

# DEVELOPING WORLD MARKETS

2014 Social Impact Performance Report





# Contents

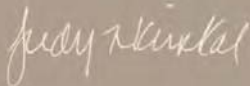
Letter from DWM's Managing Partner .....	1
Investing for Impact .....	2
Where We Invest .....	4
Portfolio Snapshot .....	6
Social Performance of our Portfolio IFINs .....	7
Social Impact Measurement Methodology .....	18
A History of Catalyzing Impact .....	20
Inclusive Finance Collaboration and Initiatives .....	22

# Letter from DWM's Managing Partner

Remarkably, in 2014, there are still 2.5 billion adults in the world that do not have access to formal financial services. Most of them live in developing countries, with women, the less educated, and the poor being more likely to be unbanked. Efforts to remove geographic, bureaucratic, and economic barriers are continually expanding access to affordable and responsible financial products and services to these populations. As a fund manager and investment bank with a social mission, DWM is part of this effort. For over a decade, DWM has played a critical role in connecting inclusive financial institutions and low-income borrowers and savers with global capital markets.

We are committed to creating sustainable social impact at scale and to developing effective tools and analyses for measuring the impact of our investments on the well-being of the borrowers and savers served by our portfolio institutions. Measuring social performance can be challenging, especially when compared to financial returns that are comparatively straightforward to quantify. In 2011, DWM developed its proprietary social impact questionnaire and scorecard, the DWM Social IQs, to provide a consistent and robust approach to social performance measurement. The scorecard was developed in collaboration with our long-time partner, ACTIAM Impact Investing, and Oikocredit.

Now, after three years of social performance data collection and analysis via our DWM Social IQs, we have challenged ourselves to communicate the results of our investing activities in the following 2014 Social Impact Performance Report. We will continue to refine our approach in future annual reports. In doing so we hope to provide further evidence that social and financial objectives can be mutually reinforcing – a critical step in mobilizing additional capital for impact investments.



Judy Kirst-Kolkman  
*Managing Partner*

# Investing for Impact

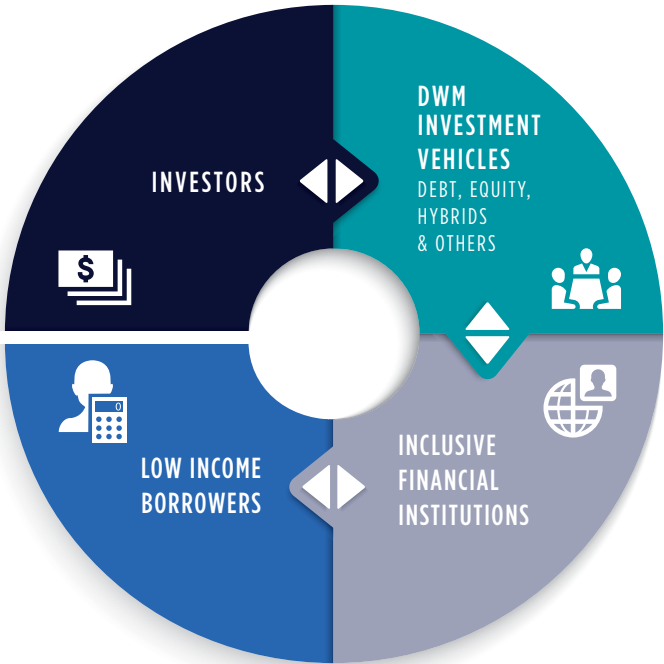


Developing World Markets channels international capital to financial institutions serving the bottom of the economic pyramid in emerging and frontier markets. We do this with the belief that inclusive financial institutions (IFINs)<sup>1</sup> can play a powerful role in improving the productive capacity and economic well-being of low-income people in developing economies. By investing debt, equity and technical expertise in institutions with high potential for growth and social impact, DWM expands the scale and scope of the financial products and services available to help the poor grow their businesses and build a more secure future.

With over a decade in the impact investing space, DWM has become one of the largest managers of funds that invest institutional capital in inclusive financial institutions. We have pioneered and managed investment vehicles that have raised approximately USD 1 billion from some 200 institutional and private individual investors worldwide.<sup>2</sup> Of these investors, 85% made their first investment into the inclusive finance space through DWM-managed investment vehicles.<sup>3</sup>

DWM-managed funds have in turn invested these funds into approximately 165 portfolio institutions across the developing world to help build their scale and strength. To meet IFINs' specific needs, we provide a full range of products, including senior and subordinated debt in local and hard currency, deposits, bond issues, as well as preferred and common equity.

**SOCIAL IMPACT ENGAGEMENT**



<sup>1</sup> DWM uses the term as it corresponds to UN Principles for Responsible Investment definition. For more information about inclusive finance, see here: [www.unpri.org](http://www.unpri.org). <sup>2</sup> Refers to both vehicles for which DWM has been the investment or fund manager and where DWM has raised and managed capital. <sup>3</sup> 85% of investors includes all investment values attributed to "first time investors," including subsequent investments by the same investors.

