MAJ INVEST FINANCIAL INCLUSION FUND II K/S

Social Impact Report 2016/2017

MAJ INVEST

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INTRODUCTION AND BACKGROUND

The purpose of this report is to present the social impact results of the portfolio companies of Maj Invest Financial Inclusion Fund II K/S (MIFIF II or the Fund) in 2016/2017. The report is based on the social impact reporting provided by the portfolio companies to the Fund and information provided through board participation.

Investment strategy

Maj Invest Financial Inclusion Fund II is a closed-end private equity fund investing directly in top tier financial institutions providing micro- and SME financial services in Latin America, Asia and Africa. Through direct equity investments, the Fund acquires significant minority positions with board representation in the financial institutions together with trusted investment partners. The Fund invests in top tier financial institutions of the sector, with a medium to large size loan portfolio of minimum USD 100 million. The target financial institutions must be mature and well-established, with advanced and efficient operational infrastructure, strong governance, highly qualified management, experienced co-investment partners and attractive growth potential. The targets must have the capability to benefit from the growing sector, to become regulated banks through organic growth or consolidation, to reach a ROE of 20 per cent or higher and have a strong exit strategy for the Fund.

The microfinance sector

The financial inclusion market is of significant magnitude and presents an attractive investment opportunity. Companies in this sector provide financial services to clients above extreme poverty levels but below the middle class as well as to micro, small and medium sized enterprises (MSMEs). The Fund seeks to generate above market returns by investing in the financial infrastructure and microfinance banking sector in developing markets such as Latin America, Asia and Africa.

Globally, financial inclusion is an ample and growing market. It is estimated that 2.3 billion people are unbanked with no access to accounts, savings or payment mechanisms. Over 200 million MSMEs in developing economies are unserved or underserved, suffering a financing gap of USD 2.1-2.6 trillion. In 2014, financial institutions in this market had a loan portfolio of USD 87 billion and attended 111 million clients and grew at 10 per cent and 16 per cent, respectively. In its Market Outlook 2016, Zurich-based responsAbility estimated that the global microfinance market grew at 10-15 per cent, showing a stronger pace for Asia Pacific (30 per cent, mainly in India and Cambodia) and Sub-Saharan Africa (15-20 per cent on the back of low penetration levels) than for Latin America (5-10 per cent, given its mature market status). Albeit this fast growth pace, the ratio of private credit to GDP in countries with large microfinance markets hovers around 40 per cent, whereas in developed countries this ratio is well above 100 per cent. There are vast opportunities for growth as evidenced by a pervasive financial exclusion landscape.

As a market grows, there is pressing need for new conducive regulation, products, technologies and investments. According to the EIU Global Microscope 2016, four countries out of 55 top the list for their favourable regulatory environment for financial inclusion: Colombia, Peru, India and the Philippines. India's addition to

the top four is the result of its government's efforts to provide wider access to its large unbanked population. Technology usage, such as e-payments or mobile money, are expanding quite rapidly in India and Bolivia. Both countries show the highest scores on e-payments in the EIU report. Kenya takes the lead on mobile phone usage to receive money remittances with 67 per cent of the population using such means. Other developments such as branchless banking or peer-to-peer lending are becoming more mainstream. In China alone, as of mid-2016, a local paper reported the existence of 2,349 online lenders with outstanding loans of USD 93 billion.

As a large and, to a point, unattended market keeps growing, sector participants need significant sums of capital to close the financial inclusion gap. Symbiotics, a financial intermediary, estimates that the private sector has invested around USD 11 billion in microfinance assets as of 2015. As structural changes take place, even more capital is needed. For instance, in March 2016, Cambodia increased the minimum capital requirements for deposit-taking MFIs from USD 2.5 million to USD 30 million. In mature microfinance markets, such as Colombia and Peru, equity positions owned by entities with no commercial focus will seek to exit as their developmental role comes to an end. These shifts have translated into average equity transaction tickets growing from USD 2–5 million to USD 15-20 million.

The financial infrastructure and microfinance banking market presents an unparalleled investment opportunity. The imbalances between the size of the population demanding these services and the small, albeit growing, current offering, creates significant prospects for capital deployment. Moreover, the technological and regulatory advances in the countries where the Fund invests opens the possibility for operating efficiencies, value creation opportunities and demand of equity investments leading to outsized returns upon exit.

Social impact strategy

Maj Invest Financial Inclusion Fund II K/S invests in financial infrastructure to create a positive financial return. However, investing in financial infrastructure in Latin America, Asia and Africa provides access to financial services for otherwise excluded parts of the population which significantly helps improve their livelihood. The effect which this access has on people and the community is social impact.

Social impact is an integrated part of the overall framework for responsible investment, and the Fund's perception of responsible investment is aligned with that of the UN. In order to maximise positive social impact and minimise any negative impact of the operations and of the portfolio companies, the Fund shares the core values of the UN-backed Principles for Investors in Inclusive Finance (UN PIIF). The Social Impact Policy of the Fund considers the provisos laid down in various international standards such as: the *Client Protection Principles of the Smart Campaign*; the *Universal Standards for Social Performance Management of the Social Performance Task Force*; the *Anti-Money Laundering Recommendations of the Financial Action Task Force*; the *Exclusion List of the IFC*; *EDFI's Exclusion List*; and the *Principles for Investors in Inclusive Finance*.

The Fund is committed to working with the portfolio companies on creating long-term social impact and contributing to a sustainable development, adding value to the portfolio companies and enhancing business opportunities.

Maj Invest group

Maj Invest is a spin-off of the Danish pension fund LD (Lønmodtagernes Dyrtidsfond) and was independently established in 2005. Maj Invest has two core business activities: asset management and private equity. Maj Invest Asset Management provides advisory services on asset allocation and investment management in respect of listed equities, and Maj Invest Equity provides investment advisory services to private equity funds investing in unlisted equities in Denmark and abroad. In 2016, Maj Bank was established. Maj Bank offers accounts and deposit accounts for savings and investment purposes and provides advisory services to clients.

Maj Invest Financial Infrastructure manages the Maj Invest Financial Inclusion II K/S and the first fund Danish Microfinance Partners K/S.

RESULTS AND CONCLUSION

By June 2017, Maj Invest Financial Inclusion Fund II K/S had three direct investments in Microcred Holding, Diviso Grupo Financiero and Arohan Financial Services. As such, the Fund reaches out to clients in Latin America, Africa, China and India.

In 2015, the United Nations launched the Sustainable Development Goals 2030 (SDGs) with the objective and goal to secure a sustainable economic, social and environmental development. The goals are to stimulate action during the next 15 years through 17 goals and 169 targets. As part of the Fund's further development in line with the sustainable development agenda, this year's social impact report maps the initiatives of the portfolio companies according to relevant SDGs.

