

COMMUNICATION ON ENGAGEMENT (COE)

CORDAID, The Netherlands

Period covered by this Communication on Engagement

From: January 2016 To: September 2018

Part I. Statement of Continued Support by the Chief Executive or Equivalent

To: UN Global Compact stakeholders

Subject Continued Support

Date October 11th, 2018

Dear ALL,

I hereby express the continued support of my organisation, CORDAID in The Netherlands, for the UN Global Compact Initiative, and renew our commitment to the initiative and its principles.

In this Communication of Engagement, we describe the actions that our organization has taken to support the UN Global Compact and its Principles as suggested for an organization like ours. We also commit to sharing this information with our stakeholders using our primary channels of communication.

Yours faithfully,



Kees Zevenbergen
CEO Cordaid
kze@cordaid.org

Part II. Description of Actions

A. Fostering economic growth

The presence of vibrant small and medium-sized enterprises (SMEs) is crucial for many developing countries. However, social, economic and political realities in fragile countries make it hard for SMEs to flourish. Cordaid supports local entrepreneurs to build professional, resilient businesses with the aim to create more jobs, in particular for young people.

In the Netherlands Cordaid supports entrepreneurship of people with a distance to the labour market. Our COIN program (Cooperative Entrepreneurship in the Netherlands) reduces social exclusion by promoting social cooperative entrepreneurship in almost 20 municipalities. In social cooperatives, people with various backgrounds strengthen their entrepreneurial skills and can start their own business, while still retaining social benefits.

What we actually do:

In developing countries

The private sector of many developing countries consists primarily of informal microenterprises operating alongside a limited number of large firms. SMEs, which can be important contributors to equitable economic growth and job creation, are often lacking or few in number. Cordaid's Private Sector Development efforts aim to address this 'missing middle' by supporting SMEs with an innovative two-track strategy: Resilient Business Development Services and Access to Finance.

Resilient Business Development Services

Track 1 involves support for SMEs through Resilient Business Development Services (RBDS), before and after they receive a loan or equity investment. The RBDS program is designed to improve financial, social and environmental business performance and geared towards making enterprises 'investment-ready' and resilient. The RBDS program offers selected SMEs an integrated support system that includes business training, one-on-one coaching, in-business technical expertise, access to information and networking opportunities. SMEs receive group training and mentoring on key subjects, such as operational management, internal management, supply chain management, marketing, financial management, risk management, business rule of law, and access to finance.

Access to Finance

Track 2 leverages the success of RBDS by providing investment capital to eligible SMEs to catalyse business growth. Whilst foreign investors and local banks are rarely willing to invest in SMEs in transition economies due to the excessive costs and risks involved, Cordaid is confident that the RBDS program delivers investable SMEs and therefore reduces the risks.

This two-track approach ensures that capital is allocated effectively to those SMEs that have the capacity to create sustainable social impacts, while also generating competitive financial returns.

In the Netherlands

In the Netherlands, Cordaid's Cooperative Entrepreneurship program supports initiatives and municipalities that want to establish a social cooperative. In collaboration with various parties, such as local businesses and civil society organizations, Cordaid helps social cooperatives to become sustainable. Our program reaches out to people with a low income and/or a distance to the labor market in the Netherlands, who are thwarted in their plans to set up their own business for various reasons. Either because they do not fit the frame of a regular 9-to-5 job, or because their age makes it difficult to find a job. Or they may lack working experience, or a degree, or because they are socially isolated. Within a social cooperative people have the possibility to discover and develop their talents, become more self-reliant and actively take part in society again.

B. Investment Management

While poverty has decreased globally, fragile communities continue to lag behind in terms of development. For these communities to flourish, economic development is essential. To support this, financial systems must be strengthened, investments in businesses provided and jobs need to be created. However, the most fragile developing countries lack access to inclusive financial services. Cordaid Investment Management B.V. fills this gap by investing in people and businesses that have limited or no financial alternatives.