# Where We Invest

DWM has made debt and equity investments and underwritten capital markets transactions in over 40 countries across five continents.<sup>4</sup>

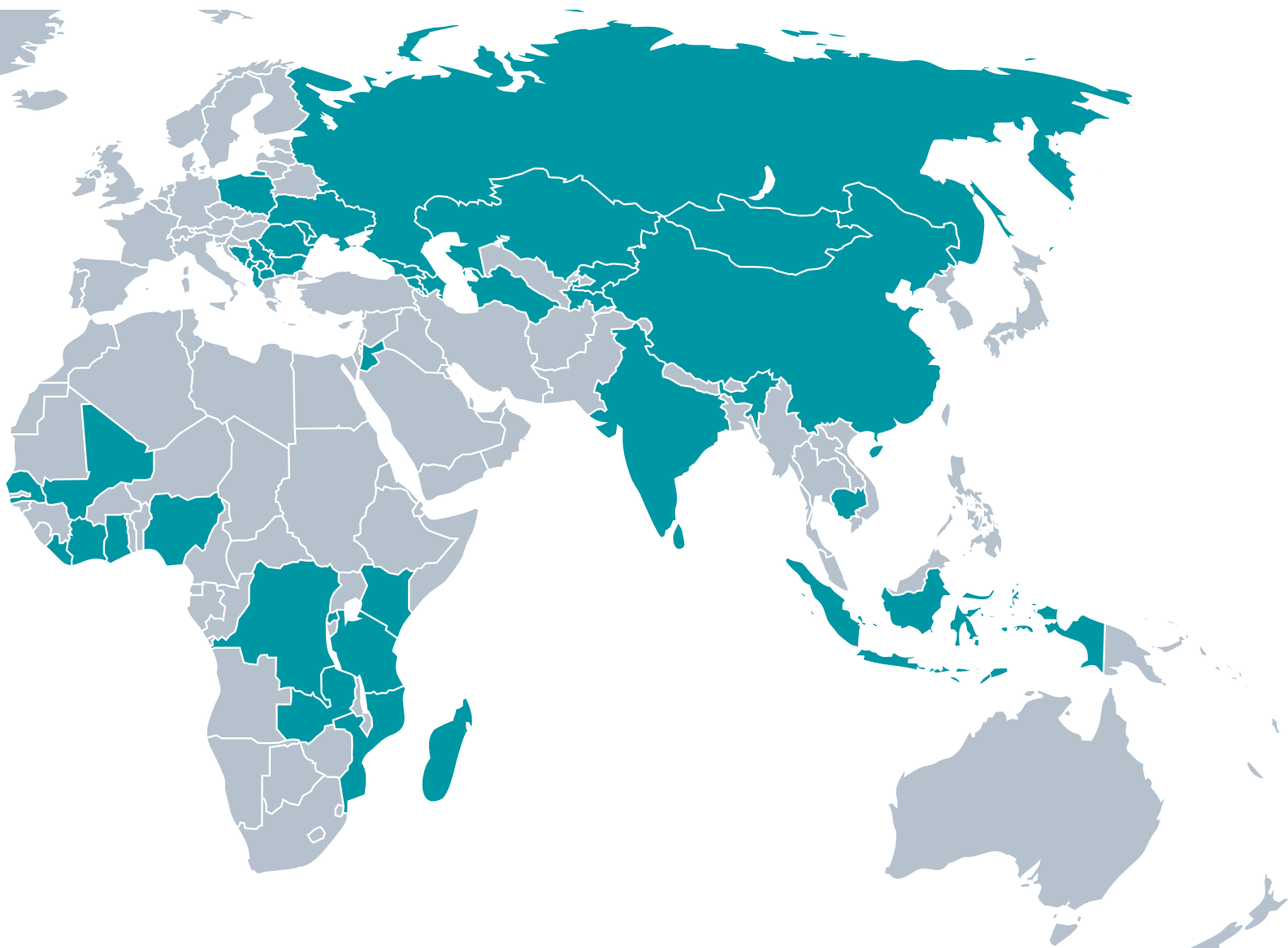
<sup>4</sup> Shaded countries indicate current or recent exposure through direct investments and holding companies.



## LATIN AMERICA

Argentina  
Bolivia  
Brazil  
Colombia  
Costa Rica  
Ecuador  
El Salvador

Guatemala  
Honduras  
Mexico  
Nicaragua  
Panama  
Paraguay  
Peru  
Uruguay



**AFRICA &  
MIDDLE EAST**

Côte d'Ivoire  
D.R. Congo  
Ghana  
Jordan  
Kenya  
Liberia

Madagascar  
Mali  
Mozambique  
Nigeria  
Rwanda  
Sénégal  
Tanzania  
Zambia

**EASTERN EUROPE**

Albania  
Bosnia  
Bulgaria  
Kosovo  
Macedonia  
Montenegro  
Poland

Romania  
Russia  
Serbia  
Moldova  
Ukraine

**ASIA**

Armenia  
Azerbaijan  
Cambodia  
China  
Georgia  
India  
Indonesia

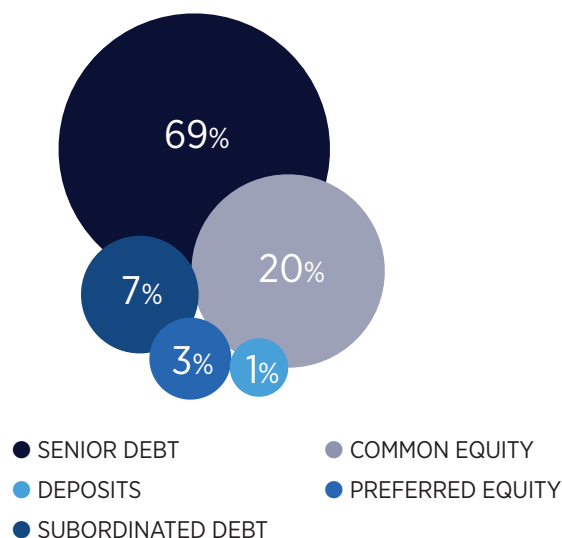
Kazakhstan  
Kyrgyzstan  
Mongolia  
Philippines  
Sri Lanka  
Tajikistan

# Portfolio Snapshot

as of December 31, 2013

Our IFIN exposure was approximately three quarters debt and one quarter equity. DWM exceeded the industry norm in local currency debt offerings, with 45% of our debt in local currencies, compared to 31% industry-wide.<sup>5</sup> These local currency loans offer an important benefit by eliminating currency risk for the portfolio IFINs, and, in some cases, the end-borrowers.

