



INCOFIN IM

PUTTING RESPONSIBLE INVESTMENT PRINCIPLES INTO PRACTICE



SOCIAL PERFORMANCE REPORT 2015

COMMITTED BEYOND INVESTMENT



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SOCIAL PERFORMANCE REPORT 2015

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FOREWORD FROM THE CEO



LOÏC DE CANNIÈRE
CEO OF INCOFIN IM

In the world of **impact investments**, fund managers add another layer of value creation. They do not only want to optimize value creation at investee level and provide the best possible financial return to their investors, but also encourage value creation at the level of the ultimate clients of the investees. In the case of microfinance investments, they will encourage financial institutions to develop a business model, which avoids harming clients and, preferably, sustainably enhances the ultimate clients' well-being. This level of value creation is being supported by adequate Social Performance Management Systems.

We think that a good Social Performance Management System makes a lot of business sense, as it enables the financial institution to better understand the needs of their clients and to be more results- and outcomes-oriented.

At Incofin IM, we take social performance management (SPM) very seriously:

We are a pioneer in **integrating SPM** into our eligibility criteria, in our due diligence procedures and in our monitoring tools. We are reviewing and updating these methodologies from time to time and adapting them to the latest industry standards.

We work with selected investees to develop **SPM action plans**. We encourage the investees to define a set of realistic targets, taking into account their positioning and level of acquaintance with SPM systems. These actions have generated remarkable results, of which a few examples are provided in this report.

We are actively participating in **platforms** which try to improve and disseminate SPM at all relevant



At Incofin, we think that good Social Performance Management makes a lot of business sense, as it enables financial institutions to better understand their clients' needs and to be more results- and outcomes-oriented."

levels (financial institutions, investment funds, investors). Our colleague Dina Pons, who heads the SPM activities at Incofin IM, is a board member of the Social Performance Task Force, which is the global reference for SPM methodologies at the level of the Financial Institutions. I have the privilege to be a member of the UNI PRI-PIIF Steering Committee, which looks at responsible finance from the angle of asset owners and asset managers.

We are actively engaged in understanding the impact of microfinance and support research initiatives. In order to disseminate the results of these studies we hosted a panel discussion in Brussels that brought together various stakeholders to discuss the study's findings before a large audience.

For some of our funds, we have developed dedicated **annual SPM reports**. For agRIF, Incofin's newest

fund, which will fund financial institutions with an agricultural portfolio, we have adapted our SPM approach, metrics and reporting in order to capture the specifics of agricultural finance.

We are pleased to present the second edition of the Incofin IM SPM Report. We have made a lot of progress in understanding, applying, and reporting on SPM since our first edition, as evidenced in the following pages.

I hope you will appreciate our efforts and that you will enjoy reading our report. Most of all, I hope that the ultimate clients of our investees, hundreds of thousands of micro-entrepreneurs, SMEs and farmers will experience a tangible benefit from our attention to SPM.

*Eric de
C*

INCOFIN AT A GLANCE

MISSION STATEMENT

Our mission is to invest in companies in the financial sector, in order to generate developmental impact by increasing financial access, while generating an attractive return to our investors.

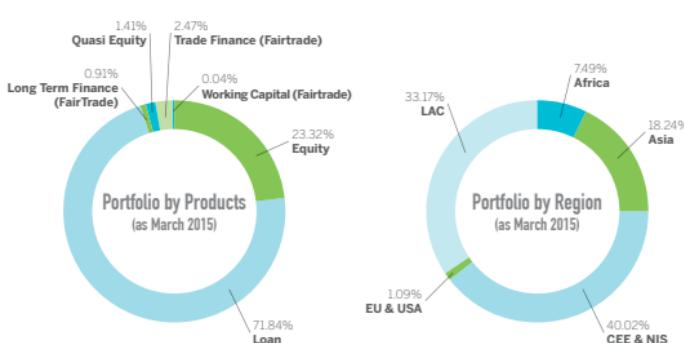
A LEADING MICROFINANCE ASSET MANAGER

Incofin Investment Management ("Incofin IM") is a global company that advises funds that invest in microfinance institutions (MFIs) in developing countries. Currently, we have almost USD 600 million of assets under management. We are a specialist in rural microfinance.

Through our 4 regional offices in Colombia, Kenya, Cambodia and India, as well as the head office in Belgium, our team of international and multilingual experts finances and supports 152 financial institutions in over 40 countries.

Since December 2014, Incofin IM has been authorised to conduct business as an Alternative Investment Fund Manager by its supervisory authority, the Belgian Financial Services and Markets Authority (FSMA), in compliance with the Belgian law transposing the AIFM Directive. The Alternative Investment Fund Managers (AIFM) license is a European passport, ensuring that Fund Managers have appropriate practices in place to allow them to manage and distribute funds in any EU member state.

Incofin Investment Management: USD 600m Assets under Management									
Fund Management					Advisory Service				
Incofin CVSO	Impulse	Volks-vermogen	Rural Impulse Fund I	VDK	Rural Impulse Fund II	Fairtrade Access Fund	BIO	FPM	Invest in Visions
(2001) 70M USD	(2004) 60M USD	(2004) 15M USD	(2007) 38M USD	(2007) 80M USD	(2010) 140M USD	(2012) 23M USD	(2012) 15M USD	(2014) 34M USD	(2015) 90M USD





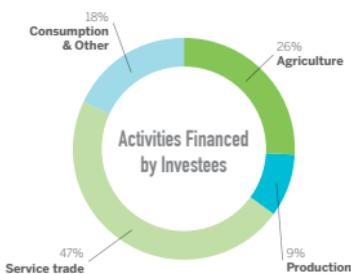
The latest regional office opened
in Phnom Penh, Cambodia

\$ 600 m
aum

+ 40
countries

152
investees

5
offices

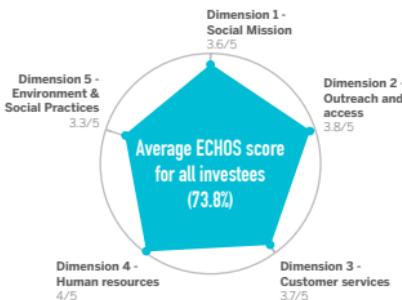


A DOUBLE BOTTOM LINE INVESTOR

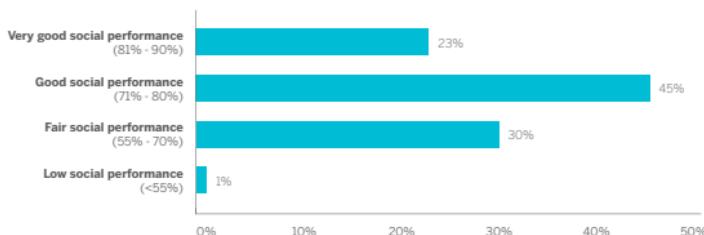
Incofin IM pursues a "double bottom line" approach, with financial and social performance on an equal footing. We attach great importance to the social objectives of the organizations we support. We invest only in MFIs that are committed and able to demonstrate a high level of social performance.

Our goal is to develop systems and methodologies that will measure and improve social performance and that will also improve the double bottom line return for our investors. For this reason, we developed an

in-house tool called ECHOS[®] to measure the social performance of MFIs. ECHOS[®] is built on 5 dimensions: i) social mission management; ii) outreach and access; iii) quality of customer service and compliance with client protection principles; iv) human resource; and v) environment, corporate social responsibility and impact. MFIs that score below 55% are not eligible for Incofin IM funding. Further analysis has revealed a strong correlation between the financial soundness of an MFI and its social performance. MFIs that score well financially also score well on social parameters.



