EUROPEAN
MICROFINANCE
PLATFORM

NETWORKING WITH THE SOUTH

Making Microfinance Investment Responsible – State of the Practice in Europe

European Dialogue Number 3, November 2010

Prepared by Cécile Lapenu and Bonnie Brusky in collaboration with the e-MFP Making Microfinance Investment Responsible Action Group

With the support of

GRAND DUCHY OF LUXEMBOURG
Ministry of Foreign Affairs

Cooperation and Development Department

SECTION 3

Making Microfinance Investment Responsible – State of the Practice in Europe

CÉCILE LAPENU, CERISE AND BONNIE BRUSKY[1]

Introduction

Microfinance's success in terms of scale and poverty alleviation has drawn the attention of financial markets. The recent financial crisis has intensified this interest, as investors observe microfinance's resiliency. A study by Krauss and Walter[2] (2008) found that microfinance institutions (MFIs) had limited exposure to systemic risk due to low correlation to international capital markets. They also found MFIs were significantly less affected by macroeconomic shocks than commercial banks. Microfinance institutions have long had faith in their profit potential; investors are starting to respond. By the end of 2007, microfinance investment vehicles (MIVs) had over US$ 5 billion assets under management. As of December 2009, there were 91 active MIVs with total assets of US$ 6.2 billion[3].

At the same time, microfinance is under increasing scrutiny. Controversies abound over the risks of over-indebtedness, microfinance's actual impact on clients and the ethics behind highly publicized IPOs like Compartamos and SKS. The result has been a call to "go back to the basics" — client-centred institutions that offer products that make a difference. One consequence of this is that social performance assessment has become an integral part of MFI appraisal, and increasingly common in the investment world.

This issue of European Dialogue is a follow up to the 2008 issue, "The Role of Investors in Promoting Social Performance". The 2008 issue set out to take stock of investment funds' practices in terms of promoting and assessing social performance. In the last two years, practices have become more systematic and refined, as social performance assessments of MFIs have become commonplace. The time has come to see how far we've come to "Making Microfinance Investment Responsible".

1 Independent consultant

2 Krauss, Nicolas A. and Walter, Ingo, Can Microfinance Reduce Portfolio Volatility? (February 2008). NYU Working Paper No. FIN-06-034. Available at SSRN: http://ssrn.com/abstract=1300771

3 See Martinez, Reille in this European Dialogue

What are investors doing to systematize social performance management at the MFI level, and what are they doing to improve their own practices as responsible investors? What tools and approaches are being used? What data is being collected and analysed, and how is it being used? What kinds of relationships are investors building with their MFI investees? In short, what are funds doing to ensure their investments are socially responsible? These are the questions that guided this issue of European Dialogue; their answers can be found in the pages to come.

Sector developments

The 2008 issue looked into how investment funds measure the social performance of their MFI investees. The practices of a variety of actors were profiled: Oikocredit, EFSE, Triodos, FMO, Incofin, Alterfin, and SIDI. In their contributions to the European Dialogue, these investors underscored their strong commitment to social performance, detailed their experiences testing assessment procedures, and expressed a desire to know their investees better.

They also discussed challenges: How is it possible to standardize indicators and compare social performance across the different contexts where investors work? How should investors interpret social performance data? How can they best leverage it in their dealings with MFIs? What can be done to make sure both MFIs and funds perceive social performance as central to their activities, and not just an extra expense? Today, answers to some of these questions are emerging.

In this issue

The first part of this issue of European Dialogue presents different approaches to assessing responsible microfinance investment. The first overview of its kind, the tools and approaches described here are both innovative and complementary. In the first article, CGAP presents the most recent findings from its MIV Disclosure Guidelines, a reporting format integrating ESG indicators (environmental, social, governance) that distinguishes different types of funds based on social practices. Next, CERISE introduces its Social Audit tool for MIVs (SAM). Designed to analyse investment funds' strategies, activities and available data in view of strengthening and systematizing their social responsibility approach, SAM was tested by Oikocredit in 2009, which shares its experience with us here. Rating agency M-CRIL describes its newly revised rating framework, which provides a systematic approach for evaluating financial and social performance of investment funds. Finally, labelling agency LuxFLAG recounts

its experience with incorporating a new dimension to its Microfinance Label, to ensure social, environmental and ethical issues are integrated into funds' methodologies and systems.

Part two examines how some European investment funds collect social performance information on their MFI investees, and use this data to better understand the relationship between social and financial performance, the nature of their portfolio, and to strengthen advisory services to partners. As the authors point out, data collection is not an end in itself, and should be as useful to the MFI as it is to the MIV. Grameen Crédit Agricole Microfinance Foundation and Triple Jump share their experiences with conducting social assessments during the due diligence process. Social investors Incofin, Alterfin and SIDI detail how they utilize social performance data and end-client profiles to inform their responsible investment strategies. These funds tend to evaluate their own practices using the frameworks reviewed in part one. Analyses focus on geographic and institutional targeting (i.e., urban/rural; tier of MFI), diversity of services, and participation in governance.

Part three offers perspectives on some cross-cutting issues. In the first article, Blue Orchard discusses how some investors are responding to concerns of over-indebtedness. It is followed by a description of an initiative of different industry actors, in conjunction with UN Principles for Responsible Investment, to establish Principles for Inclusive Finance. They include many of the same elements that define the frameworks presented in part one: range of services, client protection, fair treatment of investees, responsible investment policies and reporting, transparency, balanced return and harmonized investor standards. Next, the minutes of a meeting organized by Triple Jump and Oikocredit, to discuss ESG assessment tools for MFI partners and kick off a new working group on harmonizing tools, gives us an insider's view of recent developments in this area. Although steps towards harmonisation have just begun, the idea of finding a "lowest common denominator" – related, for example, to the principles of consumer protection, is emerging, as each fund has its own set of indicators that reflect its values and objectives. Also in this section, Swiss foundation RAFAD describes its experience with guarantees as a multi-purpose tool with high potential for social impact. The final article transcribes two conversations between four different sector stakeholders around the issue of foreign and local ownership of MFIs. The authors highlight their experiences with foreign and local investors in Africa and Latin America and evoke the challenges to foreign investment from both the MFI and investor perspective. They also offer perspectives of elements to consider for the definition and assessment of responsible microfinance investment.

The articles in this issue show the chain of responsible microfinance—linking MFIs, investors, technical assistance providers, rating agencies, labelling agencies and investment funds—is growing stronger, as each actor strives to be more accountable and responsible for its own actions.

They also indicate that investors generally take a "pragmatic" approach to social responsibility, seeking to respond to growing public scrutiny and to reconcile social and financial objectives. Indeed, investment funds frequently use social performance data to determine the correlation between social and financial indicators, looking for the answer to one of the sector's biggest questions: is it possible for strong social and financial performance to coexist? The articles by Incofin, Grameeen Crédit Agricole Microfinance Foundation and Triple Jump appear to support what studies by CERISE, MIX, other investors and rating agencies have already found: the two can be mutually reinforcing.

The articles also show that social performance data is used not so much to define selection criteria, but rather to help investees improve their practices. Sometimes, funds do set minimum thresholds (a score of > 50% on Incofin's scorecard, for example, or level of effective interest rate/average loan size for Grameen Crédit Agricole). However, in most cases, social performance data helps investors know their investee partners better and identify their needs.

Remaining challenges

Efforts to standardize and harmonize concepts and data collection methods are driven by investors' desire to give a consistent message to MFIs, to facilitate benchmarking and to benefit (themselves and MFIs) from economies of scale. But there is still a long way to go. Take the term "tier", for example; what constitutes a 1st or 2nd tier MFI is far from standardized (as the different definitions appearing in this issue testify!). Moreover, as investment funds are quick to point out, standardizing procedures within each fund is already a challenge; building consensus around a common set of indicators and definitions among funds will undoubtedly require time and reflection.

What constitutes responsible investment criteria is also still unclear: What is an acceptable interest rate, return on investment, or growth rate? What can be considered fair wages? What are reasonable minimum standards of consumer protection? While several industry platforms (e.g., MicroFinance Transparency, the Smart Campaign) have set out to tackle these issues, there are still no benchmarks.

Finally, there is the challenge of providing support services to MFI investees. It is difficult for investors to establish how to best accompany investees in their social performance management (SPM) when each MFI approaches it differently. And, even when MFIs do have clear social objectives and comply with minimum standards, many still do not have the policies, procedures and adequate information systems in place to make SPM a reality. As a result, most investment funds still struggle to aggregate data for their investee portfolio.

Despite these challenges, the state of responsible microfinance investment has evolved considerably from 2008. Social performance assessments of MFIs have gone mainstream. Investors are increasingly open to analysing their own systems and strategies and finding ways to make the most of social performance data. The industry's values are in sharper focus: financial inclusion; appropriate, well-designed services; compliance with ethical principles; client protection; decent working conditions and protection of the environment. Microfinance investment is coming of age.

TOOLS AND APPROACHES FOR ASSESSING RESPONSIBLE INVESTMENT IN MICROFINANCE: NEW DEVELOPMENTS IN THE SECTOR

SECTION 1:

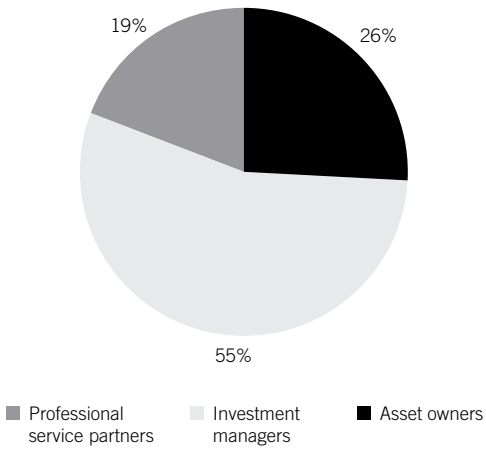
How Socially Responsible are Microfinance Investment Vehicles (MIVs)? Results from CGAPs 2010 survey

MERITXELL MARTINEZ AND XAVIER REILLE, CGAP[4]

1. Investing responsibly in microfinance and beyond

Responsible investing is a hot topic. European responsible investments have grown from EUR 2.7 trillion in 2007 to EUR 5 trillion in 2009[5]. The number of signatories to the United Nations Principles for Responsible Investment (UN PRI) has soared to 803, totalling over USD 18 trillion of assets.

Graph 1: 803 Signatories UNPRI
(as of August 2010)



The diverse terminology in this area, from socially responsible investment to impact investing is confusing for outsiders. While responsible investing primarily focuses on listed companies and integrates environment, social and governance (ESG) principles in the investment process, the impact investing movement supported by the Global Impact Investing Network (GIIN) has a radically different approach: it aims to invest in social

4 We kindly acknowledge the contribution of Antonique Koning to this article.
5 As of December, 2009, Eurosif.

business addressing social or environmental challenges and generating a financial profit at the same time. Impact investment is gaining momentum and could reach USD 600 billion in the next 5 – 10 years[6]. Microfinance investors have been **using a broader set of metrics** including social and financial performance indicators to track and report on their investments. Leading investor associations such as the International Association of Microfinance Investors (IAMFI) and Council of Microfinance Equity Funds (CMEF) and asset managers have worked with CGAP to develop a common set of disclosure standards to report on ESG performance in microfinance. These disclosures have been integrated in the MIV disclosure guidelines,[7] the microfinance industry standard for investor reporting. This brief analyzes results of CGAP's annual survey on MIV[8] performance with a focus on environmental, social and governance (ESG) results[9]. It also reflects on the challenges ahead for responsible investment in microfinance.

2. MIV investment landscape

As of December 2009, there were 91 active MIVs with total assets under management (AUM) of USD 6.2 billion. MIV growth has slowed down for the third consecutive year reaching 25% in 2009 compared to 86% in 2007 and 34% in 2008. This sharp drop in growth paralleled the drop in MFI growth over the last 2 years.

Overall, 2009 and 2010 have been challenging years for microfinance investors. Widespread deterioration in MFI assets quality, MFIs restructuring in a handful of markets such as Nicaragua or Morocco, and a drop in MFI demand for capital have impacted the MIV business. However, MIVs are showing signs of resilience to this adverse business environment and their total assets under management are still growing at 25%, with 11 new funds created in 2009. Although growth is slower than in previous years, microfinance remains an attractive asset class. MIVs are also increasing their commitments to track ESG indicators. Over two thirds of the 91 MIVs responded to the 2010 CGAP MIV Annual Survey, which started collecting ESG indicators in 2008 (see Annex 1 with 2010 list of indicators).

6 Monitor http://www.monitorinstitute.com/impactinvesting

7 The CGAP MIV disclosure guidelines are available on line on www.cgap.org/investors

8 MIVs are independent investment entities with more than 50% of their non-cash assets invested in microfinance. The categories based on their funding base and legal structures are: private placements funds, cooperative/non-governmental organization funds and collateralized debt obligations (CDOs).

9 The CGAP 2010 MIV survey is powered by Symbiotics. It includes a detailed analysis on the financial and social performance of MIVs in 2009. The survey is available online at www.cgap.org/investors.

3. ESG performance of MIVs

Box 1: What can we learn from ESG reporting?

E dimension highlights:

- Still few MIVs (19% of respondents) compensate for carbon emission. The highest percentages are for public placement funds (70%) and collateralized debt obligations (CDOs) (30%).
- 40% of MIVs are currently using an environmental exclusion list in their lending process.
- Public placement funds are more pronged to integrate environmental issues in investment decisions.
- Half of MIVs assess MFIs' environmental risks.

S dimension highlights:

- MIVs finance an average number of 84,456 clients. This number varies from over 200,000 for cooperatives or 158,000 for public placement funds to over 30,000 for private placement funds (equity).
- 81% of respondents endorsed the Client Protection Principles, compared to 61% last year.
- Average investment size is USD 1,8 million – for private placement funds (equity) and is higher for CDOs, almost twice that average.
- Average loan size is USD 1259. This is close to the MIX averages for LAC and ECA. CDOs appear to invest in organizations with higher loan averages (USD 1828).

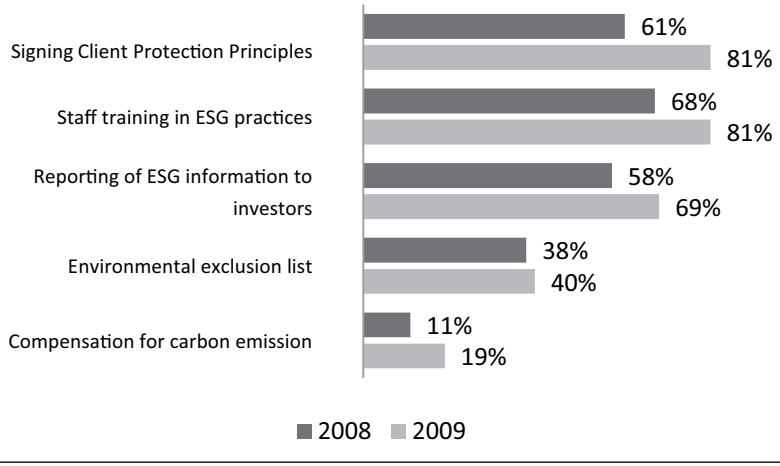
G dimension highlights:

- Private placement funds (fixed income and equity) are the MIVs that report less on ESG to their investors. All public placement funds responding to the survey report ESG information to their investors.
- The majority of MIVs train their staff in ESG practices (81%). Conversely, most MIVs review MFI policies and procedures related to corporate social responsibility (CSR) (90%).

MIVs in microfinance have very different motivations and return expectations but the majority of those reporting on ESG portray themselves as socially responsible investors drawn to microfinance for its potential to deliver both financial and social returns. Box 1 summarizes results on each ESG dimension for the 73 respondents to CGAP's MIV Survey:

Results from the survey indicate that 69% of MIVs report on ESG issues to their investors, compared to 58% recorded last year. Hence, it appears that MIVs not only track more non-financial information but they also share it more with their own investors. Graph 2 summarizes five key reporting areas that experienced improvements from 2008 to 2009.

Graph 2: ESG reporting 2008 vs. 2009



Surveyed MIVs largely endorse the Client Protection Principles, which appear as a minimum standard required for socially responsible investors; moreover, ESG staff awareness seems to be rising with training as another "minimum standard". Other areas such as environmental reporting remain challenging, the fact that exclusion lists need to be locally relevant might explain the low uptake of this disclosure.

Social outreach data collected in the survey highlights the pattern of the clients reached by MIVs investees. The majority of borrowers are women (64%) and live mostly in urban

areas (54%). The data related to the product range of their investees emphasizes the current development of the sector: even if 71% of the investee portfolio is used in microenterprise loans, MFIs are more and more integrating other financial products in their offering. For example, 10% of the investee portfolio is used for consumption loans. In addition, a significant percentage of MFIs investees offer a broad range of other financial services (loan, insurances, and some provide non-financial services).

4. Challenges ahead for ESG reporting?

There are still many challenges to advance ESG reporting in microfinance:

First, coordination of different reporting and standard promotion initiatives and platforms is key for success. In that context, the Social Performance Task Force, CGAP and the GIIN platform have agreed to promote the same standards in microfinance at the provider level. Similar cooperation at the investor level should be also fostered.

Box 2: Is screening enough?

Cancer charities with shares in tobacco companies and environmental groups putting their money behind controversial dam projects are just two of the more embarrassing revelations about charity investments in recent years. "Dirty Money", The Guardian, 14 May 2003

Second, external validation systems are needed to ensure that the information reported is reliable. The efforts of the Global Impact Investing Ratings System and of the microfinance specialized rating agencies to create third-party validation products for MIVs, while still nascent, appear to be moving in the right direction. The ratings should be easy to use, comparable, market driven and based on a common framework accepted by different investors.

Third, benchmarking is the next step once a clear reporting framework has been adopted and standardized information available. Without the possibility of analyzing and comparing ESG data across different funds the reporting effort appears half completed.

Last but not least, the debate on truth in advertizing is a dilemma not particular to the microfinance industry but to any socially responsible, impact-driven business. Marketing brochures will always provide a biased image of an MIV performance. Ratings and benchmarks are necessary to support investors' due diligence.

ANNEX 1: ESG framework for MIVs

1. Environment

Compensation for carbon emission
Environmental exclusion list
Environmental issues integrated in investment decision
Assessment of MFIs' environmental risks

2. Social

Outreach

Number of active borrowers financed (in thousands)
Average loan size of MFIs to active borrowers (in USD)
Rural active clients as a % of total active clients
Urban active clients as a % of total active clients
Women active borrowers as a % of total active borrowers

Product Range

% of MFIs' portfolio in microenterprise loans
% of MFIs' portfolio in loans for immediate household needs
% of MFIs in the MIV direct portfolio offering savings products
% of MFIs in the MIV direct portfolio offering insurance products
% of MFIs in the MIV direct portfolio offering other financial services
% of MFIs in the MIV direct portfolio offering non financial services
Voluntary savers as a % of active borrowers

Client protection

Endorsement of the Client Protection Principles (%)

Implementation

Information of investee MFIs of our endorsement of CPP (1-5)1)
Changed screening criteria to include CPP-related issues (1-3)2)
Training of staff/consultants/fund managers are trained on CPP (1-5)1)
Compliance with CPP is referred to in financing agreements
For equity investors: discussion of CPP at the Board meeting (1-5)1)
MFIs requested to report on CPP impl. (regular MFI reporting)

3. Governance

Reporting of ESG information to investors
Staff training in ESG practices
Review of MFIs' policies and procedures related to CSR
Requirement of anti-corruption and/or internal whistle blowing policies
Number of board seats the MIV has with retail microfinance providers
Average number of board seats in MFIs with equity investment

Responsible Investment in Microfinance: what can we learn from social audits for MIVs?

CÉCILE LAPENU, CERISE[10]
GING LEDESMA, OIKOCREDIT
BONNIE BRUSKY[11]

Introduction

With tens of thousands microfinance institutions (MFIs) worldwide, millions of clients and huge growth potential, microfinance is increasingly in the public eye. Enthusiasm for the sector has boosted capital flows, especially over the last five years. This dynamic growth has not been without pitfalls, however. There is a need for prudence, especially in today's fragile financial environment. There is also a need to go back to the basics: client proximity, simple and well-designed services, risk accountability and the double bottom line.

Increasingly, MFIs need to show they are not only financially viable, but also serve a genuine social purpose. Microfinance investors can help MFIs in this respect, by promoting assessment and management of social performance among their partners. Investors can also reflect on their own strategy, to ensure investments are socially responsible.

Tools that track and report social and financial performance help do just this. MFIs have a variety of choices when it comes to assessing social performance: audit tools and rating methodologies have multiplied in recent years (SEEP, 2008). By contrast, investors have been somewhat forgotten, until recently. A new generation of tools and approaches, designed for investors, are cropping up. Social audits, ratings, labels and reporting frameworks[12] at the level of Microfinance Investment Vehicles (MIVs) create

10 The authors would like to acknowledge the valuable contributions of Antoine Ambert and Florent Bédécarrats, as well as the following institutions Agence Française de Développement, Alterfin, Blue Orchard, CGAP, Grameen-Crédit Agricole Foundation, Incofin, Investisseurs et Partenaires, Kiva, Proparco, responsAbility, PAMIGA, SIDI, Swiss Agency for Cooperation and Development, Triodos-Facet, Unitus, and Koenraad Verhagen, consultant.
11 Independent consultant.
12 See in this European Dialogue the papers by Martinez and Reille; Sinha et al.; Hamon.

incentives to finance and support institutions pursuing a double bottom line. They strengthen the chain of responsible finance, linking socially responsible clients, MFIs, MIVs, investors and shareholders. Moreover, these tools can serve the microfinance sector by increasing transparency and improving credibility of socially responsible investors in microfinance, thus attracting new investors.

This article presents one of these tools, the Social Audit tool for MIVs (SAM). Social audits are internal tools: they build awareness and foster internal reflection, thus allowing MIVs to take stock of their practices, strategies and social impact. They can effectively serve as a management tool, to guide investment decisions. They can reveal a fund's comparative advantages, thus helping the MIV stay focused on its objectives.

SAM has been designed by CERISE to promote socially responsible investment in microfinance. The tool assesses MIV's strategy, investee social performance, and social responsibility in a way that is transparent and standardized. The first section of this paper will look at the conceptual framework of SAM, the concepts and the initiatives that have inspired this tool. In the second part, we will outline the characteristics of the tool. Then, in the third section, the investor Oikocredit will share what it learned from piloting the tool in 2009, in terms of challenges, gaps and next steps.

Conceptual framework

In the years it took CERISE and its partners to develop an MFI social assessment tool, the Social Performance Indicators (SPI), they built relationships with private and public microfinance investors. These investors have served as a sounding board for the operational tool presented here. To start with, CERISE exchanged regularly with different investors to get their reactions to an assessment tool and to analyze their need to promote social performance. Fifteen in-depth interviews were conducted, addressing strategy, MFIs screening, services, technical assistance, MFI governance and social responsibility. The objective was to define a framework and indicators for a tool that is simple to administer and reflective of different investment approaches.

The Social Audit tool for MIVs adapts socially responsible investment (SRI) concepts and the United Nations' Principles for Responsible Investment (PRI) to microfinance. It incorporates indicators derived from CERISE's Social Performance Indicators (SPI). and draws on CGAP's work on aid effectiveness as applied to microfinance funders, and good practice guidelines MIVs should consider when investing in the sector.

Socially responsible investment

Socially responsible investment is the process of integrating social, environmental and/or ethical criteria into investment decisions. Enormous sums have been invested in the name of socially responsible investments[13]. However this apparent success stems primarily from a flexible nomenclature. Any investment fund wanting to call itself a socially responsible investor can. This self-regulated labeling system was somewhat called into check by extra-financial rating agencies in the late 1990's, which developed assessment indicators for SRI funds. For the most part, however, SRIs are still self-regulated. In the absence of clear principles and sanctions, investors compare among themselves, setting benchmarks that are necessarily relative and based on little more than peer pressure.

Often, the mere act of investing in microfinance grants the label "socially responsible". Yet, as social performance audits and the campaign for Consumer Protection Principles suggest, microfinance operations are not inherently "responsible." There is a need for clear social, environmental and ethical responsibility criteria exclusive to microfinance.

Moreover, some initiatives such as the Global Impact Investing Network (GIIN) and its Impact Reporting and Investment Standards (IRIS)[14] identify "one of the limitations to the growth of the impact investing industry [as] the lack of transparency and credibility in how funds define, track, and report on the social and environmental performance of their capital". The GIIN has developed and promotes a common framework for reporting the performance of impact investments.

Principles for Responsible Investment

The United Nations has defined six Principles for Responsible Investment (PRI) that incorporate environmental, social and corporate governance (ESG) issues into investment decisions[15]. They offer a framework for financial institutions to improve returns over the long term in sustainable markets.

The principles call on investors to: 1) incorporate ESG issues into investment analysis and decision-making processes, 2) be active owners and incorporate ESG issues into ownership policies and practices, 3) seek appropriate disclosure on ESG issues by investees, 4) promote acceptance and implementation of the Principles within the investment industry, 5) work together to enhance effectiveness in implementing the Principles, and 6) report on activities and progress toward implementing the Principles.

