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Cover photo:
More than half of India's population has no access to toilets, which has serious health implications. Ulka Sadalkar (photo), Head of Production at Saraplast in Pune, India, and her team develop and manufacture mobile toilets. These are mainly installed at building sites, providing many construction workers with access to functioning sanitary installations for the first time in their lives.
responsAbility at a glance

2003
Foundation of responsAbility

140
employees

1.9
USD bn
assets under management

global
locations in Zurich (head office), Lima, Mumbai, Nairobi and Paris

84
investment countries

460
financed companies

Further information

Assets under management
2003–2013
USD million, as per 31.12.

Shareholders and partners

Approximately 30% of the share capital of responsAbility Investments AG is held by its employees. Around 70% is held by a broad range of reputable representatives of the Swiss financial center, including:

- Baumann & Cie., Basel/Switzerland
- Raiffeisen Switzerland, St.Gallen/Switzerland
- Swiss Re Foundation, Zurich/Switzerland
- Vontobel Beteiligungen AG, Zurich/Switzerland

Credit Suisse is a founding partner of responsAbility.

responsAbility is supervised by the Swiss Financial Market Supervisory Authority FINMA. It is audited by PwC, Zurich/Switzerland.

Company history

Milestones of the past 10 years

2003
Founding of responsAbility; first investments in microfinance and sustainable agriculture

2005
Kaspar Müller becomes Chairman of the Board of Directors

2006
First investments in independent media in countries where press freedom is threatened
Investment concept

Technology as a success factor
- e.g. mobile phones, broadband, energy storage, LED lighting

Business model
- e.g. microfinance, sustainable agriculture, renewable energy

Company
- e.g. microfinance bank, agricultural cooperative, solar energy systems

Improved conditions as a basis
- Growing middle class, more purchasing power
- Stronger economy
- Greater stability at a political and government level
- Reliable legal and regulatory environment

Positive impact on returns, costs and risks

Investments

Investments per region
as per 31.12.2013

Top 10 of 84 investment countries
investments in USD million and % of total, as per 31.12.2013

Sectors

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<th>Sector</th>
<th>Finance</th>
<th>Agriculture</th>
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<td>Investment example</td>
<td>Microfinance institutions and SME banks</td>
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<td>Impact example</td>
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<td>Higher future income due to better education</td>
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Result
Economic growth, social progress and thus perspectives for companies and low-income households

2009 responsAbility recruits its first apprentice
2010 Opening of an office in Lima; responsAbility is regulated by FINMA, the Swiss Financial Market Supervisory Authority
2011 Further locations in Mumbai, Nairobi and Paris; first investments in the health sector
2012 Broad rollout of investments in sustainable agriculture and in long-term participations in the SME finance sector
2013 10th anniversary of responsAbility; launch of investments in renewable energy
responsAbility Investments AG is one of the world’s leading independent asset managers specialising in development-related sectors of emerging economies. They comprise the areas of finance, agriculture, energy, healthcare and education.

responsAbility provides debt and equity financing to non-listed companies with business models that target the lower-income section of the population and can thus drive economic growth and social progress. responsAbility offers professionally managed investment solutions to both institutional and private investors.

Founded in 2003, responsAbility as per 31.12.2013 had USD 1.9 billion of assets under management, which were invested in around 460 companies in more than 80 countries. responsAbility is headquartered in Zurich and has local offices in Paris, Lima, Mumbai and Nairobi. Its shareholders include a broad range of reputable institutions in the Swiss financial market as well as its own employees. responsAbility is registered with the Swiss Financial Market Supervisory Authority FINMA.

‘Perspectives’ is an annual publication in which we provide information about our economic activities and their impact – with facts and figures, but also with background reports and profiles. ‘Perspectives’ complements the financial and development-related product coverage available at www.responsability.com/investing/en/678/Homepage-Investing.htm.
The management team of responsAbility: (from left) Christian Speckhardt, member of the Executive Board, Kaspar Müller, Chairman of the Board of Directors, Klaus Trischkauser, Co-Founder & CEO, and Rochus Mommartz, member of the Executive Board.
Dear reader

In this issue of ‘Perspectives’, we report on the 10th anniversary year of responsAbility. To mark this occasion, we invited none other than the renowned philosopher Peter Sloterdijk to examine responsAbility’s activities from a philosophical perspective. In his speech, he evoked the image of a Circulus Virtuosus – a circle in which one positive element leads to another – as in the case of virtuousness, ability, skill or even influence. This is undoubtedly a great compliment but it also gives rise to high expectations.

As part of this process of constant improvement and the generation of increasingly positive impacts for all our groups of stakeholders, we naturally also aspire to enhance our reporting about the different aspects of our work. We believe that our reporting should be somewhat less philosophical in nature and should, instead, focus on the facts. The very fact that responsAbility can once again look back on a year in which our assets under management grew by 37% or around USD 500 million to over USD 1.9 billion represents a pleasing result. This is also a key indication of the effectiveness of our work, since it is important for this virtuous circle to grow wider.

We are particularly pleased by the broad-based nature of this asset growth. Investments in financial companies and in sectors ranging from agriculture to energy have attracted a strong level of interest among investors. Another of the five core themes in which responsAbility invests is the health sector. The breadth of this sector and its strong potential are clearly illustrated by the Indian firm Saraplast, which is featured in this issue.

In view of this wide range of investment themes, you may wonder which concept unites these diverse companies from the financial, agricultural, energy and education sectors at responsAbility. In addition to our efforts to help drive development, it is primarily our structured investment concept and our core values that connect them. Both our investment concept and our values are presented in this issue of ‘Perspectives’ – with the latter being described in person by members of our Board of Directors.

Does this year’s publication contain any new elements? Yes: We have devoted several pages to our new ‘Viewpoint’ feature to provide a clear assessment of a topic that we consider important – beginning with a look at the criticisms that are regularly voiced about microfinance. Rochus Mommartz, a member of responsAbility’s Executive Board and one of the most highly respected experts in the field of microfinance, presents an objective viewpoint based on the in-depth experience he has gained around the globe in this still relatively young sector over a period of almost 25 years.

‘Comparing our activities to a virtuous circle is a great compliment but it also gives rise to high expectations.’

Providing clarity about increasingly complex topics is the goal of the ‘Investment concept’, ‘Values’ and ‘Viewpoint’ sections of the publication. Clarity was also our goal when we decided to change the name of our organisation from responsAbility Social Investments AG to responsAbility Investments AG. You can find out more about this topic on our website at: http://www.responsability.com/investing/en/678/Homepage-Investing.htm.

We hope that all of these changes and enhancements will provide greater clarity and transparency for our readers and thus represent a tangible step towards addressing the philosophical requirements of the virtuous circle.

Kaspar Müller   Klaus Tischhauser
Chairman of the Board of Directors   Co-Founder & CEO
Sustained strong growth – a solid basis

With strong increases in assets under management, investments and the number of financed companies, as well as successful diversification across asset classes, products, investment groups, financing currencies and markets, responsAbility’s 10th anniversary year was a period of considerable growth in all areas of the business. This has provided responsAbility with an even stronger basis that it can build on to achieve a high level of impact.

responsAbility was able to pursue its solid growth path in 2013 in an environment characterised by continued macroeconomic turmoil and far-reaching regulatory changes and challenges. The combination of our business strategy that focuses on the achievement of sustainable success and our efforts to adopt a forward-looking, client-oriented approach in a dynamic market environment has thus proved effective once again – even in the face of these challenging conditions.

Attractive direct investments in the real economy

Inflows and outflows of assets at responsAbility were not affected by the turbulent developments in the global economy and the corresponding government interventions, which resulted, for example, in an exodus of funds from the emerging markets in mid-2013. We recorded predominantly pleasing developments in our activities in the financial, agricultural, energy, health and education sectors. It was only the strong fluctuations in various local currencies as a result of large movements of capital that impacted the valuations of some participations in the portfolios. The solidity of our investments is attributable, among other things, to the sharp contrast between the volatile capital flows to which many emerging market investments are exposed and the developments in the respective real economies. This applies, in particular, to the segments that we target through our investment activities: Low-income households and micro, small and medium enterprises. 2013 also demonstrated that capital flows tend to be focused on a small number of larger countries (e.g. BRIC nations), while a large proportion of the frontier markets in which responsAbility is mostly active were unaffected by these trends. Another factor is that direct investments in the real economy – such as those made by responsAbility – are not made via the stock market and are therefore not directly exposed to speculation and volatility in the global capital markets.

Most developing countries and emerging economies are still on a solid long-term growth path that they are unlikely to deviate from in the foreseeable future. Emerging economies are also benefiting from the fact that they have tended to reduce their levels of debt in recent years, as well as increasing their currency reserves and improving the functioning of their central banks. The International Monetary Fund (IMF) has forecast that the economies of developing countries and emerging markets will achieve substantial growth in 2014. For example, the IMF anticipates that responsAbility’s 20 most important investment countries will generate real GDP growth of 5.4%, compared to 5.3% in 2013. It has also predicted that their GDP growth will remain above the 5% mark until the end of the forecast period in 2019. This solid trend is likely to have a positive impact on the demand for basic services for low-income households and small businesses. We therefore have every reason to expect that these development-related sectors will continue to offer numerous attractive opportunities for investment.

Strong inflows of assets underscore investor interest and confidence

Switzerland – responsAbility’s most important market for the sourcing of funds – is one of the few mature economies that can look back on a period of solid growth in recent years. Driven by persistent low interest rates and a high level of interest in sustainable investing, the positive investment environment in this area was only marginally overshadowed by the difficulties still facing the financial markets and the continued challenging
As a result, responsAbility reported USD 1.913 billion of assets under management at the end of 2013, a net increase of USD 516 million. This 37% increase is virtually in line with the growth recorded in the previous year.

We also expect to attract strong inflows of assets in the coming months. Our fixed-income products remain attractive due to the low interest rate environment as well as fears about possible rate rises. In the area of equity investing, demand has benefited from the renewed interest in the long-term potential for value enhancement through investments in the real economy, as well as a slight reduction in the tendency of investors to focus exclusively on liquidity and the resulting increase in their risk tolerance. These developments have been further underpinned by the growing interest in investments that combine the growth potential of emerging economies with the achievement of social progress.

**Broad client base as a solid foundation for business**

The positive total inflow of assets spanned all client segments. Our investment themes and product offering cover a broad range of investor requirements – thus ensuring that we have a well-diversified client base and enabling us to continuously expand our market position. At the end of 2013, private clients accounted for around 65% and institutional clients for around 35% of our client base, reflecting an increase of almost 5 percentage points in the proportion of institutional investors in the course of the year.

The diversification of the client base was also driven in part by the expansion of our sales network. Two strong new partners have joined the network of renowned national and international financial institutions that distribute our products to investors – a development that we regard as clear evidence of the trust they place in responsAbility’s strategy and offering.

Reflecting the growing interest in sustainable investments in emerging economies, a number of banks, insurers and family offices have begun to launch fund-of-funds in this area. This institutional client segment has a particular need for professionally managed investment opportunities that have a good track record and are geared towards larger investment volumes, as well as covering a diverse range of themes. We were therefore able to record significant inflows of assets from this group of clients, as well as from pension funds and foundations.

**Diverse investment opportunities**

The optimisation of our existing product range was a main area of focus in 2013. Our offering now comprises 10 investment products – six of which mainly take the form of fixed-income investments, while the other four have equity characteristics.

### Highlights 2013

**as per 31.12.2013**

| USD 1.9 bn | 460 |
| assets under management – a growth of 37% | financed companies – 14% more than in the prior year |
| 40 | USD 176 m |
| more employees, bringing the total to 140 worldwide | committed funds in the area of private equity |
| 10 | 800 |
| development-related investment products | transactions in more than 60 countries |
| USD 114 m | 1st |
| invested in fair trade globally | issue of ‘Perspectives’, the responsAbility annual report |
This means that private and institutional investors now have various investment opportunities in the areas of finance, agriculture, energy, health and education and also have a choice of three different currencies – the Swiss franc, US dollar and euro. As a result, responsAbility offers the broadest range of development-related investment opportunities in the market.

At the end of 2013, the continued strong inflow of assets into our core segment of fixed-income investments that we have been managing successfully for ten years – and especially into the areas of microfinance and fair trade – totalled around USD 499 million, corresponding to growth of 69%. With a total of around USD 114 million of investments in companies focused on sustainable agriculture in 2013 alone, responsAbility has now established itself as one of the largest independent providers of financing in this field.

Following an increase of USD 40 million, the committed equity-related funds totalled USD 176 million or around 9% of assets under management at the end of 2013. This figure is likely to rise in the future – providing us with a clear indication that our strategy of strengthening equity investments is meeting with investor approval.

Returns within the target range again

Returns in the two asset classes – fixed income and equity – as well as in the different sectors remained very stable and, in some cases, displayed a slightly positive trend compared to the previous year. The fixed-income investment components focusing on financial institutions as well as on sustainable agriculture remained in the 3–5% target range in US dollars after costs. However, in view of the generally very low interest rate environment, they were at the lower end of this target range, like in the previous year.

Equity investments in the financial institutions sector generated an overall return of 4.5% in US dollars after costs. There were significant differences in the performance of the individual investments. While business results were generally positive in 2013, comparatively high valuation losses were recorded on the currency side. The strong outflows of capital from the emerging markets in mid-2013 had an impact – especially on investments in the Indian rupee. In the case of equity investments, we work on the basis of an eight-year investment term with an annual return of up to 15%. However, individual annual results may fluctuate significantly in the area of private equity, with a large
Business overview

A proportion of the overall return often materialising only shortly before or during the exit phase of the investment. In the case of equity investments outside the financial sector, we are still in the investment phase and plan to hold various commitments in the portfolio for up to eight years.