ECHOS Scores Across Incofin's Portfolio



Social Performance of Investees as of March 2015

Dimension 1 - Social mission	
% of Investees with Social Dashboard	50%
% of Investees reporting to the MIX on social indicators *	86%
% of Investees with external social rating within the last 2 years	47%
Dimension 2 - Outreach and access	
# of borrowers served	8,293,381
% of MFIs' borrowers who are female	63%
Average loan size disbursed by Investees	USD 3,000
Average outstanding loan size of Eastern European and Central Asian Investees	USD 2,606
Average outstanding loan size of Latin American Investees	USD 2,062
Average outstanding loan size of East Asian and Pacific Investees	USD 1,881
Average outstanding loan size of South Asian Investees	USD 220
Average outstanding loan size of African Investees	USD 1,367
# of savers served	16,699,820
Average savings balanced by Investees	USD 1,497
Activities financed by MFIs	
Agriculture	26%
Production	9%
Services and trade	47%
Consumption & Other	18%
Rural score (for investees in RIF I and RIF II)	72%
Dimension 3 - Customer services	
% of Investees endorsing the Smart Campaign *	84%
Average CPP score for all investees out of 5 points	3.46
% of technical assistance projects on SPM/CPP	14%
% of Investees offering more than credit products	58%
% of Investees with score of 4 out of 5 or higher on the CPP Transparency dimension	48%
Dimension 4 - Human resources	
Total # of MFI employees	82,034
% of Investees with code of ethics	90%
Dimension 5 - Environment & Social Practices	
% of Investees with environmental policy and/or eco products	84%

* Note: For first time investees, some may not yet endorse the Smart Campaign or report to the Mix Market at the start of the investment (hence the score is less than 100%). However, our loan agreements require all investees to fulfill these two social covenants once investment begins.

E&S Reporting at Incofin

On an annual basis, RIF II's Supervisory Board receives a quite detailed annual E&S report prepared by Incofin. This reports details for each investee, its social performance grade, rural score and Client Protection Principles (CPP) score. The E&S conditions and undertakings related to each investment are also detailed (e.g. Smart campaign endorsement, Mix market reporting, etc.) as well as the E&S issues that have been discussed and the support that Incofin provides (usually through technical assistance).

Jean-Gabriel Dayre - PROPARCO representative on the RIF II's Supervisory Board

PUTTING RESPONSIBLE INVESTMENT PRINCIPLES INTO PRACTICE



Dina PONS,
East Asia Regional Director and Social
Performance Manager at Incofin IM

At Incofin we believe that if you value something, you need to measure it so that you can monitor it, analyse it and ultimately act on it. This is the reason why, in all investment decisions that we make, we evaluate the social performance of our investees in order to ensure that 100% of our investments abide by at least basic rules of responsible finance. **At Incofin we also believe that there shall be no double standards:** If we demand from our investees that they strive to put best social performance practices in place, **we, as investors, shall also prove our compliance to responsible investment best practices.**

In 2011, Incofin was one of the founding signatories of the United Nations backed initiatives: the Principles for Investors in Inclusive Finance (PIIF). **Endorsing a document is one thing, truly abiding by its rules is something else. This is the reason why, a short while after we endorsed PIIF, we decided to draft an internal action plan.** Along with management,

we listed the down the existing practices showing our compliance with some of the principles, but more importantly, we also identified the areas that still needed improvement.

1. The first principle stated by the PIIF refers to **"Expanding the range of financial services available to low-income people"**. Just like we value and try to push our investees to diversify their service offering to their clients, we also strive to offer the most suited financial products to them, such as debt, equity, subordinated debt, trade financing, as well as subsidized technical assistance.

On the debt side, our ticket size ranges from USD 150k to several millions, allowing us to answer the financial needs of diverse partners, from big commercial banks willing to downscale to small grassroots cooperatives and producer organizations.

2. The second principle refers to "**Integrating client protection into all their policies and practices**". During due diligence, our investment managers assess the level of implementation of an institution to the 7 Client Protection Principles (CPP). In 2014, the average score of our investees stood at 3.46 points out of 5. Moreover, we do not only assess the CPP, but also help improve them. Last year, out of the 57 technical assistance projects we coordinated, 8 specifically focused on Social Performance Management and Client Protection Principles.
3. The third principle discusses to "**Treating investees fairly, with clear and balanced contracts, and dispute resolution procedures**". Since the launching of the industry recognized "Lenders' Guidelines for Setting Covenants in Support of Responsible Microfinance", we adapted our loan agreements to include the same seven financial covenants and two social undertakings in order to ease reporting constraints. For regulated investees, we adapt our covenants to the prudential ratios demanded by the national regulators
4. The fourth principle promotes the "**Integration of ESG factors into policies and reporting**". At Incofin, all investment memos include a social performance assessment of the proposed investee. All investment managers are requested to conduct an annual monitoring visit of their portfolio in order to monitor SPM progress and compliance with the social undertakings. In this regards, in 2014, we can report that our portfolio's average social performance score stood at 73.80%.
5. The fifth principle refers to "**Promoting transparency in all operations**". On an annual basis, we request our investees to publish information related to their social performance on the MixMarket website. Additionally, when negotiating with a client, we always prepare clear and detailed term sheets, listing all investment conditions. Once the investment is approved, we make sure that our in-house legal team sends all legal documentation draft in advance and answers all questions before signing any binding agreement.
6. The sixth principle refers to "**Pursuing balanced long-term returns that reflect the interests of clients, retail providers and end investors**". Financial inclusion is a long term and demanding goal. This is why: i) our investment products have long term tenors, with loans up to five years maturity, while our equity products come from funds which have a life expectancy of up to 10 years; ii) when we invest in equity, we don't only provide capital but also sit at the board of directors where we strive to engage our investees in developing a realistic yet demanding social performance agenda in order to ensure that the client-centric approach remains at the heart of the investees' business model.
7. Finally, the last principle requests that we "**Work together to develop common investor standards on inclusive finance**". For the past five years, I have been dedicating time to participate in the discussions of key SPM initiatives, including the Social Performance Task Force (SPTF), where I sit as BOD member and co-chair the investors working group. Further supporting this principle, Incofin was part of the first batch of investors to report to the PIIF Transparency report, which is now publicly available¹, while Incofin's CEO sits at the Steering Committee at the PIIF.

This year, we decided to structure this report according to the seven principles of the PIIF, in order to honestly and publicly share our current state of implementation of Responsible Investment Principles. **It is a way for us to assess ourselves and check how true we are to our promises when calling ourselves "double bottom line investors".**



¹ http://www.unpri.org/viewer/?file=wp-content/uploads/Merged_Public_Transparency_Report_Incofin_2014.pdf

GOAL 1

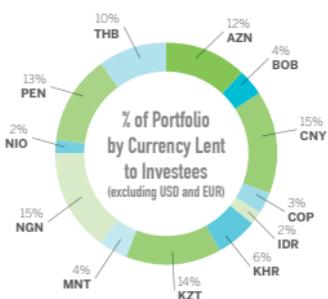
OFFERING DIVERSIFIED PRODUCTS AND SERVICES

DIVERSIFIED PRODUCTS

Just like we value and try to push our investees to diversify their service offering to their clients, we also strive to offer the most suited financial products to them, such as debt, equity, subordinated debt, trade financing, as well as subsidized technical assistance. Our ticket size ranges from USD 150k to several millions, allowing us to serve Tier 1 institutions with loan portfolio over USD 75m, to small producer organizations with portfolio less than USD 30m. Furthermore, we work in 47 countries, from China to Haiti, from Congo to Timor Leste, and while our funds are denominated in USD and EUR, we also offer products in 28 different currencies.



Portfolio by MFI Tier





FINANCIAL INCLUSION IN CONGO

Incofin is very active in one of the most frontier markets for financial inclusion. Through its cvso fund, Incofin has invested capital in the Fonds pour l'inclusion financière en RD Congo Fund (FPM) SA fund, a new fund that focuses on supporting financial institutions with a clear mandate and strategy to provide access to finance for MSMEs in the Democratic Republic of Congo (DRC), by providing them with medium-term credit lines. Currently financial institutions prioritize large corporate clients. While Incofin cvso is an investor in the Fund, Incofin IM is the investment advisor to the Fund, sharing the experience it has gained over many years supporting the development of MF markets.