Cordaid Investment Management B.V., the asset management branch of Cordaid Foundation, demonstrates that it is possible to create scalable and sustainable social impact in fragile contexts. We invest in Microfinance Institutions (MFIs) that offer inclusive finance to micro entrepreneurs. We also invest in Small and Medium Enterprises (SMEs) that have limited or no financial alternatives. Cordaid Investments uses a mix of instruments: patient capital (equity and subordinated debt) and senior debt including loans with longer maturities. We harness social returns throughout our investment processes and we pride ourselves of being forward thinking when it comes to measuring social impact and designing social performance indicators and assessment tools.

Cordaid Investments manages thematic investment funds that foster Cordaid's multidisciplinary approach to development. The Rural and Agriculture Fund (RURAF) provides agricultural subsectors with access to finance to boost local rural economies. RURAF focuses on MFIs that serve farmers and rural microentrepreneurs. The Stability Impact Fund (SIF) contributes to economic development in fragile communities. SIF is an impact fund serving all segments of micro, small and medium-sized enterprises. The Stability Impact Fund Africa (SIFA) will be a carve-out of SIF specifically focusing on Africa. It provides SMEs with access to inclusive finance in combination with Cordaid's Business Development Services.

Cordaid Investments is a 100% subsidiary of Cordaid Foundation, which is a frontrunner in opening markets to impact investment since 1997. Cordaid Investments works with a professional investment team of 20 persons, with backgrounds in banking and development aid. Cordaid Investments is currently active in 21 developing countries in Africa, Asia and Latin America.

Part III. Measurement of Outcomes

1. On Resilient Business Development services / local PSD development

By supporting local entrepreneurs and (M)SMEs, Cordaid is doing more than supporting local private sector development and creating jobs. It allows people to rebuilt trust and enhances social cohesion. Similarly, a healthy and accountable financial sector is a precondition for sustainable inclusive growth. This work contributes to Sustainable Development Goal 8. Cordaid's aims are to promote local private sector development by supporting small and medium size enterprises, to increase income and employment opportunities for youth, and to contribute to a strengthened and more accountable financial sector in FCAS. In Sierra Leone and Ethiopia, Cordaid and its partners have been implementing the 3-year Resilient Business Development Services (RBDS) project since 2016, funded by the Dutch National Postcode Lottery.

At present, Cordaid's PSD program is being implemented in Ethiopia and Sierra Leone with supporting SMEs by means of a two-track model: Resilient Business Development Services (RBDS) and Access to Finance. In this two-track model, there is a strong collaboration between Cordaid Foundation and Cordaid Investment Management B.V. (CIMBV). CIMBV is the subsidiary of Cordaid that manages all investments. It combines the unique ability to finance partners with grants,

equity and debt instruments. Overall Cordaid Foundation is responsible for the first track, Resilient Business Development Services while CIMBV is in the lead for the second track, Access to Finance. By doing so, Cordaid aims to contribute to economic growth and employment creation.

Since the start of the programme in 2016, Cordaid has provided BDS support, in the form of training, coaching, mentorship and technical advice to 53 SMEs in Ethiopia and 61 SMEs in Sierra Leone. 6 SMEs in Sierra Leone have received direct investments from CIMBV. In Ethiopia 4 SMEs are in the process of getting an investment via CIMBV, but due to difficulties in law and legislation this process is hampered.

A good example of one of the businesses that has received support in Freetown, Sierra Leone is Little Lamb. This is a bridal and events company that provides one stop shop services, including cake making and decoration for weddings, parties, and workshops. Andrea Koroma, the CEO and founder of Little Lam, testified that the business trainings have improved her business management skills. This has helped to improve and sustain her company. She has now become better at delegating tasks, and as a result offers more professional and skills training to her workers. “Initially, I wasn’t taking notes of all cash transactions and assets. Also, my staff were not properly trained as I did most of the baking and did now want to delegate,” she says. “Having gone through RBDS trainings, I realized that I need to train staff and delegate responsibilities to them, so they will be able to deliver properly.”