Growing volumes and more diverse investment activities
While responsAbility recorded significant inflows of assets in 2013, it also experienced an – at least – equally strong level of demand for financing, generally resulting in relatively low cash holdings in the portfolios. 2013 was therefore a record year in terms of the level of debt and equity investments made in rapidly growing companies in our target markets. Due in particular to responsAbility’s established regional offices in India, Kenya and Peru, as well as the expansion of our very well established local teams, we were able to execute more than 800 transactions in over 60 countries with a total value of USD 907.4 million – an increase of 35% compared to the prior year.

At the end of 2013, responsAbility had investments in a total of 84 countries that we have grouped into 8 regions: Central America, South America, Sub-Saharan Africa, Middle East and North Africa, Eastern Europe, Central Asia, Asia-Pacific and Others. In the course of the year, we were able to identify new investees in countries including Bhutan, Madagascar, Benin and Thailand. In geographical terms, the investment volume grew in practically all regions. With 28.2% of the total investment volume, Central Asia remains the most important investment region for responsAbility, followed by South America with 21.4%, Asia-Pacific with 18.2% and Sub-Saharan Africa with 9.4%. Compared to the previous year, the largest increase in investment volumes was recorded in Central Asia (USD 119.4 million), South America (USD 103.7 million), Sub-Saharan Africa (USD 78.7 million) and Asia-Pacific (USD 76 million).

With the Rwandan franc, the Tunisian dinar, the Georgian lari, the Kenyan shilling, the Honduran lempira, the Zambian kwacha and the Chinese renminbi, the range of currencies in which responsAbility invests increased by 7 to a total of 35. Since the majority of these new as well as the existing local currencies in the portfolios are hedged against the relevant accounting currency, responsAbility is able to meet the growing demand for local currencies without exposing investors to additional exchange rate risks. responsAbility also succeeded in increasing the number of financed companies: They totalled 460 at the end of 2013, compared to 405 at the end of 2012. The largest number of these companies is located in Asia-Pacific (97 investees), followed by South America (83 investees) and Sub-Saharan Africa (66 investees). Over the same period, the number of agricultural products of the companies in which responsAbility invests globally rose from 14 to 26. Based on the total volume of agricultural investment, the three most important products were coffee (47.8%), cocoa (14.2%) and orange juice (11.5%).

With USD 1,639 million of outstanding debt and equity investments as of 31 December 2013, the financial sector continued to play a major role. responsAbility is now the world’s largest independent investor in the area of microfinance and is very well established in the market. Positive developments were also reported in terms of the volume of debt investments in the agricultural sector, which totalled USD 88.8 million at the end of 2013. responsAbility continued to grow its investments in energy and healthcare with promising participations in compa-

Investments per region
as per 31.12.2013

Top 10 of 84 investment countries
investments in USD million and % of total, as per 31.12.2013
Business overview

In these sectors. As regards the development of our activities in the education sector, we are still at the stage of analyzing the market environment and specific business models.

The ongoing expansion of our investments and the increasing diversification that accompanies it are important elements of our investment strategy. Despite the comparatively high costs involved and ongoing detailed analyses, diversification across investment themes and markets remains one of the most important and effective of all our risk management tools.

Economic development and social progress due to investment

responsAbility operates in emerging economies and is only active in sectors that drive economic development and social progress. Within these areas, responsAbility invests in companies with innovative business models that allow them to serve the basic needs of large sections of the population – mainly comprising low-income households as well as micro, small and medium enterprises (MSMEs) – and that therefore have enormous market potential. Even though each economic sector has its own specific characteristics, a simple set of business indicators at an overarching macro level already demonstrates the impact of our investment approach at a social level. This is especially the case given that MSMEs typically form the backbone of these emerging economies. It should be noted again in this context that the growth in assets under management alone – and the subsequent increase in the level of investment channelled into development-related sectors – is an important factor determining the impact of our activities.

In 2013, our direct investments across all relevant sectors benefited 298 companies directly, while direct and indirect investments reached a total of 460 companies. These investees are formal companies that contribute to the dynamic growth of markets in emerging economies by generating turnover, creating employment and paying taxes. The 266 companies that had provided responsAbility with financial reports by 31 December 2013 generated total income of USD 9,148 million – an increase of 6% compared to the previous year – and produced USD 1,322 million in profits. At the same time, they paid an estimated USD 341 million in taxes and employed around 174,600 people, 42% of whom are women.

Increasing regulation – higher costs but also greater reach

responsAbility no longer ranks as a very small asset manager and therefore needs to adapt its business to the increased requirements set out in national and international financial regulations. These efforts center on adopting the Alternative Investment Fund Managers Directive (AIFMD), a single set of rules governing the authorisation and distribution of alternative investments that applies to managers and funds in Europe. Our investment themes fall within this category, meaning that the Directive is of significant importance for responsAbility. To ensure permanent compliance and to benefit from the uniform regulations within

Impact of companies financed directly by responsAbility

as per 31.12.

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<tbody>
<tr>
<td>Number of companies</td>
<td>266</td>
<td>259</td>
<td>234</td>
<td>3%</td>
</tr>
<tr>
<td>Turnover (USD million)</td>
<td>9,148</td>
<td>8,647</td>
<td>5,654</td>
<td>6%</td>
</tr>
<tr>
<td>Taxes (USD million)*</td>
<td>341</td>
<td>292</td>
<td>235</td>
<td>17%</td>
</tr>
<tr>
<td>Profit after taxes (USD million)</td>
<td>1,322</td>
<td>1,140</td>
<td>922</td>
<td>16%</td>
</tr>
<tr>
<td>Number of employees (thousands)</td>
<td>175</td>
<td>152</td>
<td>128</td>
<td>15%</td>
</tr>
<tr>
<td>Female employees</td>
<td>42%</td>
<td>38%</td>
<td>39%</td>
<td>4 %-points</td>
</tr>
</tbody>
</table>

* The tax data are based on an estimated average rate of 25% for positive net income.

Source: responsAbility, estimate as of end-2013
By the end of 2013, responsAbility had USD 1,639 million of assets under management in the financial sector, and businesses financed by our funds reached approximately 26 million borrowers – such as this young businesswoman in the Amazon lowlands of Peru.

Europe, responsAbility has decided to apply for the status of Alternative Investment Fund Manager (AIFM) in Europe. This process will entail a large amount of work and significant costs but we believe that it will prove beneficial in terms of the future development of responsAbility and the security of our clients.

Creation of new perspectives through clearer company positioning and employee development

A dominant theme in our 10th anniversary year 2013 was the positioning of responsAbility as a leading asset manager in the area of development-related investments. This included the introduction of a more focused corporate image that is founded on our belief that the social and economic impacts of our activities go hand in hand – making it possible to achieve sustainable benefits for all our stakeholders. Our understanding of our role is reflected, among other things, by our new website as well as in ‘Perspectives’ – the annual overview of responsAbility’s activities. In this latest issue of ‘Perspectives’, we particularly recommend that you look at the ‘Investment concept’ chapter (page 40) and the ‘Values’ chapter (page 44) to find out more about this topic.

We make a contribution towards the development of our industry through our role as an active member of organisations such as the Global Impact Investment Network (GIIN) and the Emerging Markets Private Equity Association (EMPEA), which we joined in 2013.

As of the end of 2013, responsAbility had 140 employees – an increase of 40% compared to the previous year. In particular, we have strengthened our regional teams, our Relationship Management function and our team of equity specialists to enable them to manage responsAbility’s rapidly evolving and increasingly complex activities. Employee development will remain an area of focus in the coming years. With our motivated and well-qualified team, responsAbility is well positioned to continue creating valuable new perspectives for all our stakeholders as we enter the second decade in our company’s history.

➔ You will find comprehensive reports on our investment products at www.responsAbility.com.
‘Microfinance is about financial sector development’

Criticisms are voiced periodically about the impact of microfinance. Typical lines of argument are that interest rates are too high and that microfinance produces no verifiable results in the fight against poverty. Critics also suggest that the provision of microloans, in particular, may cause more harm than good. In the following article, we examine the topic of microfinance and its impacts from the perspective of financial sector development.

Countless surveys and analyses have been conducted over the last few decades to assess the importance of access to financial services. These studies have always identified access to financial services in general (savings, payment transactions or insurance) and to financing in particular as a key limiting factor. Despite the very positive developments witnessed in recent decades, households and businesses in many countries still have restricted access to financial services. If you consider this fact as well as the widely accepted theory among both academics and practitioners that the financial sector is vital for economic development, then the creation of efficient financial sectors becomes an important objective from a development policy perspective. There is a need for the broadest possible sections of the population, and for micro and small enterprises in particular, to have access to formalised financial intermediation. Beyond key social considerations, this is because economic activity in informal sectors or at the level of micro and small enterprises represents the largest part of the economy in developing countries. If the inherent potential of this economic activity is to be harnessed, then the need for inclusive finance – typically expressed as the proportion of the population and companies that uses formal financial services – is evident.

This gives rise to two fundamental and, ultimately, interrelated questions: How is it possible to foster the development of efficient financial sectors and how can the impact of these investments and/or contributory measures be gauged? Although the obvious answer would seem to be that sector indicators can be used to measure the impact of a sector’s development, it is this very point that repeatedly causes confusion in discussions about microfinance.

Microfinance is about financial sector development – not about combating poverty

When investing in microfinance banks, responsAbility not only considers the usual risk/return criteria but also looks at how the development of the financial sector will affect small clients and small businesses. Since solid institutions are vital in order to achieve development – and since the financial sector is itself a solid institution, provided it is properly designed and effectively regulated and controlled – it is important to focus on the sector itself and not primarily on its clients. This does not mean that the development of financial systems is the actual goal; instead, this idea is based on the theory that the availability of financial services is a key factor for the development of micro and small enterprises. Most experts would basically agree with this statement but would add that it is only when financial services have a tangible impact on the clients and businesses that use them that it will also be possible to carry out empirical checks to determine whether microfinance is serving its purpose or fulfilling its original objective. Many experts would not consider microfinance to be a success solely because it proves effective with regard to financial sector development; their view is that in order for it to be considered a success, microfinance must prove itself at a client level beyond the fact that clients have opted to use these services. This view stems from the objective of combating poverty that is often formulated by microfinance representatives themselves and is thus a reaction to the simplification of the different interrelationships that results partly from marketing considerations, partly from naivety and partly from the historical linking of microfinance – as the core sphere of activity of development aid – and the explicit mandate of combating poverty. The desire for a simple direct causal relationship, which we would probably all welcome, is only partly compatible with the complexities of the reality.
reflects the reality for the smallest clients that alongside their business activities, they must often obtain financing to cover short-term financial needs within their households. Based on the studies and analyses that are currently available, most experts would state today that expectations were too high regarding the ability of microfinance to combat poverty. At the same time, they would say that the basic theory about the beneficial nature of financial services – particularly for low-income households and businesses – is more than valid. There are, however, also experts who believe nowadays, as they did in the past, that the expectations about the effectiveness of microfinance are not inflated but are categorically wrong: To put it very simply, they are of the opinion that microfinance, and especially the granting of loans to small clients, has a potentially negative effect. This group of experts states that high interest rates and inflexible, short-term loan products, as well as the granting of loans to clients who are unable to cope with this type of financial instrument, cause more harm than good. Although there is no empirical evidence in the form of systematic results to substantiate these conclusions – and it is
important to remember that clients enter into a business relationship with microfinance institutions on a voluntary basis, as demonstrated in particular by the relatively low take-up ratio – this statement attracts attention in view of the calls for the finance industry to become more aware of its responsibilities. The overly positive expectations of earlier proponents of microfinance are ultimately being confronted with the simple opposite – without any new insights really being gained.

Diverse needs call for a diverse offering
Loans are a powerful instrument – especially when they are placed in enterprising hands. However, not all clients have the necessary abilities to transform a loan into a successful business activity. This is why responsible lending practices are very important in preventing the potentially negative effects of loans. To realise the full potential of financial services across broad sections of the population in developing countries, intermediaries must pursue an approach that distinguishes between the individual needs and profiles of borrowers. These findings do not require an academic, empirical approach but the fact that this viewpoint is becoming widely established as a result of many studies represents a positive development. It is noticeable, however, that the direct link between this demand, with the need for an institutionalised approach, and the accompanying question of how is not being considered sufficiently. The clearest sign of this is the fact that the vast majority of reports talk about the effectiveness of ‘programmes’ although the real objective should be the establishment of institutions. This is not just a question of semantic details. Instead, it reflects the fundamental dilemma resulting from the confusion of the different levels at which microfinance functions: A ‘programme’ is a temporary measure designed to have an impact on ‘programme’ participants. However, the outcome of successful financial sector development is the establishment of financial intermediaries that operate sustainably and have the capacity over time – and in the face of competitive pressure – to adapt themselves more and more effectively to the evolving needs of their clients.

Support for and investment in microfinance has contributed to financial sector development
The link between the development of microfinance and the establishment of a financial sector with a focus on financial inclusion is, unfortunately, almost never systematically addressed and evaluated despite the abundance of studies that examine the effectiveness of microfinance. Finding an answer to this question is no trivial matter – not only because it involves a process that has been underway for decades but also because it would be necessary to assess the specific contribution made by microfinance to the establishment of a financial sector while, at the same time, weighing up possible alternative approaches. This last point is particularly important because microfinance also needs to be seen as one of the responses to the large-scale failure of alternative approaches to financial sector development. The fact that the alternatives named by the fiercest critics of microfinance mainly tend to include direct or indirect state intervention and subsidies – which, broadly speaking, have all too often had a disastrous effect – says something about the frequent lack of understanding of how the different elements are interconnected. However, it also shows that the successful development of the sector is a highly complex matter. The mature financial sectors that exist today have evolved over much longer periods of time, primarily as a result of organic developments. Although this process was often accompanied by government initiatives, it was not usually accelerated by international investment. The systematic use of investment and financing to drive the simultaneous development of a sector across a number of different countries is a historically unprecedented and relatively new experiment that was first used in the second half of the 20th century. The fact that the countries that implemented legal and regulatory measures to support the systematic development of the sector – including in terms of financial inclusion – have reported the highest level of relative success is neither a new nor surprising finding, even if it is sometimes presented as such today.