## EXPOSURE BY ASSET TYPE



## REGIONAL EXPOSURE (DEBT & EQUITY)

LATIN AMERICA	37%
CENTRAL ASIA, CAUCASUS, AND EASTERN EUROPE	37%
SOUTH AND SOUTH-EAST ASIA	21%
MIDDLE EAST AND AFRICA	1%

*Holding companies omitted.*

## CURRENCY EXPOSURE OF IFIN DEBT

44.6% US DOLLAR	1.4% KAZAKHSTAN TENGE
8.6% EURO	1.2% GEORGIAN LARI
6.9% PERUVIAN SOL	1.1% ARMENIAN DRAM
6.8% AZERBAIJANI MANAT	0.9% CAMBODIAN RIEL
4.7% RUSSIAN RUBLE	0.8% INDONESIAN RUPIAH
4.7% INDIAN RUPEE	0.8% COSTA RICAN COLON
2.7% ROMANIAN LEU	0.5% ALBANIAN LEK
2.0% HONDURAN LEMPIRA	0.5% THAI BAHT
1.8% CHINESE YUAN	0.5% BRAZILIAN REAL
1.8% GUATEMALAN QUETZAL	0.4% POLISH ZLOTY
1.8% BOLIVIAN BOLIVIANO	0.4% PARAGUAYAN GUARANI
1.8% COLOMBIAN PESO	

<sup>5</sup> Industry averages taken from the 2014 Symbiotics MIV Survey, a study of 80 Microfinance Investment Vehicles representing USD 9.3 billion under management as of December 31, 2013.



# Social Performance of our Portfolio IFINs<sup>6</sup>

Leveraging our origination, monitoring and portfolio management expertise, DWM seeks to achieve both risk-adjusted financial returns and positive social impact. DWM views achieving this “double bottom line” approach as critical for mobilizing capital from individual and institutional investors on a sustainable basis. As a core component of this strategy, DWM has developed proprietary tools and processes for evaluating and monitoring the social impact that IFINs have on their end-borrowers and savers.

We track metrics corresponding to four key social performance objectives that DWM views as central to our portfolio IFINs’ ability to help generate positive social impact in their respective countries:

## OBJECTIVE 1

Provide outreach to underserved populations

## OBJECTIVE 2

Offer products and services to help the poor build financial security

## OBJECTIVE 3

Encourage responsible lending practices

## OBJECTIVE 4

Advance good governance

The following pages present our social performance outcomes corresponding to these social performance objectives.

<sup>6</sup> All data herein refers to year end 2013 data. IFIN partners that are holding companies have been excluded from most social performance.

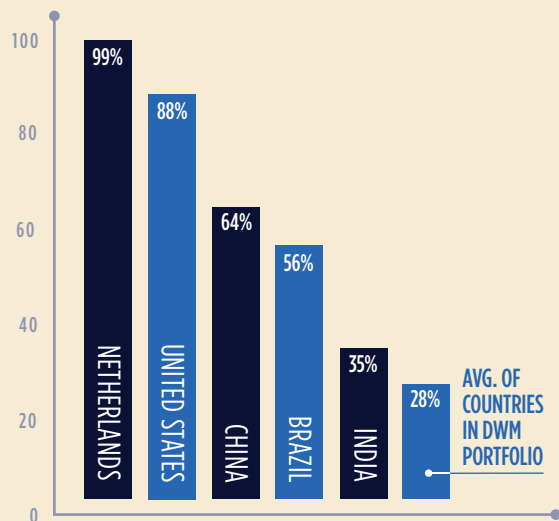
## OBJECTIVE 1: OUTREACH TO UNDERSERVED POPULATIONS

DWM targets IFINs that seek to reach populations often overlooked by formal financial markets in underbanked countries.

DWM strives to promote the deepening of the financial sector and financial inclusion by investing in markets characterized by low private sector credit penetration levels and low levels of financial inclusion.

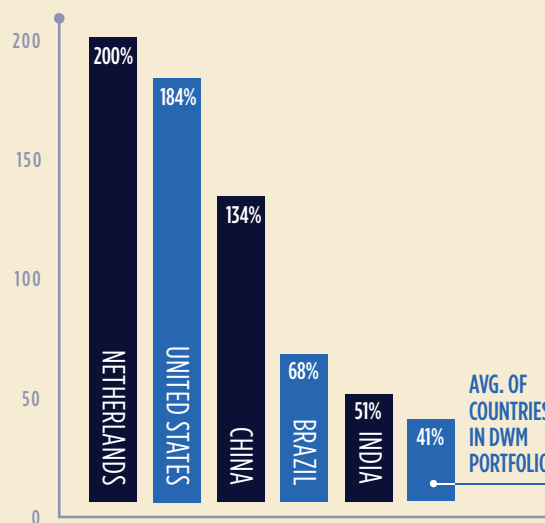
Research from the World Bank indicates that greater access to formal financial services can foster a country's economic growth and reduce poverty by promoting increased savings, enterprise growth, and formal employment.<sup>7</sup>

### POPULATION WITH BANK ACCOUNT<sup>8</sup>



Domestic credit to the private sector as a percent of GDP is an additional measure of credit penetration. As of December 31, 2013, 70% of DWM's investments were in countries with penetration levels below the global median of 46.7%.

### DOMESTIC CREDIT TO PRIVATE SECTOR (% OF GDP)<sup>8</sup>



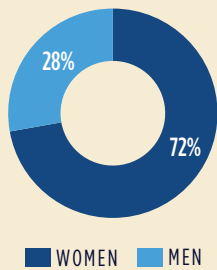
<sup>7</sup> Thorsten Beck of the World Bank has found that countries with higher private sector credit to GDP ratios experience both faster growth in GDP per capita as well as more rapid reductions in the share of the population living on less than USD 2 per day (Thorsten Beck. *The Role of Finance in Economic Development: Benefits, Risks and Politics*. December 2011.) <sup>8</sup>Global Financial Inclusion Database, The World Bank, 2012.