The ESG framework is used in microfinance, but primarily as a reference. SAM translates the framework into detailed indicators specific to the sector.

13 SRI retail funds grown in number by +27% in one year, from 537 to 683 in June 2009, with a total assets under management increased by 9%: from €48 to €53 billion (data from Vigeo, 2009, cited by Marc Campanale, June 2010, Investors Roundtable, SPTF meeting, Bern, Switzerland).

14 http://www.globalimpactinvestingnetwork.org/cgi-bin/iowa/reporting/index.html

15 http://www.unpri.org

MFI Social performance sssessment and the SPI tool

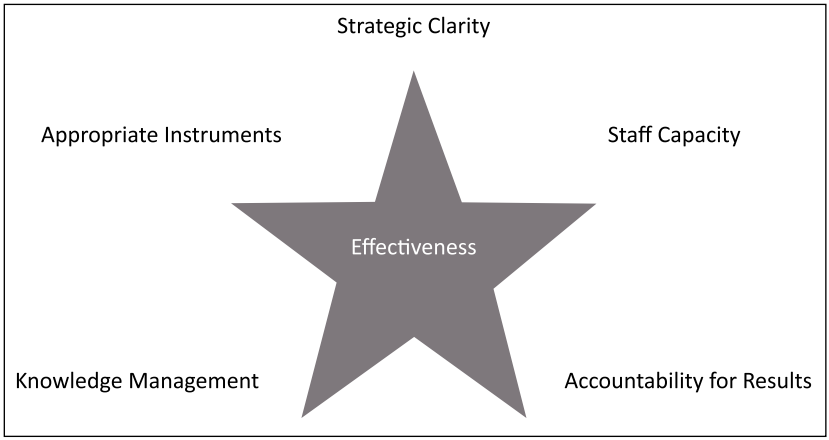
A social performance assessment determines whether an MFI's actions are aligned with its mission by analyzing the mission-process-results chain. SAM does the same for investors.

CERISE's SPI for MFIs has four dimensions: 1) targeting and outreach, 2) products and services, 3) benefits to clients and 4) social responsibility. The concept of social performance is widely accepted in terms of these four dimensions. Adjust these dimensions to investors, and we have the backbone of a four-dimensional tool that analyzes MIVs' capacity to 1) target MFIs that most need external funding, 2) adapt services to the needs of MFI investees, 3) build capacity and governance of MFI investees and 4) demonstrate social responsibility to the microfinance sector, and to the environment.

Principles for aid effectiveness

Microfinance investors generally seek to improve poor peoples' livelihoods. Because they have development objectives, it makes sense for them to respect CGAP's good practice guidelines, based on the Paris Declaration on aid effectiveness[16].

After conducting peer reviews of microfinance donors, CGAP identified five key elements of aid effectiveness: strategic clarity, staff capacity, accountability for results, knowledge management and appropriate instruments. Although these elements initially applied for public donor agencies, they are equally relevant to MIVs.



Good Practice Guidelines for Funders of Microfinance, October 1, 2006, CGAP

16 In March 2005, the members of OCDE endorsed the Paris Declaration on aid effectiveness. The signatories from 90 countries and 27 development institutions agree to increase efforts in harmonization, alignment and managing aid for results with a set of monitorable actions and indicators (http://www.oecd.org/document/18/0,2340,en_2649_3236398_35401554_1_1_1_1,00.html)

These five key elements guide the final analysis of SAM to understand how an MIV can most efficiently define its strategies and activities for responsible investment.

Description of SAM

The tool has three sections: strategy, social performance of investees and social responsibility of the MIV. It is designed to be administered internally by MIV managers and/or investment officers, but results can be verified by outside auditors, rating agencies, MFIs or even other MIVs.

Part 1: Strategy

Because the tool assesses social performance against the MIV's own objectives, the first section focuses on the investor's strategy and social mission as well as the vision of the different stakeholders.

Part 2: Social performance of investees

Section two focuses on the aggregated social performance of the MIV's investees, an indicator of the quality of an MIV's investment decisions and level of exposure. Some funds already track social performance based on their own monitoring system, but efforts are also under way in the sector for collecting standardized social performance data[17]. In particular, the Social Performance Standards (SPS), developed by the Social Performance Task Force (SPTF), were recently included in the MIX reporting format. This framework makes it possible to access and share standardized social performance data for MFI investees. As part of its work on MIV Disclosure Guidelines, CGAP, with the SPTF Investor Working Group, asked European and North American investors to identify which SPS for MFIs are most relevant to them. This core aggregated SPS will help compare the strategy and outcomes of each MIV's total portfolio[18].

Part 3: Social responsibility of the MIV

Section three analyzes the MIV's practices using social responsibility criteria based on the PRI framework. We have adapted the environmental, social and governance aspects, crossing them with issues specific to microfinance based on the 4 dimensions of SPI and related indicators. Taken altogether, the indicators measure MIVs' efforts to invest effectively and responsibly.

17 See in this European Dialogue the minutes of the Expert Meeting for social investors on tools to assess MFI ESG performance.

18 See in this European Dialogue the minutes of the Expert Meeting for social investors on tools to assess MFI ESG performance and the paper by Martinez and Reille.

Principles of Responsible Investment (PRI)				
	Dimensions	**Environment**	**Social**	**Governance**
		Criteria (Indicators)	**Criteria** (Indicators)	**Criteria** (Indicators)
SPI	**D1** **Targeting**		**1.1 Geographic focus** (region, LDC, rural) **1.2 Individual targeting by MFI type** (tiers, maturity, specific fin/social criteria) **1.3 Poverty focus / Gender**	
	D2 **Products and Services**		**2.1 Product mix** (equity, loans, guarantee, currency) **2.2 Quality of services** (conditions, cost, efficiency) **2.3 Technical assistance**	
	D3 **Governance**			**3.1 Involvement in the MFI** (support to social mission) **3.2 Internal policies** (trained staff, ESG report) **3.3 Financial policies** (dividends, entry & exit strategies)
	D4 **Social and Environmental Responsibility**	**4.3.Environmental responsibility** (standards compliance and implementation)	**4.1 Client protection** (endorsement of principles, implementation) **4.2 Social responsibility** (corruption, human rights, local development)	

Together, the three parts of the tool give an overview of the MIV's "mission-action-outcome" process, which can be analyzed against the aid effectiveness principles: Is the social mission clear? Are staff sufficiently trained to promote and manage social performance? Is the MIV transparent in sharing results? Does the MIV make optimal use of social performance data? Are tools appropriate to social performance assessment and management? The answers to these questions indicate whether the MIV is effectively attaining its social objectives and highlight areas for improvement. In sum, SAM gives to the audited MIV a comprehensive framework that can help strengthen its social strategy and formalize its procedures, to improve impact on MFIs and final clients.

The experience of Oikocredit

Oikocredit is an international cooperative financial institution based in Holland. Oikocredit supplies private investment capital to MFIs, cooperatives and small and medium enterprises in developing countries. Established in 1975, Oikocredit is privately financed by institutions and individuals. Oikocredit pays a modest annual dividend to its investors, and as a socially responsible investor itself, focuses on social returns on investment rather financial returns. With offices throughout Africa, Asia, Eastern Europe and Latin America, Oikocredit had 187 employees as of December 2009.

> Empowering the disadvantaged and creating a more just society are at the core of Oikocredit's mission. As a social investor, we are committed to supporting enterprises which are not only financially viable but also serve a genuine social purpose. We believe that increased ambitions for achieving our social goals and ensuring that our investments are truly socially responsible call for a strengthening of our potential for social impact.

Oikocredit is a pioneer among investors in social performance assessment and management of its microfinance partners. Since 2006, it has sought to build partners' capacity to use social performance assessment tools, among them the Progress out of Poverty Index (PPI), the SPI tool and a quantitative approach for measuring Social Return on Investment. Oikocredit has also supported international initiatives that promote greater transparency and accountability in the microfinance industry (Smart Campaign for Client Protection, MicroFinance Transparency, Imp-Act Consortium, ProsperA/SPI.

After several years experimenting with social performance assessment, Oikocredit decided in 2008 to take stock of its achievements and identify areas for improvement. Strong growth and an increasingly profit-driven focus had changed the microfinance sector considerably since Oikocredit's beginnings, and the institution felt a need to clarify what, exactly, it meant to be a "social investor". Investing in microfinance alone was an insufficient criterion for being a "social investor"; it was important to make sure that MFIs' end clients experienced positive changes.

In the absence of a fully developed, investor-specific tool for this kind of stock-taking exercise, Oikocredit—well-versed in the CERISE SPI tool—decided to collaborate with CERISE on the pilot-testing of a social audit tool for investors. For Oikocredit, a social audit was a first step towards an eventual social rating process.

The audit sought to answer the following questions:

1. What was Oikocredit's current state of practice in terms of social performance assessment and management:?
2. What has Oikocredit accomplished and how does it compare with other investors in microfinance?
3. What can be done to improve social performance management within Oikocredit?
4. How can Oikocredit help its partners to improve their own social performance?

Audit Process

The process was highly participatory. It was launched with a 'kick-off' session with CERISE and Oikocredit's managers in March 2009. The process involved:

1. Review of documents

- Submission of quantitative information and key documents to CERISE

2. Interviews

- Interviews with Oikocredit managers at headquarters in the Netherlands (2 days)
- Phone interviews with managers of 5 Oikocredit Regional Offices (2 days)

3. Presentation/discussion of preliminary findings

- Oikocredit Management Team
- Members of Oikocredit Support Associations
- Oikocredit Annual General meeting
- Oikocredit Regional Managers meeting

The final report was presented to the Oikocredit Management Team in September and the process was concluded in November 2009. Mid-way through the audit process, Oikocredit established a new department: the Social Performance and Financial Analysis Department. This change increased visibility and provided a stronger mandate for SPM within Oikocredit. The social audit report provided critical input for the Department's strategy formulation and planning process.

Audit Results

The audit found that Oikocredit's social mission and vision permeate all levels of the organization. It recognized that Oikocredit had taken the first steps to build SPM internal capacity through staff training and the use of tools for due diligence and monitoring.

The audit also highlighted the features that distinguish Oikocredit's portfolio from that of other investors:

1. Strong presence in Asia and Africa
2. Strong involvement and follow-up in less developed countries
3. Diversified portfolio by size of MFI, by level of MFI maturity and sustainability
4. Diversified portfolio in terms of sectors (in addition to microfinance, investments in agriculture, trade, health and education)
5. Good outreach in rural areas

The audit underscored a number of challenges:

1. **Strategy, Planning and Developing Appropriate Tools**

   Developing a strategy and comprehensive SPM framework that takes into consideration Oikocredit's highly decentralized operations and the importance of local initiatives on the one hand, and the need for coherence and standardization of approaches on the other.

2. **Capacity Building**

   Identifying areas for capacity building support at the level of MFIs partners, to enable them to go beyond measurement and monitoring and actually change their practices. This could include, for example, helping MFIs explore synergies with local partners and networks to strengthen local capacities.

3. **Measuring Change / Accountability for Results**

   Measuring changes in the lives of end clients and determining what financial service mix MFI partners could offer to increase impact on clients.

4. **Knowledge Management and Communication**

   Systematizing and aggregating Oikocredit's existing mass of social performance data, maximizing its use for planning/defining investment priorities and decision making, and developing systematic processes report on and adapt data to different stakeholders.

Follow-up

Immediately following the audit, Oikocredit addressed a number of important recommendations in terms of knowledge of its partners' needs, more systematized and strategic use of the information and social performance management.

- A client satisfaction survey was launched in January 2010 in response to the audit's findings that a system for soliciting feedback from investees on a regular basis was lacking. Based on results of this survey, a deeper review of Oikocredit interest rates and collateral requirements is being conducted.

- An overall strategy for SPM and capacity building has been set up for Oikocredit, and regional offices are in the process of defining regional SPM and capacity building strategies.
- A comprehensive Social Performance Report for Oikocredit has been published and will continue to be published annually. An Oikocredit website focusing on social performance has also been launched.

An incentive scheme that links interest rebates to high social performance has been fully integrated into Oikocredit's existing intake system. A broader scorecard for environmental, social and governance issues (ESG) has been developed in collaboration with SNS AM, an asset manager in the Netherlands. This scorecard was shared with other investors at a meeting in Amsterdam organized by Triple Jump and Oikocredit in September 2010. Staff training, development and efforts to ensure a consistent approach to social performance initiatives continues. A week-long training for all staff responsible for social performance and capacity building also took place in September 2010.

Conclusion

Oikocredit was the first investor to pilot test SAM, CERISE's new tool to assess social performance of MIVs. The audit enabled Oikocredit to hold a mirror up to itself – examine its practices and results critically in the light of its intentions. The audit has identified strengths, showing that in many areas, activities, processes and achievements are consistent with Oikocredit's goals. The audit has also challenged the organization to address gaps and weaknesses, and resulted in recommendations that have helped Oikocredit strengthen its own social performance management.

The positive outcomes of the Oikocredit experience highlight the uniqueness of SAM to orient internal strategies and help MIVs move towards more responsible investments in microfinance.

Rating of Microfinance Investment Vehicles: a pilot initiative by M-CRIL (Micro-Credit Ratings International Ltd)

FRANCES SINHA AND SANJAY SINHA, M-CRIL

Engaging with four MIVs, through Blue Orchard, Incofin and Oikocredit. Supported by Anthos Amsterdam and Swiss Development Cooperation (SDC)

The rating of an investment fund for microfinance, or a microfinance investment vehicle (MIV), is a new professional service, responding to the need for transparent and systematic information at the MIV level, as much as at the level of the investee microfinance institutions (MFIs). This paper reviews the rationale for MIV rating, the framework developed by M-CRIL, some of the pilot results and issues in defining and assessing 'responsible investment' in microfinance. Specific challenges and next steps are also considered.

Why rate MIVs?

Rating is relevant to:

- prospective funders, to offer a way to assess investment purpose and performance in relation to their own investment goals and social values and to compare different funds directly,
- to the MIV management, to provide a systematic profile and analysis of strengths and issues,
- and
- to prospective investees (MFIs) who are beginning to look for differences between the funders that approach them.

Just as questions are asked at MFI level, with MFIs increasingly expected to be transparent on both their financial and social performance, the same questions are now being asked of MIVs and the same issues also relate to them.

As an investor, Anthos asked for rating to provide an assessment of: how the MIV compares to its peers? How well are they doing their job? What are their strengths and

weaknesses? What kind of investor should be interested in a particular fund? SDC, in addition, was interested in developing standard methods of assessment and reporting. Both funders were particularly interested in 'social returns' and therefore asked for a rating of both financial and social performance.

THE PILOT

The pilot ratings were undertaken of Blue Orchard's Dexia Microcredit Fund (DMCF), Incofin CVSO and Rural Impulse Fund (RIF) and Oikocredit. The fund managers who participated in the pilot, were looking for:

- an independent view of their performance
- a way of demonstrating transparency
- a check on gaps and areas to improve
- a comparison with peers
- information on what is involved in social performance, and
- a document that can be shared and discussed with existing and potential funders.

Table 1: Pilot process November 2009 – October 2010

- Designing the rating framework – financial and social
- Preparation and data request from the fund managers
- Rating team visits to head offices of the fund managers – discussion with managers and analysts, collection of additional data
- Data analysis and draft reports on four MIVs
- Fund managers' comments on draft reports
- Comparative rating/scoring of four MIVs
- Review meeting with funders and MIV managers and CGAP
- Revised reports

The rating framework

For the MIV rating, M-CRIL has adapted the existing MFI level rating framework (financial and social) to apply to the funding level. The adaptations were made to reflect assessment at the level of the institutional manager, the fund and the investees. Through the pilot experience and discussion, the framework has evolved as set out in Table 2.

Table 2: M-CRIL's framework for rating MIVs

Rating	Number of Indicators		Key elements/indicators
	Fin.	Social	
Fund manager Institutional assessment (financial &/or social)	4	6	Board composition and orientation, management capability, policy on 'sustainable growth' and CEO pay at investee level, staff culture, approach to social performance, engagement with social performance initiatives, women staff ratio, market positioning
Financial assessment of the MIV	3		**Funder processes**: subscription process, fees for funders, anticipated returns, repayment and exit
	8		**Risk mitigation**: equity orientation, tenure of debt investment, quality of partner monitoring, liquidity management, Forex risk management, geographic risk management, concentration/ diversification of portfolio, internal control mechanisms
	11		**Financial performance, fund level**: profitability (return on assets) and trends, efficiency, portfolio quality, loan loss provision, liquidity ratio
	7		**Financial performance, investee level**: RoA, portfolio quality, ratio of loan loss reserve to PAR, Capital adequacy ratio, diversity of funding, rating grade
Social assessment of the MIV		7	**Social orientation and supporting systems**: clarity of social goals and monitoring their achievement, screening process, local currency investment, tenure of debt investment, equity orientation, social covenants, guidance to investees
		6	**Client protection and supporting systems**: guidance to investees on client protection principles, financial education for clients, view on yield margin at investee level, monitoring costs to clients
		7	**Other social responsibility**: monitoring human resources policies of investees, policy on fair remuneration of investee staff, monitoring gender issues (beyond number of women clients), environmental issues included in investment decision, environmental exclusion list, guidance to investees, own environmental practices
		8	**Investee feedback on the MIV**: on transparency, reporting requirements, shared values
		6	**Social performance systems in place at investee level**: client protection systems, market intelligence, social rating/audit and grade
		6	**Outreach, investee and end clients**: tier category of MFIs, countries of low development by HDI, rural/urban, women, client exit rate
		66	
Total	**33**	**46**	

The indicators selected for rating are included in the indicators covered in the CGAP MIV survey, both financial indicators and the environmental, social and governance (ESG) indicators, though going beyond these, with additional analysis. Average data available from the CGAP MIV survey, and also from the MIX market for MFIs, were used in the rating report for comparison and benchmarking. (Note: CGAP MIV data as of end 2009 has become available in September 2010. At the time of the ratings, the available data for MIVs and for MFIs (MIX) related to end 2008).

MIV snapshot

The MIVs who participated in the pilot rating represent different categories of fund in terms of legal form, scale, financial instruments and outreach. Table 3 provides a snapshot.

Table 3: Snapshot of funds participating in the pilot MIV rating (2009)

	DMCF	Incofin CVSO + RIF	Oikocredit	C-GAP: MIV Average
Date of creation	2001	2001 + 2007	1975	
Assets ($million)	536	58	752	80
Financial instruments	**Debt**	**Debt & equity**	**Debt & equity**	
Staff in non-OECD countries	4	2	128	
MFI investees	98	43	543	
SME investees			256	
End clients of MFI investees	9.45mn	3 mn	14.7 mn	
End clients supported by MIV (est)	380,000	70,000	760,000	84,455
Number of countries	34	24	>60	

Selected findings

The following findings have been selected with more of a focus on social performance, since this publication is looking at ways of 'Making microfinance investment responsible'.

Mission and values: The MIV holding companies have mission statements that reflect the social values of microfinance: 'Empowering the poor', 'Empowering disadvantaged people'… 'Socially responsible investments' … 'Contributing to alleviation of rural

poverty' … 'Demonstrable social impact' …'Sharing resources'. Whilst believing in these values, they have yet to define what they mean, in terms of specific indicators that can be monitored and reported on to provide evidence for their achievement through the MIVs. Two of the MIVs at fund level do specify outreach objectives, in terms of for example % investment in S. Asia and sub-Saharan Africa (Oikocredit) or % MFI branches catering to rural populations (RIF).

The four MIVs have endorsed the Client Protection Principles, and to different degrees have become engaged with other international initiatives: to promote MFI social ratings/ audits (Oikocredit), implement practical tools for poverty assessment of MFI clients (Oikocredit) and support sustainable environmental practices (Incofin and Oikocredit).

Staff capacity and orientation: The MIVs have skilled and motivated managers and analysts, with high levels of expertise and knowledge of microfinance, especially financial. Oikocredit hires investment managers and analysts in country which is an advantage for local market knowledge, but poses some challenges in finding the right capacity, and reporting. Social performance capability is beginning to grow, with an approach to social performance becoming integrated within management systems and processes, and specified responsibilities within the team. Incofin, as a first mover in developing a social scorecard, already has quite an integrated approach.

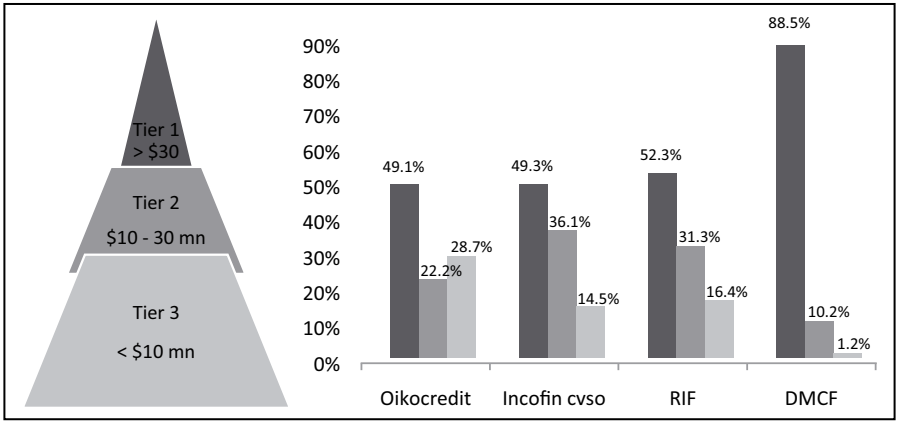
Selection of investees – screening criteria: The MIVs have established systems for financial screening, including: the due diligence visit by the analyst (usually 2 days), use of audited financial reports and a financial score sheet that analyses key financial ratios – profitability, efficiency and portfolio quality. Systematic screening of investees on social performance is an emerging area. Incofin has had a social score card since 2007, which is completed for potential investees of all funds as part of due diligence. The score card, known as ECHOS, covers (in order of weighting) quality of customer service (including client protection principles), outreach and access, human resources, environment and corporate social responsibility, and social mission/vision. An investee must score more than 50% on both financial and social indicators. Incofin has rejected a couple MFIs that scored over 50% on financial performance but under 50% on social performance (and the MFIs went to other investors). Oikocredit has always included social criteria as part of the investment screening, and has now developed a systematic social score card. Blue Orchard too at the time of the rating was in the process of developing a social score card.

The different score cards are largely aligned with the Social Performance Framework[19], covering the key dimensions, with some variation in the indicators. Closer alignment by social investors in future would support a consistent message and reporting requirements for MFIs. MIVs would still have the option to introduce specific indicators or different weights to reflect their stated goals.

19 Developed through the Social Performance Task Force, and reflected in the Social Performance Standards for reporting to the MIX.

Investment by size of MFI investee: MFIs can be categorized by asset size. 'Tier 1' MFIs are established, more mature institutions with assets over $30 million. 'Tier 3' MFIs are smaller scale, including start-ups and niche players, with assets under $10 million. Analysis of MIV investment according to MFI Tier categories is shown in Figure 4.

Figure 4: MIV portfolio by MFI Tiers



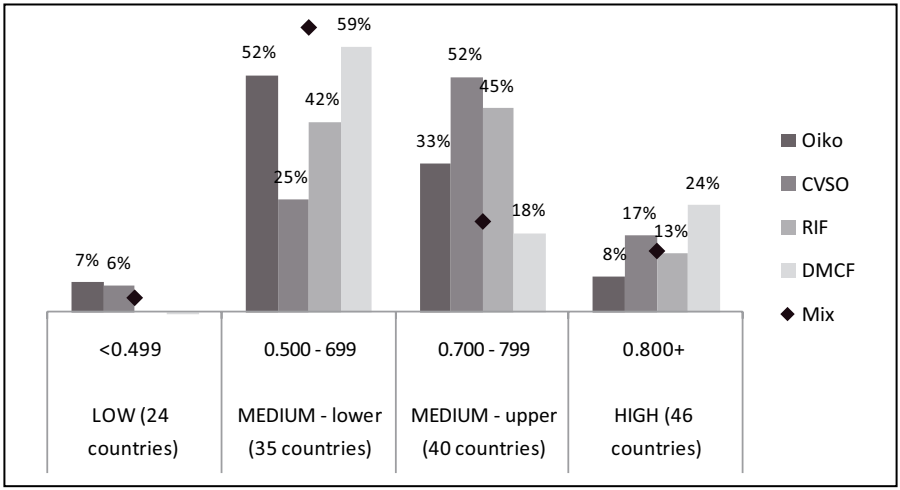
DMCF primarily invests in Tier 1 MFIs. Incofin and Oikocredit invest around 50% in Tier 1, 50% in the other Tiers, with Oikocredit having 29% of its microfinance investment in Tier 3 MFIs. The social performance rating gives a higher score to MIVs investing in Tier 2 and 3 MFIs. Investment in Tier 2 and 3 category MFIs represents a more socially oriented approach in terms of supporting smaller institutions to grow and develop their potential.

Investment outreach to countries by level of development: MIVs report on the distribution of their investments in different regions and countries. From a social perspective, an additional analysis is in terms of the development level of different countries. Figure 5 presents this analysis in terms of the country distribution of clients financed, applying the human development index (HDI) of each country and HDI categories of low, medium and high development.[20] The same analysis is applied to MFI client data reported to the MIX, as a comparison.