Which topics need to be examined to determine the impact of microfinance at sector level and which observations can already be made today at a heuristic level? They are definitely not topics that could be covered exhaustively in this article. However, the following aspects point to the possible directions that could be taken in the context of the much broader research that is needed:

- In many countries, the intermediaries that have evolved from microfinance institutions are now key players in the market and dominate the sector in several countries. Many of these intermediaries have transformed themselves into fully-fledged

‘Solid institutions are vital in order to achieve development. This also applies to the provision of financial services.’
banking institutions that now offer a complex range of products for households as well as micro, small and medium enterprises (MSMEs). The local savings business is their main source of refinancing. These banking institutions today largely perform the functions that were previously found to be lacking by critics of microfinance, such as providing SME financing at competitive interest rates, introducing innovative savings and insurance products, and establishing payment operations that extend beyond the boundaries of urban centers.

‘In many countries, the intermediaries that have evolved from microfinance institutions are now key players in the market.’

It is precisely these banks, which evolved from a microfinance-based approach and are operating successfully, that are now setting an example for traditional commercial banks and intermediaries. The fact that increasing numbers of commercial banks can contribute directly or indirectly to financial inclusion – and can sometimes even do so on a large scale in developing countries – would be inconceivable in the manner and to the extent seen today, were it not for the pioneering role played by microfinance institutions. It is, however, beyond dispute that markets – and not just financial markets – would develop over the long term without this process being accelerated – although they would follow a much slower development path.

All of these observations and questions are not intended to suggest that microfinance has produced only positive results in terms of financial sector development – let alone suggesting that success has been achieved efficiently. This would be wishful thinking; it is a notion that would fail to pass a reality test. However, the impact that microfinance has had in financial sector development should not be dismissed. Equally, when viewed dynamically, microfinance has – through the establishment of intermediaries – largely achieved in the medium term the very things that its greatest opponents have criticised about this approach, i.e. it has provided efficient and thus also cost-effective access to customised financial solutions and other financial products for MSMEs and households. This confirms how important it is to retain the right perspective in the challenging field of development finance.

About the author

Rochus Mommartz has around 25 years of experience in the areas of financial sector development, regulation and private sector investment in developing countries and emerging economies. In his role as a member of the Executive Board of responsAbility, he is responsible for Equity Investments.

Before joining responsAbility, Rochus Mommartz worked as an independent advisor on financial sector development in more than 40 countries. His main focus was on the development of legal and regulatory frameworks for specialised financial intermediaries as well as the provision of strategic and technical banking advice to a large number of microfinance institutions as well as the banks of ProCredit Holding in Latin America.

→ Meet Rochus Mommartz in our interview on www.responsAbility.com/Webcast/FinancialSectorDevelopment.
People living in India today do not necessarily have access to hygienic sanitary installations. Rajeev Kher, Managing Director of Saraplast, and his team supply portable toilets for building sites and events.

More than 15% per year is the amount by which nominal spending on healthcare in India is expected to grow from 2014 to 2017, compared to an increase of 2.5% in Western Europe.

4 × more cases of diabetes are recorded in developing countries than in developed nations.

99% of the 287,000 maternal deaths reported each year occur in developing countries.
Health sector: Private providers close gap in affordable services

Good health is essential for a person’s well-being – but poverty often makes this an unattainable goal. At the same time, illness impairs a person’s ability to be economically active. Throughout the world, household spending on healthcare is growing at a disproportionately higher rate than income. This is also the case in developing countries and emerging economies.

Health and prosperity are interlinked: Health issues can very quickly lead to poverty – especially if there is no social security system in place. Equally, inadequate levels of income can negatively impact on health. Broad sections of the population in developing countries and emerging economies are often largely unable to access needs-oriented and affordable healthcare services, and this hampers economic and social development. In these countries – like in industrialised nations – household spending on health is growing at a disproportionately higher rate than income, and the amount that people are willing to spend on healthcare services is rising rapidly. As a result, per capita spending on healthcare services in real terms has doubled between 1998 and 2011. The state could hardly keep up as a provider in all but a few countries. In India, for example, public health expenditure only increased by 21%, while per capita income increased by 289% over the same period.

Major differences in healthcare provision
Health indicators for the global population have improved significantly over the last 20 years. Despite this trend, there are still dramatic differences between wealthy and poor countries.

Sustained population growth, the ageing of the population, and civilisation diseases such as diabetes – which are blamed on changes in eating habits and lifestyles – often mean that public healthcare systems are hopelessly overstretched. State structures are unable to keep pace with social change.

Diverse investment universe
Fortunately, increasing numbers of companies are offering solutions to ensure improved access to medical infrastructure aimed at underserved sections of the population in rural and semiurban areas. Innovative, capital-efficient and low-cost business models are making healthcare more affordable. This opens up attractive opportunities for investors who wish to participate in the potential across the value chain of the sector. In addition, households are used to having to pay for healthcare services out of their own pockets, thus promoting the development of a private-sector service offering.

A wide range of healthcare providers
The investment universe in the health sector encompasses a wide range of clinics and hospitals – often with one or more areas of specialisation – and pharmacies, manufacturers of pharmaceutical products and medical engineering firms. It also includes water treatment and sanitation companies.

Investments in the health sector increase the diversity of the offering and strengthen competition for the benefit of patients – leading to increased efficiency, better-quality services and lower prices. The major challenge is to provide healthcare services in the places where they are needed most: In the chronically underserved areas outside urban centres and in places with an irregular electricity supply and fragile infrastructure.

Public health expenditure and per capita income in India
USD, index 1996 = 100

Sources: WHO World Health Statistics 2013, IMF World Economic Outlook Database
A clean business:
Bringing portable toilets to Indian construction sites

According to the World Bank, a lack of proper sanitation costs India the equivalent to 6.4% of its GDP. More than half of the country’s population has no access to sanitary installations – meaning that these people have to relieve themselves outside. This not only poses problems in terms of hygiene but also has social implications: If women and girls go to the fields or venture into areas of industrial wasteland in search of privacy, they can be exposed to sexual harassment. The Indian company Saraplast is addressing the lack of access to sanitary facilities through the installation of portable toilets.

Pune in the Indian state of Maharashtra is growing: It officially has 3.1 million inhabitants, with a further 5 million living in the agglomeration – making it India’s ninth-largest city. Construction work is underway throughout Pune, with half-finished high-rise buildings towering towards the sky in the city’s business district as well as in its outskirts. Construction workers from across India are coming to Pune in search of work on one of its many building sites.

Kamalakar Rajpankhe is married and has two children. He also earns a living here in Pune. Together with a colleague, he drives a small tanker on a set route from one building site to the next. Brightly coloured plastic cabanas can be found in the vicinity of these sites, in a location that is accessible to vehicles. The cabanas serve as portable toilets for the workers.

Kamalakar sets about his work: He dons a mask and then connects a pipe to the tank of the toilet. The sewage is extracted by suction, without the employee coming into direct contact with it. This technology is referred to as ‘hands free’ – an important concept in India, where work that involves dealing with excrement is still regarded as unclean and is therefore proscribed. The interior of the toilet is sprayed with water and the cistern is filled with a biodegradable solution that neutralises unpleasant odours. After one final check, the toilet is ready for use the next day and the team sets off to clean the rest of the brightly coloured lavatories on their daily route.

Around 1,100 of these portable toilets bearing the 3S logo can be found on building sites in and around Pune at present. They belong to the Indian company Saraplast, which was founded in 2006 by Rajeev Kher. The young entrepreneur first came across portable toilets while studying in Canada. ‘I immediately knew that this was something we needed in India,’ he explains. ‘Better sanitary conditions could eliminate around half of all the cases of illness in our country. At the same time, toilets are a taboo subject in Indian society. I am determined to get people to change their attitudes.’

Their first ever positive toilet experience

On the way to the production plant, he explains how he intends to achieve this. ‘India is experiencing a construction boom. The workers are among the poorest of the poor and usually live in slums where there are no or only completely filthy sanitary installations,’ says Rajeev. ‘We contact the construction managers and persuade them to hire portable toilets for their workers. We supply them with the cabanas and clean them each day. This is often the first time in their lives that the workers – both men and women – have ever been able to use properly functioning sanitary installations.’

This is how a change of culture begins, according to Rajeev: ‘Once people have had access to toilets, they soon demand it as a right. One construction company phoned us up recently and asked to have 12 toilets delivered that same day: The workers had threatened to strike if they were not granted the right to proper sanitation!’

Saraplast’s offering is now generating demand by itself – and this demand has to be met with an increasing supply of portable toilets. Saraplast manufactures the brightly coloured cabanas...
Far left: Kamalakar Rajpankhe cleans 60 to 100 portable toilets per day in and around Pune – without ever coming into direct contact with sewage.

Left: The toilets are 100% recyclable, and reused plastics are added to the new material during production. Ulka Sadalkar (right) checks the mixture.

Centre: On average, the portable toilets remain on a construction site for six to nine months. They are then given a deep clean and prepared for use in another location.

Bottom: The interior of the toilets is developed and manufactured in Pune. There are now a variety of models – western, Asian and wheelchair-accessible toilets, as well as urinals.
itself, using standard components for the walls and roof. The interior is, however, developed in Pune. Ulka Sadalkar, Head of Production, gives us a tour of the factory where 20 employees work in two shifts to manufacture new toilets.

Environmentally friendly production and cleaning methods

‘In 2013, we produced 10,000 components for toilets,’ the plastics engineer explains. Ulka Sadalkar proudly tells us that the toilets are 100% recyclable and that reused plastics are processed and then added to the new material. The installations reduce water consumption to a minimum, with only biodegradable substances being used to clean them. Another positive aspect is the ongoing development of Saraplast’s products. ‘In the beginning, we only offered western-style toilets,’ explains Ulka. ‘Today, we have a comprehensive range: Asian (squat) toilets, urinals and even wheelchair-accessible models or luxury toilets, complete with mirrors and flowers. We are making ongoing improvements and aligning our offering to market needs.’

These needs are growing increasingly diverse, as Harshada Jadhav, Designation Manager, Marketing, at Saraplast explains. ‘In addition to supplying building sites, we now also increasingly provide our products to the organisers of major events,’ she comments. ‘When a large number of people gather together in one location, it is essential to have sanitary facilities in place. At the same time, this means that visitors experience our products and then recommend our services to others.’

She herself found out about Saraplast through a major event. ‘My mother was on the organising committee for a scout jamboree, which was attended by almost 10,000 schoolchildren, and had hired 270 toilets from Saraplast for 7 days,’ explains Harshada. ‘She was impressed by the product and suggested that Saraplast could be an interesting company for me to work for, given my background as a plastics engineer.’ Harshada believes that an important role of Saraplast is to bring about a change of attitudes within the population. ‘We go to building sites but also visit day-care centres for children,’ she explains. ‘A lot of people don’t know how to use a toilet. We try to help them understand the importance of hygiene. Children, in particular, play an important role in conveying this message: They go home and talk about what they have learnt. The people who live in slums are slowly starting to demand access to toilets.’

Regular cleaning is key

A visit to the busiest shopping street in Pune shows that portable toilets are not the only solution. The street contains a public toilet for women and girls that is run by another Saraplast employee. ‘Several months ago, we held a marketing event here,’ explains Harshada. ‘We set up several of our portable toilets next to the completely filthy public toilets and attracted countless visitors. We subsequently obtained an order to run the public toilets. It costs 2 rupees (around USD 0.03) to make use of the facilities – and there is a high level of demand.’

It is not only the availability of the toilets that is of key importance: It is also essential to ensure that they are kept clean and are well maintained. Rajeev Kher confirms this; ‘Servicing is the most important element of our business model. We hire out the infrastructure at very low costs. Our main source of revenue is from maintenance and cleaning.’

Saraplast Private Limited

Established: 2006
Owners: Rajeev Kher; Aavishkaar Venture Trustees P. Ltd; one responsAbility fund; one Saraplast management
Turnover*: USD 2.3 million
Locations*: six in India (Pune, Bangalore, Chennai, Hyderabad, Mumbai, New Delhi)
Number of portable toilets*: 2,625
Number of service vehicles*: 35 (an additional 10 have been ordered)
Number of employees*: 260
Volume of sewage collected each year*: 1,100 million litres (equivalent to 36 million visits to the toilet)
Business model: toilets for construction sites and events, operation of public toilets, toilets in slums

* as per 31.12.2013
For the office in Pune, this means that 14 service vehicles with 16 drivers and 52 service staff are on the road each day, covering 12 different routes. Each vehicle cleans between 60 and 100 toilets per day and disposes of the sewage at collection points in the community. In the future, Saraplast has plans to treat this sewage and to then sell it on to construction firms, which can use it to manufacture cement and similar materials.

On average, a toilet remains on a building site for six to nine months. Once it is no longer needed, it is brought back to Pune and is given a deep clean and reconditioned. It is then ready to be put to use in another location. At this point, around 50 of the total of 1,100 toilets are ready to be deployed – the rest are already in use. New toilets are delivered each day: After targeting the major construction companies, Saraplast is now turning its attention to smaller firms.

**Attitudes are changing**

In Indian society, attitudes are slowly changing. For example, all beach huts in the holiday resort of Goa must now be equipped with toilets. Saraplast has developed a completely new product for this purpose and is in the process of delivering 500 units. ‘We offer a unit combining a changing room with lockers, toilets and showers,’ says Rajeev. ‘Many people are mainly looking for a place to store their belongings – and they then get to use the toilets free of charge, which, in turn, changes their habits.’