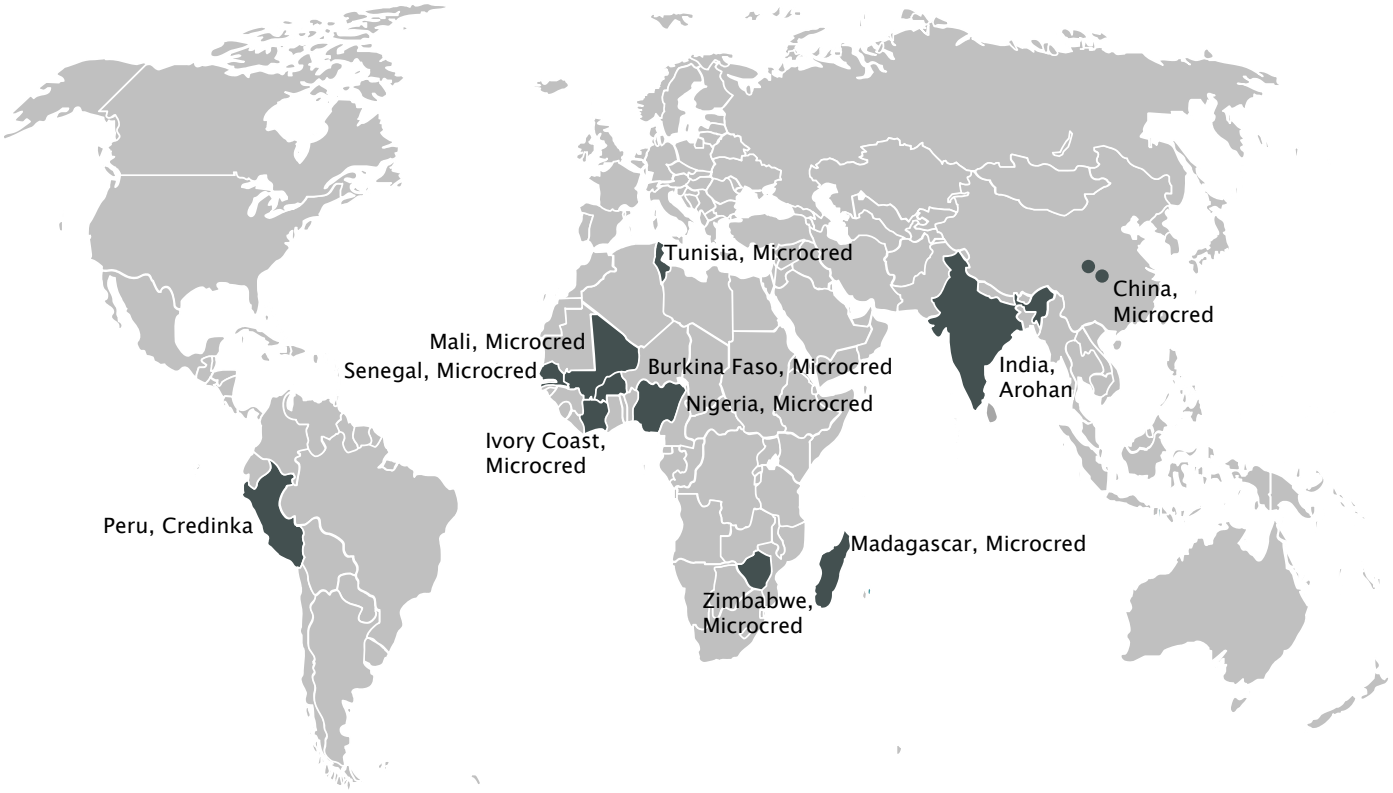
The mapping of the results and initiatives of the portfolio companies against the SDGs showed that the Fund's results contribute to the implementation of four sustainable development goals.

These goals are SDG 1: *No Poverty*; SDG 5: *Gender Equality*; SDG 6: *Clean Water and Sanitation*; and SDG 7: *Affordable and Clean Energy*.

The Fund only invests in portfolio companies which adhere to internationally recognised social impact standards and client protection principles which ensure that clients are prevented from over-indebtedness and guaranteed reasonable pricing and a wide range of services.

All of the portfolio companies have endorsed the Client Protection Principles of the Smart Campaign.

The Smart Campaign is a global effort to provide microfinance institutions with the resources and tools needed to deliver transparent, respectful and relevant financial services to all clients. Further, the portfolio companies follow internal exclusion and anti-money laundering policies based on international standards and local legislation.



The Fund's reporting is based on six social indicators. The selection of these indicators is based on the *Client Protection Principles of the Smart Campaign*, the *Universal Standards for Social Performance Management of the Social Performance Task Force* and indicators used by social performance rating agencies.

1. Outreach
2. Prevention of over-indebtedness
3. Interest rates and responsible pricing
4. Product mix and range of service
5. Community development
6. Employment

Outreach

Outreach is a vital factor of social impact. The outreach indicator is constituted by a series of subindicators such as the number of clients, percentage of female clients, percentage of clients living in rural areas, number of branches, loan and savings portfolio and the portfolio at risk. On the following pages, the 2016 outreach results are presented.

Prevention of over-indebtedness

The companies have implemented extensive procedures on determining the risk level of their clients. The use of credit registers is widely integrated in the process and interviews with the spouse, gurantors and even neighbours are carried out prior to granting a loan. As endorsers of the Smart Campaign, and with Arohan's certification, the portfolio companies have also committed to ensure in all the credit processes that clients have the ability to pay back and not become overindebted.

Additionally, prices, terms and conditions are displayed in the branches, detailed in leaflets and explained to clients prior to loan granting.

Interest rates and reasonable pricing

The interest rates range between 12.9 per cent p.a. and 30.6 per cent p.a. depending on the country and loan type. Only some of Microcred's institutions in countries without caps have higher interest rates. The level of interest rates is in line with the market and less expensive than most competitors. The rates may seem high, but the cost of distribution, capital and risk is significant in many of the countries in which the Fund invests. Loans are always in local currencies which sometimes is associated with a high level of inflation, and usually the loan amounts are small with short tenure. In all cases, the financial institutions of the portfolio engaged in lending represent a much cheaper and safer option than the traditional black market loan sharks.

Product mix and range of service

The portfolio companies offer a wide variety of services. In addition to various credit types, Diviso/Credinka and Microcred offer savings accounts, insurance, money transfers, credit cards, financial education, mobile branches and small branch outlets. Arohan offers various loan types and insurance.

Community development

Along with financial services, the portfolio companies have extensive focus on developing and reaching out to their surrounding communities by providing both clients and non-clients with non-financial services. Focus is in particular on the empowerment of women, financial literacy and education and the provision of energy and access to clean water.

> *In Africa, close to 35,000 homes and 210,000 people have been provided with solar lamps through Microcred's Baobab+ programme.*

In India, nearly 4,000 people have participated in health camps, commercial and IT training as well as benefitted from emergency aid.

Employment

Besides reaching out to 1,416,000 clients, the portfolio

TOTAL OUTREACH INDICATORS

Savings portfolio

332

USDm

Loan portfolio

819

USDm

1,348
Branches

1.4
million clients

160% increase
in clients

63%
Female clients

companies create many jobs in their respective countries and employ 7,000 people all together. The different initiatives for the employees vary from company to company but encompass policies on social and environmental practices, discrimination, compensation and medical care.

Investing in financial infrastructure in Latin America, Africa and Asia is a sound contribution to financial inclusion of the poorest part of the population, and can be a significant contribution to the prosperity of each individual and to the economic development of the developing countries in these regions. However, microfinance must be accompanied by other initiatives to alleviate poverty, including a stable political and economic environment together with investments in infrastructure, education and health, and other important sectors.

As such financial inclusion is not a guarantee for prosperity for everyone with access to financial services, but it creates an important opportunity for each individual.

It contributes to the financial infrastructure of developing countries to the benefit of the long-term social and economic growth.

More information on the national and international standards mentioned in this report can be found in Appendix 2.

Copenhagen, 29 May 2017

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THE SUSTAINABLE DEVELOPMENT GOALS

In 2015, the UN launched the Sustainable Development Goals 2030 (SDGs) defining worldwide sustainable development priorities. 17 goals including 169 targets have been established and are set out to stimulate actions during the next fifteen years. The goals are centered around the three dimensions of a sustainable development: economic, social and environmental. Some of the goals are closely linked to the social focus areas of the investments in Maj Invest Financial Inclusion Fund II. Businesses are encouraged to contribute to a sustainable development through investments, among other things. As part of the Fund's contribution, MIFIF II has in this year's social impact report begun to map the social impact indicators of the Fund against the SDGs.