DWM promotes financial inclusion for the underserved by targeting IFINs that serve segments of the population with the lowest usage of financial services, such as the poor, women, and those living in rural areas.

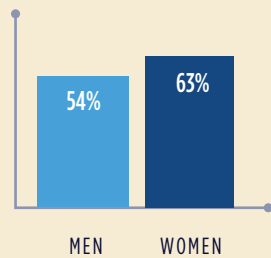
Gender gaps and geographic remoteness persist as challenges for financial inclusion efforts in developing economies. It is estimated that 63% of women vs. 54% of men are unbanked in developing countries. Similarly, adults living in rural areas are significantly more likely than those living in cities to be unbanked.

In comparison to more traditional commercial banks, 91% of the clients that DWM portfolio institutions serve are below their country's poverty level. In the Client Poverty Level chart below, *Very Poor* is defined as living below the extreme poverty line, *Poor* as living below the poverty line, and *Low Income* as living below the national average income.<sup>11</sup> *Other* is primarily businesses without poverty level distinctions.

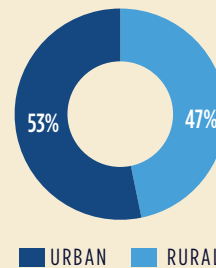
**DWM IFINS' CLIENTS BY GENDER<sup>9</sup>**



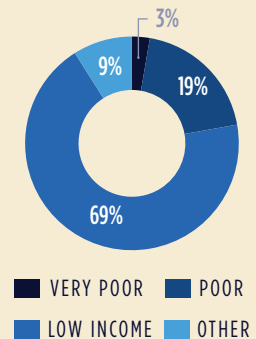
**WORLD'S UNBANKED DEVELOPING COUNTRIES<sup>10</sup>**



**DWM IFINS' CLIENTS BY RESIDENCE**



**DWM IFINS' CLIENT POVERTY LEVEL**



<sup>9</sup> Percentages for gender and place of residence do not include end-borrowers that IFIN partners identified in the DWM Social IQs as 'other', a designation which is used primarily for businesses. <sup>10</sup> Shows averages for unbanked populations in developing countries by gender. Source: Global Financial Inclusion Database, The World Bank, 2012. <sup>11</sup> Very Poor: (1) bottom 50% of persons below the poverty line est. by the national government, or (2) persons living on less than US \$1 per day (\$1.08 per day per capita at 1993 Purchasing Power Parity - PPP) or on less than US \$1.25 per day at 2005 PPP. Poor: (1) persons below poverty line est. by national government, or (2) persons living on less than US \$2 per day in daily per-capita expenditures at 1993 PPP. Low Income: persons above poverty line, but below national average income. For more on poverty lines and PPP visit: [www.povertytools.org](http://www.povertytools.org)

## CASE STUDY

Use of Progress out of Poverty Index to track rate at which clients improve their financial well-being

### GRAMEEN KOOKA

MICROFINANCE LENDER (INDIA)  
DEBT CLIENT SINCE 2011

Grameen Koota (GK) aims to transform the lives of poor and low-income families with microfinance and other need-based services. While poverty measurement can be challenging, GK uses the Progress out of Poverty Index (PPI), developed by the Grameen Foundation, to track progress against its mission.

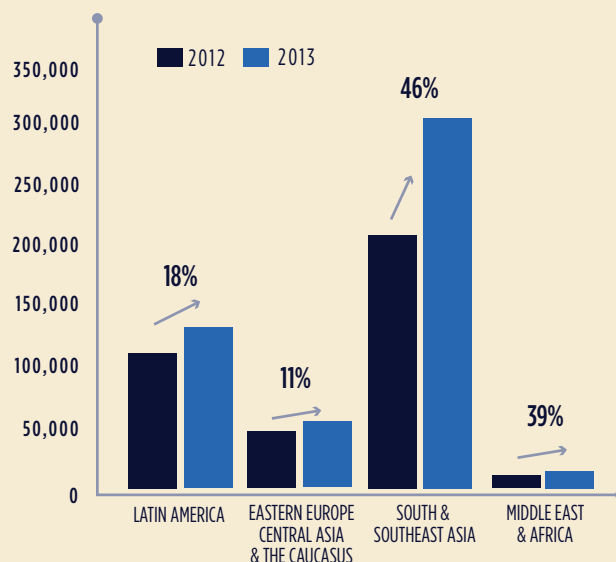
Upon each loan transaction, GK collects client information by asking questions such as: “What material is your roof made out of? How many of your children are in school?” Using this survey methodology about household characteristics and asset ownership, GK gains insight into the likelihood that their clients live below or near the poverty line. This information allows GK to tailor its product and services.

Based on PPI data taken at two different points during clients’ loan cycles, the likelihood that GK clients are below the poverty line has decreased across all poverty levels during the term of their loans. In fact, 23% of clients previously above the USD 1.25 per day PPP line moved above this line, and 9% of clients moved above the USD 2 per day PPP line. Urban clients advanced out of poverty (26%) at a relatively faster rate than rural clients (21%) at the USD 1.25 per day PPP line.<sup>12</sup>

DWM encourages IFINs to ensure that their mission and outcome measurement are aligned. We appreciate Grameen Koota’s efforts to achieve this objective, becoming the first fully certified user of the Progress out of Poverty Index in India.

In 2013, DWM portfolio institutions experienced significant growth in client outreach. The average number of borrowers per portfolio IFIN grew in all regions where DWM invests. South and Southeast Asia had the highest number of average borrowers per IFIN, 306,575 in 2013, and the highest rate of growth (46% in 2013).