20 The HDI is based on per capita income, education and health indicators, UN Human Development Report, 2009 (Data for 2007).

A majority (59%) of MIX MFI clients are located in MEDIUM-lower HDI (0.500-0.600) countries – particularly in Asia. Under 5% of MIX MFI clients are in LOW HDI (<0.500) countries (mainly sub-Saharan Africa). MIV support to outreach in these less developed countries, relative to industry presence, represents significant social value in extending financial services to less developed countries.

Figure 5: MIV financed end clients in countries by HDI



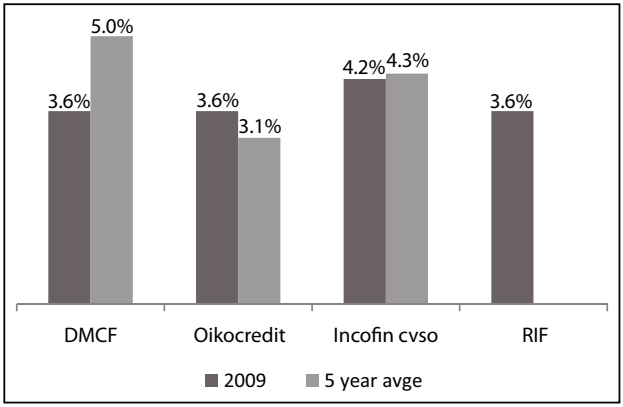
HDI categories: LOW: Sub-Saharan Africa MEDIUM – much of S Asia, Latin America, SE Asia, Former Soviet Union HIGH: Eastern Europe, Central America (VERY HIGH: OECD countries >0.900). End clients are calculated as the sum for each MFI investee of ((MIV investment (debt or equity)/MFI total assets) total MFI clients)
Oikocredit and Incofin aim to invest 25% of their total portfolio in sub Saharan Africa and South/South East Asia. This compares with 17% of total MFI assets in these countries (HDI below 0.600).

Investor reporting and financial performance: MIVs provide regular financial reports to their funders. Incofin RIF is the most detailed, on a quarterly basis. DMCF provides a monthly summary, CVSO a quarterly summary. Oikocredit provides annual reports.

All the funds are yielding good returns currently in US dollar terms (3.6% to over 4%) and have done so in the long term – the five year return ranging from 2.6% to 4.6% (Figure 6). Oikocredit is, by far, the oldest and has delivered good financial returns over an extended period of time. CVSO's five year return incorporates fund management income until the middle of 2009.

The actual financial returns of the funds are much higher than the established 2% dividend for Oikocredit and Incofin CSVO and target returns of Libor + 100-200bps for DMCF and Libor +100bps for the equity tranche of RIF. While returns have been somewhat lower than commercial rates historically, the funds have out-performed commercial investments in 2008 and 2009 (during the financial crisis). Given a few recent MFI failures, their performance in 2010 will be worth watching.

Figure 6: MIV Annual Financial Returns



All charge market rates to MFIs, with a premium for country risk but Oikocredit provides a discount of up to 1% on interest on debt in case of the 'exceptional social relevance' of a project, based on social performance criteria.

Financial risk management: Lower than commercial returns have helped to cover hedging costs on investments in local currency and to fund the higher loan loss provisions necessary to cover the high risk of Oikocredit's non-microfinance investments. Incofin and Oikocredit have additional cover via grant or publicly funded country risk insurance. Interest rate risk is covered mainly through appropriate maturity matches but also, where necessary, via swap arrangements.

Portfolio monitoring and diversification are an important component of the risk management processes in place though Incofin has pushed the limits of its geographical diversification policy. DMCF has not had to make provisions for loan losses until now but is adjusting quickly to the changed situation resulting from MFI risk associated with the financial crisis. Internal controls and audit have been strengthened recently by both Oikocredit and Blue Orchard but, in any case, all have fairly strong operational processes to ensure compliance with policy.

The Incofin funds (particularly CVSO) have significant equity exposure while Oikocredit's equity exposure is somewhat lower but growing. Only Oikocredit has recorded a couple of exits so far, earning a substantial real return on those investments.

All funds have appropriate policies on liquidity and an investor environment that focuses on minimal redemptions, including clauses that allow postponement of redemption, if necessary. These clauses have not been needed so far.

Responsible investment – sustainable growth and client protection: MIV fund managers recognize that in the past they have put pressure on investees to grow – which may have contributed to excessive growth rates and competition between MFIs in some countries (such as Bosnia, India, Cambodia). Awareness at the manager level of responsible rates of growth for MFIs is a key indicator that has to be reflected in the MIV due diligence process. It is partly a financial indicator, since it relates to financial sustainability of the investees, but also a social indicator, since very high growth may strain MFI systems, affecting staff management and client relationships. The related questions around client protection at MFI level have emerged as a focus globally with CGAP issuing guidelines for investors and The Smart Campaign building consensus on the six principles of client protection. In line with the questions asked as part of CGAP's MIV benchmarks, the MIV social rating scores each fund on their engagement, capacity and monitoring of the CPP. For all the MIVs, this is work in progress.

Responsible investment – staff and the environment: MIVs are now including these issues in their social score cards and monitoring. HR issues are likely to attract more attention in future. Incofin has adopted the FMO tool on Health, Safety and the Environment, as part of training of its own staff and investee staff. This is a significant development beyond the basic (fairly routine) application of an 'exclusion list'. It demonstrates the usefulness of a basic toolkit to guide good practice.

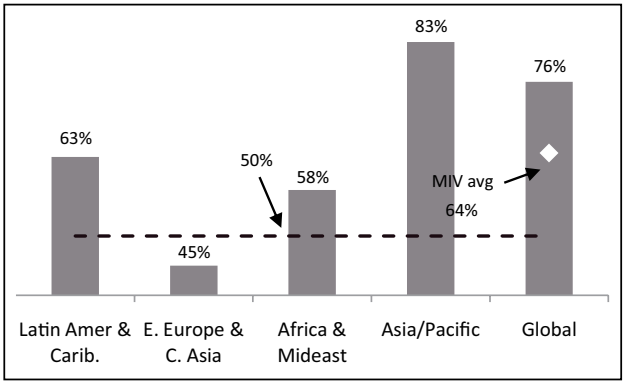
Investee feedback as part of MIV rating: Part of the rating was a questionnaire designed to obtain investee feedback on a series of questions related to the investment process and perceived values of the investing fund. The feedback was obtained by e-mail and responses were on a scale of 1-5, which fits easily into an overall scoring. Incofin also used the process to add some questions in which they were interested, as part of assessing the satisfaction of their investees and exploring future approaches. This feedback was particularly appreciated by all the MIVs. Routing the enquiry to investees through the MIV, and the responses only to the rating agency, seems a practical approach to generate sufficient number of investee responses without influencing their content.

Reporting of social 'returns' – a continuing challenge: Social reporting by MFI investees to MIVs has covered a number of what have been seen as core social performance indicators. That is: % women borrowers, % rural and urban, % loan portfolio in different types of credit (microenterprise, agriculture, education, housing, line of credit), average loan outstanding, provision of different financial services (credit, savings, insurance) and non-financial services (enterprise services, adult education, health services and women's empowerment).

What is reported for 'rural'; and 'urban' (sometimes semi-urban too) is not strictly comparable. Of the rated MFIs, only Incofin has developed a standard definition of rural, taking into account different levels of country urbanization (UN defined). The classification is based on branch location – and Incofin RIF is lending to MFIs with an average 63% of branches in rural areas. This may understate rural outreach to the extent that branches based in urban areas cater to rural clients. The average rural outreach reported in CGAP's MIV benchmarks is 45% (49 out of 73 MIVs reported on this indicator). Higher than average rural outreach, provided the data is comparable, represents in many countries a significant effort towards financial inclusion.

Outreach to women is usually more straightforward to measure, though only a few more MIVs (53 out of 73) reported on this indicator in CGAP's MIV benchmarks – with an average of 64%. However, here too a scoring based on this indicator will vary by country differences (Figure 7).

Figure 7: Outreach to women, MFIs reporting to the MIX by region



MFI investee product range is interesting and is described where data is available as descriptive of the portfolio. Product indicators are not included in the rating due to the fungible nature of credit (loans intended for a particular purpose may be used for a variety of purposes by end clients), legal restrictions on type of financial services (particularly savings) and the limited value of information about non-financial services, without data on client access to such services.

Key performance data in terms of poverty outreach to end clients and effectiveness of services for the end clients, to provide evidence for adherence to mission statements made by MIVs (as well as MFIs) is least available. Data for poverty outreach is beginning to be reported as some MFIs begin to implement poverty assessment tools (such as the 'progress out of poverty index', PPI), tracking the percentage of their clients at entry who are living below a defined poverty line. This data is also covered as part of a comprehensive social rating. In future the data for clients at entry can be followed up after three to five years, to track changes in the poverty assessment.

MFI average loan outstanding is often used as a proxy for poverty outreach. This has more meaning as 'average first loan disbursed' (i.e. amount of credit that clients borrow on entry to an MFI's programme) and measured as a percentage of country per capita income. Even then, however, this is a supply side indicator that has less meaning than is commonly attributed to it. Primary data from comprehensive MFI social ratings and other research has shown that small loan size is not directly correlated to household income level[21].

Systems data on market intelligence provide an indication of the relevance of MFI services to their clients: whether the MFI is monitoring client satisfaction and client exit and using the findings to improve services. The rate of client dropout can also be an important indicator, though MFIs' management information systems (MIS) need adaptation to record this in a consistent way (allowing for clients who may rejoin). As increasingly MFIs report on these indicators as part of the SPS reporting to the MIX, and as MIVs begin to monitor such questions, this systems data will add to the assessment of the relevance of microfinance services. A rating will include this information, whilst taking into account the likelihood that more established (Tier 1) MFIs are more likely to have such systems in place.

Rating reports and scoring

The reports for the pilot rating included considerable detail on different issues, as different dimensions and information for both financial and social performance were explored. Future rating reports will be relatively short – around 10 pages/MIV, covering the elements listed in Table 2. Each element (with sub-indicators) is scored, and a summary score sheet will be provided in Excel along with the report. Users of the report will be able to apply their own weights to the different elements – for example, the relative weight between financial performance and social performance, or between

21 M-CRIL and Microfinanza Rating: Overview Report – promoting the development of social ratings in microfinance (2009).

specific elements within social performance. M-CRIL will not assign an overall grade, but will provide a recommendation on both financial and social performance of the MIV, and highlight strengths and issues.

Emerging issues in responsible investing

MIVs need a clear policy/view on issues at investee level that have emerged as trade-offs in managing the double bottom line. For example:

- What is a reasonable; sustainable rate of growth (number of accounts, portfolio).
- What is a 'fair' profit at MFI level; maximizing profits is not an appropriate option when it involves high costs to clients, (maximum profit is not optimal; other criteria need to be screened including costs to clients, efficiency vs better client relationship, strong staff systems and taking into account deeper outreach); and what is a 'fair' return to investors, taking into account risks (from a investor perspective) and the declared social mission of the microfinance sector ('social business').
- What is an appropriate level of remuneration to the CEO (in absolute amount and relative to the remuneration of field staff).

MIVs can influence good practice at MFI level through commissioning social ratings or audits, and specifically supporting the integration of social performance into management – as Oikocredit is doing. MIV managers are also beginning to realize that their policies, the questions they ask investees, what they include in their investment covenants, what is reported and monitored and how they use that information, can all influence good practice at MFI level. The due diligence has always represented a learning process for investees and the questions on financial performance are well accepted. As MIVs introduce social performance questions into the due diligence and subsequent reporting, this will also contribute to the learning process and developing standards.

These features apply to both debt and equity investment. Though, it is clear that the opportunities for engagement with investees are higher for equity investors, (including through representation on the investee Board).

The extent to which different social investors adopt and promote a similar set of indicators and standards will reinforce a consistent message within the industry in line with the mission and social values of microfinance.

Next steps and challenges in rating

This pilot rating of MIVs has served to map out the elements and sub-indicators relating to both financial and social performance: at the level of the fund managing company, the MIV fund, the investee MFIs and, to a limited extent, the end clients. For funders in MIVs, as well as increasingly for MFIs (as potential investees) there is added value in the combination of financial and social rating. It is cost-effective to implement, achieves better transparency and can clarify potential trade-offs.

The current challenges in rating relate to:

a) The absence of information on social performance systems at investee level.
b) The lack of consistent information at the level of end clients – as reported to the MIVs.
c) The consolidation of investee level information – both social and financial – at the MIV level.
d) The potential to adjust scoring according to different 'peer group' categories of MIVs (the potential classifications are under review).

These challenges are being addressed through related initiatives in the microfinance industry and among social investors. In future, an overall challenge will be to work towards agreement on a standardized framework for the rating of MIVs, which is recognized by different stakeholders.

Just as due diligence is a learning process for investees, the MIV rating process could be an eye opener for MIVs as the rating creates a framework for understanding and assessing their performance. To the extent that this enables judgement across MIVs on a more systematic basis than is available now, the introduction of rating will constitute a step forward in knowledge-based investing.

Acknowledgements

Many thanks to the staff of the MIV companies Blue Orchard, Oikocredit and Incofin, who participated in the rating exercise, provided feedback on the reports and critiqued the rating framework. To Anthos, the Netherlands and to SDC for supporting the pilot rating. To Koenraad Verhagen and Hans Ramm for their initiative and ever-constructive suggestions, and to Daniel Rozas who contributed as a member of the M-CRIL rating team.

LuxFLAG's Microfinance Label: integrating a social dimension into the certification process

LAETITIA HAMON, LUXFLAG

1. Background to the integration of a social component to the Microfinance Label

What is the main objective of LuxFLAG?

The purpose of LuxFLAG as described in its statutes is to grant a label to specific investment undertakings ("investment funds") on the basis of agreed and published criteria. When the association was created in July 2006, the main objective of its founders was to provide a concrete tool to reassure investors that Microfinance Investment Vehicles "MIVs" were actually investing, directly or indirectly, in the microfinance sector. Indeed, by awarding a distinctive Label to eligible MIVs, LuxFLAG would represent another step towards transparency and would contribute to the visibility of the relatively young MIV sector; two prerequisites of a sustained and healthy growth of the microfinance sector.

Four years down the line, LuxFLAG remains committed to that goal and has decided to extend i) vertically by integrating a social dimension to its Microfinance Label and ii) horizontally by setting-up a new "Environment" Label for funds investing in environment-related sectors and/or eco-efficient businesses.

These new developments are in line with the willingness of the agency to promote "Responsible Investments" worldwide and to support values such as the reduction of poverty, the protection of the environment, integrity and ethics in business, transparency and reporting to stakeholders.

Why did LuxFLAG decide to integrate a social dimension to its Microfinance Label?

LuxFLAG started to reflect on how to integrate a social dimension into its Microfinance Label back in October 2008. To set things back in their context, this idea arose in the aftermath of the financial crisis. Indeed, on one hand, the financial scandals made social, governance and environment considerations resonate with even greater

importance. In addition, investors, for which responsible investment became a matter of risk management, started to include environmental, social and governance (ESG) considerations into traditional financial services in a more systematic way.

On the other hand, the microfinance industry, often presented as not related to the capital markets, and therefore considered as sheltered from its fluctuations, had to face increased skepticism from the media. Journalists pointed out a possible "mission drift" of the microfinance sector.

Observing these two tendencies, LuxFLAG felt it was the right time to integrate a social dimension to its Microfinance Label, although turning this idea into a concrete criterion was a different ball game as this needed firstly to address complex questions.

2. Turning the idea into a concrete criterion…

What are the challenges?

When the Board of Directors of LuxFLAG took the decision in October 2008 to integrate a social dimension into the LuxFLAG Microfinance Label, it mandated a special task force formed from LuxFLAG's associate members to reflect on this new project. In its preliminary work this task force identified the following challenges, listed in a non-exhaustive way below:

1. **Understand what is meant by "social impact"**: A clear definition of the term "social impact" is needed. There is not a single microfinance conference where "social performance", "social impact" or "social responsibility" is not put forward as a major topic of discussion. Microfinance experts may be familiar with these various terminologies but this may not be the case for uninformed investors non-specialists. Indeed, these words are often used in a multitude of overlapping and sometimes very confusing ways. It is therefore essential to ensure that "social impact" is used in the same way throughout the financing chain from the micro-entrepreneurs, to the MFIs, the MIVs and the end-investors.
2. **Ensure data integrity**: similarly to what can be observed in the broader SRI industry, data integrity is a major concern in microfinance. Even if organizations, such as the MixMarket, CGAP and other microfinance stakeholders[22] provide some information on the MFIs and MIVs, it is still difficult to understand the scope of the figures and how they are aggregated. Besides, figures should not be analysed separately without integrating some sort of macro and micro-economics to give a clearer overview of the background situation. To meet this crucial need of ensuring data integrity, the Global Reporting Initiative[23] (GRI) has defined the

22 Cf press release dated 12 May 2010 on the launch of LUMINIS at www.luxflag.org.
23 More information at www.gri.org.

reporting principles and guidance for the ESG reporting of companies. These principles and guidelines are basic elements that enable peer comparisons and are essential to establish a judgment on the performance of companies. These principles suggest that any ESG report should include:

CONTENT	QUALITY	BOUNDARY
Materiality: The information in a report should cover topics and indicators that reflect the organization's significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders.	**Balance**: The report should reflect positive and negative aspects of the organization's performance to enable a reasoned assessment of overall performance.	**Control**: The power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.
Stakeholder inclusiveness: The reporting organization should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests.	**Comparability**: Issues and information should be selected, compiled, and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyze changes in the organization's performance over time, and could support analysis relative to other organizations.	**Significant influence**: The power to participate in the financial and operating policy decisions of the entity but not the power to control those policies.
Sustainability context: The report should present the organization's performance in the wider context of sustainability.	**Accuracy timeliness**: The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance.	
Completeness: Coverage of the material topics and indicators and definition of the report boundary should be sufficient to reflect significant economic, environmental, and social impacts and enable stakeholders to assess the reporting organization's performance in the reporting period.	**Reliability**: Information and processes used in the preparation of a report should be gathered, recorded, compiled, analyzed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.	
	Clarity: Information should be made available in a manner that is understandable and accessible to stakeholders using the report.	
	Timeliness: Reporting occurs on a regular schedule and information is available in time for stakeholders to make informed decisions.	

Source: www.globalreporting.org

These principles may be applied to the microfinance industry as early in the process as possible, especially when it comes to the reporting of MIVs to investors.

3. **Understand the specificities of each MIV**: the MIVs' landscape appears to be very heterogeneous. CGAP in its 2009 survey classifies MIVs into seven categories: registered fixed income mutual funds; unregistered fixed income investment funds; structured finance vehicles/dynamic asset allocation; structured finance vehicles/static asset allocation-CDOs; socially focused funds; private equity funds; holdings of microfinance institutions. A year later, CGAP attempted to clarify this classification and defines 3 main groups: MIVs (including public placement funds, private placement funds, cooperative companies/NGOs, CDOs); holding companies and other microfinance investment intermediaries.

The difference between all these categories may vary upon various factors notably:

- the type of investors (retail, institutional, "High Net Worth Individuals" (HNWI)…).
- the investment type (whether equity capital, fixed income or mixed assets).
- the structure of the MIV (indeed some may be structures as "Undertakings for Collective Investment" (UCI) others as holding companies).
- the objective of the MIV (some MIVs are donations-based whereas others are commercially-oriented).
- some MIVs specifically target MFIs in rural areas, other aim to target specific geographic regions…

Therefore, when talking about MIVs, one should be extremely cautious and not compare apples and pears. It is even more important when dealing with social performance as each MIV would have its own perception and convictions depending on their prime objective and structures.

4. **Express a judgment on the indicators chosen by the MIVs**: Although some actors such as the SPTF and the CGAP try to develop a standard list of "social performance" criteria, one of the remaining difficulties remains the fragmented nature of the microfinance industry together with the lack of widely accepted definitions. In addition, the notion of "social responsibility" is particularly complex as it is an intangible notion that may be comprehended in many different ways among different cultures and countries. When an MIV decides to undertake a due diligence to attract its investees, there may be a set of common social indicators used by the majority of MIVs, but the final decision, whether wanted and conscious or not, will remain based on perceptions and feelings. Therefore, ensuring that an MIV has chosen the most appropriate social performance indicators, given its own specificities and objectives of investment and those of its investees, appears like a very complex assessment.

	Fixed Income Funds	Mixed/Hybrid Funds	Equity Funds
Public Placement Funds	ASN-Novib Fonds; Dexia Microcredit Fund; Dual Return Fund SICAV; responsAbility Global Microfinance Fund; responsAbility Microfinanz-Fonds; St. Honoré Microfinance; Triodos SICAV II - Triodos Microfinance Fund; Walberg Global Microfinance Fund	Dutch Microfund[1]) ;Triodos Fair Share Fund	
Private Placement Funds	BBVA Codespa Microfinanzas Fil; Emergency Liquidity Fund; EMF Microfinance Fund AGmvK; European Fund for South East Europe; Finethic Microfinance SCA SICAR USD; Global Partnerships Microfinance Fund 2005 LLC; Global Partnerships Microfinance Fund 2006 LLC; Global Partnerships Microfinance Fund 2008, LLC; Jaïda; KCD Mikrofinanzfonds II "Lateinamerika"; Locfund ; Luxembourg Microfinance and Development Fund; Microfinance Enhancement Facility SA; MicroVest I; Minlam Microfinance Fund; MV Microfin Pvt Ltd ; SNS Institutional Microfinance Fund; SNS Institutional Microfinance Fund II; The Dignity Fund, L.P.	Cresud SPA; FONIDI; Gray Ghost Microfinance Fund LLC[1]); Impulse Microfinance Investment Fund NV; International Solidarity For Development and Investment; Investisseur et Partenaire pour le Développement (I&P); KCD Mikrofinanzfonds (FIS) I "Global"; MicroVentures Investments SCA SICAR; NMI Global Fund[1]); responsAbility SICAV (Lux) Microfinance Leaders Fund; Rural Impulse Microfinance Fund; The DWM Microfinance Fund	Aavishkaar Goodwell India Microfinance Development Company; Accion Investment in Microfinance; Balkan Financial Sector Equity Fund C.V.; Bellwether Microfinance Fund Private Limited; BlueOrchard Private Equity Fund; DWM Microfinance Equity Fund I; Elevar Equity II, LP; Global Microfinance Equity Fund; India Financial Inclusion Fund; MicroVentures Italy; MicroVest II, LP; ShoreCap International, Ltd.; Unitus Equity Fund, LP
Cooperative Companies/ NGOs	Alterfin cvba; Deutsche Bank Microcredit Development Fund (DBMDF); Fonds International de Garantie; Global Microfinance Consortium; MicroCredit Enterprises; Nicaraguan Credit Alternatives Fund		
CDOs	BlueOrchard Microfinance Securities-1 (BOMS1); BlueOrchard Loans for Development 2006-1; BlueOrchard Loans for Development - 2007; db Microfinance-Invest Nr. 1; FINCA Microfinance Fund B.V.; MicroAccess Trust 2007; Microfinance Loan Obligations (MFLO) Compartment LC ; Microfinance Loan Obligations (MFLO) Compartment Sub Debt; Microfinance Loan Obligations SA - Compartment Opportunity Eastern Europe 2005-1; Microfinance Securities XXEB		
Holding Companies	Global Microfinance Group	OXUS Holding; ProCredit Holding AG;	Access Microfinance Holding AG ; Advans SA SICAR; MicroCred; Opportunity Transformation Investments
Other MIIs	Grameen Credit Agricole Microfinance Foundation; Partners for the Common Good; Planet MicroFund; MYC4; Opportunity Loan Guarantee Fund I, LLC	DID - Partnership Fund; Hivos-Triodos Fund Foundation; Omidyar-Tufts Microfinance Fund; Triodos-Doen Foundation	ACCION Gateway Fund

[1] Microfinance Fund of Funds
Source: CGAP MIV survey 2010

As a conclusion to this section, it is clear that tools are being developed and MIVs demonstrate goodwill but the microfinance industry is still in its early stages when it comes to measuring and assessing social performance at MIVs level. It is at the moment barely possible to state that an MIV is performing better socially than another one.

In view of the challenges listed below, LuxFLAG could have decided to step back but, it eventually decided to maintain its decision and to take the plunge. Now of course, LuxFLAG must be very cautious in that regard as granting a Microfinance Label, based on several criteria including a social criterion, could rapidly convey a misleading message. Indeed one could believe that a MIV which holds the Label is "de facto" performing well socially or at least better than the one which do not hold the Label.

As mentioned above, this is not LuxFLAG's objective and the agency will need to clearly explain it in its documentation and communication materials. It is essential that investors do not get the wrong message, and it will be LuxFLAG's role and responsibility to repeat the same message at any industry events it may attend: in adding a social dimension to its Label, LuxFLAG aims to encourage the MIVs i) not only to formalize their methodology to assess the social performance of the MFIs in which they invest (or intend to invest), but also ii) to include this information in a regular reporting to investors (including potential investors). Hence, it cannot in any way be a recommendation to invest or a guarantee that a MIV is performing well socially .