2. On Access to Finance

Cordaid Investments is currently active in 21 developing countries in Africa, Asia and Latin America. Cordaid Investments manages impact investment funds. We provide patient capital to MFIs and SMEs. We focus on those opportunities that offer high social impact to stimulate the creation of jobs, to empower women and to catalyse rural businesses. Cordaid Investments strives to invest in markets in fragile communities while maintaining an integrated Environmental, Social and Governance approach. Our duty towards our investors is to guarantee a financial return and open markets in which investors would not otherwise be able to invest in.

Results up to now:

€ 70 mIn INVESTED in microfinance institutions and SMEs

70 PARTNERS are financed

6.9 mIn ENTREPRENEURS are impacted by our partners

For example, see a couple of concrete activities below

MYANMAR: Investing in Microfinance Institutions, Supporting local smallholder farmers

A unique partnership was created between Cordaid Investments (impact-first investor), The Livelihoods and Food Security Trust – LIFT (donor) and TCX (private sector), in which financial security was combined with social impact in Myanmar. As a result, Cordaid Investments committed 10 million € in loans to develop and strengthen the Myanmar microfinance sector. In 2017, we thus reached almost 59.000 micro-entrepreneurs, including many smallholder farmers.

The collaboration between Cordaid Investments and **LIFT** started in 2016. Back then, Cordaid Investments was looking to start operations in Myanmar. In this country, the microfinance market is underdeveloped and the adult population uses the informal sector to access finance.

The majority of potential clients for microfinance institutions live in rural areas. But without funding, the MFIs cannot expand to rural areas. In 2012, it was estimated that the demand for microcredit was nearly a billion dollars.

Cordaid Investments made an analysis of the country and identified several risks. The most important ones were political, regulatory and financial. Despite these risks, Cordaid Investments – as impact investor that works towards financial inclusion and fighting poverty in fragile and conflict-affected states – decided to make the first investments. We believe they can make a difference in one of the poorest countries in South and South East Asia.

Providing funds, just in time for the planting season: As Cordaid Investments is in a better position to manage currency risks than our investees, we make our investments in local currency whenever possible. In that sense, Myanmar represented a big challenge for us. Not only the expected devaluation of the Myanmar Kyat was high but also the government imposed a cap on the interest rate that foreign investors could charge.

Hedging was not an option because it would have outpriced us. Due to all these factors we experienced losses in our first investment in Myanmar. On the positive side, with our investment, our partner could provide the funding to the small farmers just in time for the planting season.

Seeking innovative solutions: We wanted to keep supporting the microfinance sector in Myanmar, but incurring losses was not sustainable. After looking for different options and long discussions, we partnered with LIFT, a donor consortium that aims to improve the lives of rural people in Myanmar, and [TCX](#), that started to provide hedging against the Myanmar Kyat volatility.

This innovative blending solution took a lot of creativity and collaboration from the three parties involved. LIFT contributed with grants to cover not only the currency risk but also to provide capacity building to the MFIs. TCX provided the expertise for the hedge. As a result, Cordaid Investments disbursed €10 million in loans between end 2016 and mid-2017 to support 4 MFIs. In this way, we reached 58,814 micro-entrepreneurs in 2017, including many thousand smallholder farmers.

SIERRA LEONE: Making solar energy affordable through local currency debt financing

In Sierra Leone, only 12% of urban households and 2% of rural households have energy access. In areas without grid access, people use low quality torches, kerosene lanterns or diesel generators. By supporting Easy Solar, Cordaid Investments helps to make clean energy affordable to these communities.



(One of Easy Solar's clients in Sierra Leone. © Easy Solar)

Easy Solar distributes solar-powered devices on a rent-to-own financing structure. Cordaid Investments played a key role in their growth journey by supporting them with local currency debt financing.

Three young professionals who met at graduate school had something in common: a concern for the hundreds of millions of people worldwide who have huge limitations in their lives due to the lack of energy access. They identified that in East Africa there were many initiatives related to energy access. “Mobile money was one of the main drivers behind the ascension of this industry in East Africa”, says Alexandre Tourre, CEO of Easy Solar. “We were thinking that there are a lot of countries in Sub Saharan Africa where mobile money has not picked up as well as it has in East Africa. So, we were trying to come up with a model that would allow these countries to access new energy products without necessarily relying on the mobile money infrastructure.”