### AVERAGE NUMBER OF CLIENTS PER DWM IFIN



### CLIENT OUTREACH AS OF DECEMBER 31, 2013

11,443,682	Total number of borrowers at DWM portfolio institutions
425,680	Total number of borrowers directly financed by DWM portfolio investments (this is 4% of the 11,443,682 clients at DWM portfolio institutions) <sup>13</sup>
4,821,134	Total number of DWM investees’ voluntary savers

<sup>12</sup> PPI data was from a set of clients who took loans from GK between December 2008 and November 2010. <sup>13</sup> Poverty line expressed with PPP, or Purchasing Power Parity. PPP eliminates the difference in price levels between countries. <sup>14</sup> Indicator defined by CGAP Microfinance Investment Vehicles Disclosure Guidelines; defined by sum of total investment in each IFIN divided by average loan balance per borrower in each institution.

## OBJECTIVE 2: PRODUCTS AND SERVICES TO HELP THE POOR BUILD FINANCIAL SECURITY

DWM targets investments in IFINs that finance a variety of sectors and seek to offer products and services that best meet the poor's broad and evolving financial needs.

DWM believes that inclusive finance should be demand-driven, responding to clients' needs and putting them on an asset-building path. We support the broadening and deepening of IFINs' product offerings and related services such as financial education. 88% of DWM portfolio institutions conduct assessments of their clients' needs as a strategy for new product development.

### PERCENT OF DWM IFINs THAT OFFER THE FOLLOWING PRODUCTS & SERVICES<sup>14</sup>

<b>Business Development Assistance</b>	<b>19 %</b>
<b>Debit/Credit Cards</b>	<b>32 %</b>
<b>Life Insurance</b>	<b>36 %</b>
<b>Loan Insurance</b>	<b>40 %</b>
<b>Savings Products</b>	<b>46 %</b>
<b>Remittance Services</b>	<b>51 %</b>
<b>Financial Education</b>	<b>58 %</b>

Providing women with the vital services necessary to become financially independent, healthy and leaders in their communities

### PRO MUJER BOLIVIA

MICROFINANCE LENDER (BOLIVIA)  
DEBT CLIENT SINCE 2011

Pro Mujer Bolivia offers a comprehensive package of financial and non-financial services that includes loans, life insurance, business and empowerment training, savings promotion, and high-quality, low-cost health care. Pro Mujer reached 117,169 clients in 2013 with its financial products, but extended its reach much further with additional services. Financial education sessions were conducted with 176,641 clients and family members, focusing on the importance of good credit and business administration. Health care services included 563,472 sessions for family-planning and nutrition counseling, and screening for early detection of cervical and breast cancers and asymptomatic chronic diseases. Pro Mujer also tracks the results of its health services to understand the proportion of their client base that have different health problems year-to-year.

The organization began working with women on education and family planning in 1990, and later expanded to include financial services, after women clients insisted on the importance of generating income to support their families. As of year-end 2013, Pro Mujer Bolivia had 147,000 loans outstanding, representing approximately USD 58.1 million, primarily through group lending. Pro Mujer Bolivia has a client base that is 93% female—women who often engage in commercial activities in local markets or businesses operating out of their homes.

<sup>14</sup> Based on the local regulations governing each IFIN, certain institutions may or may not be able to offer some of the products and services listed in the table.

## CASE STUDY

DWM's equity investment helps Proempresa become regulated, allowing it to provide savings products to its clients

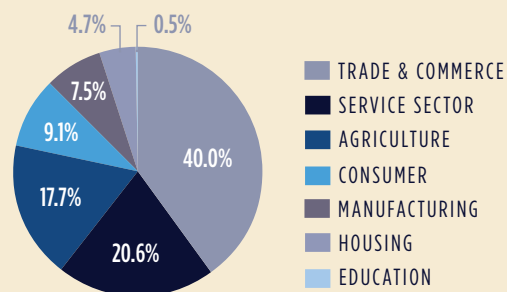
### FINANCIERA PROEMPRESA S.A.

MICROFINANCE LENDER (PERU)  
EQUITY INVESTEE SINCE 2007

After DWM-managed funds invested equity in Proempresa S.A., the institution's management decided to file an application to convert the EDPYME, a microfinance institution organized for the development of small and micro-enterprises, into a Financiera, a form of regulated financial institution able to provide savings products. Proempresa considered this conversion crucial to increase its expansion into rural areas and underserved markets. For Proempresa to obtain its Financiera license, it required an infusion of equity capital to satisfy the regulatory requirements of this new entity. From 2010-2011, DWM collaborated with other international investors and the founding shareholder, a Peruvian NGO, to raise sufficient equity capital to support Proempresa's Financiera application. Following this capital injection, and with further support from DWM and other international shareholders, Proempresa obtained its license to operate as a Financiera in August 2012. Proempresa had a complete offering of deposits and other savings products by June 2013 and by year-end had over USD 6 million in savings by individual clients.

DWM portfolio IFINs lend mainly to productive sectors including trade and commerce, services, agriculture, and manufacturing.

### ECONOMIC SECTORS FINANCED BY GLP <sup>15</sup>



### EXAMPLES OF USE OF IFIN LOAN PROCEEDS BY CLIENTS

**Trade and commerce:** working capital or infrastructure for a family-owned store

**Agriculture:** a tractor to increase efficiency

**Services:** larger oven for a restaurant or bakery

**Consumer:** household appliances, such as a refrigerator

**Manufacturing:** new equipment for a furniture maker

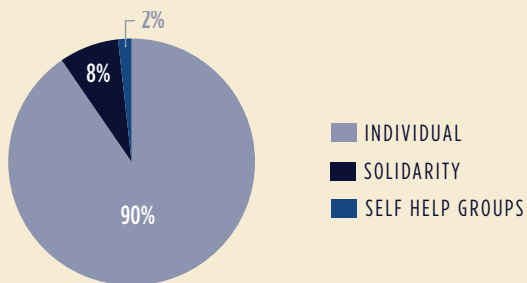
**Housing:** home improvement or home purchase

**Education:** infrastructure improvements for schools or college tuition for students

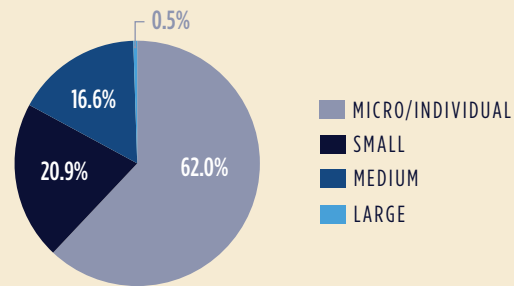
<sup>15</sup> GLP refers to gross loan portfolio and is defined as the outstanding loan principal of all clients of portfolio IFINs.