How did LuxFLAG choose to proceed with this?

As mentioned earlier in this article, many initiatives have been developed, both at MFI and MIV levels to measure social impact. LuxFLAG does not want to impose a new set of criteria on social performance on top of the existing ones. The agency believes that it will be more efficient to act pro-actively and demonstrate flexibility by:

1. **Cooperating with existing actors**: LuxFLAG started active cooperation with existing actors in the field (such as CGAP, the Social Performance Task Force (SPTF), CERISE, the European Microfinance Platform Working Group on Social Performance, etc…) in order to build on their experiences.
2. **Learning from the experience of its labelled funds**: LuxFLAG also decided to capitalize on its relationships with its Labeled funds to get a clearer view of what is already done by them and to identify the future trends. To that end, LuxFLAG organized a round of conference calls at the beginning of 2009.
3. **Sharing experiences with other microfinance stakeholders**: to that end, LuxFLAG tries to participate and generate as many discussions as possible on the subject. The panel that the agency organized on "MIVs and social performance: tools for measurement and reporting" during the European Microfinance Week 2009 is a fitting illustration of this.

4. **Adopting a flexible approach and constantly adapting to the new developments in the industry**: The definition of the LuxFLAG social performance criterion should be flexible and dynamic (because discussions are ongoing and the creation of definitions is still in progress), but nevertheless promote a high standard, so that the LuxFLAG Label is not devalued.

What is that social criterion made of then?

The approach of LuxFLAG to this end suggests that in order to get a microfinance label, including a social component, a MIV must include social performance objectives in its investment objectives, use generally accepted social performance indicators, regularly monitor the social performance of its portfolio, report at least on an annual basis to its investors, and indicate for given MFIs whether they have been subject to a social rating or audit.

1. **Include social performance objectives in their investment objective**: the fund will have to describe its investment objective and demonstrate that it pursues a dual objective of financial and social performance. Such objectives should be clearly defined in the funds' offering documents and marketing information distributed to existing and potential investors.
2. **Use social performance indicators in their due diligence process**: the MIV should provide evidence of systematic inclusion of social performance criteria in their due diligence process and investment decision. The SP criteria and indicators should be in line with the social objectives of the MIV.
3. **Monitor the social performance of the portfolio on a regular basis**: the MIV should gather and maintain a list of social performance indicators at a portfolio level. These indicators should be used to monitor how the MIV achieves its SP objectives. The frequency of such assessment should be at least annual.
4. **Be transparent in their reporting to the investors**: the reporting to the investors should at least include the information as per the list attached. Such reporting should be at least annual. It could either be included in the MIV's annual report or in a separate report.

In 2010, applicants for the Microfinance Label were required to provide as many details as possible on the way they achieve their social objective in line with the four points above, although this was not mandatory to obtain the Label. In 2011, the approach will become more stringent as a more detailed questionnaire will be submitted for completion. Subsequently, the Eligibility Committee will review the answers and give its recommendations to the Board of LuxFLAG. Once the agency has a clearer idea of

what are the methodologies and processes implemented by the labeled MIVs to assess the social performance of their investments, LuxFLAG will be able to take stronger positions and positively influence the industry.

Conclusion

LuxFLAG believe that its Microfinance Label is a powerful tool for decision-makers who wish to take a more long-term and holistic vision in their investment policy and decision-making processes, with a view to creating a more responsible finance sector. In the aftermath of the financial and economic crisis, the microfinance industry as a whole is facing particularly uncertain times. The industry is changing and adapting very rapidly and it is vital that it integrates social, governance and environmental considerations in every link of the financing chain if it wants to prove sustainable. Similarly to what one can observe in the SRI industry, reflections should be stakeholder-based. Indeed, micro-entrepreneurs are not the sole stakeholders of an MFI. Investors, employees, suppliers, civil society, governments, etc… also have an important role to play. The interactions of the MFI with all its counterparts are also essential to perform well in the long term. Similarly, MIVs that invest in MFIs want to make sure that the micro-entrepreneurs are given the chance to get out of poverty by creating a business activity; but if employees of the MFIs are treated poorly, it can have a direct negative impact on the performance of the MFI. Therefore it is important that in the future further emphasis is given to the way MFIs as well as MIVs are internally socially, environmentally and ethically managed.

SOCIAL PERFORMANCE DATA: DIFFERENT APPROACHES USED BY MIVs TO GENERATE, MANAGE AND UTILIZE INFORMATION

SECTION 2:

Collecting and Using Information on Social Performance from the MFIs: the experience of Grameen Crédit Agricole Microfinance Foundation

DOMINIQUE WEISS, ANNE BOSSARD AND JÜRGEN HAMMER,
GRAMEEN CRÉDIT AGRICOLE MICROFINANCE FOUNDATION

1. General background and fundamental positioning

The Grameen Crédit Agricole Microfinance Foundation was created in September 2008, through a joint initiative by Crédit Agricole S.A., the central body of the Crédit Agricole banking and insurance group and Grameen Trust, the international development vehicle of the Grameen group. By pooling their names, their skill sets and their ability to act and exert influence within a Foundation, both founders intend to make a specific contribution to achieving the objectives of reducing poverty and malnutrition, as adopted at the Millennium Summit.

By structuring their initiative as a **Foundation**, both founders demonstrated their determination to make it part of an impartial, long-term vision and to pursue it independently of their present and future commercial and financial interests.

The Foundation's core objective is to realize responsible investments in both microfinance institutions and social businesses. For microfinance, the Foundation concentrates its financial and technical support on MFIs that:

- Have a core mission of **combating poverty** and **promoting financial inclusion** of the poorest, mostly women, through a range of suitable and accessible micro-financial services.
- Comply with a number of **ethical principles**, to which the Foundation adheres, notably concerning information for and protection of borrowers, level of interest rates offered, loan collection methods and the prevention of corruption.

- Contribute to the **protection and improvement of the environment**, in particular in relation to agriculture, through effective management of water and energy and sensible input management.

The Foundation serves in priority MFIs belonging to the Tiers 2 and 3 of the MFI classification. This refers mainly to **medium-sized MFIs** that have achieved or are on the **verge of achieving their operational equilibrium**, but do **not yet have easy access to domestic or international financing sources**.

In line with the general objective of complementarity to existing main stream microfinance investment vehicles, the Foundation caters in priority to agricultural and rural MFIs and retains the following core geographic areas for its operations: Sub Saharan Africa, Middle East and North Africa as well as South and South East Asia.

Given the strong social mission and social positioning of the project, with no financial returns expected at any time by its founders, it was an absolute necessity since the initiation of the Foundation to **design and retain comprehensive social measurement and monitoring tools**, when **key processes and procedures** were designed.

2. What did we wish to achieve primarily?

As a first step, we identified a series of strategic goals and the main requirements for setting up a system of procedures and tools to **measure social variables**.

To assure an integrated approach, all areas of the organization, from management to development, risk management, operations and middle office participated in a brain storming exercise.

As a result, three fundamental requirements were identified:

- Requirement to be **applicable systematically** to **all partners** and **each offer** by the Foundation.
- Requirement to be **useful** for both the **Foundation** AND the **partner MFI.**
- Requirement to have a **larger industry impact** than only the reporting to and monitoring by the Foundation.

3. Detailed definition of objectives

Based on the above described requirements, more detailed terms and objectives were determined:

The social performance indicator system we were looking for should aim at:

- assessing social performances of MFIs eligible for investments by the GCAMF.
- benchmarking social performances of different partner MFIs to peer groups.
- monitoring the improvement of social performances of our partner MFIs over time.
- determining in the future a partner MFI's eligibility for additional investment.

In addition to these MFI-oriented questions, the system should however also allow for:

- assessing the Foundation's loyalty to its social mission.
- communicating on the Foundations' achievements.
- contributing to raising awareness among MFIs and the Foundation staff on the importance to measure and to improve social performances.
- contributing to the microfinance sector efforts to enhance social returns.

4. The tool

After a review of the different practices of MFIs, investors and microfinance rating agencies, we decided to opt for the CERISE SPI tool for each MFI we would consider partnering with.

This decision was taken for the following main reasons:

- CERISE has been involved in social performance assessment since 2001 and released its first questionnaire in 2002.
- CERISE is an active member of the "Social Performance Task Force", a general effort to streamline social performance indicators from major microfinance actors (Development Agencies like Swiss Cooperation and FMO, the Ford Foundation, CGAP, the Mixmarket, microfinance rating agencies, microfinance networks and microfinance investors).
- CERISE has gained experience with investors from partnerships with Oikocredit, Incofin and Kiva.
- The SPI questionnaire has already been used worldwide by 200 MFIs, which allows CERISE to compute significant peer groups.
- The questionnaire is rather straightforward and can be integrated into our due diligence timetable.

- The CERISE team proposes training and supports to implement its questionnaire.
- The latest version of the questionnaire has been conceived with the support from the Swiss Development Cooperation, from the feedback from more than 100 MFI users and harmonized with the MIX Social Performance Standards. As a result, MFI partners who fill-in the SPI questionnaire can automatically export the formatted report to the Mix Market SPS.

However, the **CERISE SPI tool weights equally each of the four dimensions** as well as each of the sub-criteria within the dimensions of social performance, whereas **GCAMF tends to prioritize MFIs that focus more on the outreach dimension**. Instead of changing the weighting factors in the CERISE SPI 3 tool, which would have prevented us from benchmarking our partner MFIs with peer groups, we decided to rather **complement its use** and to evaluate the social performance of each of our investments through a set of **2 indicators**:

- the **MFI social performance assessment** (standard SPI), completed by
- the **social performance** of the **GCAMF offer**, by performing an **assessment of the added value** of an investment in relation with GCAMF's strategy and positioning.

For the second indicator, assessing the social performance of a considered investment in relation to our own strategy, the Foundation decided to adhere to the evaluation framework based on the commonly used dimensions of social performance: this indicator should emphasize the ability to structure and offer investments that match to a maximum our target positioning:

OUTREACH / TARGETING

- Geographic targeting: targeting MFIs in the poorest countries, with low financial inclusion and where few foreign Microfinance Investment Vehicles invest so far (namely Sub Saharan Africa, the Middle East and South Asia).
- Individual targeting of MFIs: Tier 2 MFIs that target specifically women, farmers or the poorest and most excluded populations in the country.

ADAPTATION OF PRODUCTS AND SERVICES

- Investments/funding that offer a long-term visibility to the MFI (longer-term loans favoured).
- Investments that strengthen the balance sheet structure of the MFI (subordinated loans or equity).
- Investments that do not burden the MFI with increased foreign currency exposure.

- The capacity to offer innovative, non-financial services through linkages with partners in agricultural microinsurance, agriculture products (green houses etc), social businesses or specific technologies.

BENEFITS TO THE MFI

- Increased access to local financial markets: e.g. our leveraged guarantees enables the MFI to access local banks with whom we conduct joint due diligences, in order for these banks to get familiar with microfinance risks and rewards.
- Optimization of management time thanks to coordination with other lenders during the due diligence process, regarding reporting requirements etc…
- Increased and broadened access to other funding sources, as we try to cooperate with other funds and donors in order to arrange joint loans or co-guarantees.
- Technical assistance offered.

The generally included 4th dimension, relating to an organization's internal social responsibility, is so far not taken into account in this assessment of our own offer, as we consider it not to be relevant for a single, individual investment. This fourth dimension can be assessed at a later stage, once the Foundation has built a larger portfolio and will be submitted to an Investors' Social Performance audit.

The table below summarizes the combined social performance indicator that the CGAMF applies systematically to all its investments.

GCAMF SOCIAL PERFORMANCE INDICATOR	Areas weighting	Factors weighting by area	Sub-factors weighting
SOCIAL PERFORMANCE OF GCAMF OFFER	40%		
Outreach		50%	
Geographic targeting : country poverty			2 pts
Geographic targeting : complementarity to MIVs presence			2 pts
Geographic targeting : financial inclusion			2 pts
MFI targeting : rank			2 pts
MFI targeting : Beneficiaries profile (small loans, women, farmers)			2 pts

GCAMF SOCIAL PERFORMANCE INDICATOR	Areas weighting	Factors weighting by area	Sub-factors weighting
Adaptation of products and services		30%	
Maturity of the investment			2 pts
Strenghtening of the balance sheet structure			1 pt
Foreign currency exposure reduction			2 pts
Innovative and non-financial services offered			2 pts
Benefits to MFI		20%	
Increased access to local financial market			2 pts
Optimization of management time			1 pt
Increased access to other funding sources			1 pt
Technical assistance			2 pts
MFI SOCIAL PERFORMANCE - CERISE SPI 3	60%		
Outreach		25%	
Geographic targeting			9 pts
Individual targeting			10 pts
Pro-poor methodology			9 pts
Adaptation of products and services		25%	
Range of traditional services			7 pts
Quality of services			9 pts
Innovative and non-financial services			9 pts
Benefits to clients		25%	
Economic benefits for clients			8 pts
Client participation			9 pts
Social capital / client empowerment			8 pts
Social responsibility		25%	
Towards employees			9 pts
Towards clients			9 pts
Towards the local community and environment			7 pts

5 The operating procedures

The selection process of the Foundation's potential future partners follows a gradual path.

Eligibility

At a very early stage of the negotiation process, an internal committee validates the continued discussions of the development team, based on a series of **eligibility criteria**, of which **50% are social** / non-financial. This early eligibility check, based on a consensual internal decision, allows for both MFIs and the Foundation to maximise the efficiency of the negotiation process.

Due diligence

The SPI is fully applied for the social performance evaluation during the due diligence. However, as a pragmatic approach to implementing a comprehensive and detailed tool such as the SPI, we decided not to immediately require a potential partner-MFI to respond to the questionnaire.

Instead, considering that our 3-day due diligence mission would give the Foundation's analyst a pretty good insight into the institution, allowing us to evaluate most of the contemplated aspects ourselves, we decided to dedicate half a day of the 3-day DD to establish a "judgemental" (estimative) SPI evaluation by the DD team. Having previously received a formal training by CERISE, this approach would also allow for a guided introduction of the tool to the MFI staff. This purely internal evaluation is generally realized in 2 steps:

Step 1: At the end of Day 2 of the DD, most the questionnaire is filled out by the analyst, based on the meetings of all operational department heads of the MFI and the field visits.
Step 2: At the end of the DD, before the closing session with the General Manager, a first part of the meeting with the GM allows for completing all outstanding questions that could not be answered by the analyst alone. This generally takes between 1 and 2 hours.

The results of this internal, estimative evaluation are the basis for the SPI presentation in the credit file, presented to the Foundation's credit (=project) committee.

MFI involvement

From the beginning of the negotiation process, GCAMF informs its potential future partner MFIs about its social performance analysis. The MFI agrees to respond to CERISE, **within a period of 6 months following the disbursement** of the contemplated financing by the Foundation, with a fully completed version of the questionnaire.

6. Lessons learnt and first feedback on the implementation process

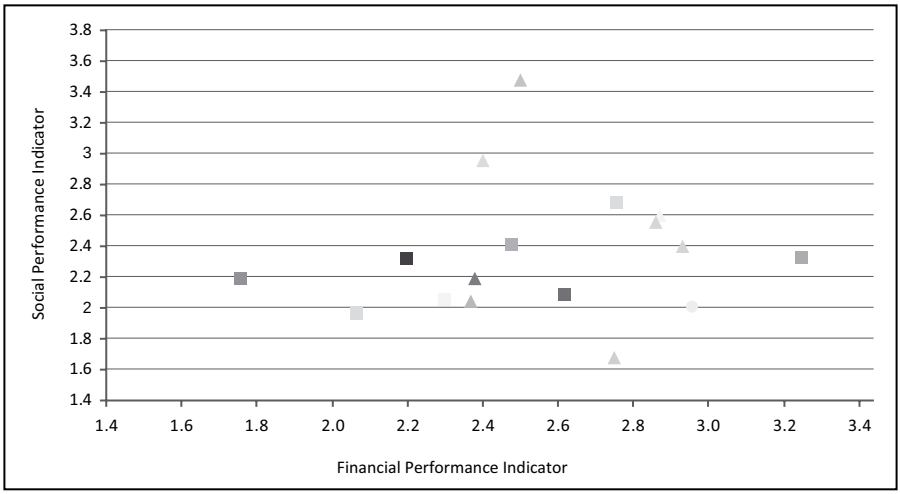
Looking back at the social performance assessment of 18 MFIs as of today, we have highlighted our first observations hereafter:

- Globally, we are positively surprised by the practicability of the CERISE tool, once the user gets acquainted with it. Most questions are straightforward and easily answered after on-the-desk review and the 2 days in-sight due diligence.
- The meeting with the MFI management to present the questionnaire and complete the unanswered questions has revealed absolutely key to complete our assessment and in-depth knowledge of the MFI, while at the same time allowing for a better understanding of social performance issues at the MFI management level. For instance, social initiatives, linkages with other partners or local governments are being detailed, which sheds another light on the MFI's social endeavours.
- In the majority of cases, MFI managers are well informed of what social performance management means. However, many of them are confused by the variety of criteria. The questionnaire generally raises awareness on individual targeting (why and how to target, why and how to measure changes etc.), on staff / client participation and the social and environmental aspects (client protection principles and environmental policies).
- We always spend time assessing each of the client protection principles with the MFI managers. This is also an opportunity to recalculate and verify effective interest rate levels. We are quite surprised to note that many MFI managers are not fully aware of the EIR of their different products, or do not pay attention to it. We try - as much as possible - to communicate on the Transparency Initiative of the microfinance sector and are very grateful to Chuck Waterfield and his team for their dissemination of knowledge regarding the true price of microfinance. We can measure on the field that the path is long and tricky!

First lessons learnt

- In some specific cases, we must admit that we were somewhat disappointed by the observed SPI results of our partner MFIs. In fact, MFIs who we were considering as the "most social", given their target clients, average loan size and reasonable interest rates, did not necessarily obtain the highest scores. The reason for this observation is the fact that our target Tier 2 – Tier 3 MFIs are generally not sophisticated enough to have social performance management in place that would enable them to justify their individual targeting, to enlarge the product range to better serve the clients still at low cost, or to ensure clients' environment protection measures or employees' well being. In fact, most of them have the culture of social performance which is clearly reflected on the field by loan officers' practices and discourse, but lack the adequate policies and procedures in place. The use of the SPI tool, in this case, can be the catalyst to raise awareness and improve the tools the MFI has in place, which should then be reflected in later updates of the SP analysis.
- We have also decided to compare our partner MFIs and to assess the correlation between social performance and financial performance. The first results seem to confirm that MFIs with a high social performance score tend to be the same who present a high financial score – or at least an over-average "institutional strength" performance.

MFI Performance Indicator (standalone)



- The social performance assessment tool has been instrumental to gain in-depth knowledge of our partners and to report it on a standardized and comparable manner. Our intention has never been to use it as a decision making tool and no credit file was rejected on grounds that the social performance was not "high enough". On the contrary however, absolute levels of interest rates or high average loan sizes are "social" eligibility criteria that frequently eliminate MFI candidates in the early evaluation process.
- The systematic additional assessment of our own offer under social responsibility considerations enables us to remain focused on the Foundation's core mission, and provide a useful incentive to work on the best possible offer, keeping in mind the MFI's best interests.

7. Conclusion: the long way forward

The next steps for our Foundation to improve our social performance assessments are three-fold:

1) Towards our MFI partners:

- To raise awareness about the existing tools on microfinance and environmental protection.
- To streamline our process and receive the full SPI from institutions within 6 months from initial disbursement, discuss the results with them and share the tool in the market.

2) At the Foundation level

- To improve the ESG criteria, by compensating carbon emissions for example.
- To prepare a social performance audit in order to design an internal improvement strategy.

3) Towards the microfinance industry

- To actively participate in the joint effort to harmonize Social Performance tools and data collection.
- To systematize the exchange process of SPI with other MIVs that have chosen this tool (so far Oikocredit, Kiva and Proparco) and to fuel at the same time the CERISE benchmarking database as well as the Mixmarket SPS database.

We believe that our methodology and our tools make us a "**responsible investor**". But do they allow us to qualify ourselves as an "**impact driven**" institution? We know that we still have a long way to go to assess this objectively, so we continue to follow and support the many interesting initiatives that help to advance the quality of analysis on the real impact on the people and populations we finally work for.

Social Performance at the Core of Doing Business: the experience of Alterfin

HUGO COUDERÉ, SOFIE DESMET AND BERNARD ORNILLA, ALTERFIN

History, vision and mission

The cooperative society Alterfin was established at the end of 1994, as a joint initiative of NGO's and banks. Since its inception more than 1,400 private shareholders have joined the co-operative.

Alterfin wants to support the development of local financial sustainable services in the South that are oriented towards opportunity-poor groups in society. These financial services are delivered by micro-finance institutions (MFIs) and by associations of small agricultural producers (Fair Trade organisations) or other organisations that are embedded in the same (agricultural) value chain.

Microfinance institutions (MFIs) provide credits to the poor by means of small (micro) credits. With these microcredits small entrepreneurs and farmers can start up or expand their economic activities. Apart from access to credit they also need other financial services, such as savings, remittances and insurance.

Associations of small agricultural producers (FT organisations) collect the produce of the small farmers, process it and mainly export it under sustainable trade standards, aiming at strengthening the capacity of the organizations, improving incomes and bringing social benefits to members' families and the wider community.

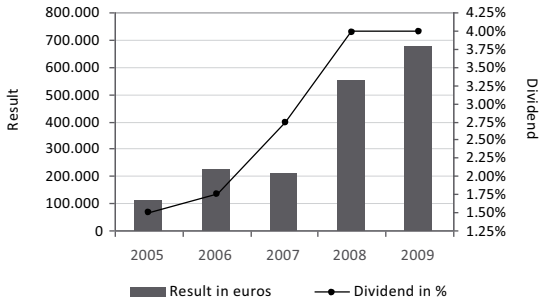
This mission assumes that microfinance facilitates an out of poverty strategy for the poor. It has however become clear that this is not always the case. There is enough evidence that without microfinance, the poor would be worse off, but if microfinance is to have a positive social impact on the lives of clients, it also depends on the environmental conditions and on the clients' capabilities. This is most visible in the rural environment

and more specifically in the agricultural sector. Even with access to microfinance, as long as agriculturalists are getting adverse terms of trade, small holders will get poorer. This is the reason why Alterfin engaged itself in fair trade finance.

In the North, Alterfin wants to raise awareness about dealing with money ethically and in a different manner and to have a constant dialogue between North and South. By investing in Alterfin, shareholders get the opportunity to contribute to better living conditions in the South and partners in the South also become shareholders of Alterfin.

Key figures:

- 1460 shareholders
- Capital: € 12 million
- Portfolio managed: USD 53 million



Why social performance?

Over a long period, microfinance has build up a very good reputation contributing to poverty alleviation for millions of clients in the whole world. It was been said that thanks to access to financial and non-financial services, clients could increase assets, knowledge and empowerment.

Over the past years, microfinance has attracted more and more commercial investors, and has experienced explosive growth. This has consequently meant new access to the services of MFIs for many more undeserved clients. Most MFIs have still performed well even despite the global economic crisis[24].

In some countries and markets however, the growth and competition between institutions became so high, that it has led to a severe crisis. According to CGAP, national factors and the global crisis had of course a negative impact on MFI's, but concentrated market competition and multiple borrowing, overstretched MFI systems and controls and erosion of MFI lending discipline were the main factors of the regional crises.

24 GCAP, Focus Notes Feb2010: Growth and vulnerabilities in Microfinance.

Due to the latest negative publicity in the media and the shocks felt by these crises, the attention given to responsible finance, social performance and sustainable growth has increased, not only in mainstream finance, but also within the microfinance sector.

Without financial sustainability an MFI cannot develop nor sustain its social performance, but beyond a certain point of sustainability (objective) there is a clear danger of trade off between financial and social performance. One of the big challenges of MFIs is striking the right balance between financial and social performance.

Social performance of Alterfin and its partners

Financial objectives of Alterfin

Alterfin mobilizes capital with "social impact" investors. This means that social and financial objectives and performance are important and are interlinked.

The profitability objective of Alterfin is strongly influenced by the social one. Two factors mainly determine the financial objective: the first one is the return on investment that is offered to the shareholder and the second one is the level of reserves and/or internal capitalization at which it is aimed.

According to a survey conducted at the end of 2009, 40% of shareholders expect to get a minimum return at the inflation rate level (this means that their investment keeps its real value) or the interest of a term deposit. Another 40% of shareholders want the Board of Directors of Alterfin to decide about the dividend.

At the same time reserves are kept at a high level[25], consequently shareholders of Alterfin swap return for security.

The financial objectives help Alterfin to offer interest rates (slightly) below market to the institutions. Interest rates can even be further reduced by a lean but efficient organization and good risk management. Interest rates may also be lowered if the MFI has a good social performance.

25 At 31/12/08 total reserves and provisions reach 8,49% of total portfolio, while PAR 30 days is below 0,10%.

Social objectives of Alterfin

The social performance of an MFI measures how well it translates its social goals into practice. The assumption being that, if all processes within the institution are well adapted to its social mission, this will most probably lead to the desired impact on the client's life. This measurement makes organisations reflect on their mission, their strategies, their products, transparency etc.