Sustainable Development Goal 1
End poverty in all its forms everywhere.

Target 1.2: *By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.*

Target 1.4: *By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.*

Maj Invest Financial Inclusion Fund II contributes to these targets through the investment in Diviso/Credinka, Microcred and Arohan. The financial institutions provide small loans to people in the low income group in Africa, China, Latin America and India. Microfinance is not the silver bullet to end poverty, but it creates an opportunity for each individual to prosper and to get out of poverty. All together, the companies reach out to 1,416,000 clients through 1,348 branches. As such, the Fund contributes to creating easy access to financial services for all.

Sustainable Development Goal 5
Achieve gender equality and empower all women and girls.

Diviso/Credinka, Microcred and Arohan are all focused on the importance of the inclusion of women in financial services. On average 63 per cent of the clients are female. In Arohan, women account for 96 per cent of the client base. Both Arohan and Credinka have developed specific products exclusively for women living in rural areas. This greatly contributes to the empowerment and independence of these women. Additionally, nearly 50 per cent of all staff are female.

Sustainable Development Goal 6
Ensure availability and sustainable management of water and sanitation for all.

Target 6.1: *By 2030, achieve access to safe and affordable drinking water for all.*

The Fund contributes to this target through the investment in Microcred. Microcred has become the official distributor of the LifeStraw® in Senegal and the Ivory Coast through its Baobab+ programme. The LifeStraw® filters 99.99% of all bacteria and turns contaminated water into clean drinking water. Depending on the product, each LifeStraw can filter up to 100,000 liters of water. The straw and other products can be bought in Microcred branches. Through the distribution of the LifeStraw®, Microcred significantly contributes to the mission of creating access to safe and affordable water to all.

Sustainable Development Goal 7
Ensure access to affordable, reliable, sustainable and modern energy for all.

Target 7.1: *By 2030, ensure universal access to affordable, reliable and modern energy services.*

Target 7.2: *By 2030, increase substantially the share of renewable energy in the global energy mix.*

According to Microcred, two thirds of the African population does not have appropriate access to electricity. The Baobab+ programme addresses this issue by making affordable modern solar lamps and domestic solar systems available to everyone. The distribution of solar lamps also contributes to the increase of the share of renewable energy. Solar products are available through Microcred's branches and in Baobab+ stores. Since the launch of the programme in 2015, 35,000 homes have been equipped with solar solutions, and 210,000 thousand people have benefitted from the programme. The lamps improve the people's lives significantly and prolong the activity hours of the population enabling them to cook, study and work beyond the hours of daylight. As part of its social strategy, the Baobab+ programme has donated solar lamps to rural schools enabling the school children to study at home after nightfall.

DIVISO/CREDINKA

ABOUT DIVISO

Diviso is a Peruvian financial holding company established in 2003. The company provides a wide variety of products and financial services through its companies which encompass the financial institution Credinka, the asset management company Diviso Fondos, the stockbroker company Diviso Bolsa, NCF Consultores and NCF Servicios Compartidos. In 2016, Diviso launched the insurance company Trevia. All together the companies manage assets amounting to USD 890 million. Diviso Fondos manages mutual funds and other investment funds, and Diviso Bolsa is one of the leading and fastest growing stockbrokers in Peru. The main activity of NCF Consultores and NCF Servicios Compartidos is to provide advisory and consultancy services to companies and individuals in general.

The main activity of Diviso is the ownership of Credinka of which Diviso holds 82 per cent.

Credinka is present in 12 regions in Peru.

ABOUT CREDINKA

Credinka was formed in 1994 as a rural co-op as a response to the great need of easily accessible financial services, primarily aimed at the population of the rural sector with the objective of improving their way of life. Credinka is a financial institution which is regulated and supervised by the SBS (Peruvian Financial Regulator) and the Central Reserve Bank of Peru.

Credinka is specialised in offering financial services within microfinance and to small and medium enterprises. Furthermore, Credinka provides access for the Andean community to financial services.

CONCLUSION

In 2016, Credinka continued to expand its outreach throughout the country and is now present in 12 regions of Peru with 85 agencies. The institution serves more than 130,000 clients of which 48 per cent are female. 35 per cent of the clients live in rural areas.

The institution is an endorser of the Client Protection Principles of the Smart Campaign and follows Peruvian legislation on anti-money laundering and anti-corruption. The institution has well-established procedures on the prevention of over-indebtedness, a reasonable interest rate on par with the market and good employment terms. Furthermore, Credinka has been rated by two credit bureaus and received a positive rating in both.

In 2016, Credinka increased its focus on financial education significantly. Credinka initiated a collaboration with two financial education service providers. Both employees and clients have benefitted from financial education classes.

INTERNATIONAL STANDARDS AND POLICIES

Client protection principles

Credinka is an endorser of the Smart Campaign showing its commitment to the Client Protection Principles.

Anti-money laundering and anti-corruption

Credinka has an ethical code of conduct which outlines the obligations for the employees in order to prevent money laundering and the financing of terrorism. Additionally, through the policy on loan granting

Credinka has established that it does not provide loans for activities that presumably are illegal or for political activities. Credinka continuously trains its staff on the identification and verification of activities that could be illegal. In Peru, the Unidad de Inteligencia Financiera (UIF - financial intelligence unit) is the legal unit that analyses, treats and provides information in order to prevent and detect money laundering. As adherent hereto and through its policy on good corporate governance, Credinka follows processes and a series of measures in order to prevent money laundering.

SOCIAL IMPACT AND CREDIT RATING

Credinka was rated by the credit rating bureaus Class & Asociados and Pacific Credit Rating. Credinka was rated "B-" and "B", respectively. The ratings signify that Credinka is a solvent institution with great financial value, a strong position within the financial system, full coverage of current risks but somewhat vulnerable towards external risks.

SOCIAL IMPACT RESULTS

The results are based on selected key social indicators. A social indicator is used to assess an institution's performance on social impact. In the following, six social key indicators for Credinka are presented:

1. Outreach
2. Prevention of over-indebtedness
3. Interest rates and responsible pricing
4. Product mix and range of service
5. Community development
6. Employment

1. Outreach

The outreach indicator is composed of several subindicators. On the following page, the 2016 outreach results are presented.

2. Prevention of over-indebtedness

Credinka has implemented relevant measures to prevent over-indebtedness. The institution verifies the credit history and the debt of potential clients, their spouse and guarantors. Information is gathered from the central register of risk of SBS and the private credit bureau INFORMA Peru. In Peru, it is mandatory for all loan clients to have insurance when taking a loan. As such, all clients in Credinka are obligated to take a payment protection insurance. The porfolio at risk indicator PAR>30, which is an indicator for loans overdue by 30 days, is 5.5 per cent for Credinka. The average for financial institutions in Peru is 6.7 per cent. As such, the percentage of Credinka's non-performing loans is lower than the amount of bad loans in Peru in general.

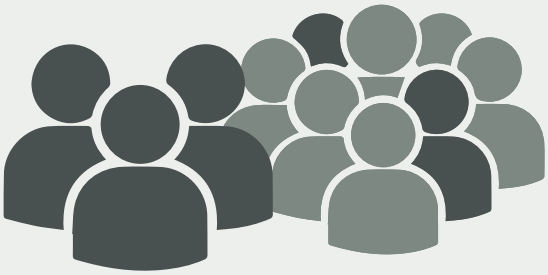
3. Interest rates and responsible pricing

The average nominal interest rate is 29.0 per cent p.a. for small enterprises and 30.6 per cent p.a. for micro enterprises. The interest rate on loans is levelled with the interest rate of the market, and costs are competitive. Cli-

Credinka client in branch.