IFINs provide loans through a range of methodologies. 90% of loans financed by DWM portfolio institutions were individual loans, which enabled them to offer products tailored to clients' specific needs. 8% and 2% of loans were financed via solidarity groups and self-help groups respectively. These approaches are effective for extending outreach to clients, especially in rural areas.

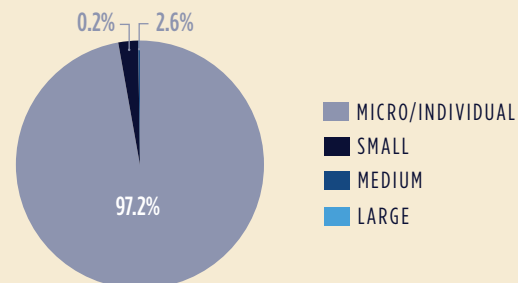
**LOAN METHODOLOGY BY GLP<sup>16</sup>**



**VALUE OF LOANS BY GLP<sup>16</sup>**



**NUMBER OF LOANS BY TYPE**



While the definition of client type varies across countries, DWM portfolio institutions lend to microenterprises and individuals, as well as small, medium and large enterprises. The primary focus of DWM IFINs is on individual and microenterprises, which on average account for 62.0% of their gross loan portfolios and 97.2% of loans made. IFINs also offer services to small and medium enterprises, which account for 20.9% and 16.6% of their collective portfolios, respectively, and 2.6% and 0.2% of loans made. Lastly our portfolio IFINs seldomly lend to large enterprises, which only account for 0.5% of their aggregate gross loan portfolios.

<sup>16</sup> GLP refers to gross loan portfolio and is defined as the outstanding loan principal of all clients of portfolio IFINs.

## CASE STUDY

DWM has helped FINEM raise long-term financing and expand its education products

### FINEM

EDUCATION LENDER (MEXICO)  
EQUITY INVESTEE SINCE 2011

FINEM (Financiera Educativa de México) seeks to promote access to high quality education among low- and middle-income students in Mexico by providing: (1) small business loans to primary, secondary and post-secondary education institutions for working capital, equipment and infrastructure, and (2) loans to undergraduate and graduate students who could otherwise not afford to attend university.

In 2013, FINEM financed eight education institutions that enrolled a total of 25,000 students. Approximately 80% of these students came from Mexico's lower socioeconomic levels. To increase low-income students' access to education and future employment opportunities, FINEM also provides higher education loans at fixed rates. In 2013, FINEM had loans outstanding to 3,357 students who were enrolled at 16 universities and had average family incomes of USD 15,000. All of FINEM's student loans have an 80% guarantee from the Mexican government. In fact 65% of the loans guaranteed by this government program were originated by FINEM.

DWM decided to invest equity in FINEM in 2011 due to the company's unique market position in an underserved sector, its strong management and governance, and the founders' deep experience in and dedication to the education field. As a large minority shareholder, DWM has a seat on FINEM's board and its internal audit committee. DWM has played an integral role in helping FINEM to raise long-term financing and to expand its products.

## OBJECTIVE 3: ENCOURAGE RESPONSIBLE LENDING PRACTICES

**DWM encourages IFINs to adopt responsible lending practices that promote a sustainable business model and prioritize the well-being and protection of clients.**

Industry consensus has emerged around core minimum standards to ensure client protection and encourage responsible lending practices. DWM endorses these Client Protection Principles (CPPs). Since 2010, our loan agreements have required that portfolio institutions become signatories of the CPPs. In 2012, we introduced additional language in the loan agreements, elucidating specific requirements for compliance on transparency and over-indebtedness in accordance with the CPPs.





## SMART CAMPAIGN, CLIENT PROTECTION PRINCIPLES (CPPs)

- 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

Percentage of DWM IFINs in compliance with CPP-related indicators:

### TRANSPARENCY AND RESPECTFUL TREATMENT OF CLIENTS

99%	Include the terms and rates of loans in the loan agreement
97%	Train staff to clearly communicate the terms and rates of products
96%	Disclose prices, interest rates, terms and conditions prior to sale
92%	Have dedicated staff resources to implement complaint mechanisms for their clients
86%	Conduct client satisfaction assessments
79%	Conduct exit interviews with their clients

DWM portfolio institutions strive to prevent over-indebtedness. Borrower over-indebtedness can place individuals and their families in significant financial distress and erode community stability. It also puts the quality of DWM IFINs' loan portfolios at risk and can weaken the health of the wider financial sector.

### STRATEGIES FOR PREVENTION OF OVER-INDEBTEDNESS

99%	Evaluate borrower cash flow as standard practice
85%	Use a credit bureau to assess existing debt
85%	Have explicit guidelines regarding borrower default thresholds
60%	Provide training/guidance to clients on evaluating their debt capacity
42%	Coordinate with other MFIs to assess existing debt

As a responsible investor, DWM requires portfolio institutions to make use of client information from available credit bureaus for lending decisions. As of December 31, 2013, 85% of portfolio institutions use a credit bureau to assess borrowers' existing debt.

## AWARDS FOR TRANSPARENCY & SOCIAL PERFORMANCE

In 2013, two of DWM's equity portfolio institutions received international recognition for their transparent and socially responsible lending practices.