Social performance of course also applies to the microfinance investment vehicles (MIVs) offering services to MFIs. So, if we speak about social performance, we should take both MFIs and MIVs into account.

As a social investor, Alterfin has assumed an active role in the promotion of social performance. That is why we participate in initiatives such as the Social Performance Task Force (SPTF) and the European Microfinance Platform (e-MFP). Building on Alterfins' and the other MIV's experience, we have co-developed new initiatives such as the Fefisol[26] and Fopepro[27] funds, created to focus on rural areas in Africa and Latin America. Specific social and environmental indicators where designed and will be implemented for these two funds.

Alterfin's mission has been the starting point for working on permanently improving its products and services and building an effective and efficient organisation. Equally important for its mission, are the close partnerships with the shareholder NGO's of Alterfin and with other MIVs (responsAbility, SIDI, Etimos etc.).

Regarding the partners in the South, Alterfin is committed to building strong and long term relationships. This means that social performance analysis of the partners is the first and very important part of our due diligence process. All financing requests are assessed by the credit committee, based on a set of development criteria. This includes an analysis of different aspects such as the mission and vision of the MFI, the target group, the relationships to the clients, staff and community (including the 6 consumer protection principles), products and pricing policy and the composition of the board of

26 Fefisol is a fund in the process of being set up by social investors SIDI (France), Etimos (Italy) and Alterfin (Belgium) that will focus on rural finance in Africa

27 The "Fondo para Pequeños Productores" (FOPEPRO) is a private social investment fund set up by SIDI and Alterfin, and run by Acerola Management SA, a fund management company based in El Salvador. Fopepro aims to promote the economic development of small farmers by providing loans for the production, processing and marketing of staple food crops (maize, beans, etc) and high value added non-traditional exports, such as coffee, cocoa, bananas, sesame, vegetable crops and dairy products across most countries in Central (El Salvador, Guatemala, Honduras, Nicaragua) and South America (Bolivia, Colombia, Ecuador, Peru and Paraguay).

directors as an indication of how the MFI is embedded in the local society. Due diligence also includes visits to senior staff and board members as well as clients.

When the social profile of the institution meets Alerfins' standards, financial criteria are then assessed.

Once a year, a social performance survey is sent to the partners from the South. On the basis of this document, an annual social report is made, which is made public on the website and which is the subject of a specific newsletter for the shareholders. This report also serves as an internal evaluation tool for Alterfin: do we really reach the people we want to reach?

Highlights of the results of the 2009 survey

Representativeness:

The survey was sent to 62 partners: 32 MFIs and 30 FT organisations. Answers were received from 54 (29 MFIs and 25 FT), which represents:

- 87% of the total number of partners.
- 96% of the total number of clients or producers of all our partners.
- 92% of the total microloan portfolio of our MFI partners and 92% of the total turnover of our FT partners.
- 96% of the total financing granted to our partners by Alterfin and responsAbility.

Geographic targeting:

Alterfin's first geographical orientation was towards the poorer countries of Latin America, being Central American countries (Nicaragua, Honduras, Guatemala, El Salvador) and Andean countries (Ecuador, Bolivia and Peru). These countries are still the core of Alterfin's activities but new countries have been added. At the end of 2009, Alterfin was working in 15 countries in Latin America, Africa and Asia. Within these countries, Alterfin gives priority to rural areas, looking for more impact on poverty alleviation.

As mentioned before, Alterfin co-initiated two funds with a particular focus:

- Fopepro: to create more local capacity for sustainable rural financing in Latin America.
- Fefisol: to develop more activities in Africa (upon request of the shareholders of Alterfin)

For further geographical targeting Alterfin uses following criteria:

- Human development ranking
- GDP/ Cap ranking
- Political stability
- Microfinance sector development
- Agricultural value chain development
- Market potential
- Currency hedging potential
- Know-how potential

Based on the number of partners, Latin-America accounted for 84%, Africa 10%, Asia 5% and 1% International.

Targeting by poverty level and gender:

67% of our partners' clients live in rural areas. More than half of our financing goes to the agricultural sector. 74% of the total clients are women.

The average loan ranges from EUR 135 in Africa, over EUR 231 in Asia, to EUR 661 in Central America and EUR 799 in Latin America. The average microloan is well below the per capita average national income of the countries concerned.

This is a good indication that our partners work with relatively poor population groups which is in line with Alterfin's mission.

Targeting by institutional type:

Alterfin's mission is to look for partners that are smaller scale, with a social comparative advantage (Tier 2, Tier 3). In order to reach enough stability and return, part of the portfolio is also invested in Tier1 organizations. The optimal portfolio mix is 25% Tier 1, 50% Tier 2 and 25% Tier 3

Classification of our MFI partners according to the CGAP MIV Disclosure Guidelines 2010 is as following:

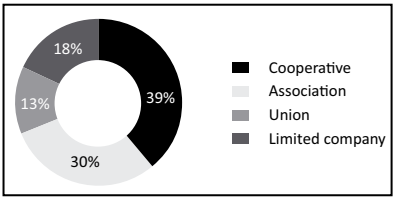
Tier 1: 23%
Tier 2: 44%
Tier 3: 33%

Alterfin further details its organizational targeting policy on the basis of following criteria:

- Rural bias
- Institutional relation with stakeholders
- Number of people reached (members, borrowers, savers, …)
- Asset (sales) size
- Number of years of operation
- ROE/ROA
- Targeting objectives (poverty, gender, etc.)
- Financial rating
- Social rating

Based on the number of partners, 52% are MFIs and 48% are FT organisations.

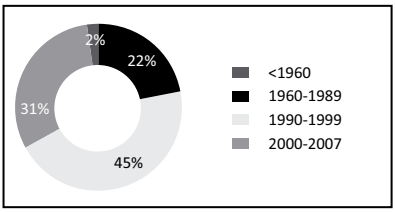
Alterfin works with a wide range of organisations. In institutional terms the 62 partners who received this survey can be divided into four categories: cooperative (39%), association (foundation, NGO, etc.) (30%), union or federation of organisations (second floor) (13%) and limited company (18%)



The diversity in the legal status depends on the sector, the country standards, the historical evolution... and proves how difficult it is to find a unique standard way to measure social performance.

Almost half of our partners began working in the 1990's. A further 24% were set up before 1990. The remaining 31% started operating in 2000 or later.

Fair trade organisations are mostly older than MFIs. If we only look at MFIs, 87% started from 1990 onwards. For FT organisations, this is 67%



In many institutions Alterfin is or was, the first foreign investor. The exit strategy comes in place when other local/international actors can continue Altefin's role or when the institution is fully inserted into the finance sector and covers its funding necessities.

Products of Alterfin and currency risk management:

Loans are the principle product of Alterfin and the most demanded by our partners. Equity investments are limited, and linked to having a seat on the Board, with a view to pushing forward the MFI's social agenda.

Other products are also available, such as guarantees for loans to avoid currency risk in Africa, and credit lines, tailored to the needs of the partners' necessities

At the end of 2009 88% of the financing was given in USD, 5% in EUR and 8% in soft currency. In order to offer more local currency loans to our partners and avoid currency risk, Alterfin has just started hedging with MFX.

Products and services of the partners:

Our MFI partners propose a wide range of financial products and services. Their prime mission is to make available loans to develop an income-generating activity. Other products offered are urgent domestic needs/consumer credit, housing and education loans. 13 of the 32 MFI partners also take in savings with an average balance of EUR 366. 31% of MFI's offer remittances and 38% offer insurance.

During 2009, Alterfin decided to increase its part in producer financing. The groups of FT producers centralise the products of their members, process them and market them. The major part is exported, a large proportion is fair trade and some products are also organic. Producers receive a fair price for their crops and a premium that they invest in the growth of their activities, training of producers, extra payments to producers and in social projects.

Most MFI's also support their clients by providing other services (non-financial): training (64%), women empowerment (64%), micro-business services (39%), healthcare (25%). Producers associations mainly offer technical assistance to their members to improve crop quality and quantity. Many of them also invest in infrastructure, healthcare, school fees, community projects.

Some of them have special projects for women. Some offer savings and/or remittances services.

Client protection:

As part of the movement to put social performance to the fore, Alterfin endorsed the client protection principles of the Smart-campaign[28] (avoidance of over-indebtedness, transparent and responsible pricing, appropriate collections practices, ethical staff behaviour, mechanisms for redress of grievances, privacy of client data) and asked MFIs which measures they take in regard to these six principles.

Social Rating:

Due to the rising demand for transparency in social performance of MFIs, rating agencies that do financial ratings, have also begun to offer social ratings. These social ratings do not directly measure the impact on the clients (as this process is too complex), but evaluate the processes within the MFI that should lead to final impact on clients

15 of the 29 MFIs in our survey have already obtained an independent social rating from a specialized rating agency, and at least 2 others are in the process of obtaining it soon. This means that our partner MFIs are introducing social performance standards in their daily activities.

Conclusion

Alterfin's mission is to support the development of local financial sustainable services in the South that are oriented towards opportunity-poor groups in society. This mission assumes that microfinance facilitates an out of poverty strategy for the poor. As it has become clear that this is not always the case, initiatives such as the SPTF and MIX social reporting have been set up, to put social performance back where it belongs: at the core of microfinance.

This article stressed the importance that is given to social performance within Alterfin through its partnerships, specific projects, social performance data of its partners, all linked to Alterfin's own mission.

The renewed interests from the microfinance sector in social performance encourages Alterfin and other MIVs to further formalise and standardise their social performance objectives, to measure results and to engage in further dialogue with all the stakeholders involved (partners in the South, shareholders, MIV partners and the microfinance industry as a whole) regarding these objectives.

28 See www.smartcampaign.org.

INCOFIN's Experience in Assessing MFIs Social Performance

DAVID DEWEZ AND LUCE PEREZ, INCOFIN

INCOFIN has always been committed to including social performance assessment in its own policies and procedures as they are perceived to be coherent with INCOFIN's double bottom line philosophy. The inclusion of social performance assessment is part of a larger praxis within our institution: the social performance management (SPM) practiced by INCOFIN. This paper will focus on the experience of social performance assessments but it is important to mention that INCOFIN SPM goes beyond that and includes a strong active role in promoting customer protection principles, an active role in promoting social rating of MFIs, an active role in promoting social indicators transparency (through the Mix Market) and an active role in promoting investors transparency via MIVs reporting tools and also by conducting MIVs ratings.

1. INCOFIN ECHOS©: a social performance assessment model for investors

Social performance is defined as the capacity that a microfinance institution (MFI) has to implement systems and processes that will allow it to achieve its social mission. Overall, social performance assessment analyzes the coherence of the entity's internal processes with its mission. In this sense, it is important to highlight that measuring MFI's social performance differs from conducting impact assessments.

In order to assess MFIs' social performance, several tools are available in the sector. These tools differ also by their users and their scope: audits tools as SPI (developed by CERISE) are mainly used by operators (MFIs and networks) but also by donors and investors for baseline information to reports; social ratings (from different specialized rating agencies) are used by a broader source of users (MFIs, donors, networks) and are purely externally assessed. In addition to these, some investors have developed due diligence scorecards that are internal tools linked to their own focus on social performance, used to assess

the social score of MFIs where they could potentially invest. This is the case of INCOFIN Investment Management (INCOFIN).

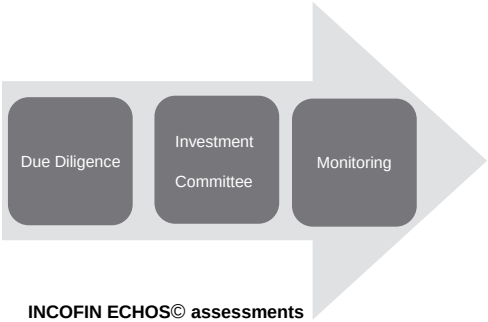
Anxious to be consistent with its own mission and requiring a tool that would adapt itself to the use of an investment company, INCOFIN decided to develop its own measurement instrument, called ECHOS©.

There are many advantages to the use of ECHOS© rather than using an external scoring model:

- ECHOS indicators are easy to collect and to verify.
- ECHOS is a pragmatic measurement tool as it is user friendly for investors (add half day during due diligence).
- As used by all investment officers, it implies no dependence on third parties.
- The choice of indicators limits the room for subjectivity and excludes bias associated with self-assessment instruments.

ECHOS© is used throughout all the different stages of the investment process: from assessing the institution to defending the investment proposal to the Investment Committee and finally when monitoring the investment. INCOFIN's investment officers use this tool when they carry out in situ assessments (due diligence) of each MFI where an investment is expected to be made, either for financing or equity investment. In order to do so, the investment officers have to review the MFI policies and procedures (credit and recovery mainly), training materials, conduct interviews with staff and clients and dig into some quantitative indicators that are taken into account for conducting this assessment. In order to do so, INCOFIN has provided specific training to all its investment officers in the use of the tool. There is no specific staff assigned to social performance but all the investment officer staff has to interiorize this double-bottom line philosophy into practice.

Once the total result of the MFI's social performance is obtained, INCOFIN's investments officers submit it to the correspondent Investment Committee (each fund has its own investment committee). Thus this also means that the members of the Investment Committee (almost all of them being external) have to be familiar with this tool. The Investment Committee takes the two assessments (the financial and the social) into account in order to make a decision about the viability of any potential investment and the terms and conditions associated with it. The tool is also used when monitoring the investment as investment officers have to visit the MFIs in their portfolio at least once a year.



ECHOS© is an assessment model (a kind of score card) with 5 dimensions including 43 indicators.

The dimensions are the following:

1. **Mission and social vision**: This dimension analyzes the procedures that the MFI has to promote, to measure and to monitor its mission. It also includes the use of social ratings.
2. **Outreach and access**: In this dimension the tool analyzes, first, to what extent does the MFI have policies that facilitate access to financial products and secondly, the MFI's level of outreach (scale and depth). In this dimension, there are no references to the portfolio size but rather to the number of clients.
3. **Customer service quality**: This dimension analyzes different aspects of customer services; the quality of customer service, the diversity of products and services offered and the incorporation of customer protection principles (price transparency, clear policies to avoid over-indebtedness among others).
4. **Human resources**: This dimension analyzes several aspects of human resources policies, including training and development support for the staff, anti-discrimination policies, the existence of a code of ethic, and finally labour climate and staff turnover.
5. **Environment and corporate social responsibility (CSR)**: This dimension analyzes to what extent the MFI implements clear policies and processes to (I) exclude environmentally harmful activities and (II) activities that favour environmental conservation. The participation of the MFI in CSR and support to community activities is also analyzed.

The following table provides a summary of each dimension and the number of indicators associated with each of them. In addition, each dimension has a specific weight in the total compounded social score. The weighing is also included in the second column of the table.

Table 1: Score distribution per dimension and number of indicators dimension

Social performance dimensions	Weighing	# of indicators
Mission and vision	10%	6
Access and outreach	25%	9
Customer service	30%	11
Human resources	20%	11
Environment and corporate social responsibility	15%	6
Total	**100%**	**43**

Using each indicator and the weighting described above, each MFI obtains a total compounded score which will have its relevance at the Investment Committee decision level.

Table 2: Score performance scoring table

Social performance	Scoring meaning and decision
< 55%	It has a low social performance level and the investment is rejected.
55% - 70%	MFI with fair social performance.
71% - 80%	MFI with good social performance.
81% - 90%	MFI with very good social performance.
91% - 100%%	MFI with excellent social performance.

The Investment Committee will look at the MFI social score and also have access to the complete social assessment prepared by the investment officer.

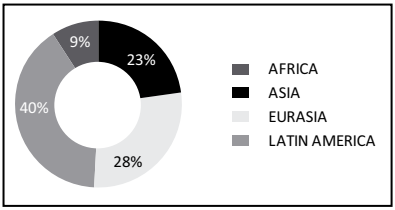
2. Results from INCOFIN's experience: a global mapping of MFIs social performance

A. The sample

For the development of this study, we used information from the assessment of 80 MFIs that were analyzed directly using ECHOS©. Although this sample of 80 institutions does not represent the complete universe of microfinance organizations, we believe that it is a significant sample of MFIs in contact with investors such as INCOFIN.

In terms of geographic distribution, there is information from entities located in 36 countries from four continents (Africa, Asia, America and Eurasia).

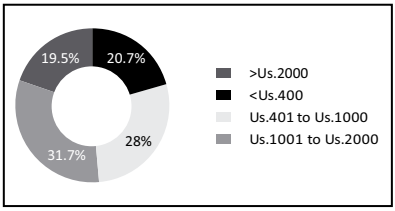
Graph 1: Distribution of institutions by continent



Other variables of interest that allow characterizing the type of institution and that were analyzed are: (I) the legal structure (NGOs, banks, non-bank financial institutions), (II) the size, (III) the age and (IV) the average loan size.

In the database studied, 50% of the organizations are non-bank financial institutions (NBFI), followed in percentage by NGOs with 32%. If the distribution by continent is additionally considered, it is observed that a high percentage of the institutions in Latin America and Africa are NGOs whereas in Asia and Eurasia non-bank financial organizations predominate. Most of the entities analyzed (58.8%) have been in operation for more than 10 years and only 20% are institutions that have been operating for less than 6 years. Bias may occur at this point, since INCOFIN, according to its eligibility criteria, mainly works with MFIs that have already been in existence for a number of years. Finally, 31.7% of the organizations have an average loan size comprised between USD 1.000 and USD 2.000, and 28% between USD 401 and USD 1000, whereas 20.7% have an average loan size inferior to USD 400 and 19.5% superior to USD 2.000.

Graph 2: Distribution of institutions by average loan size



B. Trends on INCOFIN's investment portfolio

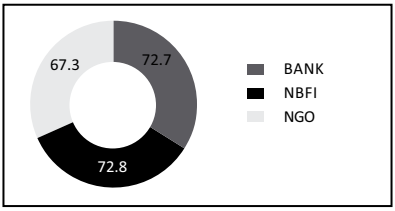
a. General average of social performance

The general average of social performance score for the 80 institutions interviewed is 71%, which according to the scale established initially is in the category of "MFI with good social performance" (scoring between 71% - 80%). It was also observed that a high percentage of organizations (59.2%) have a good social performance indicator, 35.8% a moderate performance and that only 4.9% are classified in the low level.

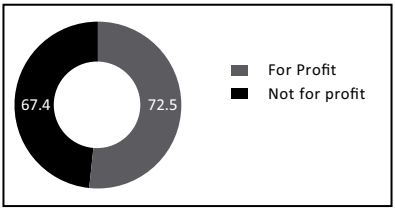
b. MFIs social performance by legal status and profit profile

If social performance results are analyzed by type of institution (NGO, banks and non-bank financial institutions), we found that banks and non-bank financial institutions get the highest average score in social performance score. However, we have to consider that the differences between the three categories are not very high, especially between banks and NBFIs. Moreover, this result must be carefully handled since banks participation within this sample only represents 18.3% of the total sample.

Graph 3: MFIs social performance by legal status



Graph 4: MFIs Social performance by profit profile

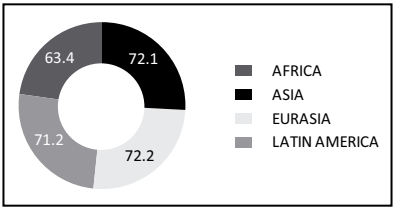


Nevertheless, and contrary to what many people think, we observe that profit driven MFIs show higher social performance scores than non-profit driven MFIs. This evidence reinforces the idea that because an organization decides to operate as a profit driven joint-stock company that it need not necessarily loose its roots, its commitment and alignment with its initial social mission.

c. MFIs social performance by continent

When considering geographical location, we do not see major differences between continents with the exception of Africa (with 63.4%).This result is probably linked with the degree of maturity of the microfinance sector in those continents compared to Africa.

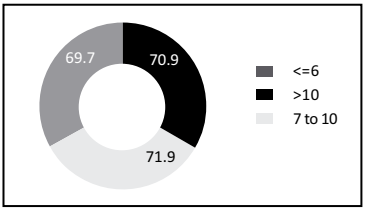
Graph 5: Social performance score by continent



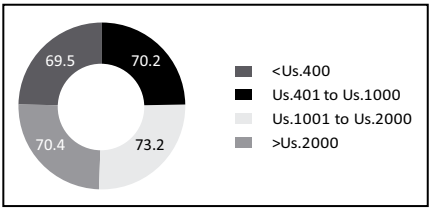
d. Distribution of average social score by age and average loan size

When MFIs' social performance is analyzed by the MFI age, we observe that the "oldest" MFIs (7 to 10 year-old organizations in our three categories set-up) are the ones that obtain greater social performance results; whereas, and it is not surprising to us, the youngest organizations are those that display lower results. This is because it can take some time for an MFI to set up strong policies and procedures which have an impact in terms of social performance

Graph 6: Social score by age



Graph 7: Social score by average loan size



On the other hand, and very interestingly, we observe that MFIs with smaller average loan size do obtain better social performance scores. Social performance results of MFIs with average loan sizes comprised between USD 401 and USD 1000, or inferior to USD 400, are smaller than that of organizations with average loan size comprised between USD 1001 and USD 2000. As it can be observed in the graph 6, these MFIs obtain an average social performance of 73.2%. This result is quite interesting as it contradicts an important impression within the sector, that MFIs with smaller average loan size have better social performance.

C. Relevant social performance indicators

As stated earlier, ECHOS© uses 43 indicators to measure the social performance of a MFI. However, we cannot say that all of them are relevant and could be used as discriminative indicators in order to compare and predict how a MFI is socially performing. That is why we have decided to analyse, with statistical techniques (Kendall's statistical association test was used) which are the most relevant and which ones best explain social performance.

By doing so, we found that out of the 43 indicators, 16 are really relevant in explaining social performance. We have listed them in the following table:

Table 3: Most relevant indicators for predicting social performance

SOCIAL DIMENSIONS	RELEVANT INDICATORS
1. Social mission & vision	Is the MFI measuring the fulfillment to its mission
	Is the MFI clearly promoting its mission and vision
	Is the MFI conducting social rating?
2. Access and outreach	Size of average Loan /GNI per capita
	MFI does not request compulsory savings as collateral
	The MFI applies non-discrimination policies in granting credit
3. Customer service quality	Information transparency with clients
	The existence of clear customer protection policies
	The existence of clear collection guidelines
	The existence of complaints mechanisms for clients
4. Human resources	The existence of a HR Department
	The existence of a code of ethics
	Clear existence of a culture of Delegation
5. Environment and CSR	MFI has an exclusion list for polluting activities
	MFI has policies and procedures to promote "green" activities
	The MFI includes environmental considerations in its credit policies

Despite having identified these 16 prime indicators, INCOFIN will continue to collect all 43 indicators as they complement these ones.

3. Results supporting correlation between financial and social performance

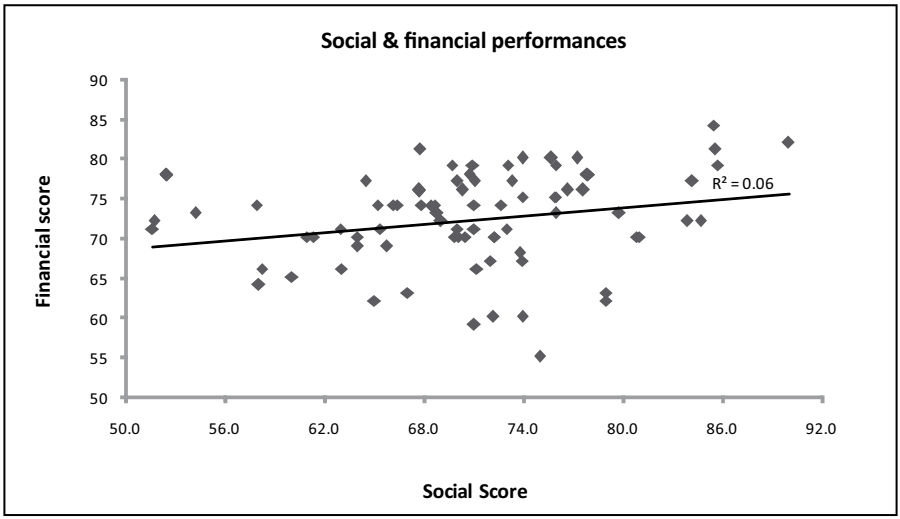
Similar to that done in 2009 with data of 2008, we have updated a correlation analysis between financial and social performances scores with data as of March 2010 for 80 MFIs. The financial score is also a compound score including more than 48 indicators (80% of them are quantitative) including dimensions such as: the MFI financial

structure, risk management, assets quality, profitability, efficiency, among others.
As for social performance, INCOFIN's team of investment officials are in charge of collecting financial information during the due diligence process. We observe that 78.2% of the MFIs assessed obtained good financial performance scoring. This is not surprising as it would be expected that an investment company invests in financially performing MFIs.

In order to confront social and financial performances and then perform a data variability review, and considering that these are categorical variables, Kendall Tau's test is established as a suitable statistical test. Moreover, we believe that it is not relevant to test correlation between individual social and financial indicators as it is unlikely – for most of them – that we would find something relevant in terms of correlation.

