactive role in advancing environmental protection** and we value this important work in our social performance assessment.

We look therefore at whether the MFI has a **comprehensive environmental policy** and if it offers specific “**green loans**” for the financing of energy saving or otherwise ecologically friendly products. Promoting the use of energy saving products not only encourages environmental protection, but also brings cost savings and health benefits to clients, making it an ideal microfinance product.

Ms. Yoeurm Simen lives with her husband and their daughter in Pursat Province in western Cambodia. Between her grocery selling business and her husband's income as a construction worker, the family earns on average USD 20 per day. With no indoor plumbing in their house, Ms. Simen took out a USD 500 green loan from Hattha Kaksekar Limited to build a hygienic latrine. The latrine provides access to better sanitation and healthier living conditions for her family and lessens the environmental deterioration around their house.

*Photo copyright: courtesy of HKL*



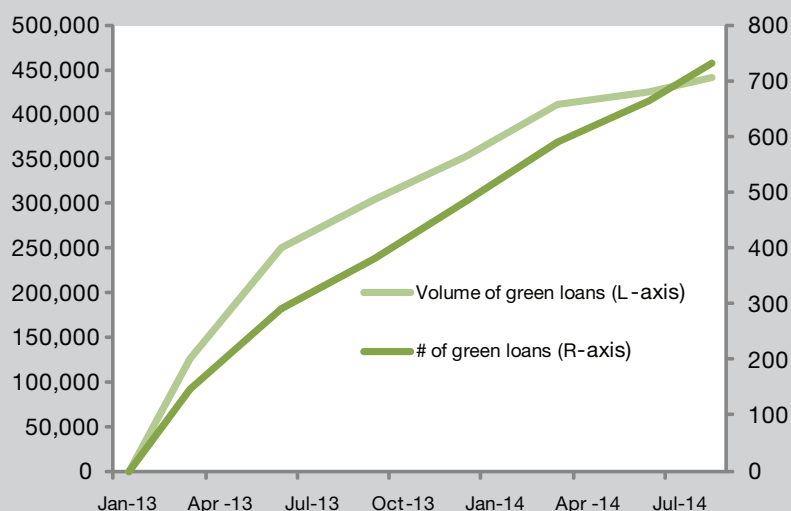
Hattha Kaksekar Ltd., “HKL” in Cambodia, a borrower of BlueOrchard-managed funds since 2007, has both a comprehensive environmental policy and an extensive line of green product loans, including loans to finance the purchase of:

- Bio digesters
- Solar panels
- Wells/ water distribution
- Water tanks and filters
- Latrines



Since the product launch in January 2013, uptake among clients has been very strong, and the green loan portfolio stood at nearly USD 500K after only 18 months. The MFI aims to double this by the end of 2015. Repayment levels are excellent, and HKL has partnered with the suppliers of the environmental products to ensure high quality of such products.

### Green Loan Products at HKL





## IMPRESSIONS FROM THE FIELD

Over the past year, BlueOrchard organized field trips to its local offices in Phnom Penh, Cambodia and Tbilisi, Georgia to bring investors closer to the real workings of microfinance and see how it contributes to the lives of clients. Investors met with BlueOrchard staff, the management and staff of various MFIs, their clients and local regulators.

In addition, participants in the field trips were able to see how the BlueOrchard investment teams assess the social and financial performance of MFIs.

“

*The trip to Georgia was a great success and impactful for me.  
We look forward to collaborating further with your team.*

- Maxime Medina, Ecole hôtelière de Lausanne



Martin Beglinger – Das Magazin

“

*It was humbling to see first-hand the hard work of the microfinance clients in Cambodia and immensely rewarding to learn of the benefits that basic financial services can provide.*

*We can sometimes take for granted the various financial options that we have in our own businesses, and it is gratifying to know that these ambitious entrepreneurs are provided access to the right services to help them succeed in their enterprises.*

- Stephan Keiser, EFG



Evelyne Thalmann - Experts for Leaders AG

“

*The significance of what you do right now and the impact of what you can accomplish with a view to the future is a vast untapped resource for all parties involved.*

- Henry Morgan, De Pury Pictet Turrettini & Cie S.A.



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## 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:

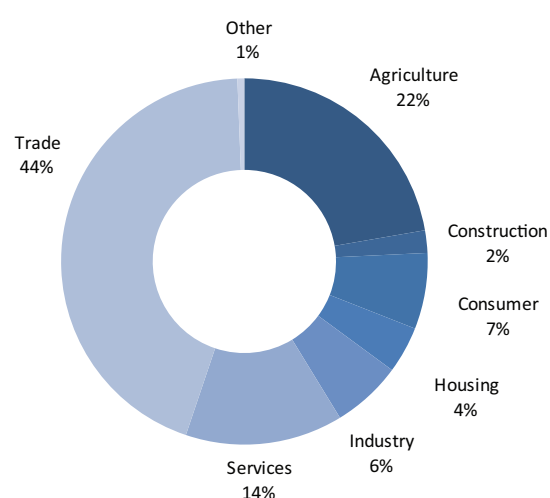
- The BlueOrchard Microfinance Fund
- The Microfinance Enhancement Facility ('MEF'); as co-manager
- The Microfinance Growth Facility ('MiGroF'); and
- The Microfinance Initiative for Asia – Debt Fund ('MIFA')

### SOCIAL PERFORMANCE DATA FOR MFIS IN BLUEORCHARD-MANAGED FUNDS:

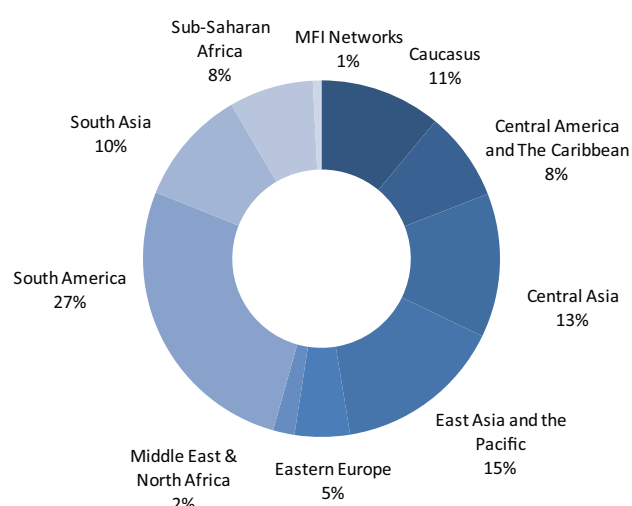
(as of 30 Sep 2014)

Total # of borrowers served	21.9 million
Total # of savers served	13.9 million
Total # of MFI employees	137,421
% of MFIs' borrowers who are female	58%
% of MFIs' borrowers who live in rural areas	50%
% of MFIs endorsing the Smart Campaign	86%
% of MFIs with an exclusion policy on lending	98%
% of MFIs reporting to the MIX on social indicators	75%
% of MFIs with a social rating	39%
% of MFIs with environmental policy and/or eco products	59%

### Activities Financed by MFIs



### Regional Portfolio Breakdown



BlueOrchard Finance S.A. was founded in 2001 as the first commercial manager of microfinance debt investments world-wide. To this day, the company has deployed in excess of USD 2.5bn 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 in traditional and development finance.