DWM's majority-owned company, TPC in Cambodia, received the Microfinance Pricing Transparency Seal of Approval from MFTransparency, an organization that serves as a platform for the industry to publicly demonstrate its commitment to pricing transparency. TPC scored higher than the average and median scores for transparency in the country.

In addition, DWM's portfolio company, Crystal, in Georgia, was one of three companies worldwide to receive the Socially Transparent and Responsible (S.T.A.R.) designation from the Microfinance Information Exchange (MIX). The S.T.A.R. designation recognizes companies that have achieved a high level of compliance with both the MIX's requirements and the Social Performance Task Force's (SPTF) Universal Standards for Social Performance Management. Crystal is 30% owned by funds managed by DWM.

## OBJECTIVE 4: ADVANCING GOOD GOVERNANCE

**We seek to improve corporate governance to enhance IFINs' potential to have a positive impact on their borrowers, employees, and community.**

In any industry, good corporate governance is necessary to align stakeholders' interests and company strategy with its mission and goals. At the time of investment, DWM carefully evaluates potential investees' governance structures to determine whether they foster long-term sustainability, accountability to clients and staff, and dedication to create social impact. DWM's Debt and Risk teams promote ongoing good governance through our annual monitoring via on-site visits and the DWM Social IQs. For equity investments, DWM advances good corporate governance by actively participating on investees' boards and internal audit committees. DWM encourages the appointment of independent board directors, works closely with and where necessary selects management, and helps to develop policies that promote transparency and accountability.

As part of our broader effort to promote good governance, DWM tracks the profile and diversity of portfolio institutions' executive boards and management teams. Key highlights include:

- Social Commitment: 52% of IFIN board members have a social or development-focused background. In addition, 60% of portfolio institutions have a committee or staff member dedicated to social or environmental objectives.
- Independent Board Directors: 34% of board directors are independent members.

- Female Leadership: 29% of board members are women. This percentage is especially noteworthy when compared to S&P 500 boards, of which women represent only 18% of all directors.<sup>17</sup>
- Female managers have even higher representation within DWM portfolio institutions, holding 39% of all management positions.

### BOARD MEMBERS OF DWM IFINS



DWM also tracks IFINs' corporate conduct and practices, affecting the more than 85,000 employees of portfolio institutions.

### CORPORATE ETHICS AND TRANSPARENCY



## CASE STUDY

DWM led the effort to revamp TPC's corporate governance among other initiatives

### TPC MFI, CAMBODIA

MICROFINANCE LENDER (CAMBODIA)  
EQUITY INVESTEE SINCE 2010

Thaneakea Phum (Cambodia), Ltd. (TPC) serves over 150,000 poor and low-income clients, of which 85% are women. Attracted by TPC's market position as a leading microfinance institution focused on rural areas, DWM purchased a majority stake of the company in 2010.

Prior to DWM taking ownership, TPC went through a crisis which led to deterioration in portfolio quality and profitability. Once DWM took over the company, it embarked on several initiatives. DWM restructured the board by appointing independent board members, hiring an executive in-country chairman, and establishing internal audit, risk and human resource committees. It built a new management team by hiring a CEO and CFO and adding positions for a COO, CIO and Risk Manager. To establish a culture of accountability and transparency, TPC implemented new financial and social reporting standards, revised its organizational structure, changed its performance evaluation and compensation system, and introduced staff and client satisfaction surveys, exit surveys and grievance procedures. As the company's governance improved, it was able to increase the size of its loan portfolio fourfold, attain one of the strongest portfolio quality levels among MFIs in Cambodia, and significantly improve its financial sustainability. While making these changes, TPC maintained a strong focus on its social mission by expanding to more rural regions, developing new products catered to borrower needs, such as agricultural and home improvement loans. Also, it introduced non-financial services, such as financial literacy training.

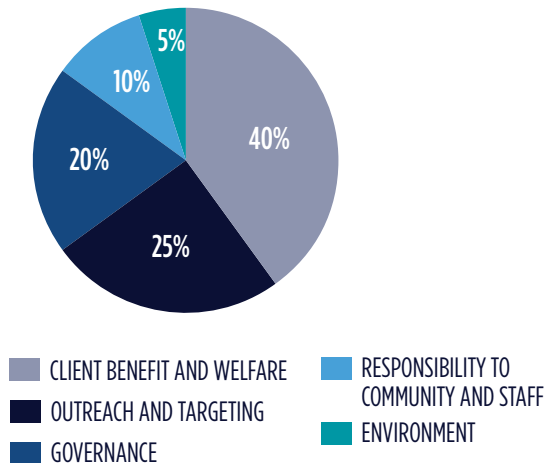
<sup>17</sup> Spencer Stuart Board Index 2013.

# Social Impact Measurement Methodology

## DWM Social IQs

To track the social performance outcomes of our investment strategy, DWM applies a consistent approach to social impact measurement and analysis. We monitor the social performance of our portfolio institutions using the DWM Social Impact Questionnaire and Scorecard (DWM Social IQs).

The DWM Social IQs is a data-driven tool that consists of approximately 50 indicators and generates an overall social performance score for an IFIN's impact across the following five dimensions.



The DWM Social IQs are comprised of two components—a questionnaire and a scorecard—which quantitatively and qualitatively measure an institution's social performance and impact. The social performance data from the questionnaire is fed into the Scorecard. DWM developed the questionnaire, mapping indicators to the Impact Reporting and Investment Standards (IRIS). IRIS is an initiative of the Global Impact Investing Network (GIIN), which contributes to standardization of social reporting across the industry.

The Scorecard, developed in collaboration with ACTIAM Impact Investing and Oikocredit, is a quantitative impact measurement tool. Since the development of the DWM Social IQs in 2011, we have collected data from 110 portfolio institutions, allowing DWM to create a comprehensive social performance database. This data is used to analyze institutions during the pre-investment due diligence process, as well as on an annual basis.