Applying this statistical test, we found that there is a positive association between the social performance score and the financial performance score at 5% significance level (0, 23 is the Pearson correlation coefficient, and the correlation is significant to 1%) as is observed in the graph below.

Graph 8. Statistical results for the correlation between social and financial compound scores



Even though the coefficient of correlation is not very high, this indicates that if the social score value increases, performance also increases in the same direction and therefore there is NO "trade-off" between social performance and financial performance. This result is the same as the one we obtained last year and reinforces our strong belief that it is possible and relevant to advocate for a double bottom line philosophy in microfinance.

There are several factors that explain this result. In a past paper[29], we have summarized the most relevant: human resources and customer service.

4. Going beyond the social performance assessment of MFIs : the social performance of MIVs

If the social performance assessment of MFIs appears essential to INCOFIN, measuring the social performance of its funds also constitutes a primary element of its approach, as INCOFIN considers that it would be biased and restrictive to limit the social performance analysis only to the MFIs. Investors that are taking an active part in the promotion of the MFIs social performance assessment should, in their turn, show that they implement policies consistent with their missions.

Thus, INCOFIN participated in the MIVs ranking pilot, supported by SDC and led by M-CRIL that aims at providing an in-depth analysis of both financial and social performance indicators at the level of the management of the fund, as well as the underlying data available for investees.

This participation is part of the INCOFIN's SPM general framework: INCOFIN wanted to go beyond the social performance assessment of its partners and complete it with the evaluation of its own investment funds, in order to be consistent with its mission and its promoted intrinsic values.

Such a rating, established by a third party, is neutral and constitutes a solid basis to encourage transparency between investors. This could benefit potential MIVs investors as well as MFIs, anxious to know more about the MIVs that fund them.

This rating assessed the INCOFIN funds (CVSO and RIF) as strongly recommended both from the financial point of view as from the social point of view

29 Dewez D., Neisa S. (2009). 'MFIs' social performance mapping and the relationship between financial and social performance: evidences against the trade-off theory'. Incofin Investment Management.

Ensuring, Monitoring and Reporting on SIDI's Social Value

CATHERINE BELLIN-SCHULZ AND CAMILLE FRAZZETTA, SIDI[30]

SIDI - Solidarité Internationale pour le Développement et l'Investissement

Creation: 1983

Legal status: Limited company

Capital: 13 million euros

Shareholding: CCFD-Comité Catholique contre la Faim et pour le Développement[31] - Owns 50% stake in SIDI; French NGO Epargne Solidarité Développement owns 29%; French and European financial institutions and EU own 21%.

Investment portfolio: 9.4 million euros (31/12/2009)

Number of partners financed: 65 partners in 29 countries

Types of financial instruments: Loans, equity, guarantees

Number of partners receiving technical assistance: 92 partners in 33 countries

Types of assistance: issues relating to sustainability (governance, strategy, innovation, institutionalization); internal organization (accounting, information systems, human resources, training); negotiation of additional financing, portfolio analysis, social performance.

Technical Assistance (TA) budget: 1.48 million euros

www.sidi.fr

1. Introduction

SIDI is a social investor, founded in 1983 by the NGO CCFD-Terre Solidaire, in association with several churches, individuals and European institutions. When investing in SIDI, shareholders expect social, not financial returns.

30 Translated from French by Bonnie Brusky

31 www.ccfd.fr.

SIDI uses shareholders' capital to invest in microfinance institutions, producers' organizations and social enterprises in developing and emerging countries through equity, loans and guarantees (by serving as a guarantor for local banks).

SIDI also provides support to help these partner institutions develop and grow through on-demand technical assistance in the following areas:

- Institutional support through participation in governance bodies.
- Strategic planning.
- Management tools, staff training, operational support for managing savings and credit services.
- Mobilization of financial resources (equity, grants, loans).
- Networking through meetings, peer learning workshops and training.
- Social strategy definition and implementation.

2. SIDI's social mission

As a social investor, SIDI aims to ensure respect for human dignity by promoting a solidarity-based social economy that fosters the development of local individual and collective economic initiatives.

To do this, SIDI relies on a "Solidarity-based Financing Chain" in which citizens from developed countries (shareholders and savers) and clients in developing countries are linked together through a chain of socially-oriented investments. On one end of the chain are SIDI's 1,300+ individual shareholders who are willing to bypass financial returns in order to achieve social impact. They are joined by about 5,000 individual investors who share their interest income[32] with SIDI, thus partially financing the technical support provided to investment partners. On the other end, SIDI's partners transform investments into financial services for populations excluded from conventional banking systems. Thus SIDI creates social value throughout the entire "Solidarity-based Financing Chain", involving a variety of different actors.

32 From socially-driven mutual funds "Faim et Développement" (Crédit Coopératif) and "Faim et Développement AGIR/CCFD" (offered by all French banks).

3. Ensuring, monitoring and reporting on SIDI's social value

Until 2008, one staff member managed the "social sustainability" of SIDI's investment partners[33]. Starting in 2008, SIDI initiated a process to involve every investment officer and regional manager in monitoring and implementation of its partners' social mission. Each investment officer committed to a detailed work plan with at least two investee partners. The work plan complemented the routine activities of regional managers, which entailed monitoring partners' social vision, mission and objectives.

A system to ensure, track and report on social value was set up at two levels: 1) the partner level and 2) the institutional level, with SIDI itself.

3.1 Partner level: supporting SIDI partners in their social strategy

Supporting partners in their social strategy implies:

- helping them clarify their social mission and objectives.
- formulating a personalized approach to help implement and follow these objectives, and if a partner wishes,
- SIDI can assist in the implementation of this approach.

To do this, SIDI has developed internal tools and methods to strengthen investment officers' capacity in this area:

- Training on the main social performance, impact assessment and poverty evaluation tools.
- Establishment of a dedicated team to stimulate group dynamics, conduct oversight, represent SIDI, and provide assistance to investment officers.
- A technical guide for investment officers, updated regularly, to facilitate the process of supporting partners in their social strategies. The guide describes existing tools and initiatives (social audits, poverty assessments, ratings, market studies, etc.) so that SIDI's operational team can decide jointly with partners on the most appropriate ones to use, given their needs.
- Implementation of a methodological brief called a Partner Brief, that integrates financial and social indicators drawn from the CERISE SPI.

33 SIDI's institutional definition of social sustainability and social value: "SIDI's social sustainability and that of its partners is based on an approach whereby shared social objectives are aligned with operational and management systems and a long-term, sustainable development perspective. This approach necessarily varies depending on the context and actors involved, but always aims to generate social value, wherein economic, social and cultural factors jointly contribute to the well-being of communities—the objective of SIDI's Solidarity-based Financing Chain. It is the foundation for sustainable social change, by preventing and reducing vulnerability of beneficiaries."

The example of SIPEM described below shows how SIDI has strengthened the MFI's capacity to implement its social mission and achieve its social objectives. A number of tools were used, including a market study to better understand the characteristics and needs of SIPEM's clients.

3.2 At the institutional level

Identifying SIDI partners

SIDI strives to meet its own social objectives by supporting MFIs, producer organizations and, more recently, rural social enterprises. SIDI's choice of partners is crucial for the implementation of its social mission. Do partner organizations share SIDI's values? How can they help SIDI achieve its objectives?

Once partners have been chosen, SIDI uses systematic and standardized tools to collect data, generate information and report on five dimensions that reflect its social value to shareholders and the general public.

Monitoring SIDI's social value

SIDI produces a social report that gives an overview of the social dimension of its operations. The preparation of the first social report consisted of the following steps:

First, the operations team listed the items it felt expressed SIDI's social value. This brainstorming effort involved all investment officers and led to the following five dimensions:

1. **Risk**: SIDI shares risks with its partners appropriately and patiently.
2. **Technical Support**: SIDI offers accessible and flexible support to partners.
3. **Adaptation of a range of services**: SIDI emphasizes the importance of adapting services to the local context.
4. **Leverage**: SIDI's investments have a leverage effect.
5. **Governance**: SIDI ensures the institutional sustainability and social mission of its partners.

When these five dimensions are put into practice, SIDI creates social value.

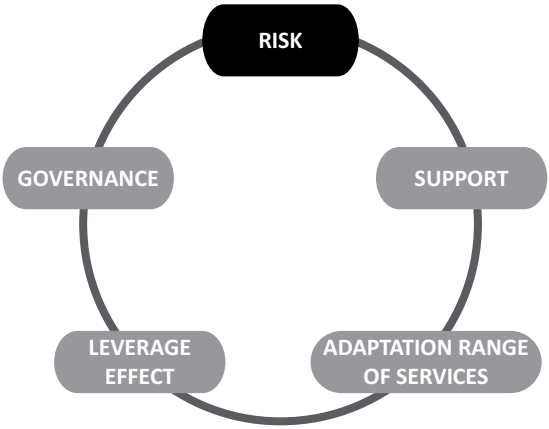
A second step involved defining qualitative and quantitative indicators for each dimension. A baseline report made it possible to eliminate indicators that proved too complicated or too unreliable to collect.

The third step was the creation of a social indicators monitoring format to report on each partner's performance. Reporting is done annually the SIDI investment officers based on field visits, available documentation and/or participation in partners' governance bodies.

Reporting on SIDI's social value: an annual social report

SIDI audits its social performance by consolidating the aforementioned social indicators. Published as an annual social performance report, this audit offers a clear and transparent overview of how SIDI's social mission infuses its activities, systems and practices (see annex: SIDI 2009 Social Report).

Social responsibility report



4. Helping partners monitor their social dimension: the case of SIPEM, Madagascar

SIPEM, Société d'Investissement pour la Promotion des Entreprises à Madagascar has partnered with SIDI since SIPEM's inception in 1990. In 2004, SIPEM made the decision to move into enterprise finance. The decision begged the question: who, exactly, are SIPEM's clients?

With SIDI support, SIPEM set out to define a monitoring/support/evaluation methodology that would allow it to track the progress, results, and changes to clients' situations, and ensure it was meeting its social sustainability objectives.

SIDI suggested SIPEM adapt a tool that had been successfully tested by Peruvian partner CAC La Florida (detailed in the European Dialogue 2008). The tool, based on Amartya Sen's capabilities approach and research by C3ED[34] on vulnerability, assesses and monitors the vulnerability of family farms on the basis of five categories: social capital, physical capital, human capital, financial capital and social opportunities, plus two independent variables: coherence of production factors and diversification of activities.

SIPEM's specific objectives with regard to its social strategy were as follows:

- Establish a typology according to forms and levels of vulnerability.
- Identify, assess and interpret client vulnerability.
- Provide pertinent support to clients, based on their type of vulnerability.
- Understand the strategies that help sustainably reduce vulnerability.

The Malagasy consulting firm ATW was commissioned to conduct the study. There were two objectives:

- Classify/categorize SIPEM clients based on their vulnerability profile.
- Identify variables and indicators to include in SIPEM's social performance MIS.

A purely quantitative approach was adopted. Surveys were conducted with a representative sample of clients from each of the 5 branches in Antananarivo, representing 20% of the total clientele of these branches (the study was limited to branches in the capital; those in the provinces may be addressed in subsequent study). Representativity was ensured by using quotas. A total of 130 clients were sampled based on the following criteria:

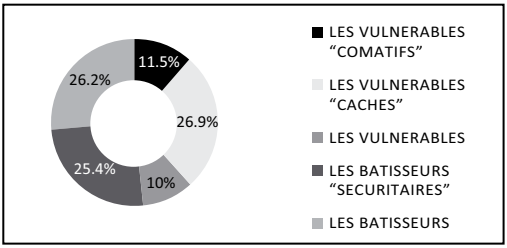
- Sex
- Length of time with SIPEM
- Sector of activity
- Credit amount requested

34 Centre d'Economie et d'Ethique pour l'Environnement et le Développement, a joint research unit of Université de Versailles Saint-Quentin-en-Yvelines and the Institut de Recherche pour le Développement.

Twenty variables appeared relevant to analyzing client vulnerability

Human capital
Level of education of client and family
Highest degree held by a family member
Monthly expenditure on food per person
School fees per child
Human resources (% of household members who work)
Medical coverage
Amount spent on healthcare in the event of illness
Marital status
Financial capital
Average amount of savings (per household and per person)
Income (per household and per person)
Household's perception of its financial situation
Access to other employment opportunities
Stability of spouse's employment
Supplementary government income (e.g., pension)
Physical capital
Access to water
Toilet, shower, refrigerator, gas or electric stove, landline
Number of rooms in the house per person
Social capital
Decision-making power in household
Division of responsibility among household members
Family's membership to an association or self-help group
Degree of involvement in village life and ceremonies, and village conflict resolution
Degree of consultation with spouse for important decisions
Degree of family members' involvement in family projects

The study found five categories of clients, each with their own characteristics:



1. **Builders** (batisseurs), represent 26.2% of the sample. They are vulnerable in terms of financial capital due to low savings, and despite higher incomes.

They have no medical coverage, and high food and health costs. These are typically homes where the highest degree is a university diploma. They invest in productive assets and have high levels of schooling.

2. "**Vulnerables**" (vulnerables) represent 10% of the sample. Monthly income per person is low, the financial situation is average; however, 85% manage to put some money aside. They live in precarious housing conditions. They do not invest at all in domestic appliances. The level of family education, school fees per child and food expenditure are low.

Between these two extremes, the study found three intermediate categories: **"secure" builders** (batisseurs "sécuritaires"); **"resilient" vulnerables** (vulnerables combatifs) and **"hidden" vulnerables** (vulnerables caches).

This study revealed to what extent SIPEM's clients were characterized by different levels of vulnerability. SIPEM opted not to specifically target a more vulnerable population but rather to track changes to all clients' level of vulnerability by introducing MIS monitoring indicators. These indicators are useful in that loan officers who have been trained in this approach can now classify clients (potential or current) according to the five categories described above; they also provide useful information for analyzing credit history. Thus, the study was the basis for setting up a client monitoring tool, based on the social criteria loan officers felt were the most relevant.

Annex: SIDI Social Report 2009

	RISK	
#1	Percentage of portfolio in local currency	60%
#2	Percentage of portfolio in holdings	45%
#3	Percentage of portfolio in crisis areas (Guatemala, Haiti, Niger, Madagascar, Palestine, Guinea, Colombia, Democratic Republic of Congo, Lebanon)	24%
#4	Percentage of portfolio in SSA	49%
#5	Percentage of portfolio in rural areas	62%
#6	Percentage of portfolio in agricultural activities and fishing	36%
#7	Percentage of portfolio in third-tier institutions i.e. 71% of total number of partners	57%
	SUPPORT	
#1	Total support provided (of which 23% provided by volunteer consultants)	2222 days
#2	Technical assistance (no. days)	56%
#3	Percentage of partners receiving TA	53%
#4	Percentage of TA to third-tier institutions (no. days)	86%
#5	Percentage of TA to advising on social strategy (no. days)	8%
#6	No. days dedicated to crosscutting issues of which 90 days to social performance	529 days
#7	Average length of partnerships (ongoing)	7 years
#8	Average length of relationships with financial partners (ongoing)	6 years
	ADAPTATION OF SERVICES	
	Loan amount granted in 2009 % of loans with a specific use	€ 829 152 63%
	Percentage of new loans used for: Medium-term financing (> 3 years)	14%
	Productive assets	27%
	Rural enterprises	26%
	Organic farming	7%

	Renewable Energy	N/A
	Fair Trade	26%
	Number of MUSO (solidarity credit unions) receiving support from SIDI	2500
	LEVERAGE EFFECT	
#1	No. of partners that have leveraged additional funding thanks to SIDI Mobilization of capital, loan guarantee or grants through SIDI	8%
#2	Amount of grants obtained thanks to SIDI intermediation	€ 125 332
#3	Amount of loans thanks to SIDI intermediation with partners in the North	€ 1.3 M
#4	No. days dedicated to seeking out additional funding for partners	210 days
#5	Percentage of SIDI funds in partners' liabilities	
#6	Amount of new guarantees incurred by SIDI	€ 760 000
	Amount of funds from local banks i.e., a leverage ratio of 1.35	€ 1 020 000
#7	No. of end clients (regional apexes and international funds)	751 216
#8	No. of active end-borrowers of which 54% women and 65% rural	1 330 840
	No. of active end-savers of which 49% women and 57% rural	1 246 672
#9	No. of producers' organizations and beneficiaries of rural enterprises	37 301
	GOVERNANCE	
#1	No. of partners benefiting from SIDI strategic planning support i.e. 28% of total number of partners	28
#2	No. of partners of which SIDI sits on the Board of Directors	23
#3	No. of days dedicated to governance of which 297 days include participation in Board meetings	434 days
#4	No. days dedicated to institutionalization This concerns 10 partners	85 days

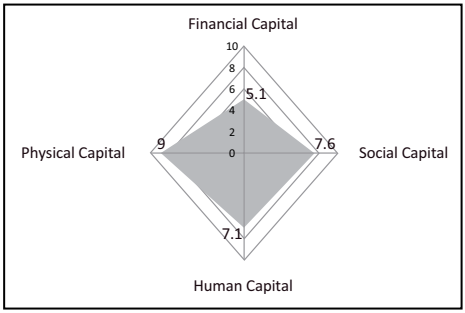
	SUPPLEMENTARY DATA	
#1	Percentage of partners in crisis areas of which 86% subject to political conflict	31%
#2	Percentage of partners that have reduced interest rates over the past 3 years	21%
#3	Financial data	
	Total outstanding MFI credit portfolio	€ 492 million
	Total outstanding MFI savings	€ 333 million
	Total assets of partners	€ 1 billion
#4	Percentage of partners that increased equity in 2009	44%
#5	Percentage of partners that had positive financial performance in 2009	52%
#6	No. PO/ER that improved turnover in 2009	25%
#7	Percentage of partners with a social performance policy	70%

Annex 2: Detailed vulnerability analysis of SIPEM clients

The main characteristics of each client category:

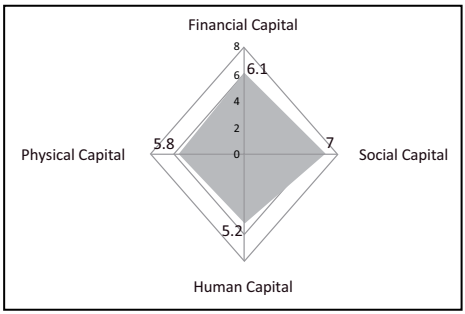
BUILDERS

- Less vulnerable in terms of physical capital (9/10)
- Less vulnerable in terms of human capital (7/10)
- Less vulnerable in terms of social capital (7.6/10)
- Yet, they are average in terms of financial capital (5.1) and have no savings, even though they have a high monthly income (over 300 000 arairy).



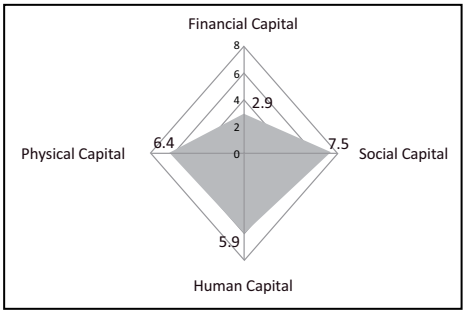
SECURE BUILDERS

- Less vulnerable in terms of social capital (7/10)
- Average in terms of human capital (5.2/10)
- Average in terms of physical capital (5.8/10)
- Average financial capital (6.1/10), despite a good monthly household income (high income) and a high per capita income; current savings per person is average.



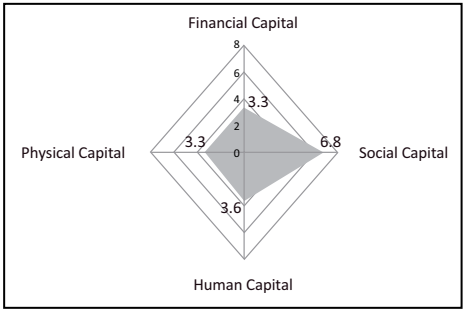
RESILIENT VULNERABLES

- Less vulnerable in terms of social capital (7.5/10)
- Average in terms of physical capital (6.4/10)
- Average in terms of human capital (5.9/10)
- Vulnerable in terms of financial capital (2.9/10), with high monthly household income (10/10), but very little savings.



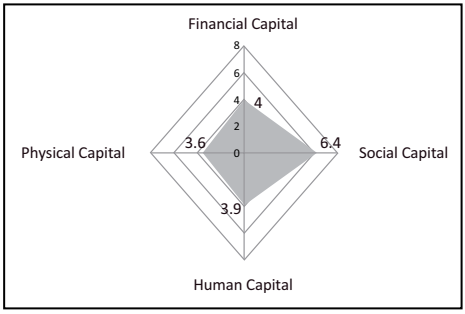
HIDDEN VULNERABLES

- Less vulnerable in terms of social capital (6.8/10)
- Very vulnerable in terms of physical capital (3.3/10)
- Very vulnerable in terms of human capital (3.6/10)
- Very vulnerable in terms of financial capital (3.3/10), despite a high monthly household income; very little savings, sometimes difficulty making ends meet.



VULNERABLES

- Average in terms of social capital (6.4/10)
- Very vulnerable in terms of physical capital (3.6/10)
- Very vulnerable in terms of human capital (3.9/10)
- Very vulnerable in terms of financial capital (4/10) with a monthly income per person very low (1.2/10), a financial average (6.7/10), and a lack of savings.



Triple Jump's Experience with Social Performance Assessments in the Course of Due Diligence Visits to Microfinance Institutions

JESSIE GREENE AND SASCHA HUIJSMAN, TRIPLE JUMP

Triple Jump (all data from 30 June 2010)

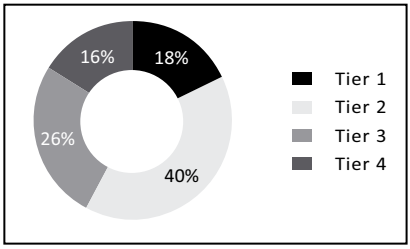
Date of creation:	1998, spin-off in 2006
Type of Organization:	Microfinance investment manager
Portfolio invested:	€190 million
Number of Countries:	51
Number of MFIs in portfolios:	140
Type of financial instruments:	Equity, loans, technical assistance
Investment funds:	ASN-Novib Fund, Oxfam-Novib Fund, SNS IMF, Calvert, NOTS,
Website:	www.triplejump.eu

Introduction

Triple Jump is an investment manager based in Amsterdam, the Netherlands. We offer professional fund management services to investors, and provide loans and equity investments to microfinance institutions (MFIs). Thanks to five different mandates, each with a specific target group and risk profile, Triple Jump can provide financial services to MFIs in all stages of their development. Triple Jump clients range from NGOs receiving their first non-subsidized funding, all the way to regulated banks with intermediate savings and serve hundreds of thousands of borrowers. The following graph shows the distribution of all investments under management, per MFI tier[35].

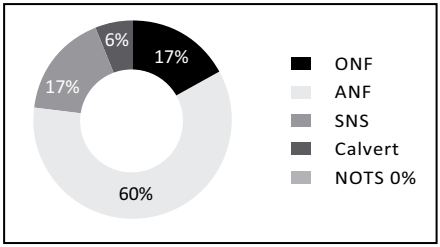
35 The TJ division per tier is the following: Tier 4: GLP under 3 million USD; Tier 3: GLP between 3-10 million USD; Tier 2: GLP between 10-50 million USD; Tier 1: GLP above 50 million USD.

Triple Jump Advisory Services Foundation (TJAS), a separate NGO under the Triple Jump umbrella, offers advisory services and cost-sharing grants to microfinance institutions. Since inception in 2006, TJAS has supported 30 MFI partners with services including management information systems (MIS) and mobile banking implementation, product development and governance/internal controls strengthening.



We believe that by giving new and expanding players the means to compete in the market; we contribute to making the microfinance sector more efficient. As a social investor, Triple Jump strives to achieve both a positive financial and social result.

The following graph demonstrates the distribution of the Triple Jump portfolio over the different funds under advisory, per amount invested.



Triple Jump is a company limited by shares with four owners: Oxfam Novib, the ASN Bank, NOTS foundation and Company Management. Oxfam Novib established Triple Jump as a continuation of its own programmes in support of microfinance. The Triple Jump shareholders share a strong social focus, and in 2008 these stakeholders encouraged Triple Jump to increase the emphasis on social performance assessment in the loan assessment process. To achieve this, we chose to develop a questionnaire which would help standardize the Triple Jump social performance assessment. More information about this tool is provided later in this article.

At Triple Jump we believe that any institution with a social mission should work to instil a culture of social performance management in order to ensure that the institution's own mission is achieved, however we also believe that a strong culture of social performance is simply good business practice. As will be shown in more detail below, our data shows a positive correlation between financial and social performance, which may also be interpreted as meaning that there is not necessarily a trade-off between financial and social performance.

Our commitment to social performance assessment

Triple Jump has a number of reasons for being interested in social performance. First and foremost, we have a social mission, meaning that our core business is to achieve both a social and a financial return. We need to be able to prove to our investors that the investments we make achieve an acceptable level of social performance, in line with their requirements. As more and more funds are being invested in microfinance, microfinance is facing a growing level of public scrutiny. Investors and MFIs alike are under pressure to demonstrate that their activities achieve a positive impact, or at least do not cause harm.