FPM benefits from capital contributions of USD 23 million from the German Development Bank (KfW), the Belgian Investment Company for Developing Countries (BIO), the Dutch Catholic Organisation for Relief and Development Aid (Cordaid) and the Belgian microfinance fund Incofin cvso.

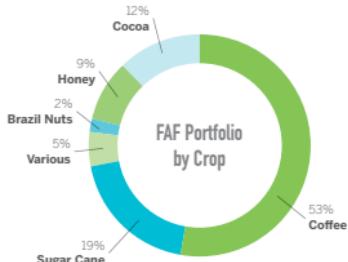
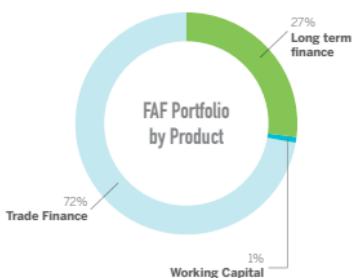


FAIRTRADE ACCESS FUND

In 2012, Incofin launched the Fairtrade Access Fund (FAF) as part of our continuous efforts to broaden the range of financial services to low-income populations. FAF is a fund managed by Incofin IM with initial capital of USD 30 million from several investors including the Incofin cvso fund.

The FAF represents a progressive next step in our pioneering work in agricultural and rural financing by lending directly to producer organizations that are Fairtrade certified or candidates for certification. With the development of this new line of financial services, many clients are now able to access finance from international lenders for the first time.

The Fund's mandate towards Fairtrade serves a dual purpose of guaranteeing responsible working conditions within the organized Fairtrade value chain, and improving producers' income thanks to minimum prices and a premium. FAF's primary target is to lend directly to agricultural cooperatives and associations of smallholder farmers. However, in order to generate benefits for its target group in the most efficient way, the Fund also allocates funding to Fairtrade-certified processors and traders whose products and services benefit smallholders. FAF also funds microfinance institutions that provide credit predominantly to members of Fairtrade certified organizations.





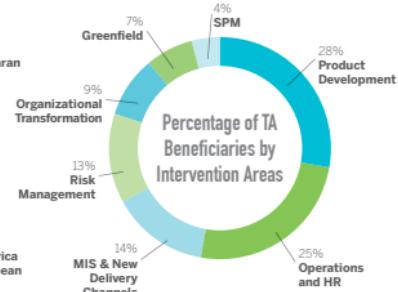
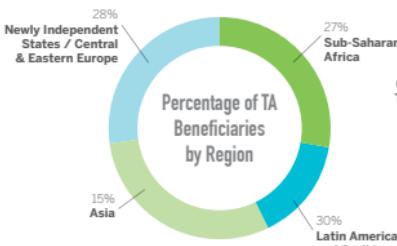
TECHNICAL ASSISTANCE

Incofin IM considers Technical Assistance (TA) to be paramount in improving the quality of services provided by MFIs to their clients. In 2011, the set-up of a RIF II TA Facility marked a shift in the investment philosophy of Incofin IM by systematically combining the investment with the provision of grants to fund advisory services. As of December 2014, more than € 1.2 million was allocated to support partner MFIs to develop new financial products (mainly savings

TA Committed Budget by Intervention Area

TA Facility budget secured in EUR	5,759,833
# of donors	9
# of TA beneficiaries	40
# of TA projects conducted	57
Avg. size of each TA Project in EUR	96,481
Average size of MFI contribution in EUR	20,591

and credit), and around € 600,000 to help define and implement strategies to set-up alternative distribution channels to serve their clients more effectively.



INCEPTION DATE: 1991
FIRST INVESTMENT DATE: 2011
BORROWERS: 75 000
AVERAGE OUTSTANDING LOAN: 800 USD
PORTFOLIO: 55 M USD



EFFORTS TO PROMOTE GREEN MICROFINANCE: CONTACTAR COLOMBIA

Contactar Colombia is an MFI that has not only included its environmental responsibility into its corporate mission, but has also managed to put it into practice thanks to products and services fully integrated in its business model.

With over 80% of clients located in the rural areas of the Colombian departments of Nariño, Putumayo, Tolima and Huila, and nearly 65% of clients working in agricultural income-generating activities, Contactar has developed products, services and partnerships to help their clients reduce their environmental footprint.

The dedicated product "Con su planeta" is used to finance the purchase of ecological equipment for the household or the business. Among the equipment financed, loans are financing the purchase and installation of bio-digestors, helping to recycle organic waste into biogas and fertilizer, which has the double impact of reducing contamination and providing farmers with low-cost, environmentally friendly inputs. Loans have also been used to finance the installation of solar dryers, optimizing solar heat and wind for the



**OF CLIENTS WORKING IN AGRICULTURAL
INCOME-GENERATING ACTIVITIES**



80% OF CLIENTS LOCATED
IN THE RURAL AREAS

coffee bean drying process. At the household level, Contactar also facilitated the purchase of ecological ovens with improved productivity, allowing the families to lower their wood consumption at the same time contributing to preventing deforestation.

In addition to the micro-loans used to fund ecological investments, Contactar has also embedded in its business model the provision of trainings and technical assistance to its clients, investing no less than 3% of its annual budget. These cover a wide array of topics in order to improve environmental practices in clients' productive activities as well as in their day-to-day.

GOAL 2

INTEGRATING CLIENT PROTECTION INTO OUR POLICIES AND PRACTICES

AT INCOFIN IM, WE BELIEVE THAT CLIENT PROTECTION IS CRUCIAL WHEN WORKING WITH LOW INCOME CLIENTS AND IS THE MINIMUM REQUIREMENT FOR ALL SOCIALLY RESPONSIBLE FINANCE PROVIDER.

This is why, in our social performance tool ECHOS®, compliance of client protection principles is the subject of a very thorough analysis, and is aligned with the SMART Campaign.

During the due diligence, our investment managers use this tool to thoroughly gauge and grade the level of CPP compliance. We look at the range of financial products and services provided by the MFI to see if it fits with the needs and context of the targeted clientele. We also probe into the way the financial institution communicates to clients, especially on whether pricing, terms and conditions are clearly stated and presented in a manner that clients can understand.

We look at how the institution ensures that clients have the capacity to repay without becoming over-indebted. We also review the collection practices of the institution to assess if it is respectful and ethical. The existence of functioning mechanisms for clients to place complaints and resolve grievances is another important practice we verify. To assess client privacy, we inspect how client files and data are stored to ensure they remain private and secured.