## PRE-INVESTMENT PROCESS

DWM's investment teams evaluate the social impact of a potential investment during the pre-investment due diligence process. In addition to meeting DWM's financial criteria, the institutions under consideration must demonstrate a dedication to creating social impact. This analysis is done through both on-site and desktop due diligence. The DWM Social IQs are an important part of this process, allowing the investment teams to assess the social performance of a potential investment.



## POST-INVESTMENT PROCESS

On an annual basis, the DWM Social IQs are used to collect and analyze social performance data from our portfolio institutions. The results are used to track trends among portfolio IFINs, identify strengths and weaknesses and report back to investors. The collection of social metrics informs the DWM investment process and encourages portfolio institutions to track and report their social performance.



A man wearing a wide-brimmed hat, a light-colored shirt, and dark trousers is herding a large group of goats on a dirt path. The goats are of various colors, including white, brown, and black. The background is filled with dense green trees under a clear blue sky.

# A History of Catalyzing Impact

Social impact has been at the core of DWM's investing activities since 2004, when we structured the first international capital markets transaction in microfinance.

## DWM'S SOCIAL IMPACT PERFORMANCE INITIATIVES

**2004**

Begins providing annual social performance data for investors

**2006**

Develops methodology to collect annual IFIN and end-borrower data to monitor social performance of portfolio institutions

**2008**

Endorses Smart Campaign's Client Protection Principles and MFTransparency

**2009**

Signs UN Principles of Responsible Investment (UN PRI)

**2010**

Incorporates requirement into loan agreement that portfolio IFINs become signatories of the Smart Campaign's Client Protection Principles

Develops social scorecard, in collaboration with ACTIAM Asset Management and Oikocredit, to collect and analyze social performance data of inclusive financial institutions

Begins encouraging portfolio institutions to submit annual Social Performance Standards Report to the MIX Market and to acquire social ratings

**2011**

Signs UN Principles for Investors in Inclusive Finance (UN PIIF)

Enhances DWM Social IQs, expanding set of indicators and mapping with the Global Impact Investing Network's (GIIN) and Impact Reporting and Investment Standards (IRIS) to better align with larger impact industry

**2012**

Strengthens loan agreement requirement that portfolio IFINs operate in accordance with the Client Protection Principles, with specific attention to transparency and prevention of over-indebtedness.

Publishes Social Measurement and Performance Strategy Report

Becomes member organization of the Social Performance Task

Force, a microfinance industry initiative to promote good practices for social performance management and reporting

**2013**

Selected as a leading Impact Investment Manager for the ImpactAssets 50 2013, an annual list of the top 50 impact investment firms, for the third year in a row

Receives Global Impact Investment Rating System (GIIRS) rating for DWM-managed microfinance private equity fund

Completes Social Performance Management Information System (MIS) to manage and track social impact performance

Reaches a total of 250 DWM Social Impact Questionnaire and Scorecards (DWM Social IQs) collected from portfolio institutions over the 2011-2013 reporting period



# Inclusive Finance Collaboration and Initiatives

DWM has been and continues to be an early supporter of key industry initiatives. We collaborate with partners to contribute to the development and standardization of a more transparent impact investing industry.





MFTransparency was established to serve as a platform for the microfinance industry to publicly demonstrate its commitment to pricing transparency, integrity and poverty alleviation. Endorsers of MFTransparency publicly support the microfinance industry's effort to present information on credit products and pricing in a clear and consistent manner. MFTransparency has evaluated approximately 530 institutions in 29 countries.

**DWM endorses MFTransparency.**



The Global Impact Investing Network (GIIN) is a non-profit organization dedicated to increasing the effectiveness of impact investing, supporting collaboration, developing industry infrastructure, and undertaking research and advocacy. The GIIN's Impact Reporting & Investment Standards (IRIS) provides an independent and credible set of common metrics for organizations to use when reporting their impact. **DWM contributes to GIIN publications and uses IRIS metrics in our social performance assessments of IFIN clients, contributing to a standardization of impact measurement.**



Global Impact Investing Ratings System (GIIRS), a project of the independent non-profit B Lab, is a comprehensive and transparent system for assessing the social and environmental impact of companies and funds with an approach to ratings analogous to Morningstar's and an analytics approach similar to Capital IQ's. Ratings are subject to the GIIRS verification process, which is executed with the support of a third-party documentation review. **DWM was named a pioneer by GIIRS and has one of the first funds to receive a GIIRS Impact Rating.**



The Financial Inclusion Equity Council (FIEC) brings together private entities that make equity investments in financial inclusion throughout the developing world. FIEC promotes responsible impact investing in financial inclusion, and looks to improve transparency. The Council seeks both social and financial returns from their investments in these institutions, all of which provide a range of financial services to poor households in developing countries. **DWM is an active member of the Council.**



The United Nations Principles for Responsible Investment Initiative (PRI) is a network of international investors, working to promote a sustainable global financial system. Through its six Principles for Responsible Investment, signatories have a voluntary framework from which they can incorporate environmental, social and governance (ESG) issues into their decision-making and ownership practices. The UN's Principles for Investors in Inclusive Finance (PIIF) provide investors with a framework for responsible investment that provides the poor access to finance. **DWM is a signatory to both the PRI and the PIIF and submits annual progress reports for publication online.**



The Smart Campaign provides the microfinance industry a common code of conduct, governing treatment of clients and helping establish client protection safeguards. The Campaign outlined the Client Protection Principles (CPPs), which are the minimum standards that clients should expect to receive when doing business with an IFIN. **DWM endorses the Smart Campaign and has incorporated into our loan agreements a requirement that portfolio IFINs are signatories to and operate in accordance with the CPPs.**



Microfinance Information Exchange (MIX) provides objective, qualified and relevant financial and social performance information and publications on microfinance institutions. **DWM encourages microfinance clients to submit annual Social Performance Standards Report to the MIX Market and acquire social ratings.**







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