This is good news for Saraplast. The company, which is represented in six cities in India, has ambitious goals: ‘At present, we are serving only 1% of the market – there is enormous potential for expansion. We want to increase our turnover to USD 7.7 million by 2016,’ explains Rajeev. What part is responsAbility playing as an investor? It has a central role, according to Rajeev. ‘responsAbility not only provides us with capital and advice at Board level,’ he explains. ‘What we also benefit from is access to the Technical Assistance Facility*, which partially finances a top industry expert to act as our advisor for an entire year. Our advisor was involved in building up one of the largest portable toilet firms in the US – and he is now helping us to achieve something similar in India.’

Our tour of the plant in Pune ends with a visit to one of the red cabanas. Clean and odourless, it is a thoroughly positive toilet experience that will hopefully become a normal part of life even for hundreds of millions of people in slums and rural areas.

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* The non-profit responsAbility Technical Assistance Facility is financed by the Swiss Agency for Development and Cooperation SDC and the Swiss State Secretariat for Economic Affairs SECO.

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‘We are doing something for human dignity – which is ultimately the most important thing of all!’

Rajeev Kher
Founder and Managing Director of Saraplast

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**Rajeev Kher, what inspired you to establish Saraplast?**

I saw portable toilets for the first time while on a work placement in North America. I immediately knew how important they could be for India. I recognised that they would definitely have an enormous social impact and that the business model would be profitable, since India urgently needs good providers of sanitation services.

**Who are your clients?**

Most of the people who use our toilets are at the base of the income pyramid: Migrant workers on building sites who have no other access to toilets. The other group we target are people visiting major events. India stages some of the world’s largest mass events to celebrate numerous different religious festivals – and it does so with a limited supply of toilets. The provision of sanitary installations at these events can generate enormous benefits for the environment, in terms of water consumption, but above all for the dignity of people – which is ultimately the most important contribution we can make.

**What are you doing to address the social stigma associated with toilets?**

We are running an image campaign with Johnny (editorial note: a toilet mascot) to attract an interest in sanitary installations. We want children to not only aspire to be a fireman or a policeman when they grow up – but to also consider the work of Johnny the sanitation specialist to be a desirable job.

**Why did you select responsAbility as a financing partner?**

responsAbility has an excellent reputation and – in terms of its team and focus – is a very good match for our company. And: the Technical Assistance Facility enables us to access the expertise of a top consultant, which will help us to achieve our ambitious growth targets.

→ Meet Rajeev Kher in our interview on wwwresponsAbility.com/Webcast/SanitationIndia.
Banks and microfinance institutions financed by responsAbility funds served 26.1 million borrowers and 26.2 million savers in 2013 – such as Bank Constanta in Georgia.

- **2.5 bn** adults have no access to formal financial services
- **USD 8 bn** is the volume of private investments in microfinance
- **USD 100 bn** of microloans are outstanding globally
A properly functioning formal financial sector is essential for economic development. Low-income households and small enterprises, in particular, often have no access to affordable financial services. Investments in private providers allow for the targeted development of this sector.

Within a national economy, savings are put to productive use by the financial sector. The availability of a comprehensive range of financial services encourages entrepreneurship and leads to the market entry and growth of companies, as well as driving innovation. In this context, financial sector development has a greater influence on the prosperity of small and medium enterprises than on large firms.

In developing countries and emerging economies, hundreds of millions of micro enterprises, and the households connected to them, constitute the informal economy – generating irregular income streams. Financial sector development is aimed at also providing them with a sound offering of suitable financial services, comprising loans, savings products, payment transactions and insurance.

No access to financial services
Low-income sections of the population are frequently not regarded as potential clients by traditional financial institutions due to the high transaction costs involved. They are often only able to borrow money from relatives and pawnbrokers or from informal financial services providers that charge exorbitant interest rates, which often amount to several hundred percent. As a result, countless small entrepreneurs are unable to further develop their business due to a lack of financing opportunities.

Microfinance institutions are closing this gap in the market and are serving previously excluded client groups on a targeted basis. Direct investments in microfinance are thus leading to the systematic development of the financial sector. The structural catch-up growth of these client segments has a beneficial impact on investments in financial sector development. Compared to developed countries, emerging economies have disproportionately small financial sectors – even considering their significantly lower per capita income. These financial sectors are therefore likely to grow at a disproportionately higher rate relative to gross domestic product in the medium term. The depth of services within the financial sector has increased significantly over the last 30 years (see graph).

For participants in the financial sector of developing countries and emerging economies, this translates into strong portfolio growth and significant increases in total assets – resulting in a greater need for refinancing and capital. The portfolio growth is achieved through savings, but also debt capital in the form of long-term refinancing loans. Expressed in simple terms, debt capital supports quantitative growth – measured, for example, in terms of the number of clients served. Refinancing via USD 1 million of debt capital can allow for 1,000 additional households to obtain loans in the case of an average loan size of USD 1,000.

Equity investments for qualitative growth
Equity investments allow for the institutional development of financial services providers and promote qualitative growth, among other things. This means that a financial services provider can develop structures and processes that will meet regulatory requirements. As a result, the financial services provider can accept savings deposits or even apply for a full banking licence. In the case of equity investments, the investor becomes a co-owner of the financial services provider and can actively influence the development of the company by taking a seat on its Board of Directors.

The debt and equity capital invested in microfinance globally through independent investors is USD 8 billion, which is divided between 100 investment vehicles. responsAbility has a market share of almost 20% – measured in terms of the investment volume –, making it the largest provider worldwide.

Financial sector development 1982–2012
USD and %

Source: World Bank
The story begins in Georgia in 1997: Following the collapse of the Soviet Union, this republic in the Caucasus went into serious economic decline. Thanks to the financial support provided by a US aid organisation, a small local nongovernmental organisation (NGO) was established in order to provide microfinance services in the capital of Tbilisi. Known as the Constanta Foundation, its aim was to serve internally displaced people who were struggling to earn a living as street traders or micro-entrepreneurs. Finding themselves at the base of the income pyramid, it was virtually impossible for these individuals to obtain a normal loan in order to grow their business. Banks wouldn’t even consider accepting them as clients due to their lack of collateral. If they still needed money, they had no option other than to turn to a money lender – and to pay interest rates averaging 20 % per day.

It is precisely this target group that the Constanta Foundation wanted to help. Tamar Lebanidze, a co-founder and now Chairman of the Board of Directors of Bank Constanta, explains: ‘Microfinance was still unheard of in Georgia back in 1997. Foreign aid organisations wanted to make it possible for us to close this big gap in the financial services market. The aim was to provide financing solutions for micro-entrepreneurs and to thus create better economic opportunities for this section of the population.’

The highly committed team at Constanta – which initially consisted of five people – set about its work and soon extended its activities to include further client segments. ‘Our offering attracted a great deal of interest,’ Tamar recalls. ‘It is no wonder: Our clients paid 60 % interest per year – which may seem crazy from today’s perspective but was nothing compared to the exorbitant interest rates charged by loan sharks!’ In 2001, Constanta introduced individual loans for the first time and tailored its offering to the needs of small farmers and agricultural businesses.

Constanta’s loan volume continued to grow rapidly and the team soon needed foreign capital in order to finance its expansion. As well as supplying fresh capital, foreign investors also provide expertise and support for key projects. This was the case in 2007, for example, when Constanta had to respond to a fundamental revision of the legislation governing the sector. ‘In 2006, the microfinance sector grew so strongly that the government decided it wanted to have more control over it,’ says Tamar. ‘All NGOs had to transform themselves into companies. We applied for a banking licence at the same time. Our goal was to be able to provide our clients with the full spectrum of financial services.’

**Operating even during the war**

Constanta became a bank in July 2008. It was only one month later that the conflict between Georgia and Russia broke out. The impacts of this war on Georgia’s relationship with its large neighbour can still be felt today. This was a difficult time for the company, which focused its activities on regions that were not affected by the conflict. ‘A lot of people remain economically active even in times of war and need access to financial services. We did everything possible to maintain our offering and to help prevent the economy from collapsing entirely,’ comments Tamar. The strategy proved effective: In 2009, Bank Constanta was back on the path to growth after surviving the crisis. However, there was no return to business as usual. Constanta’s first

**From 20 % per day to 25 % per year: Financial sector development drives down loan interest rates**

The local financial sector in Georgia has been completely transformed since the first microfinance institutions began operating in the country in 1997. Today, Georgians have widespread access to modern and comprehensive financial services, even in the most remote parts of the country. Bank Constanta, a microfinance pioneer, has had a decisive impact on this development.

The local financial sector in Georgia has been completely transformed since the first microfinance institutions began operating in the country in 1997. Today, Georgians have widespread access to modern and comprehensive financial services, even in the most remote parts of the country. Bank Constanta, a microfinance pioneer, has had a decisive impact on this development.

**Bank Constanta**

*Established: 1997 (as an NGO); 2008 (as a bank)*

**Assets under management**: USD 198 million

**Employees***: 1,256

**Loan volume**: USD 209 million

**Savings***: USD 37 million

**Number of clients**: 100,936


* as per 31.12.2013

Tamar Lebanidze, Co-Founder and Chairman of the Board of Directors of Bank Constanta, has managed the company since 1997.
A foreign shareholder came on board in 2010, and TBC – the second-largest bank in Georgia – acquired 80% of the share capital of Bank Constanta in 2011. The former NGO thus became part of a banking group.

What impact did this have on the activities of Bank Constanta? Tamar Lebanidze describes it as an ‘enormous change’ but also as a success story. ‘In the past, our greatest challenge was to find the money we needed to fund further growth,’ she explains. ‘These resources are now available thanks to our strong major shareholder. As a result, we are also setting ourselves much more ambitious targets.’ The roles within the business are clearly defined: TBC is represented on the Board of Directors of Bank Constanta and is thus able to influence its strategy. An independent team is responsible for running the bank’s operations. The two financial institutions divide up the client base between them: Loans of between USD 170 and a maximum of USD 200,000 are supplied by Bank Constanta, while larger sums are handled by the commercial bank TBC. The average loan size at Bank Constanta was USD 2,300 in 2013 and the average rate of interest charged on a loan was 25.4% on a USD basis – in line with normal market rates in Georgia.

No departure from microfinance
Although Bank Constanta has grown, it remains committed to its original concept of making micro-loans available to clients – typically small farmers who want to buy seed or livestock. Tamar explains: ‘We have a strong presence in rural areas, with 43% of our loans being granted to agricultural borrowers. In some cases, our employees have to wade through mud to reach their clients.’

The financial landscape in Georgia has been completely transformed since Constanta was established. ‘In 1997, very few people even had a bank account and no one paid any taxes. The situation has since altered fundamentally. Taxes are collected systematically throughout the country, with tax payments being made via bank transfers. This demonstrates the way in which access to financial services has improved in Georgia over time.’

responsAbility has been working with Constanta since 2006 and is the company’s largest financial partner. The collaboration between the two parties is excellent, as Tamar Lebanidze emphasises: ‘The team at responsAbility responds quickly and is very helpful – which is important when it is a matter of financing our further growth.’

→ Read more about this topic in our publication ‘Efficiency is the key to lower interest rates in microfinance’ at www.responsAbility.com/Research/EN.

Bank Constanta: Loan sizes and interest rates 2004 – 2013
USD and %, as per 31.12.
Investment theme Finance

In 2013, responsAbility invested a total of USD 794 million in 636 transactions in the financial sector. As a result, the investment volume managed by responsAbility in this sector increased by 46% to USD 1,639 million. This investment volume is divided between 318 institutions in 67 countries, five more than the prior year. A total of 30% of the investments in the financial sector are made in Central Asia, followed by 21% in South America and 19% in Asia-Pacific. One of the regions experiencing the strongest growth is Sub-Saharan Africa. Investments in this region almost doubled in 2013, and Africa is likely to remain an important growth market. In parallel to the regional expansion of the portfolio, responsAbility offers an increasing proportion of financing in local currencies. In 2013, 31% of financing was provided in local currencies, nine percentage points more than in 2012.

Over 26 million savers and borrowers
In total, the microfinance institutions (MFIs) financed by responsAbility serve more than 26 million borrowers with an outstanding credit portfolio of USD 45 billion. The average borrower obtains a loan of USD 1,717 with a term of 20 months. In total, 51% of borrowers live in rural areas and 76% are women. Two-thirds of loans take the form of individual loans. Micro-borrowers are active in a series of sectors – most frequently in trade (38%) and agriculture (23%). Almost half of the financial institutions that received financing also offer their clients savings products – benefiting 26 million clients who have deposited a total of USD 34 billion with these institutions. These MFIs are not only an important driver of financial sector development in emerging economies but are also an attractive employer. They employ more than 168,000 people, 42% of which are women.

responsAbility offers financing in the form of debt and equity capital. Equity financing accounts for 7% of the total investment volume and comprises direct participations in eight institutions as well as indirect participations via various investment vehicles in a further 99 institutions. Africa represented the most important growth market with two new participations. As a shareholder, responsAbility provides the institutions with continuous support to facilitate their strategic development – thus playing an active role over the entire term of the investment. In certain cases, responsAbility also provided support by taking a seat on the company’s Board of Directors.

Measuring financial sector development
responsAbility regards microfinance as a way of driving financial sector development. To systematically measure this development using our investments, we have established a core portfolio of

Top 10 of 67 investment countries in the financial sector
investments in USD million and % of total, as per 31.12.2013

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<td>4.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mongolia</td>
<td></td>
<td>3.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td></td>
<td>3.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td></td>
<td>3.6</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Development of financed companies in the financial sector
as per 31.12.