At Triple Jump we believe that good social performance can lead to an improved level of financial performance. By treating its clients well, an MFI helps to foster client loyalty, thereby improving repayment behaviour and reducing client turnover. The same applies to over-indebtedness prevention measures, which protect the client and will most likely result in a lower level of risk in the portfolio. Later in this article we elaborate further on this relationship and present our own findings.

The Triple Jump social performance assessment (SPA) Tool

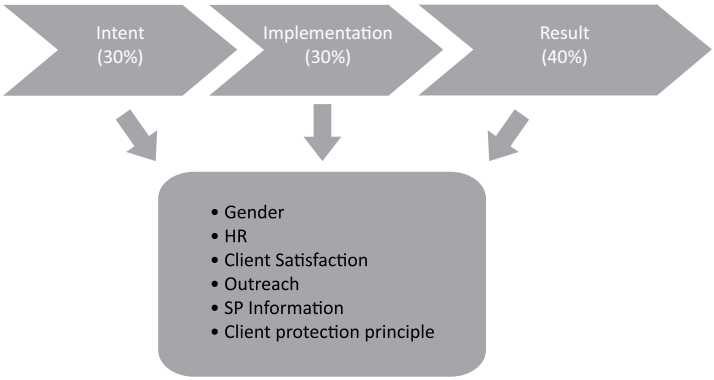
The Triple Jump SPA Tool was developed in 2008 in cooperation with Oxfam Novib to assess all MFIs in the ASN-Novib and Oxfam Novib Funds. In addition to the motivations described above for focusing on social performance assessment, Triple Jump had a number of additional reasons for designing and implementing the SPA tool. These were:

(1) To start a dialogue about the different aspects of social performance management with our clients, particularly MFIs operating in isolation and less well-informed about social performance. Our aim was not to develop a tool which leads to a one-sided judgement, but to foster discussion and mutual learning;
(2) To stimulate MFIs to think about what they can do to fulfil their own mission and increase their impact;
(3) To raise awareness about the Client Protection Principles and to encourage MFIs to endorse and implement the principles;
(4) To identify weaker areas as a potential (reputational/financial) risk. Identifying weaknesses in the area of social performance makes it possible for Triple Jump staff to advise MFI management in a structured manner about possible steps it could undertake to improve weak areas; and
(5) To collect evidence of, to document, and to analyse the social performance of the MFIs in our portfolios.

The set-up of the Triple Jump SPA Tool

The tool is designed as a matrix based on the social performance pathway and a number of output dimensions. The **42 questions** in the tool are divided into categories that cover the three different stages of the social performance pathway: **intent** (includes social mission, codes, and objectives), **implementation** (measuring, tracking, and incentives impact and social performance), and **results** (output).

Based on the issues considered most important by our shareholders, we organized the output of the tool along six dimensions: human resources (HR), outreach, gender, social performance information, client protection and client satisfaction. The illustration below shows how each stage of the social performance pathway is related to each of these dimensions.

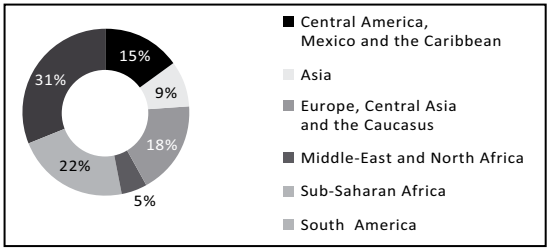


Three particularly important focus areas at Triple Jump are client protection (including interest rates), gender, and rural outreach. The SPA tool includes 10 questions on client protection, including a full calculation of the APR and EIR using the MF Transparency Effective Iinterest Rate Tool. In the case of higher interest rates, an additional interest traffic light is used to assess whether there are mitigating factors that make the investment interesting to our funds in spite of the high interest rate. Gender is covered with a number of questions at the client and staff level. In the case of the Oxfam Novib Fund, an extra 8 questions on gender are included, as this is a core concern for Oxfam Novib. Finally, the indicators on rural outreach and outreach to communities with limited access to financial services are considered important and receive a heavier weighting.

Regional Distribution of Social Performance Assessments Conducted by Triple Jump, 2009-2010

The Triple Jump SPA assessment is conducted by the investment officer (IO) with the MFI's management during the due diligence visit, preferably on the last day. This is to ensure that the IO has already seen most aspects of the MFI, and can cross-check his or her findings with the management. Supporting documents are requested if necessary.

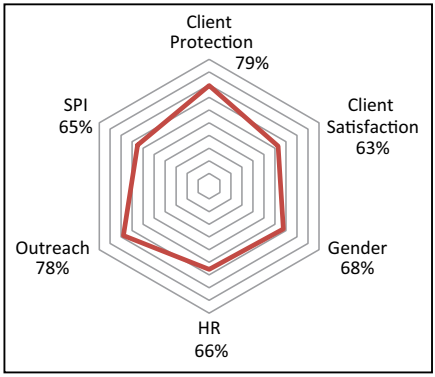
From January 2009 to June 2010, 81 MFIs in the Oxfam Novib and ASN-Novib funds have been assessed. The following graph shows the regional distribution of the assessments conducted:



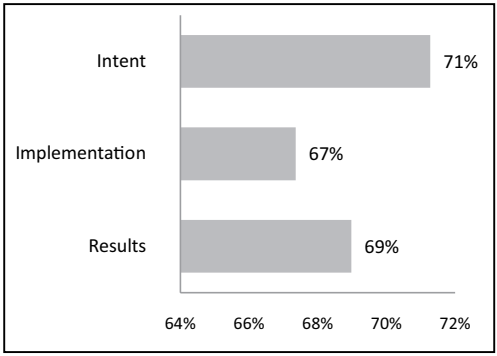
Main findings

Social performance scores: The following two graphs demonstrate part of the output of our tool, which consists of a score, long answers, and the graphs as shown below. As can be seen from the radar graph, MFIs in our portfolios obtain the highest score on client protection and outreach: on average MFIs scored 80% of the maximum possible score on these dimensions. As the bar graph shows, we do not find large differences between the average scores for intent, implementation and results. Given the high proportion of lower tier MFIs in the portfolio, we are not surprised to find that intent and results obtain slightly higher scores along the pathway categories. Tier 2 and Tier 3 MFIs often have a social mission, and reach out to poorer people in more isolated areas, however they tend to have less sophisticated information systems and policies than Tier 1 MFIs.

Radar graph - average social performance assessment, ONF and ANF



Bar graph - average pathway scores, ONF and ANF



Regional differences

As can be seen in the table below, our data does not show a significant difference in average score across the different regions. Nevertheless, there are slight differences which are partly in line with a study conducted by Incofin[36] (2009). Incofin found that MFIs in Sub-Saharan Africa exhibited the lowest average level of social performance. In our portfolios, MFIs from Sub-Saharan-Africa and MFIs from Eastern Europe, the Caucasus and Central Asia (ECA) obtain similar low scores. In the case of Sub-Saharan Africa, we believe this is due to a higher proportion of MFIs operating in isolation, less exposed to best practices, as well as a lack of qualified personnel to implement social performance measures. In the case of the ECA region, this may be due to the bias in our model, which rewards high outreach in numbers and a higher outreach to women, both of which tend to be lower on average in this region.

Rank	Region	Average SPA Score
1	Asia	76%
2	Middle East and North Africa	75%
3	Central America	72%
4	South America	69%
5	Sub-Saharan Africa	66%
6	Europe, the Caucasus and Central Asia	66%

In our sample, we find that MFIs in the Asian and Middle East and North Africa (MENA) regions show the highest average social scores. Using the Kruskall Wallis test[37] we do not find significant differences between the mean social scores across regions. We also do not see substantial differences between the different regions on the average score for each separate dimension.

Looking at the social score in more detail we find that MFIs in the MENA and Asia regions have a higher score with respect to gender, while MFIs in the MENA region also obtain a very high score on HR. These positive scores may be due to the fact that we are still in the early stages of expanding our portfolios in these regions, leading to "cherry-picking" of the most social MFIs.

MFIs in Asia and in Central America obtain high scores for outreach. This makes intuitive sense in the case of Asia, where MFIs tend to have a broad and deep outreach. The Central

36 Incofin (2009) MFI's social performance mapping and the relationship between social and financial performance – evidences against the trade-off theory. Publication of Incofin Investment Management. www.incofin.be/upload/pdf/Social%20Performance%20English.pdf

37 The Kruskall Wallis-test is a statistical Chi-square test, testing whether means of different populations are significantly different using a ranking method.

America score is mainly due to the more mature and therefore larger institutions in the portfolio, as well as a good level of rural outreach.

Differences across tiers

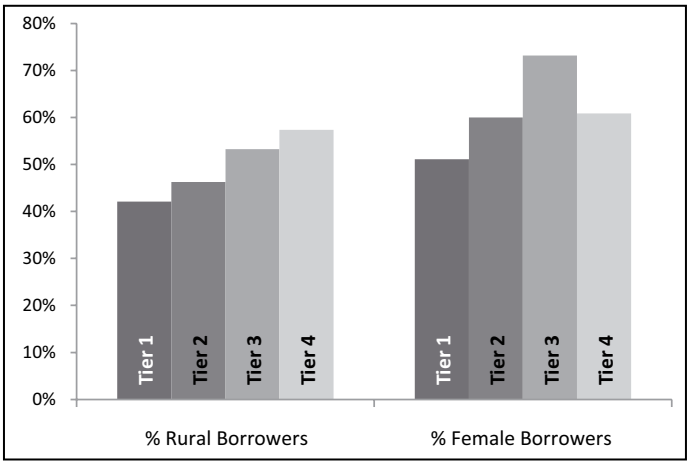
In addition to the limited variation between regions, our results do not show a significant variation in average social performance scores across different portfolio sizes.

	Social score
Tier 1	68%
Tier 2	71%
Tier 3	69%
Tier 4	67%

The Kruskall Wallis test confirms that the average level of social performance of MFIs is not significantly different per tier, implying that smaller MFIs also reach a good level of social performance. The only significant difference is for the SPI score, meaning that larger MFIs have better social performance information. This is to be expected, as larger MFIs tend to have a more sophisticated MIS system.

The graphs below show some of the most intuitive results from our analysis of our portfolio in combination with the data collected during our surveys and in the course of regular reporting. The sample size for these graphs is larger than the sample size for the assessments, including 125 MFIs. On outreach, we find that the lower tiers outperform the upper tiers in terms of average percentage of rural borrowers and average percentage of female clients. The percentage of female clients for Tier 4 MFIs is found to lie outside of the trend line, mainly due to the start-ups in the sample.

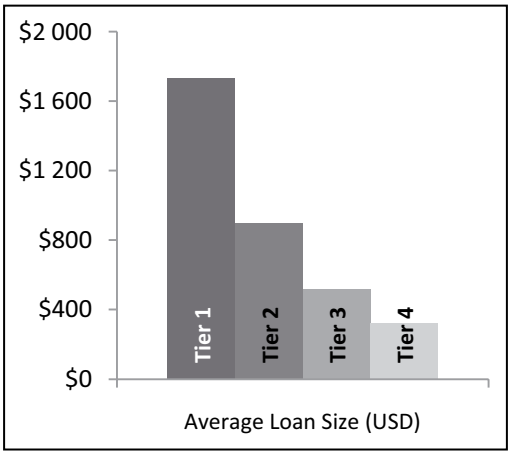
Average score per tier for rural and female outreach



We also find a strong relationship between the tier and the average outstanding loan size, with the lower tier MFIs providing significantly smaller loans on average. We believe that this is due to a number of factors, including:

- Lower tier MFIs tend to be located in poorer, less developed countries.
- The Triple Jump funds have a selection bias, focusing on smaller MFIs reaching out into the rural areas, generally offering group loans.
- Upper tier MFIs offer a higher proportion of individual and SME loans.

Average loan size per tier



Additional findings

When studying the different correlations among the different financial and social indicators in our assessments, we find some interesting correlations. Some of the most significant, though still preliminary, include the following:

1. **Gender**: Our data shows that MFIs with good policies, procedures and results aimed at improving the position and involvement of **women show** a significant higher productivity and profitability. We also find that these MFIs have a better repayment rate. We also find that a higher score on the **proportion of women in management** or senior positions is positively related to a higher level of profitability, higher repayment rates and productivity.

2. **Outreach/operating expenses**: An unexpected result is that **outreach** is significantly and negatively correlated to the level of **operating expenses**, meaning that MFIs with a higher number of clients, a higher rural outreach, a higher percentage of clients from marginalized groups, and a lower average loan size, have a lower operating expense ratio. Although this is somewhat counter-intuitive, this may be related to higher efficiencies of scale and more group lending. Our findings are also in line with findings from the MIX[38] (2010) which found rural MFIs to be more efficient. They suggest that areas in which rural MFIs operate are not so dispersed as always assumed.
3. **Human resources (HR)**. We find that good HR policies and a low level of staff turnover is negatively correlated to write-offs, meaning that better HR leads to lower write-offs in the portfolio. This result seems plausible as happier and more experienced staff is likely to be better at successfully making and recovering loans.

Reactions of MFIs in the field

We find a wide variation in the level of implementation of social performance management among our clients; with some MFIs already having their own advanced social performance mechanisms and even conducting impact studies, whereas others pay relatively little attention to social performance and mainly focus on financial performance. Nonetheless, overall we find that MFIs react positively to the increased level of attention for social performance.

Triple Jump encourages its clients to incorporate a culture of social performance management in their business. Integrating social performance into the daily activities of an MFI is a long process. We believe in conducting an open dialogue between our organization and the MFIs in our portfolios, in which both parties can learn from each other's expertise and experiences.

38 MIX (2010) Microfinance Synergies and Trade-offs: social versus financial performance outcomes in 2008. Mix Data Brief No. 7. www.themix.org.

Future strategy

In the future we will continue to improve our social performance assessment tool in order to refine the questions, and to help ensure that the tool truly captures the social performance of MFIs.

Together with other microfinance investors, we are working to harmonise our due diligence questionnaire as well as annual reporting. We firmly believe in working towards the standardization of social performance reporting, an important process for sending a strong message to MFIs, for benchmarking, and for efficiency reasons. In September 2010, in cooperation with Oikocredit and CGAP, Triple Jump organized an investor meeting about ESG due diligence assessment tools, in which we made a first step towards sharing our various social performance/ESG due diligence tools. Participants shared their experiences in order to learn from each other, emphasizing the value investors attach to social performance.

PERSPECTIVES AND CROSS CUTTING ISSUES

SECTION 3:

Investors' Group on Over-indebtedness

SARAH LESHNER, BLUEORCHARD

The proliferation of MFIs and increased competition in more developed microfinance markets has provided the impetus for many MFIs to become more efficient and client-oriented. It has also, unfortunately, led some institutions to pursue aggressive lending practices in order to continue growing. Credit policies may have become looser, and borrowers may have been allowed – or even encouraged – to take on more debt than is prudent.

Over-indebtedness can have serious negative consequences for all stakeholders in microfinance. Clients who cannot repay their loans because they have taken on too much debt risk losing their livelihoods, their reputation and their chance to improve the lives of their families. MFIs that lend to them may experience portfolio deterioration and writeoffs, and MIVs that lend to these MFIs may have to take provisions or writeoffs of their own, which in turn will mean that the performance of the MIV will be impacted. The excellent work of so many microfinance practitioners can be jeopardized by careless and excessive lending that damages the industry's reputation.

The financial crisis and associated macroeconomic downturns exacerbated the vulnerabilities associated with over-indebtedness, and in several markets like Nicaragua and Bosnia, sector-level problems arose. Through these experiences, microfinance investors began sharing their concerns with each other, and expressed a desire to collaborate in confronting the issue in other markets before it reached that level of severity.

Following the Social Investor Meeting held in Switzerland in June 2010, BlueOrchard has convened two meetings of like-minded investors during regional conferences held in Latin America. Representatives of 12 microfinance investment managers participated in these meetings, with the shared objective of exchanging thoughts and initiatives aimed at assessing and combating the issue of over-indebtedness in Peru. The idea is to start with Peru, given growing concerns about the level of competition in the country, as well as the high quality and accessibility of information from the credit bureau. Then use our collective leverage to work with credit bureaus and local associations in other countries to

achieve similar accessibility to information as well as favorable policies, codes of conduct and legislation.

During these meetings, it was apparent that there is a high degree of consensus among investors who are active in Peru. It was widely recognized that the penetration of microfinance products and services (as well as other financing alternatives like credit cards) is extensive. Competition has increased recently, even in parts of the country that previously had not been as well-served. The market, however, is regulated by an active superintendent and benefits from a very strong credit bureau system that provides highly detailed and widely distributed borrower-level information.

There are a range of activities being undertaken at the investor level to confront over-indebtedness. The initiatives that have been discussed are aimed at combating both the social impact risk of over-indebtedness as well as the increased credit vulnerability of clients and the MFIs that lend to them. Specific in-house projects include: analyzing borrower-level data from the credit bureau and local network, creating an early warning system of triggers and indicators of over-indebtedness, and modifying due diligence processes to include reviewing more loan documents in MFI branches, and benchmarking policies and procedures within institutions aimed at addressing and combating over-indebtedness.

In addition, participating investors have agreed to collaborate in evaluating and fighting over-indebtedness in Peru and, subsequently, in other markets. It was agreed that the investors will jointly commission a study that would cover both the credit risk implied by higher debt levels of borrowers, as well as the impact on clients. The objective of the study would include gathering, analyzing, and presenting the data, and then different organizations can use the findings to inform investment decisions as they deem appropriate. A study done on the Bosnian market and one underway for Ghana will be used as examples.

The financial and social success of many MFIs around the world has encouraged the creation of more and more institutions, and the amount of capital dedicated to microfinance through MIVs has grown considerably in the past 10-15 years. The vast increase in availability of funds has led to some markets becoming saturated, and investors increasingly are recognizing the dangers of this. It is the responsibility of all participants in the industry to ensure that microfinance fulfills its central mission to improve the lives of low-income borrowers, and that over-indebtedness does not do harm to the construction of a fair and inclusive financial system for all.

Any investors interested in participating in this group should contact Sarah Leshner at Sarah.Leshner@BlueOrchard.com

Introduction to Principles for Investors in Inclusive Finance

ON BEHALF OF THE INVESTOR GROUP, MARILOU VAN GOLSTEIN BROUWERS, TRIODOS INVESTMENT MANAGEMENT BV

A group of investors[39] and Her Royal Highness Princess Máxima of the Netherlands, UN Secretary-General's Special Advocate for Inclusive Finance for Development initiated drafting Principles for Investors in Inclusive Finance early 2010. This group of investors believes that specific principles for investors in inclusive finance, of which microfinance is a part, would strengthen the movement towards responsible finance. These principles are developed together with UNPRI and in consultation with CGAP and some other industry players, keeping in mind the Client Protection Principles of The Smart Campaign, as well as other work on social performance and environmental, social and corporate governance (ESG) issues.

The first draft principles were shared with a broad group of investors in June this year and a variety of feedback was received and incorporated in the current draft.

The plan is that these principles will be part of the UNPRI framework. The coming months will be used to further organize that and discuss principles with a broad group of investors. The Launch of the principles will take place at a Responsible Finance Meeting in the Hague, the Netherlands on January 27th 2011.

Principles for Investors in Inclusive Finance (draft September 2010)[40]

Inclusive finance, which includes but is not limited to microfinance, focuses on expanding access of poor and vulnerable populations, micro- and small-enterprises, and those otherwise excluded to affordable and responsible financial products and services. This encompasses a wide range of financial services including savings, credit, insurance, remittances, and payments. These services should be provided by a variety of sound and sustainable institutions. Inclusive finance carries with it the responsibility for all

39 The working group of investors consists of Goodwell, Oikocredit, PGGM, SNS Asset Management and Triodos Investment Management.

40 These Principles are the initiative of a core group of investors and Her Royal Highness Princess Máxima of the Netherlands, UN Secretary-General's Special Advocate for Inclusive Finance for Development. They developed the Principles together with UNPRI and consulted with CGAP and some industry players.

actors in the value chain - investors, retail financial service providers and other relevant stakeholders - to understand, acknowledge and act in accordance with the interests of the ultimate client. Clients are typically low-income and constrained by asymmetries in financial knowledge, power and influence. Access to finance must be provided in such a way that the interests of the clients are protected. The Principles for Investors in Inclusive Finance, part of the UNPRI[Note 1] framework, are signed by direct investors or fund managers and indirect investors investing via designated funds. By signing, direct investors or fund managers as well as indirect investors signal their intent to uphold the principles in their own investments, and to support the actions taken by other actors in the value chain to implement the principles, including retail financial service providers, rating and benchmarking agencies, donors and government regulators and policymakers.

It is acknowledged though that while indirect investors operate at a distance, direct investors can more directly influence adherence to the Principles. The examples of possible actions under each Principle are therefore especially meant for direct investors or fund managers who, in the value chain of inclusive finance, have the relationship with the financial institutions providing finance to the ultimate clients.

Principles for Investors

As investors or fund managers investing in inclusive finance, we have a duty to act in the long-term interests of our clients - private and institutional investors. While upholding our fiduciary responsibility, we will commit to adhering to and promoting the following principles of inclusive finance.

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

Possible actions:

- Encourage development and extension of range of financial services to include savings, loans, insurance, payment services, remittance facilities, pension plans, etc. to low income populations.
- Stimulate providers to develop innovative products tailored to the needs of low income clients.
- Encourage retail providers to expand their service offerings to more remote areas and more vulnerable populations.

2. **Client Protection. We believe that client protection in particular is crucial for low income clients. We will therefore integrate client protection in our investment policies and practices.**

   Possible actions:

   - Endorse the Client Protection Principles[Note 2] publicly.
   - Incorporate the Client Protection Principles into investment policies, due diligence processes and possibly financing or shareholder agreements.
   - Invest in retail providers that have endorsed the Client Protection Principles.
   - Engage with retail providers on an ongoing basis to encourage them to make the Client Protection Principles part of their operations.
   - Monitor implementation of the Client Protection Principles through mandatory reporting and regular monitoring and evaluation.
   - Report on progress on advancing the Client Protection Principles to investors and other stakeholders.

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

   Possible actions:

   - Provide financing in an appropriate currency.
   - Provide financing with an adequate tenor.
   - Negotiate terms and conditions that are transparent, fair and reasonable, including fair break-up clauses.
   - Actively support the building of a diversified funding base.
   - Pay special attention to the interests of the ultimate clients in dealing with defaults or forced exit or-restructuring situations.

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

   Possible actions:

   - Sign the UN Principles for Responsible Investment (UNPRI)[Note1] and commit to adopt and implement them.
   - Adhere to CGAP MIV Disclosure Guidelines and report annually.

- Use the standards and tools set forth by the Social Performance Task Force[Note 3] for the purpose of measuring and reporting on social performance.
- Assist in developing appropriate references for environmental and corporate governance issues.

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

   Possible actions:

   - Use our influence to ensure that the pricing, terms and conditions of financial products and services offered by providers are transparent and adequately disclosed in a form understandable to clients.
   - Fully disclose our own policies, criteria and related conditions of our products and services to our investees and other relevant stakeholders.
   - Be explicit about investment objectives, both financial and social, to our investors.
   - Endorse MFTransparency a global initiative for fair and transparent pricing in the microfinance industry[Note 4].

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

   Possible actions:

   - Exercise voting rights when available.
   - Specifically when investing in equity, develop an engagement capability with investees on issues such as balancing interest rates charged on loans to microfinance clients and return on equity for shareholders or balancing cost of investment for expansion into less developed areas and short-term profit.

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

   Possible actions:

   - Participate in networks to share tools, information, and resources.
   - Develop and support appropriate collaborative initiatives.
   - Contribute to advancing benchmarking to include standards and incentives for improvement.
   - Collectively address relevant emerging issues, particularly on regulation and policy.

NOTE 1: The United Nations Principles for Responsible Investment (http://www.unpri.org) read as follows:

The Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 **We will incorporate ESG issues into investment analysis and decision-making processes**.

Possible actions:

- Address ESG issues in investment policy statements.
- Support development of ESG-related tools, metrics, and analyses.
- Assess the capabilities of internal investment managers to incorporate ESG issues.
- Assess the capabilities of external investment managers to incorporate ESG issues.
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis.
- Encourage academic and other research on this theme.
- Advocate ESG training for investment professionals.

2 **We will be active owners and incorporate ESG issues into our ownership policies and practices.**

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles.
- Exercise voting rights or monitor compliance with voting policy (if outsourced).
- Develop an engagement capability (either directly or through outsourcing).
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights).
- File shareholder resolutions consistent with long-term ESG considerations.

- Engage with companies on ESG issues.
- Participate in collaborative engagement initiatives.
- Ask investment managers to undertake and report on ESG-related engagement.

3 **We will seek appropriate disclosure on ESG issues by the entities in which we invest.**

Possible actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative).
- Ask for ESG issues to be integrated within annual financial reports.
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact).
- Support shareholder initiatives and resolutions promoting ESG disclosure.