CREDINKA OUTREACH INDICATORS

134,000
clients



SAVINGS CLIENTS: 48%
RURAL CLIENTS: 35%

Since 2015, the number of clients has increased by 33 per cent. Of the total amount of clients, 48 per cent have a savings account and 35 per cent live in rural areas.

48%
female clients

Loan portfolio
206
USDm

LOAN AND SAVINGS PORTFOLIO

The loan portfolio of Credinka is USDm 206. It has increased by approx. 8 per cent since 2015. The total savings portfolio constitutes USDm 163, an increase of 12 per cent since 2015.

85
branches

NUMBER OF BRANCHES

In 2016, Credinka reached 85 branches. This is an increase of 9 per cent since the fund's investment in 2015.

5.5%
PAR>30

PAR>30

PAR>30 is the percentage of loans which are overdue by 30 days. For Credinka PAR>30 has been at a satisfactory level since the fund's investment in 2015. There has been a small decrease in PAR>30 which shows a positive development.

33%
clients

ents can at all times access information related to costs displayed in the branch offices as well as on Credinka's webpage.

4. Product mix and range of service

Credinka provides loans, savings accounts, insurances, investment services and other financial services such as debit cards, money transfers and the possibility to carry out investments through a mutual fund. With the objective to provide the best service possible to the many clients who speak Quechua and Aymara as their native language, Credinka has employed staff in selected agencies who speak these languages, making the clients more comfortable carrying out their financial transactions. Thanks to this initiative, Credinka was honoured as the institution with the best savings product with a specific intention in October 2015 at the Foromic, a financial inclusion conference. Credinka's product "Microahorro Mujeres", a product aimed at women living in rural areas difficult to access, received the honour. Credinka is the only recognised Peruvian institution.

In general, Credinka is focused on making products which empower the population in rural areas, and women in particular. The product Credi Warmi is exclusively aimed at female micro business owners in rural areas. In 2016, 3,555 new clients benefitted from this product.

Financial education

Credinka has increased its focus on financial education and has initiated new programmes. In 2016, Credinka formed an alliance with the Fundación Alemana Servicios. This organisation has provided tools and education to the employees of Credinka on the principles of how to create a savings culture, responsible loan taking, managing a business and other areas focused on improving the lives of the population living in rural areas and on the growth of micro and small businesses. The employees working in rural areas then host workshops for relevant clients teaching these principles.

Additionally, Credinka has initiated a collaboration with Elevate Business, a business management and fi-

Credinka client, owns a share of the salt mines in the Sacred Valley, Peru.

nancial literacy training company. Elevate Business provides training to clients and empower small business owners with the tools needed to improve and grow a sustainable business. The goal is to provide training to 5,000 clients during 2017 and 2018. Financial education classes are provided through loan granting.

5. Community and environmental development

Credinka shows great interest in its surrounding community and Peruvian culture. As such, Credinka supports and participates in regional festivals in the regions it is present with the objective of promoting the cultural identity of Peru.

Environmental development

Credinka has initiated the campaign Ecoeficiencia Ambiental to preserve the environment and improve the lives of employees, clients and the community in general in each of the locations where Credinka is present. The strategy is focused on minimising the effects of Credinka's operations by using materials with the least effect on the environment; educate, involve and give a sense of responsibility to clients and the communities in general on taking care of the environment; and comply with the existing environmental regulations applicable for financial institutions.

Credinka is in general working on reducing its use of paper, water, electricity etc. In 2016, Credinka also made a large investment in video conference equipment as to reduce the amount of traveling and thus contribute to reduce the emission of CO2.

6. Employment at Credinka

Credinka employs 1,301 people of which 49% are female.

During 2016, Credinka has initiated a series of activities and programmes to improve the well-being of the company's employees, not only the physical health but also the mental and social health for both the employees and their families.

ALSO VISIT

www.credinka.com | www.facebook.com/Credinka

The salt mines in the Sacred Valley, Peru.

MICROCRED

ABOUT

Microcred was founded in 2005 through the initiative of Mr. Arnaud Ventura, founder and CEO, by Positive Planet (previously PlaNet Finance) and shareholders. Microcred Holding is an investment company that developes and manages responsible institutions and provides them with the technical assistance needed to become leaders in their respective countries. Microcred has expanded and is now present in eight countries in Africa and in China.

CONCLUSION

As an endorser of the Client Protection Principles of the Smart Campaign, Microcred shows a high level of commitment to social impact. When establishing new institutions, Microcred ensures that these also endorse the Smart Campaign. As such, the two most recent established institutions in Zimbabwe and Burkina Faso have endorsed the Smart Campaign in 2016. As adherent to the IFC Exclusion List, Microcred is also taking the necessary measures in order to follow international standards on activities that should not be financed.

Microcred demonstrates good results within all six social indicators. In terms of outreach, Microcred is continuously expanding its presence and now has nearly 1,000 branches and outlets in Africa and China. Close to 557,000 clients are served of which 45 per cent are female. 51 per cent of the loan clients also have a savings account. Additionally, the loan portfolio is very healthy with only a few bad loans.

Microcred is continuously focused on improving the range of services and has during 2016 established another mobile branch, a truck in the Ivory Coast. This ensures better outreach to clients living in remote areas.

The Baobab+ programme launched in 2015 has had a successful first year. Close to 35,000 homes and 210,000 people have been equipped with solar lamps or systems, and 3,000 homes have benefitted from the tablets programme. The Baobab+ programme significantly improves the daily lives of the clients, providing them with easily accessible energy, clean water and important business tools such as tablets.

INTERNATIONAL STANDARDS AND POLICIES

Client protection principles

Microcred and all of its institutions have endorsed the Client Protection Principles of the Smart Campaign. The endorsement of the campaign means undertaking all necessary procedures for the implementation of the principles in operations and institutional culture.

Microcred's Social Performance Management (SPM) Policy is based on the Universal Standards for Social Performance Management (USSPM) of the Social Performance Task Force (SPTF). Since the beginning of 2016, Microcred has been using the social performance indicators audit tool to evaluate the institutions and to verify the gap between their actual performance and what is considered optimal performance according to the USSPM. To ensure proper implementation of the SPM Policy, there is a social performance coordinator in each institution in charge of implementing the SPM Policy.

Anti-money laundering and anti-corruption

Each of Microcred's institutions has a policy on the prevention of money laundering and terrorism through which the institution prevents clients from paying their instalments with money proceeding from illegal sources of income.

Exclusion list

Microcred is committed to complying with national

and international laws. It is also committed to avoiding financing activities listed on the IFC Exclusion List. These include activities which are illegal or harmful to the health, safety, physical and moral integrity of human beings, or biodiversity.

Microcred wishes to limit the negative social and environmental impact of the financed activities by introducing a measuring and monitoring mechanism. Loan applications to finance activities present on the exclusion list are rejected, and the proportion of moderately risky and risky activities in the portfolio is capped.

All loans are classified into three categories:
(A) loans causing harm to the environment in a direct way, with loose security and working conditions
(B) loans that cause indirect harm to the environment, with indirect impact on the security and working conditions
(C) loans with minimal impact.

The financing of class A products is prohibited and the limit for financing class B products is 10 per cent of the total portfolio.

Commercial officers assess the social and environmental performance of activities in their initial information gathering. The rejection of loan applications for the funding of activities included on the exclusion list takes place at the end of the assessment, and as a last resort by the Credit Committee.

SOCIAL IMPACT AND CREDIT RATING

Microcred Senegal was in 2015 credit rated for the first time and as the first institution by the West Africa Rating Agency (WARA) and acquired the rating ”BBB”. This reflects strong operational growth of the company, the financial performance, cautious management, control mechanism and a conservative funding policy.