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment volume (USD million)</td>
<td>1,639</td>
<td>1,120</td>
<td>794</td>
<td>46%</td>
</tr>
<tr>
<td>Number of MFIs</td>
<td>318</td>
<td>299</td>
<td>260</td>
<td>34%</td>
</tr>
<tr>
<td>Number of countries</td>
<td>67</td>
<td>62</td>
<td>57</td>
<td>18%</td>
</tr>
<tr>
<td>New investments (USD million) per year</td>
<td>794</td>
<td>590</td>
<td>420</td>
<td>35%</td>
</tr>
<tr>
<td>Number of transactions per year</td>
<td>636</td>
<td>498</td>
<td>351</td>
<td>28%</td>
</tr>
<tr>
<td>Average transaction term (months)</td>
<td>29.4</td>
<td>29.3</td>
<td>29.2</td>
<td>0%</td>
</tr>
<tr>
<td>Percentage of loans in local currencies (excl. USD and EUR)</td>
<td>31%</td>
<td>22%</td>
<td>18%</td>
<td>9%-points</td>
</tr>
</tbody>
</table>

Impact of companies invested in
as per 31.12.

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of borrowers (millions)</td>
<td>26.1</td>
<td>20</td>
<td>16.8</td>
<td>31%</td>
</tr>
<tr>
<td>Number of clients with savings accounts (millions)</td>
<td>26.2</td>
<td>22.4</td>
<td>17.6</td>
<td>17%</td>
</tr>
<tr>
<td>Outstanding credit portfolio of MFIs (USD billion)</td>
<td>44.8</td>
<td>33.9</td>
<td>23.5</td>
<td>32%</td>
</tr>
<tr>
<td>Client savings deposits managed by MFIs (USD billion)</td>
<td>34</td>
<td>26.6</td>
<td>17.9</td>
<td>28%</td>
</tr>
<tr>
<td>Average loan (USD)</td>
<td>1,717</td>
<td>1,693</td>
<td>1,400</td>
<td>1%</td>
</tr>
<tr>
<td>Average loan term (months)</td>
<td>20.4</td>
<td>19.2</td>
<td>18.9</td>
<td>6%</td>
</tr>
<tr>
<td>Average savings deposits (USD)</td>
<td>1,298</td>
<td>1,189</td>
<td>1,014</td>
<td>9%</td>
</tr>
<tr>
<td>Number of MFI employees (thousands)</td>
<td>168</td>
<td>138</td>
<td>118</td>
<td>22%</td>
</tr>
<tr>
<td>Percentage of microfinance clients living in rural areas</td>
<td>51%</td>
<td>52%</td>
<td>50%</td>
<td>−1%-point</td>
</tr>
<tr>
<td>Percentage of female microfinance clients</td>
<td>76%</td>
<td>75%</td>
<td>73%</td>
<td>1%-point</td>
</tr>
</tbody>
</table>
100 MFIs that remains unchanged. This allows us to record developments over time without the results being distorted by changes in the composition of the portfolio. It is geographically diversified and reflects the relative importance of the individual markets. The 100 institutions in the core portfolio have total assets of USD 41.5 billion. They collectively manage a credit portfolio of almost USD 30 billion that benefits 22,552,894 borrowers. responsAbility has invested around USD 1.1 billion in these companies. A further USD 300 million has already been allocated as part of its portfolio planning.

Of these 100 institutions, 93 saw their credit portfolio grow compared to the previous year. In total, growth of just under 15% was reported. The highest growth rate was recorded in Asia-Pacific (40%) and the lowest in Eastern Europe (5%). The aggregate total assets of these 100 institutions grew by 17% and the number of borrowers by almost 21%, with Indian MFIs – which have large numbers of clients – making the largest contribution toward this increase. The level of savings rose by 14% due, in particular, to two institutions that were able to significantly increase their volume of savings deposits by merging with third banks. The leading savings institution was a bank in Ecuador, which has over USD 7 billion of savings deposits, followed by a bank in Kenya and a bank in Mongolia, which have a savings volume of between USD 1.5 billion and USD 2 billion.

Sound returns and portfolio quality
The return on total assets of the 100 institutions averaged 2.7% (2012: 3.2%). The return on equity declined marginally from 16.7% to 14.6%. The average portfolio yield decreased by just under 1 percentage point to 30.9%, reflecting lower prices for end clients. Over the last four years, the average portfolio yield has fallen continuously. At the same time, portfolio quality remains at a good level.

The 100 institutions report an average in-time repayment rate of almost 95%. The remaining 5.2% comprised loans that are more than 30 days overdue (3%), and refinanced loans (0.6%), as well as write-offs (1.6% on an annualised basis). In Central America and Eastern Europe, portfolio quality remained lower than in other regions. The clients of these 100 institutions were served from a total of 8,680 branches (+404). Their total headcount rose by 10,000 to 130,000 employees. Microfinance is a very labor-intensive business, which explains why even small MFIs often need several hundred employees – making them one of the largest employers in rural areas in particular.

Various company mergers are a good example of the progressive market development. These show how developed markets consolidate under competitive pressure and how MFIs can be transformed into more flexible, more easily scalable types of institution such as banks, for example. Up to now, we have identified 112 transformations in our portfolio (see chart below).

Sustainable sugarcane cultivation as seen here in Paraguay is hard work. Agricultural cooperatives make every effort to ensure that the small farmers attached to them also benefit financially from the continually strong demand on the world market.

1.3 bn
people work in agriculture worldwide

2×
as effective in reducing poverty: the impact of growth in the agricultural sector compared to other economic sectors

USD 6 bn
is spent on fair trade products globally each year
Agricultural sector: A sustainable increase in productivity

The agricultural sector is of enormous economic and social importance in developing countries. Investments in producer and trade organisations support the growth of economically and environmentally sustainable agriculture – benefiting both producers and consumers.

In developing countries and emerging economies, the agricultural sector accounts for an average of 10% of GDP, compared to only 1.5% in industrialised nations. In East Africa, for example, 75% of the population works in agriculture, compared to just 3% in Switzerland. The sector still provides a relatively small income for the people it employs: No less than three-quarters of people on low incomes around the world live in rural areas and are therefore mainly dependent on agriculture for their livelihood.

Dynamic global market

The global market for agricultural produce is experiencing very dynamic growth. In developing countries and emerging economies, demand is rising as the size of the population increases. For low-income households that spend up to 50% of their income on food, the main priority is food security, i.e. ensuring an adequate supply of food in terms of both quantity and quality that is also affordable.

In higher-income sections of the population – and especially in industrialised nations – the demand for agricultural produce that has been cultivated sustainably and traded fairly is continuing to rise sharply. An increasing proportion of consumers are imposing greater demands with regard to the quality of their food and the methods used to produce it – whether it is for health, environmental or sociopolitical reasons. This growing demand creates considerable opportunities for farmers in developing countries and emerging economies.

Inefficient small farms

One reason for the limited economic attractiveness of large parts of the agricultural sector is the inefficient methods often used by farmers. Around two billion people live in smallholder households and a large proportion of them farm the limited amount of cultivable land available using inadequate know-how and resources – placing them at a clear competitive disadvantage in the global marketplace. There is also significant scope for improvement in the processing and distribution of agricultural produce. Experience has shown that producers, processors and sales organisations are able to sustainably enhance their productivity if they use the right business models. They can generate higher levels of income through improvements in quality as well as by obtaining organic or fair trade certifications, which enable the farmers to compete in high-price niches of the global market.

Access to financing is key

For the agricultural value chain to function properly and develop, it is essential that all the participants involved in delivering food to consumers’ tables have access to the necessary financing. These participants comprise farmers, aggregators/cooperatives, processing companies, exporters, wholesalers and retailers but also suppliers and service providers such as financing partners or technology suppliers.

From pre-export financing in order to bridge seasonal liquidity shortfalls and generate higher turnover to long-term financing for expansion projects: responsAbility offers needs-oriented investment solutions along the entire value chain and thus helps the agricultural sector to realise part of its vast development potential.

Investments in the agricultural value chain

Financing needs of various participants

<table>
<thead>
<tr>
<th>responsAbility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microfinance institutions active in the agricultural sector</td>
</tr>
<tr>
<td>Smallholder farmers</td>
</tr>
<tr>
<td>Export cooperatives and export companies (processors and processing plants)</td>
</tr>
<tr>
<td>Importers and traders</td>
</tr>
<tr>
<td>Retail trade and consumers</td>
</tr>
<tr>
<td>Suppliers and service providers</td>
</tr>
</tbody>
</table>

Source: responsAbility
Smallholder farmers as entrepreneurs: The reassignment of traditional roles

Times are changing in rural Paraguay: Entrepreneurship now prevails in areas where smallholder farmers who produce organic sugar previously faced bitter poverty. The agricultural cooperative Manduvirá has been operating its own sugar mill since the start of 2014 – enabling its members to benefit from the undiminished demand for sugar in the global market.

Covering an area of around 400,000 km², Paraguay is located in the heart of South America and has almost 7 million inhabitants. The country is still highly dependent on agriculture. One important agricultural commodity is sugar cane: Although only a small country, Paraguay is the global market leader in the production of organic sugar. The town of Arroyos y Esteros is located 67 km from the capital, Asunción, in the Cordillera Departamento – one of the most rural and also one of the poorest regions of the country. The town is known as the emerald of the mountains in view of its wild vegetation. Arroyos y Esteros has around 6,000 inhabitants. A further 16,000 people live in the surrounding villages and run small farms largely by hand and using ox carts.

One of these farmers is Andrés González Aguilera. Married with two children, he has more than 6 hectares of land with a flourishing crop of sugar cane – like many of his neighbours. Andrés has also been the director of the agricultural cooperative Manduvirá since 1992 – and is one of the driving forces behind the sweet revolution that has completely redefined the role of smallholder farmers in the sugar value chain in this part of Paraguay over the last 10 years.

2003: Farmers as suppliers

The story begins in 2003: The members of the Manduvirá cooperative had, for years, been supplying the sugar cane that they have grown organically since the late 1990s to a sugar mill in the region. The mill more or less dictated the price of the raw product. ‘The owners of the factory refused to pay the full market price,’ Andrés recalls. ‘All of the other sugar mills were much too far away and we felt completely helpless.’

It was, however, when faced with this situation that the cooperative discovered its own strength. Andrés explains: ‘Paraguay had been under one-party rule for decades and there was a general culture of fear. In spite of this, we knew that we had to fight if we wanted to improve our position.’ The first action taken by the delegation led by Andrés was to stage a peaceful strike, resulting in at least a moderate price increase. Following this successful result, the cooperative was ready to take a larger step forward: ‘We decided that we wanted to free ourselves from our dependence on the factory. We no longer wanted to simply grow sugar cane; we wanted to produce sugar,’ explains Andrés. The smallholder farmers knew that there was a disused sugar mill around 80 km away and they contacted the operator directly. ‘This was the first time this had happened: Smallholder farmers sat with the company owners around the negotiating table!’

From suppliers to entrepreneurs

The result was that the disused mill began production again in 2005 – and worked exclusively for Manduvirá, which now distributes and exports the organic sugar cane itself. This was a first in the history of Paraguay. Back in 2005, Manduvirá produced 234 tonnes of sugar – and this figure had already increased to 5,500 tonnes by 2007. ‘In 2008, we reached the mill’s maximum capacity with the production of 6,200 tonnes of sugar,’ Andrés remembers. Motivated by this achievement – and now already operating successfully as a company – Manduvirá remained true to its motto think big. In 2009, the active members of the cooperative began to consider an even more ambitious project: The construction of their own sugar mill with the capacity to produce 18,000 tonnes of sugar per year. Work began in December 2011 at a site only 4.5 km from Arroyos y Esteros.

To carry out the project, Manduvirá needed USD 11 million in long-term investments – and it established contact with responsAbility. ‘I was impressed at how committed to the plan the team at Manduvirá was,’ Mauricio Benítez, Head Agriculture Credit Risk Management at responsAbility, recalls. ‘They not only
had a sound business plan in place but also wanted to pledge their land as collateral in order to obtain financing. Furthermore, Manduvirá benefits from the very stable price of organic sugar, which – unlike conventional sugar – is not exposed to enormous fluctuations. ‘responsAbility invested in June 2012 – and further investors came on board at the end of that year. ‘responsAbility clearly played a pioneering role in the financing of our mill,’ confirms Andrés. ‘Other financial backers trusted the judgment of such a large and experienced investment partner and consequently also had confidence in us – which is what ultimately made it possible to build the sugar mill.’

The new mill commenced operations in January 2014. With effect from the next harvesting season, which begins in April and lasts until December, it will create 154 new jobs in Arroyos y Esteros – an economically weak area –, 60 of which will be permanent positions throughout the year. Manduvirá expects to produce 18,000 tonnes of sugar in 2014.

**Also green in environmental terms**
The state-of-the-art factory uses biomass in order to generate energy in an environmentally friendly manner – and it also feeds electricity into the local electricity network, thus making an additional contribution to the ‘green’ image of the region. The sweet revolution in Arroyos y Esteros has produced impressive results. The fact that the mill is located in the centre of the plantation area has drastically reduced transport costs. The members of the cooperative, as well as other suppliers, benefit directly from the rising price of sugar cane in Paraguay since, unlike so many factory owners, the cooperative pays the market rates for the sugar cane. It also offers its members technical assistance on an ongoing basis – leading to higher productivity. Thanks to its organic and fair trade certifications, Manduvirá can sell its sugar at a premium of USD 80 per tonne – and because there is a strong demand for organic sugar, it has no problem in obtaining these prices. The profits generated by the cooperative benefit all of its members – and in recent years, this has led to increased prosperity.

‘We had a dream,’ explains Andrés. ‘And we had the courage and the necessary support to turn it into a reality. More and more farmers in the region are switching to organic production methods and want to become members of Manduvirá. This also means that young people who often had no other option in the past than to move to the cities can now find work and have prospects in the rural area of Arroyos y Esteros.’