Furthermore, to promote CPP compliance in all of our investees, all loan agreements and equity shareholder agreements includes covenants that requires the financial institution to report relevant



Clients from the Cambodian MFI, AMK





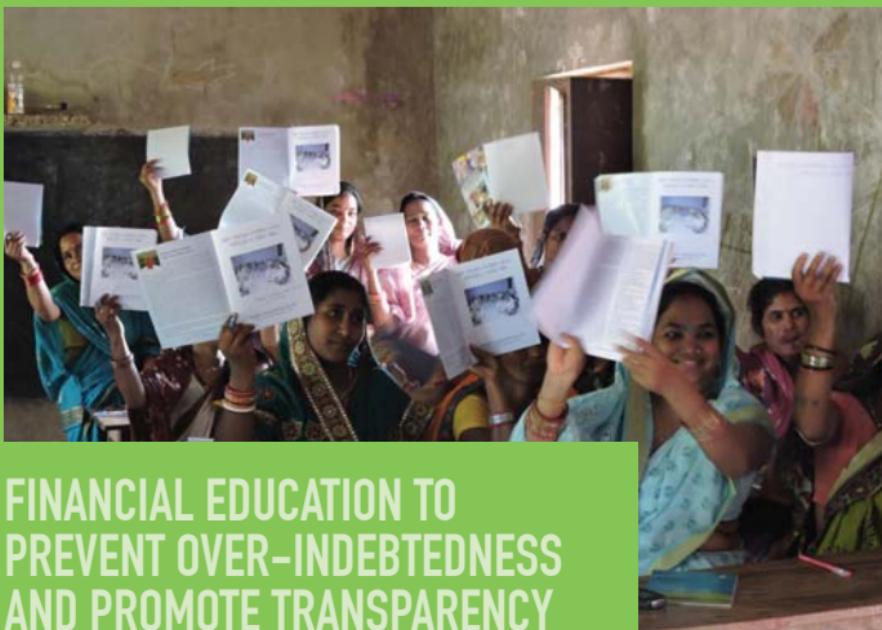
social performance indicators to the Mix Market on an annual basis, and to endorse the SMART Campaign with progressive implementation of those principles within a reasonable timeframe.

Technical Assistance on Client Protection:

Going a step further, we have also helped support our investees becoming CPP compliant through our technical assistance facility:

- ▶ In 2014, 8 out of 57 TA funded projects were specifically focusing on Social Performance Management and Client Protection Principles (CPP) with a total allocated budget of roughly €150,000.
- ▶ More than €1.7 million (40% of the allocated budget managed by Incofin IM) were assigned to developing new products and define alternative distribution channels to better serve clients, in line with the CPP principle of Appropriate Product Design and Delivery. This component includes market segmentation studies and market research to better understand client needs.





FINANCIAL EDUCATION TO PREVENT OVER-INDEBTEDNESS AND PROMOTE TRANSPARENCY

Annapurna Microfinance Pvt. (AMPL) launched its Indian microfinance operations in 2010. The institution has a genuine focus on rural finance, demonstrated by a rural score of 70%. At the end of 2014, the institution counted 304,295 borrowers and a loan portfolio of USD 45 million with an average outstanding loan of around USD 150. With the support of FMO RIF II TA Facility, a TA assignment was developed to help AMPL put in place a financial education project in 54 branches with the aim to create awareness on financial concepts, personal finance and management of money amongst AMPL's clients.

At the end of 2014, the institution was able to train 17,420 group leaders on financial awareness. The training covered issues such as financial planning, budgeting, savings,

difference between formal and informal sources of borrowing, purpose and cost of borrowing, and different types of borrowing. In addition, the training helped establish stronger transparency mechanisms so that consumers can rely on accurate and clear information necessary for comparing products and risks associated with financial services.

17,420

GROUP LEADERS RECEIVED FINANCIAL TRAINING





TRACKING THE IMPLEMENTATION OF CLIENT PROTECTION PRINCIPLES



Created in 1991 by private entrepreneurs and local social actors, Fundación Alternativa para el Desarrollo (Fundación Alternativa) is an NGO with the objective to enhance the socio-economic conditions of micro, small and medium entrepreneurs in Ecuador. At the end of 2014, Fundación Alternativa served more than 11,920 clients. Besides providing financial services, Alternativa provides non-financial services such as training and technical supports to micro-entrepreneurs, associations and companies.

From 2013 to 2014, cvso TA Facility supported Fundación Alternativa in its constant effort to enhance its Social Performance Management (SPM) system by putting in place a software integrated to the core banking system that is able to monitor and measure a set of SPM indicators that are in line with the Universal Standard of the Social Performance (USSPM), which include the Seven Client Protection Principles. Indicators such as clients' satisfaction, pricing awareness, repayment capacity levels, use of complaint mechanism, are used to track the social performance of Fundación Alternativa across branch and time, and to measure progress with the institution's social strategy.



GOAL 3

TREATING OUR INVESTEES FAIRLY



INTERVIEW

Ellen Wouters
Incofin's Chief Legal Officer

► **Incofin IM works with investees in over 40 countries around the world. Are contracts adapted to these different national context and if so, how?**

All of our contracts are adapted to the different national context in which we work. We believe in the importance of good quality legal documentation that is clear and understandable for all parties. As we always work together with local lawyers when preparing legal documentation, the necessary adjustments will be made in line with the national context.

In the case of equity investments, where possible and advisable, we use local law as the governing law and local courts as competent courts for the majority of the documentation. Of course, one needs to strive for maximum legal certainty for all parties involved. When this cannot be assured with local laws and local courts, we then choose for the law of the jurisdiction of the fund that is making the investment, or opt for a more neutral choice such as UK or NY law or even arbitration.

All our loan agreements for debt investments in LAC region have been prepared in close

cooperation with local law firms and are governed by local law and submitted to local courts. For debt investments in other regions, the standard rule is that the governing law is the law of the jurisdiction of the fund making the investment. However, these are being adapted to the local context. All our loan agreements are being reviewed at least on an annual basis by local law firms, in order to ensure that they comply with local law requirements and are valid.

► **How do you ensure that investees understand the terms, covenants and their implications prior to signing the loan agreement or equity shareholder agreements?**

This process starts during the due diligence that our investment managers carry out. During their visit to the client, investment managers provide information on the legal process and on specific contractual clauses.

For debt deals for instance, the starting point is our standard loan agreement, as amended to the local context. We want to ensure that all of our investees have ample time to review in detail the draft agreements, and if requested,

Incofin IM is a signatory of the Lenders' Guidelines for Setting Covenants in Support of Responsible Microfinance."

conference calls are being organized to explain the content and implications of the terms of the agreement. Investees can provide us with comments on the draft agreements, and we then negotiate together to arrive to acceptable terms for all parties. Where need be, we are happy to amend our standard loan documentation.

► **What policies are in place to ensure that covenants are responsible?**

Incofin IM is a signatory of the Lenders' Guidelines for Setting Covenants in Support of Responsible Microfinance. Even before the Guidelines were adopted, Incofin IM's intention was to ensure that the financial covenants in its contracts were in line with the principles of responsible finance. Thus, Incofin IM was an enthusiastic participant to the discussions on responsible covenants and actively participated to the definitions.

The financial covenants as foreseen in our standard loan agreements are in line with the Guidelines. Where possible, we ask the investee to comply with local regulation instead of "our" financial ratios.

In addition, we include the social undertakings related to reporting to Mix Market and implementation of the SMART campaign on Client Protection Principles in our agreements. These concepts and initiatives are also discussed during the visit of investment manager to the (future) investee.

Finally, when we identify during a due diligence specific social (and/or environmental) risks, such as limitation of parallel loans, or systematic use of the national credit bureau, we will engage in discussions with the investee to reach an agreement on actions necessary to improve its approach to mitigating these risks. In such case, the legal documentation will contain adequate wording.

► **What dispute resolution procedures are in place to ensure fair treatment of the investee, for instance, in the event of a covenant breach?**

All loan agreements contain sufficient remedies to protect as much as possible the interests of the funds that we advise and manage. In line with our legal documentation, the lender has the right to end the agreement in case of covenant breach, or to directly undertake legal actions in case of late payment. However, this does not mean that these rights will be automatically used in all instances.

At the level of Incofin IM, several policies have been adopted that include detailed advice and procedures on how to tackle these difficult situations as a responsible lender, always taking into account the interest of the fund that made the investment, but also ensuring fair treatment of our investees. All persons working at Incofin IM have also signed our Code of Ethics and there is a formalized Credit Risk Management and Monitoring Policy which clearly details rules on how to act in case of late payment by an investee.

Breaches of covenants will be looked at on a case by case basis. Investment managers will enter in dialogue with the investee to understand the context and the reasons for the breach. The investee will be asked to report on a more frequent basis and/or to provide more detailed reporting on certain elements. In specific situations, a waiver can be given to the investee for a determined period.