SOCIAL IMPACT RESULTS

The results are based on selected key social indicators. A social indicator is used to assess an institution’s performance on social impact. In the following, six social key indicators for Microcred are presented:

1. Outreach
2. Prevention of over-indebtedness
3. Interest rates and responsible pricing
4. Product mix and range of service
5. Community development
6. Employment

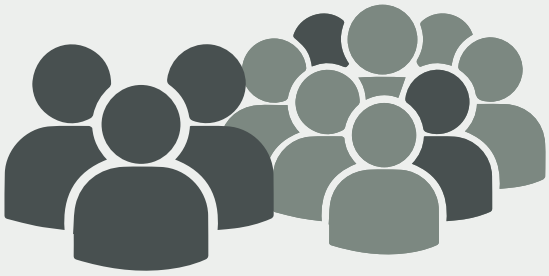
1. Outreach

The outreach indicator is composed of several subindicators. On the following pages, the 2016 outreach results are presented.

Microcred set up the first mobile truck in the Ivory Coast in June 2016.

MICROCRED OUTREACH INDICATORS

557,000
clients



SAVINGS CLIENTS: 51%

Since 2015, the number of clients has increased by 20 per cent. Of the total amount of clients, 51 per cent have a savings account in addition to a loan. Microcred has commenced the process of making up the number of clients living in rural areas.

45%
female clients

Loan portfolio
474
USDm

LOAN AND SAVINGS PORTFOLIO

The loan portfolio of Microcred is USDm 474. It has increased by 27 per cent since 2015. The total savings portfolio constitutes USDm 169. This has increased by 24 per cent since 2015.

986
branches

NUMBER OF BRANCHES

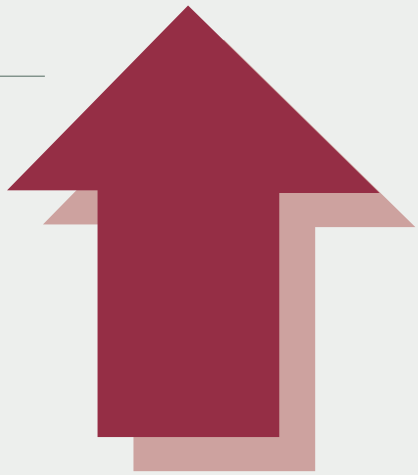
In 2016, Microcred reached 158 branches and 828 outlets which are small business owners conducting deposits and withdrawals for Microcred's clients. The number of branches/outlets has increased by 7 per cent since 2015.

2.2%
PAR>30

PAR>30

PAR>30 is the percentage of loans which are overdue by 30 days. For Microcred PAR>30 has been at a very satisfactory level since 2015.

24%
savings portfolio



2. Prevention of over-indebtedness

In line with the Client Protection Principle *Prevention of Over-Indebtedness,* Microcred takes reasonable steps to ensure that credit will be offered only if borrowers have demonstrated an adequate ability to repay, and loans shall not put the borrowers in risk of over-indebtedness.

In the process, Microcred ensures that a maximum of 70 per cent of the monthly repayment capacity is used for the repayment of the loan instalment, future indebtedness of the business is less than 60 per cent and that future total indebtedness is less than 30 per cent. When available, credit bureau information is used and clients informed about the danger of over-indebtedness.

Furthermore, loan sizes can only increase with a demonstrated repayment capacity for the larger loan, and no item intended to meet a client's elementary needs can be accepted as a guarantee to the loan, i.e. beds, clothes (other than stock) etc. Regular client audits are completed, including validation of the consistency of the data, i.e. expenses and revenues collected by commercial officers and validation of the use of the loan. Loans are restructured if clients experience a significant reduction in income.

3. Interest rates and responsible pricing

Microcred has developed a set of Price Definition Guidelines outlining the rules and guidelines on product pricing and the effective interest rates (EIR) on loan products. All of Microcred's institutions must implement and comply with these guidelines. The pricing policy and the interest rates are based on market studies, client satisfaction surveys and local regulations, among other things. The pricing policy is reviewed on a regular basis, but minimum annually.

The effective interest rates (EIR) on credit vary between the financial institutions according to their respective countries. Some of the institutions are subject to caps on interests. In Senegal, Mali, the Ivory Coast and Burkina Faso the cap on EIR is 24 per cent p.a. In China the cap is 4x PBOC lending rates. Madagascar, Nigeria, Tunisia and Zimbabwe do not operate with caps.

The average nominal interest rates range between 12.9

Microcred clients with one of the large LifeStraw filters.

per cent p.a. on loan products to SMEs and 26.2 per cent p.a. on microloans. Only Microcred's financial institutions in countries without a cap have higher average interest rates. This is due to the fact that they are greenfield in very difficult markets, and the cost of capital is substantially higher in these countries than in other markets. In addition, there is a high level of inflation and smaller loan sizes than average. Also, the infrastructure is poor, which all in all results in high operating costs. The interest rates are in line with the market and less expensive than most competitors. Microcred's financial institutions also represent a safer and much cheaper alternative to financing than the traditional black market loan sharks. Microcred is aware of the high interest rate and is aiming to lower it as soon as a sustainable business has been established.

According to the Price Definition guidelines, the Client Protection Principles of the Smart Campaign are to be respected at all times. Consistent with the Client Protection Principles, the pricing, terms and conditions of Microcred products are set in a way that is both affordable to clients and sustainable for Microcred. Additionally, all prices, terms and conditions are displayed on posters in client waiting areas, detailed in leaflets available in each branch and listed and explained to clients prior to the signature of the contract.

4. Product mix and range of service

The core business of Microcred was traditionally offering loans to micro, small and medium-sized enterprises. Gradually, however, the services of Microcred have been extended to all people not served or underserved by the traditional banking system. The institutions offer a wide variety of services within credit, savings, transfer and insurance.

Within credit products, the institutions offer credits to small entrepreneurs and SMEs to finance their working capital and investment requirements. Some institutions also offer credits to develop crops, fund the construction or renovation of real estate and prepare the return to school. Within savings, the institutions offer products such as current accounts, savings accounts and term deposits. Other products include life insurance, health insurance and inventory protection as well as

Microcred's solar lamps are very useful for school children when studying after sundown.

withdrawal cards, cheques and money transfers. Focus is on stimulating savings activities in Africa, as Chinese institutions are not allowed to collect savings.

Microcred has previously launched a mobile branch in Madagascar. In June 2016, Microcred set up the first mobile branch in the Ivory Coast. This "on-wheels" branch is a specially designed truck offering the same services as a conventional branch and enabling agents to meet with people living in provinces and suburbs of the larger towns.

5. Community and environmental development

At the end of 2016, the Baobab+ programme celebrated its first year. Through this programme, Microcred promotes and distributes innovative non-financial products to improve the lives of the company's clients. Microcred distributes solar lamps in Senegal, Madagascar and Mali; tablets in the Ivory Coast; and the LifeStraw in Senegal and the Ivory Coast.

In Africa, two thirds of the population does not have appropriate access to electricity. Baobab+ addresses this issue by making domestic solar solutions available and enabling people to have access to light. The lamps will improve the lives and prolong the activity hours of the population by being able to cook, study and work beyond the hours of daylight. Additionally, people can communicate more freely by being able to recharge their phones at any time, independently.

One third of the world's population does not have access to clean water. Through Baobab+, Microcred is the official distributor of the LifeStraw in Senegal and the Ivory Coast. The LifeStraw filters 99.99% of all bacterias creating easier access to clean water.

Furthermore, Baobab+ focuses on education via digital content and tools by distributing and financing tablets. In cooperation with the Foundation Breteau, Baobab+ offers a tablet with a selection of educational apps. Additionally, Baobab+ provides a business tablet with tools enabling entrepreneurs to record sales, manage inventory etc. The plan is to extend the initiative to all its African subsidiaries. So far, close to 35,000 homes and 210,000 people have benefitted from the solar lamp programme, and 3,000 homes have benefitted from the tablets programme.