**Manduvirá cooperative**
- **Located:** Arroyos y Esteros, Paraguay
- **Established:** 1975, with 39 members
- **Products:** Organic sugar cane (99%), stevia and sesame
- **Number of members:** 1,738
- **Production:** 6,200 tonnes of sugar
- **Turnover:** USD 5.2 million
- **Clients:** 19 in 17 countries
- **Certifications:** Fair trade (FLO-CERT); Organic (UE-NOP, SUSD, Bio Suisse, JAS); Kosher; Naturland with IMO Control; Demeter


* as per 31.12.2013

Andrés González Aguilera, Director of the agricultural cooperative Manduvirá in Paraguay, is also a smallholder farmer and, with his family, cultivates 6 hectares of sugar cane.
Investment theme Agriculture

responsAbility once again recorded strong portfolio growth in the agricultural sector in 2013, with a total of USD 88.8 million invested at the end of the year – an increase of 67% compared to the end of 2012. The investments made in the course of the year rose by 41.2% to USD 113.8 million. The number of organisations financed by responsAbility grew by 30.3%, reflecting our increasing presence and status in the field of sustainable agricultural investments.

2013 was a difficult year for many smallholder farmers in the coffee sector. The continuing impacts of the outbreak of the coffee rust fungus – especially in Central America and Peru – affected investment volumes in many countries. Despite initial expectations of a general rise in coffee prices in the 2013/2014 season, the benchmark Arabica price declined due to the record crop expected in Brazil, resulting in a double blow for smallholders in other areas. This left coffee futures at just above USD 1 per pound – their lowest level since 2008 and a decrease of 66% compared to 2011. However, thanks to sales contracts – most of which include the fair trade minimum price of USD 1.40 per pound – the farmers and our investments were largely protected. The decline in the price of coffee hampered efforts to contain the spread of the coffee rust fungus, since lower revenues limited the ability of most producers to increase fungicide use. Throughout 2013, responsAbility actively supported joint stakeholder initiatives to facilitate investments in replanting. At the same time, we closely monitored the renewal of contracts for the current season in Central America and focused on contracts with the strongest cooperatives. As a result, provisioning levels remained low and responsAbility was able to continue financing to smallholder farmers during a very difficult period.

Diversification across commodities and countries

Despite an increase in absolute terms, the fund exposure to coffee cultivation decreased in 2013 in relative terms. At the

### Top 10 of 32 investment countries in the agricultural sector

<table>
<thead>
<tr>
<th>Country</th>
<th>Investments (USD million)</th>
<th>% of total sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costa Rica</td>
<td>113.8</td>
<td>19.7%</td>
</tr>
<tr>
<td>Paraguay</td>
<td>80.6</td>
<td>13.4%</td>
</tr>
<tr>
<td>Peru</td>
<td>55.3</td>
<td>9.1%</td>
</tr>
<tr>
<td>Honduras</td>
<td>33.1</td>
<td>5.6%</td>
</tr>
<tr>
<td>Bolivia</td>
<td>22.3</td>
<td>3.8%</td>
</tr>
<tr>
<td>Kenya</td>
<td>17.6</td>
<td>2.9%</td>
</tr>
<tr>
<td>India</td>
<td>13.8</td>
<td>2.3%</td>
</tr>
<tr>
<td>Turkey</td>
<td>10.4</td>
<td>1.7%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>9.5</td>
<td>1.6%</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>8.1</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

### Development of companies financed in the agricultural sector

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Agricultural investments</td>
<td>113.8</td>
<td>80.6</td>
<td>50.7</td>
<td>41%</td>
</tr>
<tr>
<td>Outstanding amount as at 31.12.</td>
<td>88.8</td>
<td>55.3</td>
<td>33.1</td>
<td>67%</td>
</tr>
<tr>
<td>Directly financed companies per year</td>
<td>86</td>
<td>66</td>
<td>46</td>
<td>30%</td>
</tr>
<tr>
<td>Countries with directly financed companies per year</td>
<td>32</td>
<td>25</td>
<td>13</td>
<td>28%</td>
</tr>
<tr>
<td>Countries with indirectly financed companies per year</td>
<td>49</td>
<td>27</td>
<td>20</td>
<td>– 81%</td>
</tr>
<tr>
<td>Average term of financing per year (months)</td>
<td>8.3</td>
<td>9.5</td>
<td>6.1</td>
<td>– 12%</td>
</tr>
</tbody>
</table>

### Impact of the companies financed in the agricultural sector

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<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of smallholder farmers</td>
<td>280,751</td>
<td>216,321</td>
<td>107,534</td>
<td>30%</td>
</tr>
<tr>
<td>Number of female smallholder farmers</td>
<td>62,493</td>
<td>48,203</td>
<td>18,280</td>
<td>30%</td>
</tr>
<tr>
<td>Number of smallholders reached</td>
<td>68,256</td>
<td>31,666</td>
<td>15,157</td>
<td>116%</td>
</tr>
<tr>
<td>Number of employees at directly financed cooperatives</td>
<td>6,296</td>
<td>4,240</td>
<td>1,568</td>
<td>49%</td>
</tr>
<tr>
<td>Number of female employees at directly financed cooperatives</td>
<td>2,219</td>
<td>1,168</td>
<td>390</td>
<td>90%</td>
</tr>
<tr>
<td>Organic production as a percentage of overall volume</td>
<td>40%</td>
<td>28%</td>
<td>37%</td>
<td>12 %-points</td>
</tr>
<tr>
<td>Fair trade production as a percentage of overall volume</td>
<td>30%</td>
<td>40%</td>
<td>54%</td>
<td>–10 %-points</td>
</tr>
<tr>
<td>Alternatively certified production as a percentage of overall volume</td>
<td>8%</td>
<td>13%</td>
<td>5%</td>
<td>– 5 %-points</td>
</tr>
</tbody>
</table>

Diversification across commodities and countries

Investment per agricultural commodity as per 31.12.2013

- Coffee: 36.5%
- Fruit and vegetables: 17.4%
- Grains and seeds: 16.6%
- Cocoa: 10.9%
- Nuts: 8.7%
- Herbs, spices and oil: 7.6%
- Other: 2.3%
In 2013, responsAbility once again recorded large increases in the number of organisations, commodities and countries covered. As a result, the degree of outreach increased substantially – with an increase of almost 30% in the number of smallholder farmers reached by responsAbility. Moreover, the number of smallholders financed directly by responsAbility more than doubled in 2013, while the number of people employed directly by financed cooperatives also rose significantly. There was also an increase in the proportion of women employed directly by our investees. This was partly attributable to responsAbility’s increasing involvement in different sections of the value chain, such as processing plants or traders.

The proportion of products certified as organic also rose in 2013, while the proportion of fair trade-certified products declined. This partly reflects increased investments in commodities where fair trade certification is either in its infancy or is nonexistent. Even in this case, sustainable production is both verifiable and vital to the local rural economy.

Promoting development in the area of agriculture

The development of agriculture enables farmers to earn a higher and more stable income while farming sustainably. At the same time, it provides consumers with access to healthy food. Agriculture is of fundamental importance for economic development. According to the World Bank, growth that originates in this sector is twice as effective in reducing poverty as growth in other sectors.

The income generated by farmers depends on their total revenue. This, in turn, depends on their production volumes and the prices at which they sell their crops, less costs. Most independent farmers in developing countries earn low incomes due to low levels of productivity and the quality of their produce. Their products are also subject to price volatility. Their low productivity is due to the small scale of their farms, which prevents them from producing and selling more efficiently, as well as to their inability to access funding to invest in their fields or in processing.

There is enormous potential to increase production levels and prices – and consequently also the farmers’ incomes – as many successful case studies have shown. In order for farmers to realise their potential, it is essential to have inclusive business models as well as access to financing and production inputs. Inclusive business models allow farmers to join together to generate economies of scale, leading to improvements in farming practices and management. In combination with adequate financing, farmers are thus able to prefinance harvests or exports, or to invest in production inputs, equipment or the regeneration of their fields. This can pave the way for improved yields, higher quality and improved market access. The example of Manduviirá, which is featured on the previous pages, shows how a successful business model allows farmers to join forces and to access funding to invest in processing – enabling them to sell larger quantities of produce at higher prices.

responsAbility provides debt and equity financing along the entire value chain for inclusive business models such as cooperatives, processors or traders. In addition, responsAbility invests in companies that supply production inputs, equipment or services, as well as in microfinance institutions that serve farmers directly. These investments enable farmers to invest in their own business and to realise their potential.


How financing impacts development in the agricultural sector

Financing
   ↓
Inclusive business models
   ↓
Small holders
   ↓
Exporting cooperatives and companies (producers, processors)
   ↑
 Inputs
   ↓
Input, equipment and service providers

- Productivity
- Quality
- Market access
- Value added (processing)

Higher sales ⇒ Higher prices ⇒ Higher incomes

Source: responsAbility
82% of the Kenyan population has no access to the electricity grid. Thanks to new technologies, home solar systems are increasingly replacing the smoking kerosene lamps of yore—and they are more efficient, safer and cleaner, and in the long term also cheaper.

2.8 bn
people use solid fuels to cook

17 %
of the world’s population has no access to mains electricity

USD 36 bn
is the annual deficit in energy investment
Energy sector: Renewable energy for every household

A reliable energy supply is vital in order for any economy to develop. However, energy production is unable to meet the growing demand in many developing countries and emerging economies. Investments – especially in renewable forms of energy – can help to remedy this situation.

Since 1990, a total of 1.7 billion people around the world have gained access to electricity.\(^1\) Over the same period, however, the demand for electricity has soared due to economic growth and demographic developments. This is a trend that is set to continue in the future. It is estimated that 1.2 billion people – virtually all of whom live in developing countries and emerging economies – still have no access to mains electricity. This is roughly equivalent to the population of India or 17% of the global population.

Air pollution due to fossil energy sources
Basic access to electricity is not, however, the only bottleneck in the area of energy consumption. In view of the lack of suitable alternatives, 2.8 billion people rely on solid fuels for cooking purposes. Obtaining or gathering these fuels is generally a cost-intensive or time-consuming process. At the same time, these fuels pollute the air within their homes, causing serious health problems. Even in towns and cities where electricity tends to be more widely available and solid fuels are not generally used for cooking, daily life is still disrupted by power cuts due to excessive levels of demand – resulting in high costs. According to the World Bank, companies in Africa have to contend with power cuts on an average of 56 days per year. In the case of manufacturing companies, this can lead to a loss of income of 6% per annum – or as much as 20% if their electricity needs are not adequately covered by generators. In addition, the costs of accessing energy tend to be disproportionately high in developing countries and emerging markets due to generally inefficient production methods.

Spotlight on renewable energy
Driven by technological advances and more favourable regulatory frameworks, renewable forms of energy represent an increasingly attractive alternative to fossil energy – not only from an environmental but also from a financial perspective. Renewable energy sources have enormous potential, especially in developing countries and emerging economies. It is estimated that only 7% of Africa’s total potential to generate electricity using hydropower is currently being harnessed. The usage rates for solar and wind energy are even lower. Viewed overall, renewable energy already accounts for a large proportion (74%\(^2\)) of the energy mix in low-income countries. However, only 10% of this amount stems from sources other than traditional biomass (i.e. wood or similar materials gathered by people as fuel to heat their homes or for cooking purposes).

It will not be possible to close the gap between the supply of energy and the continued strong growth in demand without substantial investments in the sector. According to estimates by the International Energy Agency (IEA), annual investments of USD 45 billion would be needed to ensure access to electricity on a global scale by 2030. At USD 9 billion, the current level of investment is far from adequate – particularly for those countries that are most urgently in need. In view of the limited financial resources available and the public sector’s other priorities, the private sector could play an important role in overcoming this investment deficit.

Innovative technologies for affordable energy
While global access to a reliable electricity network is still a distant prospect in many parts of the world – especially in rural areas – innovative technologies are helping to meet the need for sustainable and affordable energy in households. Creative solutions are needed with regard to distribution channels in particular. The supply of financing for innovative private-sector providers has clear economic potential in this context.

Access to electricity: A question of income
The share of population with access to electricity in %

\(^1\) Sustainable Energy for All (2013): Global Tracking Framework
\(^2\) IEA World Energy Statistics and Balances (2010), UN Energy Statistics and Sustainable Energy

Source: Sustainable Energy for All (2013): Global Tracking Framework
And then there was light!  
The triumph of affordable solar systems in Kenya

When darkness falls in Kenya at around seven o’clock each evening, most of the country’s inhabitants turn on their kerosene lamps. It is still rare for homes to have mains electricity. Recently, however, these smoking kerosene lamps have faced increased competition from modern solar lighting systems, which are now also affordable for low-income sections of the population thanks to a smart mobile payment system offered by the Kenyan firm M-KOPA.

Around 6 million households – or 82 % of Kenya’s population – have no access to mains electricity. To meet their energy requirements, they tend to rely on kerosene and wood, which they use to fuel their lamps and cooking stoves. This costs them a total of estimated USD 1 billion or USD 28 per capita each year.

Thanks to affordable new technologies, the dim, flickering and smoking kerosene lamps – which fill the air with soot and occasionally cause outbreaks of fire – are increasingly being replaced by solar lighting. This is not only brighter and safer but is also much cheaper in the long run than the models that preceded them, which were dependent on fuel. Solar electricity can be used not only for lighting purposes: It also enables people to charge electric appliances such as mobile phones, which are owned by around 93% of all adults in Kenya.

The biggest obstacle: High purchase prices
One obstacle standing in the way of clean solar energy solutions is the relatively high costs – by Kenyan standards – of purchasing them. The solar home energy system featuring a solar panel, two fixed lights, one portable light and a socket offered by the Kenyan provider M-KOPA costs about USD 200, which is equivalent to around one-fifth of the average annual per capita income in Kenya. To overcome this obstacle, M-KOPA has developed its own financing model that is geared specifically towards low-income households: After providing a deposit of USD 30, clients can pay the remaining costs in daily instalments of USD 0.50 over a year. Once they have completed the payments, they then own their system and it supplies them with free electricity.