Also in work-out cases, Incofin IM is committed to apply the best ethical practices in line with the Workout Principles signed amongst international investors which includes transparency, disclosure of conflict of interest, good faith, time being of essence, favoring long term and going concern solutions, and fair burden sharing.



32,000 CLIENTS,
61.8% RURAL CLIENTS

ENVIRONMENTAL AND SOCIAL PERFORMANCE MANAGEMENT AT ARVAND IN TAJIKISTAN

With 32,000 borrowers and a loan portfolio of USD 33 million per end of 2014, Microcredit Deposit-taking organization Arvand is one of the leading MFIs in Tajikistan. Being active in the microfinance market for 13+ years and having shown strong commitment to social responsibility through the implementation of client protection principles, Arvand became the first organization in Tajikistan to receive the Smart Campaign Certification in May 2014. In January 2014, Arvand received grade sA on Standard Social Rating.

"Social Performance Management is deeply engrained in all of our organization's processes, procedures and decision-making", says Mrs. Shoira Sadykova, General Director of MDO Arvand. As an example, she mentions that a variety of social performance indicators are monitored on a monthly basis and reported to the Board of Directors through a social scorecard report. Indicators include rural outreach (61.8% of borrowers as of Dec 2014); number of women clients (41%) and savers (45.4%); loan size and initial amount received (20.8% of loans are less than USD 1,000); client education; and number of loans granted to people from low income groups (14.1% of borrowers earn less than USD2 per day, and 47.4% less than USD 5 per day).

In recent years, Arvand also supported a number of social projects in rural areas. For instance, one such project implemented in close collaboration with a local NGO aims to advance young women from low-income families in the Sughd region. The project provides for training and development of vocational skills of these young women as well as trainings on financial literacy and business skills. This particular project specifically focuses on rural areas that are characterized by a high outflow of (typically male) labor migrants to Russia, leaving women as the sole local breadwinner in the family. More than 300 girls and women have benefited from this project.

In addition to social performance, environmental responsibility is also high on the organization's agenda. In January 2015, Arvand introduced a dedicated "Green Loan" product, which by May 2015 makes up 1.37% of total loan portfolio and 3.63% of active clients. Here, loans are provided to clients who wish to better insulate their homes or procure energy-efficient stoves, thereby decreasing wood consumption and, limiting deforestation. Green loans are also provided to farmers wishing to install drip irrigation systems, thereby saving water and fertilizer.



IN 2014, THE
SATISFACTION RATE
AMONG ACTIVE CLIENTS
REACHED 4.3 OUT OF 5



CREZCAMOS, COLOMBIA

Having become a majority shareholder since the early years of Crezcamos S.A., Incofin has played an instrumental role in fostering the institution's commitment to social performance, which was recognized in 2013 with a client protection SMART certification, and in 2014 with an A- social performance rating, both awarded by Microfinanza Rating. Incofin IM, through the funds Rural Impulse I and Rural Impulse II, took stakes in Crezcamos in 2009 and 2010, respectively, only 3 years after the institution was constituted.

Crezcamos' targeted clientele are vulnerable people in Colombia. In 2014, 84% of the MFI's 73,379 clients belonged to the bottom tier of Colombia's socio-economic categories, 62% lived in rural areas and 54% were women.

Crezcamos' concern for social performance, specifically with a priority of putting clients at the center of any key decision, has ensured that its services are adapted to the needs and preferences of clients, resulting in an outstanding client service, which with no doubt helped fueled the institution's impressive growth over the last years and positioned it to become a leading MFI in rural areas of Colombia. In 2014,

Incofin has played an instrumental role in fostering the institution's commitment to social performance"

the satisfaction rate among active clients reached 4.3 out of 5 among active clients and the institution was ranked 49 out of 100 in the MIX-FOMIN global MFI ranking, with a 100/100 score for the quality of services to clients.

The strong social performance achievements of Crezcamos, despite its relatively young age, is a testament that an institution can build from the start a sustainable business model that fully includes best practices of social performance management. While still in a growth phase, the institution has already achieved efficiency levels in line with best practices, ensuring that services are delivered to the clients at the highest quality and lowest cost, whilst also generating a satisfactory return to its investors.



GOAL 4

INTEGRATING ESG FACTORS INTO OUR POLICIES AND REPORTING



INTERVIEW

Geert Peetermans,
CIO of Incofin IM

► **For both debt and equity, when reviewing an investment memo, what are the key environmental and social governance (ESG) aspects you look at and consider as minimum requirements for all potential investees?**

Incofin developed a proprietary scoring methodology called ECHOS. There are five dimensions in this scoring tool, each representing a score component. We do not apply a minimum to each component, only on the overall score level. A cut-off score of 55% is applied internally before making any investment recommendation. Yet the minimum level can vary among our funds and sometimes the required minimum will be higher. For our funds with the rural focus, we further screen MFIs to determine whether they achieve a minimal threshold of rural outreach, the minimal being 30%.

► **For debt transactions, when reviewing the pipeline of potential loans with your investment managers team, have you ever rejected applications on the basis of weak social performance management?**

Yes, occasionally applications are withheld for social concerns. Obviously, screening is necessary to ensure that no party involved is blacklisted for any political, criminal or other matter. Other KYC concerns can relate to elements where owners of MFIs are involved in other activities that would create reputational risk (e.g. gambling). In addition, some operational aspects contain sensitive SPM matters. Our investment managers spend a lot of time during the due diligence understanding the solidity and robustness of the MFI's credit underwriting and practices for collection. They will verify



“We do more than just financing: we provide smart finance in the sense that we engage with the institution, discuss challenges and provide additional support to help overcome those challenges.”

and report internally whether there is a systematic and comprehensive debt threshold analysis for all clients, and debt collection gets organized in a reasonable manner. Any significant concern on these elements would raise a red flag.

► In the case of equity transactions, do you look at an investee's existing SPM practices differently than for debt?

With equity investees, the approach is much more hands-on as one of the investment managers sits on the Board of Directors, brings the topic to the table at board meetings and suggests additional actions. We are opting for a consistent approach that strives for a coherent achievement of what Incofin deems important. We have identified four key elements of a “desired state” in our Investee Companies as far as SPM is concerned. We focus on and assist in: i) establishing a Social and Environmental Management System, including institutionalizing best practices and the designing a social monitoring tool/dashboard; ii) the designation of a senior officer of the Investee Company responsible for the administration and oversight of such system; iii) the creation of an SPM committee at the Board level; iv) and adapting and implementing Incofin’s Board Self-Assessment Tool for use by the Board of Directors.

► For equity, do you include SPM items in the shareholder legal documentation? If so, what items?

As a minimum, we require the “do no harm” policies in microfinance, and these are included in the legal documentation. However, our real additionality lies in pro-actively supporting the implementation of best practices. Incofin is also involved in the development of standards, and thus realizes the envelope on SPM will continue to be pushed. We therefore choose not to be overly specific on the SPM items in the shareholder legal documentation, yet rather highly engage in the institutions we work with. Someone in our equity team will be specifically dedicated to the Investee Company, sit on the board, and furthermore engage with the management to implement specific SPM practices.

► Have you ever had cases of investees for which SPM practices weakened during the timeframe of the investment? What actions did you take?

We attach certain social requirements to the finance that we provide, one of which is the progressive implementation of the Client Protection Principles (CPP). We also have technical assistance facilities, so we can be involved to support these. I can think of a few cases where we helped improvement of CPP or contracted a social audit to provide a frame of reference for later enhancement of practices. Therefore, we do more than just financing: we provide smart finance in the sense that we engage with the institution, discuss challenges and provide additional support to help overcome those challenges.