Environment

Microcred is fully committed to preserving the environment and promoting awareness on environmental issues. The institutions do not finance activities harmful to the environment according to a rating procedure carried out by commercial officers. Microcred has introduced a strategy for 2013-2020 for creating products financing the production, distribution, sale or purchase of goods and services with high environmental value. In addition, various subsidiaries organise campaigns tailored to the needs of the country in which they operate.

In February 2016, Microcred Madagascar participated in a reforestation event on the reforestation site of the Bongatsara - Ambatofotsy commune, in which a thousand of seedlings have been planted.

Additionally, Microcred Madagascar has solar panels on all its mobile branches. In addition, branches at which the electricity supply is insufficient have also been equipped with solar systems. Microcred Madagascar also organises an annual tree planting campaign.

In Senegal, every new branch has since 2012 been equipped with solar energy systems, and since 2014 the institution has been selling solar lamps to its clients in order to promote renewable energy. Furthermore, the branch has developed the credit product *CleanTech* facilitating access to solar-powered equipment such as solar panels, generators and compatible devices such as TVs and fridges etc. which can be acquired directly in the branches. In addition, Senegal also organises a garbage collection day several times a year in areas where the need is most evident.

6. Employment at Microcred

Microcred has a total of 3,396 employees of which 42 per cent is female.

The group has great focus on staff training and has launched a training programme on management basics as well as an annual performance review which allows the employees to take an active part in their individual development in cooperation with the supervisor.

Microcred's HR policy prohibits any recruitment choices related to any form of discrimination. Employees are compensated in a fair manner and on a competitive level, fairly defined by position and experience, structured according to position and experience and in line with the market. The financial compensation is determined by the transparent salary grid based on responsibilities, experience and skills. There is no discrimination based on gender, disability or physical characteristic towards the compensation. Wages are adapted to the trend in the cost of living, and medical coverage is offered to all employees as a non-financial compensation. Each affiliate provides its employees with additional non-financial compensation.

ALSO VISIT

www.microcredgroup.com

Microcred client and Baobab+ agent with a solar lamp.

AROHAN

ABOUT AROHAN

Arohan Financial Services Private Limited is a leading non-bank financial institution which is headquartered in Kolkata, India. Arohan targets the rural and urban poor population in Northern and Eastern India representing the country's underserved states in immense demand for financial services.

Arohan was set up in 2006 with support from Bellwether Microfinance Fund, the India Financial Inclusion Fund and Michael & Susan Dell Foundation. In 2012, the company became part of the Intellecap Group which represented the first significant consolidation in India's microfinance sector.

CONCLUSION

Serving more than 725,000 clients across seven states by March 2017, Arohan is in top ten of non-bank financial institutions in India. With loans specifically designed to women working in low income areas, 96 per cent of the clients being female and health camps for women, Arohan demonstrates a significant focus on the empowerment of the Indian women. Arohan was certified by the Smart Campaign in May 2015 signifying that Arohan treats its clients in a respectful and responsible manner and has sound processes in place which prevent them from becoming overindebted. Interest rates are within the national caps and clients are informed of prices and conditions prior to taking loans. The product portfolio is

well-suited to meet the clients' needs and includes various loan types and insurances.

As part of its mission to empower the underserved, Arohan has developed a CSR policy through which the company commits itself to reach out to the surrounding community and providing non-financial and non-profit services to the people living in areas of operation. As such, Arohan focuses on providing education to young people, hosting health camps and ensuring health awareness for women as well as natural disaster emergency aid. Nearly 4,000 people have benefitted from these initiatives.

Finally, Arohan employs nearly 2,400 people across seven states.

INTERNATIONAL STANDARDS AND POLICIES

Arohan was certified by the Smart Campaign in May 2015. The certification signifies that Arohan meets all of the 30 standards on the treatment of clients. A certification status is valid for four years, but the new certification process must be commenced after two years.

Arohan has also adopted the industry code of conduct established by MFIN - the Microfinance Institutions Network in India.

SOCIAL IMPACT AND CREDIT RATING

Arohan was rated by CARE Ratings in February 2017 and was rated MFI +1, which is the highest rating possible. CARE's MFI rating is an assessment of the institutions operational and financial capability to undertake and sustain the targeted level of operations.

In February 2017, Arohan was graded by the credit rating agency ICRA, a Moody's investors service company. Arohan was rated with the social performance assessment grade SP2+ indicating that Arohan's infrastructure and processes are consistent with a high likelihood of operating in the best interests of its clients, that this is among it highest priorities and that the risk of causing adverse effect to its clients and other stakeholders is low.

SOCIAL IMPACT RESULTS

The results are based on selected key social indicators. A social indicator is used to assess an institution's performance on social impact.

In the following, six social key indicators for Arohan are presented:

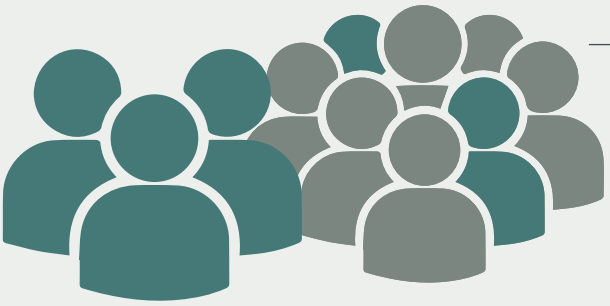
1. Outreach
2. Prevention of over-indebtedness
3. Interest rates and responsible pricing
4. Product mix and range of service
5. Community development
6. Employment

1. Outreach

The outreach indicator is composed of several subindicators. On the following pages, the 2016 outreach results are presented.

AROHAN OUTREACH INDICATORS

725,000
clients



96%
female clients

Loan portfolio
139
USDm

Currently, Arohan does not accept deposits. In India, only MFIs with a deposit taking license and small banks are allowed to take deposits.

277
branches

In 2017, Arohan reached 277 branches across seven states.

PAR>30

PAR>30 is the percentage of loans which are overdue by 30 days. PAR>30 has increased significantly during the past year due to the demonetization of the Indian Rupee. Prior to this, PAR>30 was below 1 per cent.

5.3%
PAR>30

31%
client increase

2. Prevention of over-indebtedness

Arohan carries out a repay capacity prior to all loan granting. Customer service representatives make house visits to all new clients to verify the cashflow of the household. The branch head visits approx. 50 per cent of new clients. All loan takers participate in compulsory group training in which they are explained the terms and conditions and pricing information in their local language. The branch head then verifies the clients' understanding during a group recognition test. All loan disbursements are furthermore subject to a check by a credit bureau. Additionally, Arohan follows a policy of one loan per household.

3. Interest rates and responsible pricing

Arohan's interest rates are revised on a regular basis in order to be in compliance with the RBI's, Reserve Bank of India, guidelines on the margin cap. The interest rates range between 22 per cent p.a. and 27 per cent p.a. depending on the loan type.

4. Product mix and range of service

Arohan offers a variety of products to serve the needs of their clients. The Saral loan aimed at economically active women living in low income areas, generally involved in trade and services. Loan sizes range between USD 230-800. The Bazaar loan is offered to shopkeepers operating small businesses within food, grocery, stationary and domestic needs in general. Loan sizes also range between USD 230-800. Additionally, a premium loan is offered to individual entrepreneurs involved in non-farm enterprises such as manufacturing, retail trade, etc. Loan sizes are between USD 800-3100.

Other minor loan types includes a sanitation loan for the construction of toilets, solar loans, mobile loans and bicycle loans. Additionally, Arohan offers insurances.