“We are very much exposed to the fluctuation of the local currency versus the dollar. This is where Cordaid has been a lifesaver.” Alexandre Tourre, CEO Easy Solar

With this inspiration, they founded Easy Solar in 2016. This social enterprise makes high quality solar energy affordable and available for all. By doing that, the company says, ‘we aim to transform the way off-grid communities in West Africa live, work and play’.

Easy Solar currently has operations in Sierra Leone. They employ 39 people and generate 73 indirect jobs (brand ambassadors and distribution agents who sell the products to rural households). The company recently reached the 10,000th client, Mr. Abdul Sesay. He chose Easy Solar because it provided an affordable product with the option to pay on credit and a warranty that promises to replace the product if there is an issue with it.

Another key attribute of the Easy Solar offering is that they have a far reaching community based agent distribution network. “We bring products to people who haven’t been brought anything other than beer, Coca Cola and some sim cards. Literally the distribution network in Sierra Leone in those rural areas is almost inexistent. We really go the last mile to meet with our customers”, Tourre explains.

Easy Solar’s journey in Sierra Leone has not been easy. “There is no business ecosystem, very few business services exist. We have to do everything: logistics, technology, IT development, etc”, says Tourre. Another barrier to growth is the lack of talent. “We spend a lot of time and money recruiting and training people”.

Why Cordaid’s local currency debt financing was a lifesaver

According to Tourre, access to finance in local currency is also a big challenge. “If you are in imports business, it is important that you are able to raise money in local currency because we are buying our products in dollars and selling them in local currency. We are very much exposed to the fluctuation of the local currency versus the dollar. This is where Cordaid has been a lifesaver. They are the only financial institution that was able to provide us with a source of local currency debt financing. Not only in Sierra Leone but anywhere where we have been looking.

Tourre also highlights that *Cordaid Investments is acting as a catalyst*. “The fact that we had Cordaid support from the beginning is giving us leverage now in our discussions with much bigger investors, simply because we have demonstrated that we were capable of convincing an investor who supported us with a local currency debt financing scheme, that we have been able to manage this loan, and that we can repay properly.”

In order to reduce inequality, Easy Solar plans to expand beyond solar products. “We have started distributing fuel efficient cook stoves, phones, smartphones, and also finance over time. We want to be more than just a solar company. Our aim is to be a distribution network of high quality, life improving products with a finance in place. So, we will go beyond purely solar and address other issues that people are facing.”

Another ambition is to extend beyond Sierra Leone. However, before going abroad the founders have – and always have had – the clear objective of making the company financially sustainable. “We want to make sure that what we are building now will still be around in 20 years”, Tourre concludes. “That the distribution agents we have today will hand over the business to their kids in the future, and the products we are selling today will be able to service tomorrow.”

3. On COIN in The Netherlands / work with social cooperatives

In the Netherlands, Cordaid’s work with social cooperatives consists of three phases: orientation, start-up and development. After two years of Cordaid support, social cooperatives should be (financially) sustainable.

In the *orientation phase* Cordaid provides information, assesses the business plan of the social cooperative and discusses the implications of the *Participatiewet* with the municipality (this law, amongst other things, aims to bridge the labour gap for people with a distance to the job market).

The *start-up phase* includes the formal establishment and registration of the social cooperative. Cordaid advises on legal, fiscal and financial matters, drafts statutes, agreements and general conditions.

In the *development phase* we provide custom made support. Our trainings help social cooperatives to improve key skills, work out a business plan, as well as pricing and marketing strategies. We also assist the board with day-to-day business.

Once strong enough, we keep track of the cooperative’s individual members and operate as a sounding board.

Results include in The Netherlands: since 2016, more than 60 Dutch SMEs have been trained, 995,000€ WAS INVESTED in 9 SMEs and 24 SOCIAL COOPERATIVES were supported by Cordaid in 19 municipalities in the Netherlands.