For most households, paying the instalments is not a major challenge, since they already incur energy costs on a daily basis; on average, half a litre of kerosene costs USD 0.50, and there are additional expenses if they want to charge a mobile phone. In low-income families, this can amount to as much as 20% of their household budget. If this money is spent on low-quality energy sources such as kerosene or paraffin, then over time it literally goes up in smoke. There is now an alternative with the solar energy solutions offered by M-KOPA, where high-quality systems are owned by clients after one year and supply them with light and electricity free of charge.

Successfully combining new technologies
Jesse Moore, Co-Founder and Managing Director of M-KOPA, explains his company’s model for success: ‘M-KOPA combines relatively new technologies, without which we could not have developed. First, solar energy is becoming more and more affordable – a few years ago, it would have been inconceivable for a normal household in Kenya to use a solar home energy system. Second, the widespread availability of mobile phone services as well as “mobile money” – even in the most remote corners of the country – means that 73% of the adult population today uses telephones to make cashless payments. And third, M-KOPA uses M2M technology, where systems can be incorporated into a network via chips and controlled remotely.’

It is this combination of unprecedented technical possibilities that makes the systems affordable even for low-income households. The majority of the population in developing countries has a low and irregular income. Consequently, many individuals face daily challenges in managing their money. The use of mobile phones to execute electronic payment transactions allows them to pay very small amounts on a regular basis. M-KOPA has found that very few households fall behind with their payments. In addition, clients tend to pay off several daily instalments in advance as soon as they have more money at their disposal, and they set aside money in advance to meet future needs.

Widely affordable thanks to flexible repayments
What began as a pilot scheme in 2010 has met with an enthusiastic response from 50,000 households in Kenya only 18 months after being launched in the market. According to a survey, existing users are actively recommending the service to others. M-KOPA has set itself the goal of serving 100,000 households by the end of 2014. The firm is committed to continuing this rapid growth and has put the necessary structures in place. ‘Customer care is of key importance to us,’ says Jesse Moore. ‘Our employees are available around the clock and can either solve minor problems remotely or refer clients to one of our 900 dealers. Our systems have a full two-year warranty and after that, we continue to offer clients support at all times.‘

M-KOPA knows that even low-income sections of the population represent a very attractive client base. The firm also knows that individuals on low incomes carefully assess whether a
product represents good value. M-KOPA has a clear selling point: The solar home energy system enables clients to save money, which they can then use for other needs.

When asked whether M-KOPA also wants to cover these other needs, Jesse Moore responds: ‘In principle, the technologies we use make it possible to market all types of solutions – including refrigerators for store owners. Our main focus is, however, on lighting solutions for the time being. We want to serve 1 million households in Kenya by 2018. Even then, that would represent only 20% of the total market – meaning that we believe there is still considerable growth potential.’

Financing for further growth
It is precisely in order to achieve this growth that the young company requires financing. Jesse Moore emphasises: ‘In the end, our business model is about financing solar energy solutions for households – and that is a capital-intensive business.’ Access to debt financing is therefore of critical importance for M-KOPA, including as a means of funding further investment in product development.

While financing was initially provided mainly by nonprofit organisations, M-KOPA is now commercially well enough established to attract private investors. M-KOPA turned to responsAbility following a recommendation by a responsAbility client in Kenya. ‘The team in Nairobi was extremely professional. The people there responded swiftly to our request for financing and worked very thoroughly when assessing our business model,’ explains Jesse Moore. ‘We are delighted to have responsAbility on board,’ he adds.

Further information on the importance of mobile payments in East Africa: www.responsAbility.com/MicrofinanceEastAfrica.
Access to education is still not something to be taken for granted in many developing economies and emerging markets. If the huge funding shortfall is to be stemmed, the next few years will also require substantial increases in private investments.

**USD 1**

invested in education generates income growth of USD 10 to 15

**20%**

of children in low-income countries do not attend primary school

**USD 38 bn**

is the annual funding gap in the area of basic and lower secondary education estimated by UNESCO
Investment theme Education

Education sector: A large need for innovative private financing models

Education has a positive impact on social and economic development. This includes reducing poverty and promoting health and social cohesion. Investments in this area open up education to broader sections of the population.

In 2000, the United Nations defined universal primary education as one of the Millennium Development Goals. Although enormous progress has since been made, there are still large gaps in the provision of education, especially in low-income countries. UNESCO estimates that 250 million children are still unable to read properly and that 200 million young people – many of whom have finished secondary school – do not have the skills needed in a professional environment or in everyday life.

The governments of developing countries and emerging markets often lack the necessary financial resources to resolve the crisis in their education systems without relying on external aid. The funding gap in the area of basic and lower secondary education is estimated by UNESCO to be USD 38 billion per year. This problem is likely to be further exacerbated by population growth in the countries in question in the future. At the same time, development aid that is targeted at education is continuing to decrease globally. Private investors are now emerging as a new source of financing – helping to increase the level of education while, at the same time, benefiting from the impressive growth potential of this sector.

Need for new financing models for education

Innovative new business models show that it is possible to channel financial resources from private investors into the education systems of low-income countries in order to improve them. For example, Omega Schools – a chain of private schools in Ghana’s capital Accra – offers an innovative model of low-cost primary and secondary education: A small daily charge covers the cost of the pupils’ schooling, lunch, school books, uniform, health insurance and other expenses. The chain was established in 2008 and now comprises 38 schools that educate over 20,000 children – with numbers continuing to rise.

Viewed overall, the education landscape offers a variety of sectors and business models in which investors can participate. The core sector is divided into the main segments of preschool, primary, secondary and university education. The core sector of education tends to be dominated by the state in many low-income countries, with governments frequently imposing special restrictions on private providers – such as the stipulation that they must operate as nonprofit organisations. However, the situation differs from country to country and there is still a degree of flexibility. In India, for example, investments in the preschool segment, in particular, are attractive for private investors since there are no restrictions on profit-oriented business models in this area – unlike in the case of primary, secondary and university education. Since parents are increasingly convinced of the benefits of preschool education, and since disposable income levels are rising, this is one of the fastest growing segments of India’s education system.

Innovative models for private financing

In addition to the core sector, there are a number of other segments that can have a significant impact on the level of education and where private investments are subject to no or only limited restrictions. They include schooling materials (IT-based learning materials, school books), teachers (training, recruitment), infrastructure (equipment, technology), additional training (English courses, professional training) and management (monitoring solutions, curricula). Various new business models that are geared towards these ancillary segments in low-income countries are emerging.

If the number of people with no or only an inadequate education is to be reduced, it will be essential to have a growing level of private investment in the coming years. responsAbility is actively seeking innovative models that enable investors to contribute to an improvement in the level of education in developing countries and emerging economies while, at the same time, generating a return on their investment.

Average annual resources needed to finance basic lower and secondary education 2012–2015 in USD billion

<table>
<thead>
<tr>
<th>Year</th>
<th>Government expenditure</th>
<th>Annual aid</th>
<th>Funding gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>36</td>
<td>3</td>
<td>38</td>
</tr>
<tr>
<td>2013</td>
<td>36</td>
<td>3</td>
<td>38</td>
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<tr>
<td>2014</td>
<td>36</td>
<td>3</td>
<td>38</td>
</tr>
<tr>
<td>2015</td>
<td>36</td>
<td>3</td>
<td>38</td>
</tr>
</tbody>
</table>

Source: UNESCO
Investments

New perspectives for emerging economies

Number of companies financed worldwide
as per 31.12.

Investment volume per region
in percent of total, as per 31.12.2013

Investment volume per country
as per 31.12.2013

Number of companies financed per region
as per 31.12.

Central America
Companies financed 2013: 59
Investments 2013: USD 129.6 m
Change 2013 vs. 2012: +22.6%
Client potential: 6.2 m

South America
Companies financed 2013: 83
Investments 2013: USD 374.1 m
Change 2013 vs. 2012: +38.4%
Client potential: 52 m

Middle East and North Africa
Companies financed 2013: 30
Investments 2013: USD 61.5 m
Change 2013 vs. 2012: +105.7%
Client potential: 17.2 m

Sub-Saharan Africa
Companies financed 2013: 66
Investments 2013: USD 161.5 m
Change 2013 vs. 2012: +95%
Client potential: 62.5 m
Middle East and North Africa: 28.2%
Central Asia: 18.2%
Asia-Pacific: 9.2%
Eastern Europe: 9.4%
Sub-Saharan Africa: 3.5%
Others: 2.7%

Client potential
Number of wage earners in low-income households living on USD 1.25 to USD 5.00 per day (adjusted for purchasing power)

Central Asia
Companies financed 2013: 61
Investments 2013: USD 492.5 m
Change 2013 vs. 2012: +32%
Client potential: 6.2 m

Eastern Europe
Companies financed 2013: 50
Investments 2013: USD 160.9 m
Change 2013 vs. 2012: +10.1%
Client potential: 28.3 m

Asia-Pacific
Companies financed 2013: 97
Investments 2013: USD 317.8 m
Change 2013 vs. 2012: +31.4%
Client potential: 114 m

Client potential
Number of wage earners in low-income households living on USD 1.25 to USD 5.00 per day (adjusted for purchasing power)
Return and impact – a powerful combination

responsAbility invests not only to generate a financial return; it also consciously strives to make a contribution to development through all its investments. Any restriction on investment freedom is often perceived as negative when it comes to achieving a return – especially when the goal is to ‘do something good’. However, our investment concept shows that the impact of an investment is what drives the return and that the return is an indication of its effectiveness.

An interesting trend that can be observed in developing countries is that vast numbers of predominantly low-income households and micro, small and medium-sized enterprises (MSMEs) whose basic needs were not previously met are now increasingly being served by companies with innovative business models. This applies especially to development-related sectors that would typically be the domain of the state. This trend is attributable, on the one hand, to the inadequate capacity and quality of state structures and to the disappointing results of previous interventions with a high level of public sector involvement. On the other hand, it reflects the positive outcome of enterprising approaches by the private sector. At responsAbility, our investment concept is aimed at making targeted investments to help these companies capture the enormous market potential that exists more rapidly and effectively. The development-related benefits that their products and services offer for clients drives the growth of these companies – thus laying the foundations for the success of their business and a successful investment performance.

1 Sector level
Broad development-related benefits

responsAbility only invests in sectors that are highly relevant to development. They must also be suitable for investment. Our five main sectors are: Finance, agriculture, energy, healthcare and education. The general utility of the sector largely determines the benefits it creates for clients and its impact on development for all sections of the population.

2 Business model level
Focus on target group

Within the sectors referred to above, responsAbility identifies suitable business models that can provide access to the inherent benefits of each sector – especially for the client segment comprising low-income households or MSMEs. It is important to note in this context that what is considered a large impact from a development perspective may simply be perceived as a particularly attractive product or a very useful service from a client perspective. The business models that are identified overcome one or more of the following obstacles – using innovative approaches, among other things:

Availability: These business models provide clients with access to the products or services for the first time. Examples include access to formal financial services or electricity. The microfinance business model provides poorer people with formal loans and savings products for the first time, while the ‘decentralised mini solar system’ business model supplies power to people living in rural areas who have no access to mains electricity.

Affordability: The availability of a product or service alone is often not enough to generate sales. Appropriate financing models that take account of the specific financial circumstances of clients – even without necessarily reducing the cost of the offering – tend to be the core component of these business models. They often involve the payment of very small instalments over an extended period of time as an alternative to an immediate cash payment. Alternatively, clients may pay charges to use a product instead of owning it themselves.

Adequacy: Even if they are affordable, products and services that are successful in industrialised nations or are suitable for the middle classes may fail to attract adequate levels of demand from poorer sections of the population if they do not take their specific needs properly into account. For example, a home solar system that only comprises fixed sources of light cannot completely replace the use of kerosene – which is expensive and has detrimental health impacts – for lamps since the vast majority of the target clients have homes where the toilet is located outside their main living quarters, meaning that they need a portable source of light at night.

Another essential requirement is that the business model must be highly scalable, since this is the only way in which it will be able to produce a high impact while, at the same time, ensuring...
the success of the business. In addition to the choice of sector, focused business models are what mainly determine the effectiveness of the individual offering and thus define its social impact.

3 **Company level**

**The goal of profitable growth**

As part of responsAbility’s investment concept, the individual companies are essentially responsible for multiplying the individual impact of their offering. Their core function is therefore to successfully deliver their products or services to the largest possible number of clients. Their business models are basically scalable and the companies must and should, above all, have the ability to scale up their offering in practice. These requirements may appear self-evident but they are of particular importance against the challenging backdrop of developing countries and emerging economies – and also in view of the large number of potential clients in this environment with few formalised structures. In addition to the usual factors that are essential for the success of a business, responsAbility places a particular emphasis on this point when identifying and analyzing companies.

Since development-related impacts depend on the sector and business model concerned, no specific additional requirements are routinely applied to the companies in terms of social or development aspects. The main contribution that a company can make is to therefore operate as successfully as possible. In this context, we believe that companies must not only act responsibly

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**responsAbility’s investment concept**

<table>
<thead>
<tr>
<th>Technology as a success factor</th>
<th>1 Sector</th>
<th>2 Business model</th>
<th>3 Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>e. g. mobile phones, broadband, energy storage, LED lighting</td>
<td>e. g. financial sector, agricultural sector, energy sector</td>
<td>e. g. microfinance, sustainable agriculture, renewable energy</td>
<td>e. g. microfinance bank, agricultural cooperative, solar energy systems</td>
</tr>
</tbody>
</table>

**Characteristics**

1. Investability
2. Large impact on social progress
3. High relevance for all households and companies

1. Provision of access to affordable, needs-oriented products
2. Highly scalable offering
3. High relevance for households with a low or average income as well as for SMEs

1. Successful management
2. Clear ability to scale up offering
3. High relevance for low-income households and SMEs

**Improved conditions as a basis**

- Growing middle class, more purchasing power
- Stronger economy
- Greater stability at a political and government level
- Reliable legal and regulatory environment

**Positive impact on returns, costs and risks**
Investment concept

vis-à-vis their clients but also towards the environment, their employees and other stakeholders, and we see this as an inherent part of a modern and sustainable approach to business.

responsAbility's investment concept focuses on the achievement of long-term success in terms of both the business and investment performance. Investments are made in the form of debt or equity capital – depending on the needs of the company in question and the underlying investment vehicle – and are generally targeted at the early expansion phase of the company.