5. Community and environmental development

Arohan has a CSR policy which outlines the institution's focus on developing the communities in which the company operates. In alignment with Arohan's mission

to empower the underserved, Arohan extends its services to help the underserved in the larger community by providing non-financial and non-profit initiatives.

Overall Arohan focuses on education, healthcare and natural disaster emergency aid. In the financial year 16/17, 500 young people in the states of West Bengal, Bihar and Assam have participated in training within retail and IT. In 15/16, 325 youths were trained within IT. Additionally, Arohan has provided free school bags which were distributed to 1,270 students across Bihar, West Bengal and Assam.

Within healthcare, more than 800 women participated in 11 health camps across the states of Orissa, Jharkhand and West Bengal. Also, Arohan has funded an emergency relief shelter in Hyderabad city for victims of trafficking and hosted an awareness camp on trafficking for 100 women in Joynagar, West Bengal.

In relation to women's health in general, Arohan has also hosted camps focusing on the folk art *patachitra* with the intention of creating awareness on women's health.

Furthermore, Arohan provides aid in the areas of operation during times of natural disasters. The branches provided emergency aid to 1,166 families during the financial year 16/17 and 1,100 families in 15/16.

Finally, Arohan has set up a set of employee volunteering guidelines developed and initiated through various NGOs. Arohan's employees volunteer to participate in collaboration with projects and events of NGOs. During the financial year 16/17, more than 200 volunteer hours were executed.

In May 2017, Arohan was awarded the Jury Award for CSR Practice of the Year 2017, which is part of the CSR Excellence Awards at The India International CSR Conclave and Awards held in Delhi. The CSR Excellence Awards acknowledges institutions for their responsible and sustainable practices. Companies are screened by a jury during two rounds.

6. Employment at Arohan

Arohan employs 2,373 people.

ALSO VISIT

www.arohan.in/new/
www.facebook.com/Arohan.MFI/

APPENDIX 1

THE FUND'S SOCIAL IMPACT POLICY

Scope

Maj Invest Financial Inclusion Fund II K/S (the Fund) is managed by Maj Invest Equity A/S (the Manager). The Social Impact Policy is part of the Fund's investment strategy, outlining the Fund's commitment to social impact, and the Fund's requirements to the portfolio companies in relation to social impact. The Fund follows an impact investment strategy with a double bottom line, targeting both financial return and social impact.

"*Impact investing is an investment approach that intentionally seeks to create both financial return and a social or environmental impact that is actively measured*" (Credit Suisse, 2014).

The Fund's commitment to social impact

The Fund considers social impact investing as an integrated part of the overall framework for Responsible Investment, and the Fund's perception of Responsible Investment is aligned with that of the UN:

"*Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well-governed social, environmental and economic systems.* " (UN PRI)

More specifically for Responsible Investment in the microfinance and financial inclusion sector, the UN has provided a framework in the form of Principles for Investors in Inclusive Finance . The principles represent the core values of the Fund's commitment to social impact and express the Fund's intent to create long-term social impact.

UN Principles for Investors in Inclusive Finance

1. Range of services. We will actively support retail providers to innovate and expand the range of financial services available to low income people in order to help them reduce their vulnerability, build assets, manage cash-flow and increase incomes.

2. Client protection. We believe that client protection is crucial for low income clients. Therefore we will integrate client protection into our investment policies and practices.

3. Fair treatment. We will treat our investees fairly with appropriate financing that meets demand, clear and balanced contracts, and fair processes for resolving disputes.

4. Responsible investment. We will include environmental, social and corporate governance (ESG) issues in our investment policies and reporting.

5. Transparency. We will actively promote transparency in all aspects.

6. Balanced returns. We will strive for a balanced long-term social and financial risk-adjusted return that recognises the interests of clients, retail providers and our investors.

7. Standards. We will collaborate to set harmonised investor standards that support the further development of inclusive finance.

The Fund is committed to working with the portfolio companies on creating longterm social impact and contributing to a sustainable development, adding value to the portfolio companies and enhancing business opportunities. The Fund will encourage such activities to be anchored in the business plan.

The Fund's approach to working with social impact

During both the investment process and the management phase of the portfolio companies, the Fund strives to incorporate its commitment to social impact into the investment decision-making process and ownership practices.

As part of the due diligence process, an assessment of the portfolio companies' compliance and commitment to recognized international social impact standards is carried out prior to investment. The Fund will only invest in companies which can identify with the Fund's core values, and companies that work dedicated towards adhering to recognized international social impact standards. In each investment case the Fund will assess which of the recognized international social impact standards are relevant. The most commonly used standards are:

■ **Client Protection Principles of the Smart Campaign**
The Smart Campaign is a global initiative to incorporate strong client protection practices across the microfinance industry. The Smart Campaign embodies a set of core principles - the minimum standards that clients should expect to receive when doing business with a microfinance institution.

■ **Universal Standards for Social Performance Management of the Social Performance Task Force**
The Universal Standards apply to any financial service provider with one or more social goals. They do not dictate what specific social goals an institution should have, but identify the management practices that help an institution make progress toward its chosen goals.

■ **Anti-Money Laundering Recommendations of the Financial Action Task Force**
The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

■ **IFC's Exclusion List**
IFC is a member of the World Bank Group, and the IFC Exclusion List defines the types of projects that IFC does not finance. It is a commonly acknowledged exclusion list within the industry of microfinance.

■ **EDFI's Exclusion List**
The European Development Finance Institutions (EDFI) has as a result of their harmonized process mutually agreed on an Exclusion List for co-financed products.

■ **Principles for Investors in Inclusive Finance**
The Principles provide practical guidance on responsible investment practices. The PIIF, aligned with the PRI, provide investors with a unique responsible investment framework, developed for investors.

During the management phase, the Fund will monitor the portfolio company's social impact activities through the Fund's board participation, visits and/or reporting and dialogue with reference to the Fund's Social Impact Policy. If a portfolio company should be found to be in severe breach with the relevant recognized international social impact standards, the Manager will engage in dialog with management and other shareholders, and strongly encourage working towards compliance and develop a plan for the implementation. As a last resort the Fund can consider to divest from the portfolio company.

The Fund will require the portfolio companies and/or the controlling shareholders to be committed to work dedicated towards adhering to recognized international social impact standards, and not be engaged in activities set out in IFC's Exclusion List and EDFI's/IFU's Exclusion List. Additionally, the Fund will require the portfolio companies and/or the controlling shareholders to have or adopt a written social impact policy and ensure that sufficient management capacity and a management system is available to manage social impact activities and resources. Such commitments may be given in a shareholders' agreement and/or in the form of a declaration from the portfolio company and/or in another appropriate manner.

The Manager (Maj Invest Equity A/S) recognizes that certain of the Fund's investors have in place ethical guidelines for responsible investments which are applicable also to such investors' investment in the Fund. In sourcing and reviewing potential investments and in providing investment recommendations to the Investment Committee, the Manager and the Investment Advisor (Fondsmæglerselskabet Maj Invest Equity A/S) shall

- to the extent a copy of the guidelines have been provided to and accepted by the Manager - duly consider and use reasonable efforts in ensuring that any additional restrictions such guidelines may impose are complied with in respect of the Fund's investments.

The Fund's management process

The Manager (Maj Invest Equity A/S) has assigned a senior manager as responsible for the formulation and implementation of the Fund's Social Impact Policy. The manager will at all times maintain appropriate management processes to ensure full implementation of the policy. As stipulated in the Fund's Investment Policy, the Fund will only invest in financial institutions engaged in microfinance that are strongly engaged in social impact activities, and show a strong commitment to Social Impact in their business activities, which is common in the microfinance industry because it is part of the mission of most of the microfinance institutions. The Manager and the team assigned to implement and monitor the Fund's Social Impact Policy, will ensure this commitment by the investees during the due diligence process, and during the ownership period by Board participation, personal visits and reporting regarding Social Impact progress.

