

Guiding Principles

Our six guiding principles in microfinance investing

- 1. By promoting microentrepreneurs and their income generating activities we contribute to poverty alleviation**

responsAbility's vision is a world in which developing countries are no longer considered as mere aid-recipients but as high-potential economies with a thriving and diverse entrepreneurial base, including innovative micro- and small and medium enterprises. We believe that local entrepreneurship, particularly in the informal sector, will create new sources of income to alleviate widespread poverty which is one of the greatest problems of the world today with devastating social and environmental consequences.
- 2. Microfinance is an effective way to promote microentrepreneurship**

We believe that the access to financial services is crucial to support the local entrepreneurial activity. The access to services such as microcredit and microsavings provided by local Microfinance Institutions (MFIs) is an important basis to boost productivity, to grow a business, to make it profitable and stable in the long-run. The providers of such services (the MFIs) must also be based on long-term, financially sustainable models in order to become stable partners for the micro-entrepreneurs. The financial services they provide should be adapted to the local needs, focus on the active poor who can afford to take credit and avoid any mechanism that could lead to increasing indebtedness or dependency levels.
- 3. Private sector involvement is key to realize considerable outreach**

Microfinance holds a big promise to contribute considerably to poverty alleviation at a global scale. But this will only be possible if the outreach of microfinance services will be considerably increased from the actual few dozens of millions of families to many hundreds of millions. To achieve that, both the private commercial sector and the public sector (including private donors) have an important role to play. To sustain its natural growth, the Microfinance industry will need at least \$500 million to \$1 billion debt capital each coming year. A large part of that can be provided by the private sector on a commercial basis. The public sector, on the other hand, should focus on providing information and education and subsidized public money for start-up high-risk ventures.
- 4. We build a bridge between the private sector and Microfinance and produce both financial return and social benefit**

The responsAbility Global Microfinance Fund (rAGMF) is a private sector initiative with a clear commercial and market-driven approach. As every professional investment vehicle, it has to safeguard investors' assets in the first place. In our investment activity we do not take a "top-down" approach but want to respond to the needs and the demand of local Microfinance markets while at the same time ensuring that the needs of our investors are fulfilled. The

investment concept of the rAGMF aims at a balanced combination of financial returns and so-called social returns, which include qualified contributions to alleviating poverty, to sustainable development and to a sustainable growth of the Microfinance market.

This is reflected in the investment strategy which aims at achieving the highest possible social impact of investments by strongly focusing on outreach. We invest in both larger, more mature MFIs (so-called MFI Leaders) from which we expect financial returns that reflect true risk levels, as well as in smaller, innovative MFIs with a strong contribution to social impact

(MFI Pioneers). We are prepared to accept lower financial returns from MFI Pioneers, because this is compensated by superior social returns.

5. We strive to actively influence the social impact of our activities

We favour MFIs which strive to provide financial services also to rural areas, because we believe that this will help to alleviate the difficult economic situation of those areas, with all the social and environmental burdens associated with it. We also welcome MFIs with a major share of women clients, because we believe that, on average, women contribute more to improving social standards (e.g. health and education of children). We believe that MFIs should concentrate on their core client group, the active poor, and should avoid undeclared "mission drifts". We also favour MFIs striving to increase their share of clients active in manufacturing professions, because of their superior contribution to the creation of stable income sources and jobs.

We believe that MFIs and MFI clients should refrain from engaging in unsustainable activities which will only damage the MFI and the sector as a whole both financially and in terms of reputation. We will not accept unfair competition, money laundering or activities leading to severe financial distress and dependency of clients. We urge MFIs to monitor instances of child labour damaging the health of children or depriving them of basic education, of forced labour, of unsafe and unhealthy working conditions or activities severely damaging the environment in their clients' businesses; to explain to clients the devastating effects of those practices; and to terminate those client relationships if no improvement is achieved. Through our partners, we will monitor MFIs accordingly.

6. We believe in partnership and dialogue

We rely on selected investment partners with profound local knowledge and presence to select and monitor the MFIs we invest in. We do this because we truly believe that the quality of an MFI must be assessed on the basis of local know-how. We also believe that the emergence of professional MFI investment

intermediaries contributes to a much needed professionalisation and to economies of scale along the investment chain, which must ultimately lead to a reduction of transaction costs. We also actively pursue the dialogue and know-how exchange with a wide network of actors in the development arena, including NGOs, government agencies, IFIs, technical assistance providers and other organisations both in the North and in the South.

The role of responsAbility is to build bridges between investors in the North and MFIs and their clients in the South. We think that it is important that both ends of that investment pipeline articulate their values and needs and enter into a dialogue with each other, which we will help to facilitate together with our investment partners. We therefore invite investors, partners and MFIs to interact with us and send us their feedbacks and their views concerning these Guiding Principles: info@responsAbility.com

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