INTERVIEW

Karel Jansen,
Investment Committee member

► **Can you briefly describe the structure of an Incofin investment memo? Do you feel the amount of social performance information versus financial performance is sufficient to allow you to make a double bottom line investment decision?**

An Incofin investment memo has about 15 pages, and includes financial statements and projections, a financial (Counterpart Risk Scorecard) and Incofin's in-house Social and Environmental Performance Scorecard (ECHOS).

The first page consists of a summary of the proposal including two spider graphs: one is the score of the financial performance tool, and next to it, the social performance score. The second page is the investment proposal itself, including the proposed financial and social covenants. Afterwards, two pages provide some of the most important highlights justifying the financial and social scores stated on the first page.

According to my experience as an investment committee member, the balance between

social and financial performance information is sufficient to make an appropriate double bottom line investment decision.

► **When reviewing an investment memo, what social performance management (SPM) aspects do you take into consideration in your investment decisions?**

We take all the elements of social performance (SPM) into consideration. The total score has to be at least 55%. If needed, we discuss the individual items of the scorecard (in case of low score). A low score on an item can be compensated by a higher score on another item.

In each approved investment proposal, we include the following two covenants:

- the MFI has to report relevant Social Performance Indicators to the Mix Market on an annual basis
- endorsement of the SMART Campaign on Client Protection Principles (CCP) and progressive implementation of those principles in a reasonable time frame



► *SPM is an integrated part of the credit proposal. The balance between social and financial performance information is sufficient to make an appropriate double-line investment decision."*

► **How are environmental considerations integrated in the investment decision-making process?**

Environment is one of the 5 elements in Incofin's social scorecard and is taken into account in the total score. When we started the fund, the scores on environment were mostly low, but in the past 7 - 8 years, they have improved a lot and, in my opinion, are sufficient. Our minimum requirement is that the investee abide by an Exclusion List as per the IFC/FMO format. More advanced environmental practices including the development of green financial products would allow an institution to score higher, but would not be eliminatory.

► **What are the typical SPM questions you discuss with the investment team during an investment committee?**

We do not discuss typical SPM questions with the investment team, because SPM is an integrated part of the proposal and each investee's situation is different. In mature markets, we might put more emphasis on checking whether credit underwritings include appropriate prevention of over-indebtedness. In markets with little competition, we might look at pricing competitiveness. In the case of investees undergoing a change in shareholders, we would look at the possibility of a risk of social mission drift.

► **Have you ever rejected an investment proposal on the basis of SPM aspects?**

No, I have not but that is also because the fund manager Incofin makes sure to never present an investment proposal to the committee which would not reach the minimum score for social performance or carry major social performance deficiencies or risks.

GOAL 5

PROMOTING TRANSPARENCY IN ALL OUR OPERATIONS

TRANSPARENCY IS A NECESSARY CONDITION FOR A HEALTHY INDUSTRY; IN ORDER TO CREATE THE RIGHT INCENTIVES, EFFORTS AND COLLABORATION IS NEEDED FROM ALL STAKEHOLDERS SEEKING TO BALANCE SOCIAL AND FINANCIAL RETURNS.

PROMOTING TRANSPARENCY AT THE INDUSTRY LEVEL

At Incofin, we strive to share with our industry partners the lessons we have learned through our years of pioneering work in financial inclusion to promote a sustainable, healthy growth.

On February 11th, 2014, Incofin organized a debate to test the statement "Microfinance works", and brought together experts from home and abroad. The event focused on the findings of two instructive client surveys focused on microfinance clients in Cambodia.

Tanmay Chetan, the Chairman of the Cambodian microfinance institution AMK, where Incofin holds a 25% stake, presented a summary of AMK's *Change Study Report 2012*ⁱⁱ shedding some light on the evolution of clients' poverty profile through their access to credit over a period of five years. Mr. Chetan shared that the study found that AMK clients experienced small gains on the relative poverty scale, with 5% moving out of the poorest and poor categories and 9% entering the less poor category over the five year period, compared to no significant change for non-clients. Less positive findings show that overall vulnerability to shocks, particularly health crisis and climate events (such as flooding and droughts) remain unaddressed. Such



study proves that it is possible to measure client outcomes to inform business and product decisions to better serve clients' interests and increase outreach. Very transparently, such study shows that microcredit alone can do little to address the multifaceted issues of poverty and that a more comprehensive approach, such as offering savings, money transfer and micro-insurance services, is likely to yield increased results.

The second survey was presented by Dina Pons, East Asia Regional Director & Social Performance Manager

at Incofin, and highlighted some of the findings of a research financed by Incofin, BlueOrchard Finance, and Oikocredit, titled: "Study on the Drivers of Over-Indebtedness of Microfinance Borrowers in Cambodia: An In-depth Investigation of Saturated Areas²". This study focused on providing an in-depth understanding of the drivers of over-indebtedness (OID) in selected saturated areas. Through a geographic mapping of microfinance service providers in Cambodia, it highlighted that saturated areas represented less

than 6% of total villages in Cambodia. Such finding went against the market rumour that Cambodia is overall a saturated market. Rather, the study implies that if an institution properly uses market penetration data when designing its expansion strategy, it could continue growing in a responsible manner in currently untapped areas. The study also pointed that clients with multiple loans, especially three or more loans, were far more likely to be insolvent and to have struggled to repay.

¹ https://www.incofin.com/sites/default/files/attachments/newsitems/Change%20Study_AMK_2014.pdf

² <https://www.incofin.com/sites/default/files/attachments/publications/Drivers%20of%20OID-Cambodia.pdf>



Kredit Client – This young Cambodian women owns a battery recharging station



PROMOTING TRANSPARENCY AT THE MFI LEVEL: KREDIT

At Incofin IM, we promote transparency at the MFI Level in all of our investees by including clauses in our loan and shareholder agreements asking our MFI partners to report their social performance indicators to MIX Market on an annual basis. MIX Market is a global data hub where microfinance institutions can self-report their institutional data to exhibit their commitment to transparency. Incofin Investment Managers are in charge of monitoring the implementation of this social covenants during their annual monitoring visit.

KREDIT, one of our long standing partner in Cambodia, received the S.T.A.R. award from MIX Market in 2013 based on its strong demonstration to both social performance management and transparency. The MFI was handpicked out of over 200 organizations assessed by MIX Market, and one of the 34 to be given this award. In addition to publicly disclosing its financial and social performance on MIX Market, KREDIT adheres to transparency by fully disclosing its pricing, terms and conditions to clients in a manner in which clients can easily understand. Clients are given adequate time for reviewing the loan documents to make a decision. Furthermore, clients are provided with accurate and timely account information.

GOAL 6

PURSUING BALANCED LONG-TERM RETURNS

WITH EQUITY INVESTEES, INCOFIN'S APPROACH IS VERY HANDS-ON. ONE OF THE INVESTMENT MANAGERS SITS ON THE BOARD OF DIRECTORS, BRINGS THE SPM TOPIC TO THE TABLE AT BOARD MEETINGS, AND SUGGESTS ADDITIONAL ACTIONS. WE ARE OPTING FOR A CONSISTENT APPROACH THAT STRIVES FOR A COHERENT ACHIEVEMENT OF WHAT INCOFIN DEEMS IMPORTANT AND WHICH WE CALL THE "DESIRED STATE OF SPM"

Interview with

Tanmay Chetan, Managing Partner of Agora Microfinance Partners LLP and shareholder of AMK Microfinance, and Mr. Kea Borann, CEO of AMK Microfinance



- **AMK was created and solely owned by the NGO Concern Worldwide for more than 10 years. When this NGO wanted to exit, Incofin was one of the investors you were interested in. What were the things you looked at when screening Incofin as a potential shareholder?**

Though we had been approached by other similar MIVs as well as some banks, we felt that Incofin was the most aligned to our understanding of balanced financial and social returns. It was important for us to find a new investor that would agree with and actively support AMK's continuing development into a more diversified financial institution. At the time of the discussions, AMK was setting up deposit products and mobile payment channels, both of which required shareholder support and guidance. We found comfort in Incofin's deep understanding of the Cambodian market and its support to further develop AMK, which has been crucial to the provision of more diversified products for the Cambodian lower income populations.