Information and reporting

An annual social impact report will be submitted to the Fund's investors covering the performance and social impact compliance of the portfolio companies. Upon request from the Limited Partners, the Manager will make additional information on social impact performance available to Limited Partners and arrange that the Limited Partners can make a visit to overview the social impact initiatives of the portfolio companies. The Limited Partners will visit the portfolio company together with the Manager, and visits shall be scheduled in accordance with the portfolio company. If an incident should occur in one of the Fund's portfolio companies seriously breaching the Fund's Social Impact Policy, the Manager will inform the Limited Partners about the nature of the breach and the planned mitigation measures.

APPENDIX 2

INTERNATIONAL STANDARDS AND ORGANISATIONS

1. THE SMART CAMPAIGN

www.smartcampaign.org

The Smart Campaign is a global initiative to incorporate strong client protection practices across the microfinance industry. The Campaign was initiated as a response to a strongly recognised need to assure safe and responsible treatment of microfinance clients. Microfinance industry leaders from around the world came together in 2008 to launch a campaign to establish the Client Protection Principles. By incorporating client protection principles into their investment criteria and due diligence, microfinance investors can build a healthier, more client-focused industry that will foster a stronger portfolio and ensure healthy returns. To put the principles into action, the Smart Campaign was launched in October 2009 and today, it is a global effort with over 4,000 endorsers.

The core principles of the Smart Campaign set the minimum standards for the treatment of clients when doing business with a microfinance institution. These principles are:

1) Appropriate product design and delivery
2) Prevention of over-indebtedness
3) Transparency
4) Responsible pricing
5) Fair and respectful treatment of clients
6) Privacy of client data
7) Mechanisms for complaint resolution

2. SOCIAL PERFORMANCE TASK FORCE (SPTF)

www.sptf.info

The Social Performance Task Force was created in 2005 by leaders from various social performance initiatives in the microfinance industry and resulted in the Universal Standards for Social Performance Management. The Universal Standards apply to any financial service provider with one or more social goals. They do not dictate what specific social goals an institution should have, but identify the management practices that help an institution make progress toward its goals. The standards are simple statements of what the institution should achieve and essential management practices which the institution can implement in order to meet the standards.

The six overall dimensions are:

1) Define and monitor social goals
2) Ensure board, management, and employee commitment to social goals
3) Design products, services, delivery models and channels that meet clients' needs and preferences
4) Treat clients responsibly
5) Treat employees responsibly
6) Balance financial and social performance

The Universal Standards incorporate the Client Protection Principles of the Smart Campaign and is aligned with the UN-supported Principles for Investors in Inclusive Finance (PIIF). While the Universal Standards are management practices for retail providers to implement, PIIF is a self-audit and public reporting tool which applies to investors.

Today, the Social Performance Task Force (SPTF) consists of over 2,200 members from all over the world and every microfinance stakeholder group.

3. UN'S PRINCIPLES FOR RESPONSIBLE INVESTMENT

www.unpri.org

The UN-supported Principles for Responsible Investment (PRI) initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories in incorporating these issues into their investment decision making and ownership practices. In implementing the Principles, institutions contribute to the development of a more sustainable global financial system.

The Principles are voluntary and aspirational. They offer a menu of possible actions for incorporating ESG issues into investment practices across asset classes. Applying these Principles may better align investors with broader objectives of society. The principles are:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
Principle 6: We will each report on our activities and progress towards implementing the Principles.

4. PRINCIPLES FOR INVESTORS IN INCLUSIVE FINANCE (PIIF)

www.unpri.org

The Principles provide practical guidance on responsible investment practices. The PIIF, aligned with the PRI, provide investors with a unique responsible investment framework, developed for investors, by investors. They address key issues that stakeholders have collectively identified, ranging from the risks associated with client over-indebtedness to the need for further transparency in inclusive finance.

The Principles for Investors in Inclusive Finance are signed by direct investors or fund managers and indirect investors investing via designated funds. By signing, direct investors or fund managers as well as indirect investors signal their intent to uphold the principles in their own investments, and to support the actions taken by other actors in the value chain to implement the principles. By signing the principles, investors or fund managers investing in inclusive finance commit to adhering to and promoting the following:

1) Range of services
2) Client protection
3) Fair treatment
4) Responsible investments
5) Transparency
6) Balanced returns
7) Standards

5. INTERNATIONAL FINANCE CORPORATION (IFC)

www.ifc.org

The IFC is a member of the World Bank Group and is the largest global development institution focused exclusively on the private sector in developing countries. Established in 1956, IFC is owned by 184 member countries, a group that collectively determines the policies. The IFC's work in more than 100 developing countries allows companies and financial institutions in emerging markets to create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities.

The IFC Exclusion List defines the types of projects that IFC does not finance and is a commonly acknowledged exclusion list within the industry of microfinance.

6. THE FINANCIAL ACTION TASK FORCE

www.fatf-gafi.org

The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the ministers of its member jurisdictions. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is therefore a policy-making body which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

The FATF has developed a series of recommendations that are recognised as an international standard for the combating of money laundering and the financing of terrorism and proliferation of weapons of mass destruction. The recommendations have been endorsed by the World Bank.

7. MFTRANSPARENCY

www.mftransparency.org

MicroFinance Transparency (MFTransparency) was established to promote the welfare of poor microentrepreneurs and to promote the integrity of microfinance as a poverty alleviation practice. It is a global initiative for fair and transparent pricing in the microfinance industry. MFTransparency is an international non-governmental organisation that promotes transparency by facilitating microfinance pricing disclosure, offering policy advisory services and developing training and education materials for all market stakeholders. Since MFTransparency's launch in July 2008, 912 industry leaders, including MFIs and Apex Banks currently serving 60 million clients worldwide, have signed the endorser statement.

8. MFIN - THE MICROFINANCE INSTITUTIONS NETWORK

http://mfinindia.org

The MFIN is a self-regulatory organisation (SRO) in the financial services sector recognised by the Reserve Bank of India (RBI). The MFIN regulates Non-Bank Finance Company-Micro Finance Institutions (NBFC-MFIs), and its primary objective is to work towards the robust development of the microfinance sector, by promoting responsible lending, client protection, good governance and a supportive regulatory environment. The MFIN works closely with other key stakeholders and plays an active part in the larger financial inclusion dialogue through the medium of microfinance.

As an SRO, MFIN members adhere to a framework comprising external (RBI's Fair practices code) and internal (industry code of conduct) measures to ensure responsible and transparent business practices.

11. ASFI - AUTORIDAD DE SUPERVISIÓN DEL SISTEMA FINANCIERO

www.asfi.gob.bo

ASFI is Bolivia's federal banking, finance and securities regulator. It is responsible for monitoring financial institutions.

12. SBS - SUPERINTENDENCIA DE BANCAS, SEGUROS Y AFP

www.sbs.gob.pe

SBS is the organisation responsible for the regulation and supervision of the Peruvian financial system. Since 2000 it has also supervised the AFP system. Founded in 1932, its objectives, functions and attributes were established by the general law of the financial system and the banking and insurance regulator.

13. SOCIAL AND CREDIT RATING BUREAUS

www.planetrating.com; www.ratingspcr.com; www.classrating.com

Credit and social rating bureaus offer evaluation and rating services to microfinance institutions. Planet Rating, for example, use their own Smart GIRAFE and Social Performance methodologies. Other rating bureaus include Pacific Credit Rating and Class & Asociados. Pacific Credit Rating and Class & Asociados operate in Latin America and Peru, respectively, and specialise in financial ratings.

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INVEST

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