Technology as a key success factor
responsAbility's investment concept is benefiting from two trends in particular: The increased use of technologies – especially mobile phones and broadband – make it possible to overcome large distances, to reduce costs and to use completely new business models in an unprecedented form. These technologies are increasing the attractiveness of investments – or actually enabling investments to be made – especially in developing countries.

The second trend is less visible since it is an ongoing process: It is the improvement in general conditions. Governments are making progress and have comparatively more resources and less debt. They are also investing increasingly in important areas of their economies. Legal frameworks are also continuing to improve, resulting in greater legal certainty. In many countries, a middle class with purchasing power is slowly emerging. As a result, business models that are targeted at poorer people are becoming viable more rapidly.

All of these factors give grounds for optimism, since investors with a long-term focus can be seen as a source of hope from a development perspective. At the same time, ongoing development itself represents an opportunity for investors. responsAbility’s investment concept is targeted precisely at this – allowing for a powerful combination of returns and impacts to develop increasingly.

Since August 2011, the Swiss Post Pension Fund has been investing in fixed-income microfinance investments through a responsAbility fund created especially for it. Rolf Maurer, an investment specialist in the pension fund’s internal asset management department, was responsible on the client side for overseeing the process that resulted in this CHF 150 million investment. In the following interview, he explains why the investment has satisfied his expectations.

Mr Maurer, what does the term ‘responsibility’ mean to you?
For me, responsibility is about displaying commitment and working hard to achieve results. In my private life, I feel a very strong sense of responsibility towards my children. The same principle applies to my work as an asset manager for a large pension fund: I have a responsibility towards our stakeholders – the insured, the pension recipients and the employer – and I have to safeguard the assets that are entrusted to me.

How does the Swiss Post Pension Fund assume this responsibility in practice?
There is the institutional framework with the corresponding control systems. However, the personal dimension and the attitude of each employee are also of great importance. Responsibility is not something that can be delegated; it has to be an inherent part of the way you work.

How do you invest the pension fund’s assets?
We invest almost 50% of the assets in fixed-income investments, 30% in equities, 10% in real estate and 10% in alternative investments such as gold, hedge funds, commodities or infrastructure. Sustainability is an important factor in our investments: We have several portfolios that are managed according to sustainability criteria. They include our microfinance investments, which we class as part of our fixed-income investments.

Why do you favour development-related investment themes?
Pension funds operate with a long-term view. We cannot only strive to generate returns in the short term but also have to see the big picture. We are, of course, not a development aid organisation. We owe it to our stakeholders to use the assets
entrusted to us to achieve the highest possible returns based on an appropriate level of risk. Specifically in the case of microfinance, I personally take the view that these two aspects are not mutually exclusive and that investments of this nature can be a very attractive addition to the portfolio – as responsAbility always emphasises.

How did microfinance first come to your attention as an investment theme?
I had personally been interested in the sector for a long time. After our Investment Committee proposed to the Board of Trustees that we should consider this investment theme, we found out about it in detail. As a pension fund, the path of least resistance would have been to follow the same approach as others and refrain from investing in microfinance. In this respect, microfinance is an exotic investment theme. However, once you have decided to invest in it, it is important to consider how you want to go about making the investments and whom you want to work with in order to minimise any possible risks.

Where do you see potential risks and why do you still consider this investment theme to be attractive?
Microfinance investments are attractive because they help to diversify our investments. Since they invest in the real economy of developing countries and emerging economies, they are largely unaffected by stock market booms and crashes. In terms of possible risks, the main issue is reputation: If the microfinance sector in India or Nicaragua is severely criticised and the Swiss Post Pension Fund has invested in this theme, then we are also affected – and that is something that we have to deal with.

Why did you decide to work with responsAbility?
responsAbility has been active in this area for a very long time and has an excellent reputation. This helps us to limit the reputational risks involved. Our collaboration with responsAbility – which went very well and which we are continuing – confirmed the quality of the team. This compares with other investment vehicles that were actually simpler but tied up significantly more of our time.

Why do you invest in fixed-income microfinance investments? Market volumes are a clear argument in favour of this area. In view of the size of our pension fund, there is not much point in investing less than CHF 100 million. Since we wanted to count microfinance as part of our fixed-income investments, we consciously avoided a mix with equity investments. We frequently face volume-related problems in the case of other investment themes.

How satisfied are you with the performance? It has definitely met – or even exceeded – our expectations. We have been investing in this area for two years and achieved a good performance each year. If all of our investments had performed as well as our microfinance investments over this period, we would be happy. We will certainly have to wait for an entire economic cycle to end before we make a final judgment on performance – but we are satisfied so far.
Values

New perspectives for our stakeholders

At responsAbility, our values reflect the guiding principles that govern the way we act and thus form the basis for our sustained success. Our corporate culture is shaped by expertise, integrity, innovation and a spirit of partnership.

Expertise
We are highly committed and have both specialist knowledge and strong interpersonal skills. The diversity of our employees provides us with rich and varied perspectives, which enable us to identify and use different opportunities. This allows us to create exceptional products and to deliver a service offering and results that generate concrete benefits and long-term success for all our stakeholders. We offer our employees a working environment in which they can develop their talents for the benefit of our stakeholders. We achieve this by acting as a reliable employer that expects an entrepreneurial mindset, encourages professional development and recognises good performance.

Integrity
We are responsible, genuine and steadfast. We nurture the trust that is placed in us by our stakeholders and forms the basis for our reputation. We assume responsibility for our actions and report regularly on our activities and their results. In this way, we enable our stakeholders to monitor the impact of our work.

Innovation
Our ability to see things from a new perspective enables us to think and act outside the box and to continue to successfully develop our activities. Our impartial view guarantees our independence and gives us the freedom to use change as an opportunity to develop our business for the benefit of our stakeholders. As one of the leading asset managers specialising in development-related investments in emerging economies, we have a very specific responsibility for our field of business. We are therefore actively committed to the sustainable development of our sector and we help to shape this process by setting new standards with our knowledge, experience and performance.

Partnership
Reflecting the long-term focus of our business, we adopt an approach that is designed to balance the different interests of all our stakeholders as effectively as possible. This creates the basis for mutual trust and shared success. We engage with our stakeholders in an open and respectful manner and we treat them as equals. We cultivate a constructive dialogue and are also willing to lead and to assume responsibility. Within our company, we function as a team – with a shared vision that we all strive to achieve with a shared sense of enthusiasm.

Our vision: The long-term goal
We want to become the world’s leading independent asset manager and investor specialising in development-related sectors of emerging economies. In this way, responsAbility will help to create a world in which capital is used with maximum efficiency to promote shared prosperity and progress.

Our mission: How we intend to realise our vision
We believe that solid investment returns drive sound economic growth and sustained social progress – and vice versa. To realise our vision, we bring together investors and companies seeking capital. By providing debt and equity financing to non-listed companies with business models that target the lower-income section of the population, we are able to drive economic growth and social progress. Serving both institutional and private investors, responsAbility offers professionally-managed investment solutions.
Members of the Board of Directors discuss the values we uphold at responsAbility

Stephen Brenninkmeijer, member
Private investor and entrepreneur

‘The Executive Board knows how to include and motivate employees at all levels of the organisation, thus creating a healthy corporate culture. I consider it a great honour to be closely involved in the development and growth of responsAbility.’

Reto Schnarwiler, member
Head Americas & EMEA Global Partnerships at Swiss Re

‘The team at responsAbility continuously captures new development-related opportunities such as fair trade or renewable energies – thus demonstrating the company’s innovative spirit day after day. In this way, it creates concrete benefits that contribute to the sustained success of all its stakeholders.’

Kaspar Müller, Chairman
Independent economist, Chairman of Ethos

‘For responsAbility, integrity means, among other things, that our stakeholders can rely on us. Integrity is about respect. It is also about adopting an open, fair and irreproachable attitude and honestly striving to align our actions with our values at all times.’

Adrian Töngi, Vice President
Head Front Services at Raiffeisen Switzerland Genossenschaft

‘What began as an idea more than 10 years ago has evolved into a leading asset manager that focuses on development-related sectors with around USD 1.9 billion of assets under management. This success story is based on a true partnership between responsAbility and its stakeholders.’

Dr Arthur Vayloyan, member
Private investor

‘responsAbility has been operating successfully in the world’s most challenging markets for over 10 years. This would not be possible without the company’s profound specialist knowledge and the pragmatic way in which it applies it. This is evidence of its considerable skills and forms the basis for the continuation of the company’s fascinating story.’

Matthias Preiswerk, member
Partner of Baumann & Cie Banquiers

‘The Swiss financial centre is undergoing radical changes. In this challenging environment, responsAbility has developed effective new approaches and implemented them skilfully – enabling it to create significant value not only for the Swiss financial centre but also for developing countries and emerging economies.’
Actively managing our knowledge to jointly achieve success

responsAbility invests in new perspectives – including in the case of our own employees. This is why we assign considerable importance to the ongoing professional development of each individual within our team. In our dynamic operating environment, this enables us to remain one step ahead of the competition – both now and in the future.

At responsAbility, we engage in a continuous process of professional development – whether it is by learning from the transfer of knowledge, by consolidating our expertise through practical experience or by assuming responsibility. The goal we have set ourselves as a company is to structure our employees’ learning and development in a manner that is not only aligned with our business strategy but also takes account of their individual needs. An annual employee appraisal forms the starting point for this process. In addition to defining personal objectives, employees engage in a dialogue with their line managers to discuss topics such as suitable on-the-job or off-the-job training.

In view of our market leadership in a highly specialised area of business, a dialogue with our internal experts is of particular importance. To ensure that knowledge is transferred within the company in an interesting and effective manner, we offer employees the opportunity to go on overseas assignments and we establish working groups with people from different areas, as well as holding Lunch & Learn events at which internal specialists share their know-how. External courses on the topics of financial advisory and sales, as well as training sessions about the latest legal and regulatory requirements, also help our employees to perform their work successfully now and in the future. In the area of leadership training, we make use of needs-oriented development programmes and coaching. We operate in a dynamic environment, which means that we must continuously develop new ideas and solutions. responsAbility can provide opportunities for anyone who is seeking a new professional challenge. Our diverse and growing company offers attractive prospects for individuals who have the right qualifications or the potential, as well as an open attitude and enterprising spirit.

‘I can benefit from the knowledge of leading experts.’

When Carola Hug began working at responsAbility five years ago – while completing her studies in journalism – she joined a team of 30 employees. This number has since increased to 140 worldwide and Carola’s career has developed in line with the growth of the company: After gaining initial experience in the Relationship Management department, she was able to join the Marketing department while completing her studies in economics. In mid-2012, she graduated from the University of Zurich with a very good master’s degree and gained a permanent position in the Private Equity and Research departments. She has focused her editorial and analytical skills entirely on the area of research since the start of 2014.

‘My work enables me to combine my studies in the fields of journalism and economics in a unique manner and to apply my knowledge effectively,’ explains Carola. ‘In terms of my specialist areas of microfinance and currencies, this means that I prepare research and analyses that are then included in publications or form the basis for business decisions.’ It is essential to regularly exchange information and ideas with specialists at responsAbility and other industry experts in this context. ‘Direct discussions with our colleagues and entrepreneurs in other locations provide us with valuable first-hand insights,’ states Carola.

Research findings are not only presented in the form of publicly accessible studies but are also shared with responsAbility employees on a targeted basis – whether it is live during Lunch & Learn events or in the form of pre-recorded Webinars. ‘I regularly attend the Lunch & Learn events held by other specialist teams. At responsAbility, our work focuses on development-related investments and we are the market leader in several areas. As a result, I am able to benefit directly from the knowledge of leading industry experts.’
Raffaela Lombard, since 2012  
Relationship Manager, Zurich

... I engage in a direct dialogue with entrepreneurs and end-clients in the countries in which we invest and thus gain confirmation of the effectiveness of our investments.'

Akshay Dua, since 2012  
Senior Investment Officer Equity, Mumbai

... I can draw on our expertise and our successful investment approach in order to build and expand our Private Equity business in India, which is experiencing strong growth.'

Kaspar Baumann, since 2008  
Investment Officer Equity, Zurich

... I work in a very dynamic area of business worldwide in which I can assume responsibility.'

Gaëlle Bonnieux, since 2008  
Head Agriculture Debt, Paris

... I work with companies that successfully offer their clients access to needs-oriented, affordable products and services.'

Franziska Büchi, since 2010  
Human Resources, Zurich

... I can make a positive contribution towards change within a dynamic organisation by developing targeted training programmes.'

Njeri Kirumbi, since 2012  
Analyst Financial Institutions, Nairobi

... my colleagues in Africa as well as other regions are helpful and are keen to share their expertise.'

Hugo Villela Rodríguez, since 2010  
Senior Investment Consultant Debt, Latin America

... I work in a professionally diverse and intercultural environment in which I learn something every day.'

Kevin Werner, since 2007  
Head Fund Management, Zurich

... I have the opportunity to complete leadership and management training that is tailored to my individual needs while also performing my core function.'

Alexander Tsasakos, since 2012  
Apprentice, Zurich

... I can learn about different areas of business, as well as gaining fascinating insights during our 'Lunch & Learn events.'
We are interested in your opinion!

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