- **How would you describe Incofin's role as shareholder in AMK?**

Incofin has been an active and engaged shareholder. Over the past 2-3 years, its role in the governance and strategy of AMK has become integral to AMK's development. Through its role on AMK's Board and leadership on a number of committees, such as the Governance and Social Performance Committee, we believe Incofin is providing a level of oversight and support that is crucial to AMK's continued progress. Its imprint on AMK strategy is therefore quite clear and much appreciated by all stakeholders.

- **Apart from equity investment, Incofin coordinated a technical assistance facility provided by the Agence Française de Développement, AFD. Could you describe what the TA focused on and how you think it increase AMK's client centric approach and business practices.**

The TA coordinated by Incofin went a long way in AMK's plans of strengthening its HR processes, risk management as well as exploring new markets for expansion. These TA facilities enable AMK to become stronger from within, while it continues its plans for expansion and deepening its presence in the market. The TA was both timely as well as substantive, and we thank Incofin and AFD for providing the support.



INTERVIEW



Ms. Lubna Azam Tiwana
Chief Risk Officer of Khushhali Bank Limited



“Incofin’s input was invaluable in improving Khushhali Bank’s SPM.”

► In 2012, a consortium of investors, including international investors such as the Rural Impulse Fund II managed by Incofin Investment Management, acquired a majority equity stake in Khushhali Bank Limited (KBL). What role have these investors played in promoting social performance management (SPM)?

The new investors, through an agreement, formally required KBL’s commitment and compliance with various social and environmental standards within its core operations. To ensure this compliance and to promote good social performance, monitoring, and reporting, a Social and Environmental Management Systems (SEMS) unit was created and housed under the Risk Management Department, spearheaded by myself. Most recently, the Board has approved the setup of a Social Performance Management Committee at the Board level, an initiative pushed by Incofin’s Board representative, Geert Peetersmans, which is expected to further strengthen and solidify KBL’s social performance in the years to come.

► What other guidance from Incofin IM on SPM have been useful for you in designing and implementing your robust SPM system?

Incofin’s input was invaluable in improving our SPM. Under the continued guidance of Geert, we developed a social dashboard to track KBL’s performance against its social mission and can now regularly monitor KBL’s social performance.

Geert further introduced me to Incofin’s Social Performance Manager Dina Pons, who guided me on useful and relevant indicators that could be included for social performance tracking. These indicators are varied and touch upon all aspects of KBL’s mission, such as outreach (i.e. number of clients, number of branches), exemplary service (i.e. number of client complaints, client retention rates, customer satisfaction survey results), and outcome (i.e. at the institutional level we look at ROA and ROE, and at the client-level, we track cash flow analyses, improvements in clients’ economic base). Dina also introduced me to other key players in global social performance initiatives, such as Social Performance Task Force members who promote the USSPM (Universal Standards of Social Performance Management), and the Cerise team who developed the SPI4 social performance monitoring tool. KBL has benefited from international exposure and best practices.

► How has the social dashboard helped you better assess your social achievements?

Through the social dashboard and SPI4 monitoring, KBL was able to clearly identify its gaps in social performance and was able to design an action plan to implement the necessary steps to address the weaknesses, such as improved transparency in lending, increased client awareness, and more systematic monitoring.



KENYA WOMEN MICROFINANCE BANK (KWFT)

Since incorporation in 1981, Kenya Woman Microfinance Bank (KWFT) has been working very successfully on its mission to transform the lives of underprivileged households. The focus has always been to partner with women deep in the rural areas. At present, over 60,000 women clients have achieved their dream of becoming a significant shareholder in the Microfinance Bank. After the entry of strategic investors, RIF II and the Norwegian Microfinance Initiative (NMI), and after the implementation of the client ownership program, the Bank is well positioned to expand further.

Kenya Women Microfinance Bank will start offering more inclusive financial services like money transfers, cheques and current accounts. The bank can offer the latter products thanks to becoming an associate member of the Kenya Bankers association allowing them to join the clearing house. In addition, the bank is rolling out agency banking to further deepened rural penetration and serve its target market better.

Throughout all of its activities, the bank looks at financial impact as well as impact on the environment and the social welfare of its customers. The balancing act is part of every decision, including the development of new products and strategic directions taken by the Board of Directors. Beyond its business activities, the team also actively supports initiatives that focus on youth and women empowerment, such as the Beyond

630,000
CLIENTS



Zero Campaign, promoting maternal, newborn and child health, and its Capture the Future program, through which bright but needy female students, often from single mother households living in difficult circumstances, are being supported.

At the end of 2014, the bank's loan book amounted to USD 883 million. Deposits increased from USD 163 million. KWFT counted around 630,000 clients and nearly 1.2 million savings accounts, served by over 2,500 employees. Next to being selected the second best company to work for in Kenya, the bank was awarded the Best Microfinance Bank in East Africa for the third consecutive time.

As with all equity investees, Incofin proactively works with its partners to promote social performance management through the inclusion of specific clauses in the shareholder agreement, such as: i) gradual implementation of the Client Protection Principles; ii) annual reporting to the MixMarket on financial and social performance; iii) commitment to not conduct business with persons or companies engaged in activities listed in the Microfinance Exclusion List; and iv) compliance with the anti-money laundering, anti-corruption and anti-terrorism funding standards. Furthermore, Incofin's representative on the Board of Directors works towards the progressive implementation and monitoring of compliance of these practices.



Annapurna's client doing stone carving

“Incofin has been one of the key driving forces in motivating Annapurna Microfinance to integrate social performance.”

Annapurna Microfinance Private Limited (AMPL) was setup in 2010 with the fundamental focus to empower poor women by strengthening their economic security through quality microfinance services. At present, AMPL has a loan portfolio of around USD 45 million, and over 300,000 clients, of which 80% are rural.

Incofin's association with AMPL dates way back to June 2012 with an equity investment from Rural Impulse Fund II. Through membership on the Board, Incofin has been one of the key driving force in motivating AMPL to integrate social performance in its operations and manage double bottom line business strategies. From the onset, the Board sanctioned the formation of a SPM committee at the board level and the immediate setup of a dedicated SPM department. SPM was further enhanced through Incofin's technical assistance facility, in which AMPL underwent a Social Performance Assessment by an external specialized consultant who examined their various systems and practices and helped develop an action plan for SPM.

Currently, AMPL has a solid SPM system in place, adopting the SPI4 in 2014 as the tool to evaluate its level of compliance with the Universal Standards of Social Performance Management (USSPM). The company also endorses the Smart Campaign on Client Protection Principles and carried out a Smart Campaign Assessment in 2013. Since April 2013, AMPL also tracks its client outreach by using a systematic poverty assessment tool Progress out of Poverty Index (PPI), which is fully incorporated into its MIS. To promote transparency in all its activities and to address client grievances, a toll free number is printed on client's loan pass book and displayed exclusively in all its branches. To monitor the calls, an Internal Voice Recording System (IVRS) was introduced in the year 2013. In addition to this AMPL has initialized complaint boxes at every branch where the clients can drop their suggestions or feedback. AMPL also underwent Code of Conduct Assessment in the years 2013 and 2015, receiving an improved score of 3.06 to 3.34 and thereby earning a Grade A rating.

GOAL 7

WORKING TOGETHER TO DEVELOP COMMON INVESTOR STANDARDS ON INCLUSIVE FINANCE.



TESTIMONY

Laura Foose,
Director of the SPTF

It is with partners like Incofin IM that we can together continue to expand the reach of our message to implement responsible finance practices.

The partnership and support of Incofin IM has been instrumental to the advancement of the work and mission of the Social Performance Task Force (SPTF) in the responsible inclusive finance sector. The involvement of Incofin IM in the SPTF dates many years back. David Dewez was on the original Steering Committee starting in 2008 and was instrumental to the creation of the SPTF social investors working group.

The SPTF Social Investor Working Group works to promote responsible investment in microfinance and harmonized standards. The group currently has +300 investor members representing +100 organizations. In 2011, Incofin IM hosted the investor meeting in Antwerp, Belgium where Loïc De Cannière gathered CEOs of the top MIVs to promote the USSPM and discuss practical ways to implement these practices with investees. Loïc also moderated a discussion on responsible finance for equity investors at the March 2014 investor meeting in Luxembourg.

The group is currently co-led by Dina Pons of Incofin IM (together with Jurgen Hammer of Grameen Credit Agricole Foundation). As co-chair of the group, Dina Pons is very active in moderating many of the discussions of the group in topics of interest to its members (such as preventing over-indebtedness, reasonable covenants, the importance of strong social performance management as part of governance). In response to the interest of group members, Dina also led the work of social investors in developing the Lenders' Guidelines for Setting Covenants in Support of Responsible Microfinance – a document that has been endorsed and adopted by many social investors and that has the power to harmonize and ease the reporting constraints for MFIs. Furthermore, Dina contributes to the work of the SPTF beyond the social investor working group as a very active member of the SPTF Board of Directors since 2013.

The SPTF is incredibly grateful for the time, work, and dedication that many Incofin IM members have graciously offered and continue to offer to the work of the SPTF over the years. It is with partners like Incofin IM that we can together continue to expand the reach of our message to implement responsible finance practices in the field.



INTERVIEW

Jean-Gabriel Dayre

PROPARCO representative on the RIF II's Supervisory Board



“We think it is our role to contribute to advocacy for “responsible financial inclusion” and we see in Incofin a highly professional and pragmatic advocate.”

PROPARCO is a shareholder of Incofin biggest fund under management, Rural Impulse Fund II (RIF II)

► As a shareholder, do you value the fact that Incofin strives to contribute to the development of Environment & Social standards not only internally but also through advocacy work at the industry level?

Absolutely. Even though numerous socially oriented initiatives have emerged in recent years (e.g. the SPTF's USSPM, the Smart Campaign's Client Protection Principles, Microfinance Transparency, etc.), advocating for responsible microfinance and financial inclusion are still critical at a time where the industry needs to face “harsh realities”, as coined in the last Banana Skins report, namely higher than ever risks of over-indebtedness, market saturation and microfinance services that end up being predatory for the clients. Hence as a development financial institution (DFI), we think it is our role to contribute to advocacy for “responsible financial inclusion” and we see in Incofin a highly professional and pragmatic advocate of “responsible” or “reasonable” practices that aim at providing better and safer products to the clients and building sounder institutions and markets.

► What are the main social performance initiatives in which you have witnessed Incofin's participation?

Mainly, I would say I witnessed Incofin's involvement in SP through its leading role as co-chair of the SPTF's Social Investor Group, where it coordinates the various initiatives of the sub-working groups. Incofin also led a working group on the discussion of list of “reasonable covenants”, in which Proparco also took part. They have also been actively participating in the joint work on CERISE's latest SPM monitoring tool (SPI4). Over the past 12 months, I can remember at least three occasions where MFI partners of Incofin, explained their work on Social Performance Management and Incofin's involvement in this respect. Incofin also led the effort (along with two other MFIs) on launching an in-depth study of over-indebtedness in Cambodia. I should also say that Loic, Incofin's CEO, has been advocating time and time again for the investors of RIF II to join the Principles for Investors in Inclusive Finance (PIIF), developed under the UN Principles for Responsible Investment (PRI). I know that not all have joined yet, so there is still work to be done.

ADAPTING ECHOS®

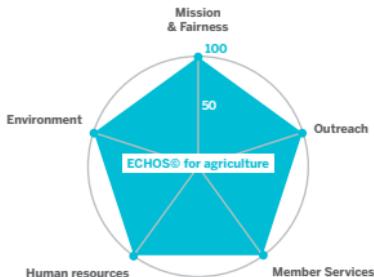
The ECHOS® tool has been an essential part of Incofin's due diligence process for seven years now, so when Incofin began direct lending to Fairtrade certified producer organizations, hired labour organizations and traders/processors Incofin needed to find a way to include a similar social performance assessment in our work with these new types of investees. The result was the development of a new ECHOS® for agricultural SMEs. For more than two years now Incofin has been working with this second ECHOS® in its day-to-day work of providing direct finance to the agricultural sector. However, the original ECHOS® for agricultural finance was designed around the idea of lending only to Fairtrade certified organizations, thereby already ensuring that certain social and environmental practices were being met through the annual audit of Fairtrade certified organizations that occurs. With the development and launch of agRIF the ECHOS® for agriculture needed updating to include the broader agricultural sector. Our Chief Risk and Compliance Officer, Rita van Den Abbeel, took on the task.

The new ECHOS® uses similar dimensions to the ECHOS® made for financial institutions: 1) Mission & Fairness; 2) Outreach; 3) Member Services; 4) HR & Labour; 5) Environment.

Adaptations that were made include placing a stronger emphasis on environmental practices as the impact on the environment from agricultural activities can be deeper than that of a financial services provider. Thus the ECHOS® for agriculture digs into topics such as the internal environmental policies, excluded practices, training in the use of potentially harmful substances such as pesticides and management plans for efficient use of natural resources.

Another tool that has recently been introduced for agRIF is the agRIF scorecard, the aim of which is to track 28 indicators for financial intermediaries and 24 indicators for producer organizations and agricultural value chain SMEs.

The topics covered by the scorecard include access to finance, type of farmer reached (subsistence, smallholder, etc.), quality of the portfolio, sustainably managed land, types of agricultural products, and market access. The scorecard will be completed at the time of the investment and annually thereafter, this allows agRIF to both measure output and by looking at the evolution of that output over time determine outcomes.



ALINUS INITIATIVE

Incofin IM is an active participant of the working group on Aligning Investors Due Diligence and Monitoring Practices with USSPM (ALINUS), which is a sub-group within the Social Investors Working Group in the SPTF.

As social impact investors, we too can play a critical role in incentivizing our investees to take up SPI4 by harmonizing our tools and processes with USSPM and SPI4. The first step is to adapt our due diligence and monitoring. However, some of the challenges of SPI4 for direct application and uptake by MIVs is the extensive list of indicators (+200). A social due diligence cannot be as comprehensive as a full social performance assessment. Furthermore, some MIVs already have an in-house tool in place for a number of years, such as Incofin IM, and thus, adding another tool to the process would make the workload of investment managers impractical.

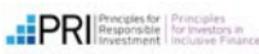
With this backdrop, the ALINUS working group was initiated in late 2014 by a group of 14 social investors, together with the technical partner CERISE. ALINUS is the outcome of this fruitful collaboration, which is a light version of SPI4 containing 80 of the 200 indicators, selected by the participating MIVs based on their thoughts on what was manageable for data collection and sufficient for meeting internal reporting formats.

We believe that the SPI4 has the potential to become the "social statement" to complement annual financial statements of MFIs. To put our words into action, Incofin IM is participating in the ALINUS testing at the moment to further the efforts to harmonize social scorecards, monitoring and reporting in the industry, a step that we consider is not only crucial but necessary to achieve our social promise.

SAMPLE OF ALINUS SOCIAL DASHBOARD



For the past five years, Incofin has proactively joined forces with key industry stakeholders to develop and to push forward the agenda of harmonization of investors's standards on inclusive finance. Incofin IM is involved in and endorses the following sector initiatives:





COMMITTED BEYOND INVESTMENT

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