4 **We will promote acceptance and implementation of the Principles within the investment industry.**

Possible actions:

- Include Principles-related requirements in requests for proposals (RFPs).
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate).
- Communicate ESG expectations to investment service providers.
- Revisit relationships with service providers that fail to meet ESG expectations.
- Support the development of tools for benchmarking ESG integration.
- Support regulatory or policy developments that enable implementation of the Principles.

5 **We will work together to enhance our effectiveness in implementing the Principles.**

Possible actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning.
- Collectively address relevant emerging issues.
- Develop or support appropriate collaborative initiatives.

6 **We will each report on our activities and progress towards implementing the Principles.**

Possible actions:

- Disclose how ESG issues are integrated within investment practices.
- Disclose active ownership activities (voting, engagement, and/or policy dialogue).
- Disclose what is required from service providers in relation to the Principles.
- Communicate with beneficiaries about ESG issues and the Principles.
- Report on progress and/or achievements relating to the Principles using a 'Comply or Explain' approach.
- Seek to determine the impact of the Principles.
- Make use of reporting to raise awareness among a broader group of stakeholders.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.

NOTE 2: The Smart Campaign (http://smartcampaign.org) is a global effort to unite microfinance leaders around a common goal: institute client protection in all that we do – to better serve clients and strengthen the microfinance industry. The Center for Financial Inclusion at ACCION International, CGAP, and many industry players recognize the need to protect microfinance clients, both for their benefit and the benefit of the industry as a whole. Over the last months, a consensus has emerged around six principles that would comprise the industry's commitment to client protection:

Client Protection Principles

- **Avoidance of Over-Indebtedness**. Providers will take reasonable steps to ensure that credit will be extended only if borrowers have demonstrated an adequate ability to repay and loans will not put borrowers at significant risk of over-indebtedness. Similarly, providers will take adequate care that noncredit, financial products (such as insurance) extended to low-income clients are appropriate.

- **Transparent and Responsible Pricing**. The pricing, terms, and conditions of financial products (including interest charges, insurance premiums, all fees, etc.) will be transparent and will be adequately disclosed in a form understandable to clients. Responsible pricing means that pricing, terms and conditions are set in a way that is both affordable to clients and sustainable for financial institutions.
- **Appropriate Collections Practices**. Debt collection practices of providers will not be abusive or coercive.
- **Ethical Staff Behavior**. Staff of financial service providers will comply with high ethical standards in their interaction with microfinance clients and such providers will ensure that adequate safeguards are in place to detect and correct corruption or mistreatment of clients.
- **Mechanisms for Redress of Grievances**. Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients.
- **Privacy of Client Data**. The privacy of individual client data will be respected, and such data cannot be used for other purposes without the express permission of the client (while recognizing that providers of financial services can play an important role in helping clients achieve the benefits of establishing credit histories).

NOTE 3: In March 2005, a **Social Performance Task Force** was created (see: http://www.sptf.info). The Task Force is charged with clearly defining social performance and addressing questions about measuring and managing social performance. It consists of over 600 leaders from all over the world from every microfinance stakeholder group: practitioners, donors and investors (multilateral, bilateral, and private), national and regional networks, technical assistance providers, rating agencies, academics and researchers, and others.

A group of over 170 microfinance practitioners, donors, raters, investors endorse a common statement of principles in support of social performance.

Promoting Social Performance in Microfinance

"Microfinance works best when it measures – and discloses – its performance; accurate, standardized performance information is imperative, both financial information and social information." (from the G8-endorsed CGAP "Key Principles of Microfinance")
As organizations involved in the field of microfinance, we the undersigned:

1. **Define** social performance as the effective translation of an institution's social goals into practice in line with accepted social values that relate to:

- Serving increasing numbers of poor and excluded people sustainably (i.e. expanding and deepening outreach to poorer people).
- Improving the quality and appropriateness of financial services available to target clients through systematic assessment of their specific needs.
- Creating benefits for clients of microfinance, their families, and communities relating to social capital and social links, assets, reduction in vulnerability, income, access to services, and fulfillment of basic needs.
- Improving the social responsibility of the MFI towards it employees, its clients and the community it serves.

2. **Recognize** that financial performance alone is insufficient to achieve our goal of serving increasing numbers of poor and excluded people sustainably. Success in microfinance is driven by a double-bottom line: strong financial and social performance, and that these twin measures are mutually reinforcing in the long run.
3. **Further recognize** a growing interest from donors, networks, practitioners, rating agencies, funders, and other stakeholders in testing, applying, and improving new tools for social performance management, assessment, monitoring, and reporting.
4. **Support** recent developments in the field of monitoring social performance. Many actors developed new tools, all of which have the same objective of promoting social performance, but which offer different approaches.
5. **Commit** to improving the social impact of microfinance by:

   - Becoming pioneers in the practice of regularly assessing, reporting on, and managing by the social performance of our organizations and the organizations we support.
   - Setting clearly specified social objectives for our own organizations and criteria for the organizations we support.
   - Designing, introducing and using systems to manage, assess, monitor, and report inside and outside our organization on social performance.
   - Using information on social performance to improve our operations.
   - Remaining open to external auditing of our social results.
   - Promoting and exchanging ideas and information on social performance.

NOTE 4: www.MFTransparency.org

Report from the Expert Meeting for Social Investors on Tools to Assess MFI ESG Performance

Date and time of meeting: Thursday 23 September, 9:30-17:00
Location: Amsterdam, the Netherlands
Organised by: Triple Jump in cooperation with Oikocredit

At the Social Performance Task Force investor meeting in Bern in July 2010, a number of investors expressed their interest in sharing their experiences with due diligence tools to assess MFI environmental, social and governance (ESG)/ social performance management (SPM) performance, and in exploring the possibility of working towards harmonisation. A task force was established called the Investor Working Group on Tool Sharing and Harmonisation, chaired by Triple Jump. Triple Jump invited investors to reserve the 23rd of September on their calendars for a kick-off meeting of the task force. The meeting took place in Amsterdam, and 16 social investors participated. The following is a brief summary of the meeting.

1. **Welcome and introduction**
   - Welcome by Triple Jump and Oikocredit, introduction participants.
   - Antonique Koning (CGAP) complimented participants for their commitment to improve SPM practices. She confirmed the two objectives of the meeting:
     - to exchange information on tools used by investors in appraisal/due diligence of MFIs' ESG practices and to learn lessons from their application; and
     - to investigate how tools can be harmonised in order to leverage efforts, gain efficiency and reduce the potential burden on MFIs.

While introducing themselves, participants indicated why their organisation considers harmonisation of due diligence tools important, and listed some of the challenges that they see towards increased harmonisation. The table below summarises the main answers:

Why harmonize?	Challenges for harmonization
✓ To send a strong message to MFIs on certain issues which all investors consider important	✓ Investors want to distinguish themselves with their unique instrument
✓ Increase efficiency: - For investors, who would not have to develop their own instrument - For MFIs, reducing time and effort needed to fill out different questionnaires, especially if MFI is required to fill in a questionnaire	✓ Agreeing on what does "good" social performance consist of (For example, is rural per se more social?)
✓ To benefit from knowledge of other investors	✓ Agreeing on a definition of indicators and finding indicators which are (easily) measurable and meaningful
✓ Possibility to benchmark portfolios on social performance	✓ Different MIVs focus on different aspects of ESG. Some may focus more on rural outreach, while others are more interested in environment, or HR
✓ Findings can be compared and compiled	✓ Less flexibility

Other more general concerns and comments about ESG assessment included:

- Actual tool is not so important; main issue is to help introduce a real culture of social performance management.
- Ensuring that ESG assessments continue to be about what the MFI is actually doing, and not only assessing the sophistication of the MFI in developing manuals and systems.
- Need to tailor tools to different types and sizes of microfinance institutions.
- How to integrate outcome of the tool into investment decisions and monitoring.
- Challenge of combining quantitative and qualitative data.
- Difficulty of dealing with qualitative data; How to make assessments more objective? Main solutions are: training, practical examples, long answers and verification by colleagues.

2. **Presentation of tools by investors following a predetermined template**

Most investors presented the ESG assessment tool they have developed. Presentations were made according to a fixed template.

3. Presentation of general findings of mapping of different tools

An Excel sheet with the list of MixMarket SPS Indicators was circulated to 13 investors in advance of the meeting. Each investor indicated which of the indicators was included in their due diligence questionnaire/ score card.

Core set of indicators for MFI reporting as required by investors (as agreed within SPTF Social Investor Group):	
✓ # of active borrowers	✓ % portfolio in microenterprise/ agriculture/SME/housing and consumer
✓ # of female borrowers	✓ Range of financial services
✓ # of voluntary savers	✓ Non-financial services
✓ # of female savers	✓ Over-indebtedness
✓ % clients in rural and urban areas	✓ Transparent pricing
Topics in the MixMarket SPS most likely to be included in investor due diligence questionnaire	
✓ Over indebtedness	✓ HR
✓ Transparent pricing	✓ Gender
Indicators not included in the MIX SPS but important to investors:	
✓ What is a fair interest rate?	✓ Can the MFI management calculate the APR/EIR?
✓ What are reasonable remuneration levels for top management?	✓ More in-depth analysis of HR policies/ governance?

Top 12 MixMarket SPS Indicators most likely to be included in the surveyed investors' due diligence ESG questionnaires

MixMarket SPS indicator	% of investors who include this indicator in their DD ESG assessment questionnaire
What is your MFI's social mission?	100%
What does your institution do to avoid client over-indebtedness?	92%
How does your institution ensure transparent communication with clients about prices, terms and conditions of financial products?	92%
Which of the following non-financial services does your institution offer to its clients?	85%
Does your institution use market research to identify the needs of clients and potential clients?	85%
Client coverage in each geographic area (rural, semi-rural, urban)	85%
How does your institution ensure that appropriate collections practices are followed?	77%
How does your institution ensure staff ethical codes of conduct are consistently followed?	77%
Staff turnover rate	77%
Percentage of women active borrowers:	77%
Has the MFI endorsed the Client Protection Principles (CPPs)?	69%
Which of the following financial products/services does your institution offer?	69%

Comments and discussion:

- 5 of the 10 most common questions covered by the questionnaires/score cards are also included in the selected core social performance indicators for annual MFI reporting as agreed within the SPTF.
- Many investors thought it was frustrating to fill in the mapping along the MIX indicators. Some indicators were not on the list (see table above) and some indicators were not relevant from an investor's perspective. Nonetheless, this was the best format we could find on short notice, and it is based on agreed indicators developed by the SPTF.

- A more detailed mapping, looking at focus areas, philosophy, etc, was not possible due to limited time. All participants felt that it was worth expanding the mapping exercise comparing the individual questions included in the different questionnaires/score cards. This will be done in the next phase.

4. **Group discussions**

Participants were divided into groups and assigned 2 or 3 indicators for which they had to develop questions which would be asked during a due diligence assessment. This exercise was a concrete way of exploring how difficult it would be to harmonize.

See Annex III for an overview of the indicators and questions.

Discussion:

- The exercise was very interesting. Even simple indicators could lead to a long list of questions.
- Questions and answers in social performance tools may seem very easy but underlying aspects to be measured are complicated.
- Some participants thought it was easy to agree on what is important and how to assess it.
- Not so difficult to agree with each other; main difficulty is finding questions that lead to an objective and correct assessment of the indicator and which do not take too much time to measure.
- Harmonisation can be achieved by asking the same question, but attributing different weightings.
- However, as concerns the design of an investor-tailored common ESG due diligence tool, (like the one that exists for client protection) participants considered it important to first analyse existing tools in more detail.

5. **Wrap-up and way forward**

All participants agreed that the meeting was useful and that we all learned from each other. Some recommended organising another meeting like this in 6 months time.

See Annex I for list of issues to follow-up on.

Annex I: Issues for follow-up: ESG Assessment Tools for Microfinance Investors Meeting

Task	Organisation responsible	Date (if relevant)
TOOL SHARING AND IMPROVEMENT		
Circulate minutes + tools + presentations + Excel sheet with mapping to participants and other interested MIVs	Triple Jump to prepare and circulate	October 5
Analyse the different tools and highlight commonalities and differences between them focusing on specific questions asked to MFIs and share with participants and other MIVs that shared their tools and expressed interest	Triple Jump to prepare and circulate	November 12
HARMONISATION OF SCORECARD/ DUE DILIGENCE QUESTIONAIRE		
Investors review Triple Jump analysis and indicate if they are interested to work on common language for a subset of indicators and if so which ones	All participants	November 30
Synchronise / harmonise questions in existing tools or create a common set of indicators for those investors looking to harmonise further	Interested parties	Q1 2011
REASERCH AND ANALYSIS OF SP DATA		
Share results of pilot testing of DD tools and scorecards as well as any SP analysis done on the data base with social investor group, SPTF secretariat and MIX	All – whenever relevant	On ad hoc basis
Conduct deeper analysis of data that becomes available	commission someone to do this and find resources to pay for it	Q1 2011 with results for SPTF meeting in June 2011?
OTHER COLLECTIVE ACTIONS TO EXPLORE		
Develop a common annual reporting format based on the 10 core reporting indicators (Relate to initiative of MIX)	Triple Jump to make draft; Antonique to liaise with MIX	

Investigate SP training opportunities for investors	Antonique to share information from SPTF/ Smart Campaign on available options	October 29
Explore use of covenants to stimulate social performance (e.g. on CPPs, governance, transparency). Make inventory of covenants presently being used by different investors	To be determined	
Collaborate on providing TA and finding the right experts to assist MFIs in improving their SPM	Investors with TA resources	
Improve communication among MIVs on SP issues of MFIs, work together at board level and improve relations among regional teams of investment officers		Ongoing
Impact measurement: though recognizing that it is extremely difficult, time-consuming and costly, investors have not given up on impact measurement and have intentions to develop methods to improve this	- SNS interested in taking lead. - Possibility of setting up a working group.	- Impact measurement group meeting in Oct. in NY - CGAP publishing a focus note on topic

Annex II

List of participating Organisations:

ADA/LMDF
Blue Orchard
CGAP
Cordaid
FMO
Grameen Credit Agricole (GCAMF)
Goodwell
Hivos/MicroNed
Incofin
Oikocredit
Planis
responsAbility
SNS
Symbiotics
Triodos
Triple Jump

Annex III: Outcome of group work: Selected Indicators and related questions for due diligence

Indicator	Comment	Questions devised by group
Social Mission	In general investors find a clear mission statement and measurable objectives important. Some aspects may be valued more by different investors, such as environment or a focus on women.	How is the mission statement translated into practice? How does the board or management take responsibility for social performance? To which stakeholders is the mission addressed?
Board composition		What is the gender balance in the board? Is there a sound balance between social and financial experts? Are there staff members or clients on the board?
Remuneration		What is the (combined) salary of the management team The salary of top management is larger than the salary of staff by which factor?
Market research	Important to identify needs of potential clients, to improve services/products. Often asked in standard due diligence.	Does your institution conduct market research and then use the research to design new products/review products? Does the MFI conduct client satisfaction studies including input from drop-outs, clients and potential clients and then use the information collected?
Staff incentives		Does your organisation have staff incentives to reward good social performance? (smaller loans, %women, rural, retention rate) Discussion on whether Par30 counts as a 'social' staff incentive.

Drop-out	The drop-out rate is a flawed proxy for client satisfaction (there can be many different reasons for dropping out, clients sometimes take a break and many MFIs count them as a drop-out), but generally the only one we have.	Drop-out rate according to fixed formula. Can the MFI filter for clients who return after a break? Does the MFI conduct exit surveys and then make use of the information collected?
Staff turnover		Average staff turnover rate over the last 3 years, excluding those who left during their probation.

Foreign vs. Local Ownership and the Definition and Assessment of Responsible Microfinance Investment[42]

Introduction

In December 2009, ADA published its first Discussion Paper, which identified a recent trend towards more foreign ownership in microfinance and asked the question "Does foreign ownership in microfinance interfere with local development?" The paper was presented at different conferences, seminars and workshops through March 2010, and the question was also discussed within the framework of a virtual email debate. In June 2010, ADA published a Follow-Up Paper, which summarized the opinions expressed during the different exchanges and evaluated participants' concrete proposals for future action.

In order to continue research and debate on foreign and local ownership, and contribute to a definition of the main criteria for good microfinance investments in general, ADA identified some key persons to contribute to the e-MFP Action Group "Making Microfinance Investments Responsible" (MIR). The key persons identified are Frank Bakx, Microfinance Advisor at Terrafina in Rwanda, Pascale Bartz, Sous-Directeur Ingénierie Fonds Groupe et Family Office de la Banque Privée Edmond de Rothschild Europe, Luis Castillo, Manager of SAC Integral in El Salvador, and Jacques Koami Nagnimari, Chargé de mission du Comité National de Microfinance du Togo. What follows are their contributions to the Action Group MIR.

Part 1 is an exchange between Frank Bakx and Luis Castillo, which highlights their practical experiences with foreign and local ownership in the Great Lakes region in Africa and in El Salvador in Latin America, respectively. Part 2 is an exchange between Jacques Koami Nagnimari and Pascale Bartz, which starts with a list of positive and negative aspects of foreign (equity) investment in MFIs, and then discusses some of the challenges to foreign investment from both the MFI and investor perspective. Both exchanges offer some considerations for the definition and assessment of responsible microfinance investment.

42 Translated from French and Spanish by Bonnie Brusky and Juana Ramirez.

PART 1

Exchange between Frank Bakx, Microfinance Advisor at Terrafina in Rwanda, and Luis Castillo, President of the Board and Funder of SAC Integral in El Salvador.

Frank Bakx

I work with Terrafina in the Great Lakes region in Africa as an advisor to a number of MFIs. Terrafina is a capacity building and small grants program. It enhances access to financial services in remote areas, underserved by the microfinance sector, and facilitates investments in MFIs (loans and equity) through its founders Rabobank Foundation and Oikocredit.

In our region, we see a variety of ownership structures. The sector originates from NGO microcredit programs promoting peace, rehabilitation and reconstruction after civil war and (in Rwanda) the genocide. These microcredit programs have by and large transformed into regulated institutions; some have turned into co-operatives, but most of them became limited liability companies, mobilizing savings and extending microloans. International NGOs and private charities are among the foreign owners. And (in Rwanda) development finance institutions (DFIs) are now also entering the market. Most foreign owners (with a majority stake) require diversified ownership, and integrate small private local investors. The motives behind this move are to promote local entrepreneurship, to embed the MFI into the local culture, and to prepare foreign investors' own exit strategy. However, perhaps due to adverse local conditions, local owners are often not equal partners in governance.

In its due diligence for grant funding and (foreign) investment promotion, Terrafina is critically aware of the possible downsides of foreign ownership. In theory, we would advocate for local (private) shareholders, but we also recognize that they are, so far, investors rather than entrepreneurs. Lynn Pikholz (ShoreCap) introduced the argument in the virtual debate that local entrepreneurs as owners have a lot at stake and can sometimes be more vested in MFI success than foreign counterparts. I endorse the argument, but have not yet seen this phenomenon in the Great Lakes region.

I would also maintain that local ownership of MFIs may contribute more to wealth creation in a country and strengthening of the local economy. It may also contribute to the development of local capital markets. But again, for us here, this is at best a medium-perspective.

A question that comes up is whether we should expect foreign owners in microfinance to expend extra efforts to develop local entrepreneurship in view of strengthening local ownership, and not just to prepare for their own exit, but for its own intrinsic value. Could this be (another) reason to formulate local ownership as a new social performance criterion?

My reasoning leads me to conclude that there definitely is a difference between local and foreign investors. In which case we should indeed include such criterion in the definition of responsible microfinance investment.

Luis, I would love to hear your views on the above, and I am even more interested in your experiences at SAC Integral. How have you managed and are you still managing your ownership/shareholders? How do you assure that values and mission remain shared? Is mission drift a concern in your case, and if so, are there different viewpoints among your owners? Please note that, in the virtual debate, participants from the Northern countries (like me) tended to state that it does not matter whether an equity investor was local or foreign. Your experiences in El Salvador make your perspective typically Southern.

Luis Castillo

I am the President of the Board and Founder of SAC Integral in El Salvador. SAC Integral grew out of the former FUSAI credit project and is today the biggest and fastest growing credit and microfinance institution in the country. After just eight years of existence, Integral now has 55,000 clients and a portfolio of more than US$ 75 million, which has benefited around 200,000 Salvadorans who have a better quality of life.

We have been working for 8 years with local private investors and investment vehicles with the perspective to exit in average of 7 years. We consider that is not only an issue of local vs. foreign. From our perspective we believe not only that most shareholders should be local, but also that the following dialectic discussion should be introduced: active local investors vs. passive local investors

Two elements are key for sustainability: **to have a permanent presence (doesn't necessarily have to be the same nationality as the institution)**, and also to have the capacity and **perspective to compete successfully in the local and regional market**. There is little point if the institution is local, but with a fairly weak organization and organizational platform. On the other hand, there are foreign companies with local presence that are governed by national laws and that could play a very important role.

For us, the ideal formula is:

(local investments + investments of local operator - better if national, but not necessarily - **greater than 51%) + active international investors that bring high value-added to the MFI's corporate governance and social performance management**.

It is critical to analyze the risk of international investors taking control. We have cases like Bancovelo in Honduras and Nicaragua, where this structure has proved weak in times of crisis. What is truly critical for success is a solid partner with a permanent local presence and clear terms of governance, to enable it to exercise appropriate management leadership over the long term.

I think it's great if these elements are introduced into the discussion and set as parameters in order to measure the impact of microfinance in the development and consolidation of inclusive financial systems.

FB: I entirely share your views. Local presence is essential and international investors should be able to bring 'value added' in governance and/or social management. I reckon that in a country like Rwanda and Burundi local investors have limited expertise in these areas - where the microfinance industry is concerned. Foreign investors can be a blessing in disguise if their only intention is to quickly achieve their objectives, regardless whether these are financial or social.

The question which remains is: how best safeguard your 'ideal formula'? Who is responsible for assuring the balanced mix of investors in a financial institution, and "managing" the large foreign investor(s)? Can we develop criteria so that MFIs can screen foreign investors based on their value added?

LC: Yes, firstly, I think we can include criteria that address the issue of medium-term financing (the most common form). In our experience, one of the major constraints for building relationships with funds is that they need to guarantee to their investors, clear exit strategies. This sometimes implies very short-term investment strategies that limit foreign investors' capacity to understand their investees' long-term approach. Therefore, the mismatch between short-term and long-term perspectives, limits the opportunities of building solid financial long-term relationships and institutions. I estimate that the average investment horizon is 5 to 7 years. This is a very short investment period for financial institutions—some which are regulated and relatively large—because their future cash flows are medium and long term.

A first proposal: Medium-term investment funds should revise the extent and perspective of their investment strategy. When they plan to assure only short- term investments, they should not possess more than 40% of the equity structure of an MFI. Otherwise the

difference between long-term and short-term investment perspectives among foreign and local parties might affect the MFI's development. Therefore, there is a need to create a clear alignment regarding four critical axes: governance, profitability, social impact and a long-term investment perspective.

A second proposal: These funds can add value by bringing to the MFI's Board independent directors, and focusing on strengthening corporate governance and social performance.

Evaluating the added value of an investment partner is more complex, but I think the notion of value added generally depends on the institution's strategy. An MFI may have commercial/business partners or investment funds. Good institutions partner with both. These kinds of balanced partnerships may avoid the risk that an MFI loses a long-term business-oriented and competitive approach. While funds may provide knowledge for evaluating and monitoring investments, it is not clear what they can contribute in terms of management. Business partners, on the other hand, can bring synergy, innovation and new business models.

Funds specializing in microfinance can play a key role in helping consolidate a dispersed and fragmented industry, thanks to their extensive access to resources. At the same time, this access to resources can give them disproportionate power. For this reason, a balanced property structure, i.e., one that preserves the leadership role of local and regional actors who know the market and have a long-term local presence, is so important.

In conclusion, a diversified structure of local and foreign owners, with clear operational and managerial leadership and socially-oriented corporate governance, may be the way to preserve both the social dimension of microfinance and business growth.

PART 2

Exchange between Jacques Koami Nagnimari, Chargé de mission du Comité National de Microfinance du Togo, and Pascale Bartz, Sous-Directeur Ingénierie Fonds Groupe et Family Office de la Banque Privée Edmond de Rothschild Europe.

Jacques Koami Nagnimari

Positive aspects of foreign ownership / foreign investment in MFIs:

1. Easy access to long-term resources (medium and long-term capital) for MFIs
2. Increased debt capacity of MFIs
3. Stricter transparency requirements (good governance) for MFI management
4. Access to microfinance best practices via benchmarking and the experiences of foreign investors

5. Improved brand image and credibility of MF vis-à-vis its suppliers and clients
6. Creation of a buffer zone for resolving conflicts of interest within the MFI
7. Encourages the emergence of other projects in the area of operations and, in some cases, the development of tourism

Negative aspects of foreign ownership / foreign investment in MFIs

1. Foreign ownership, especially when made at the expense of local investment, may throw the MFI «off course» in terms of its initial core values (engendering therefore loss of autonomy).
2. Foreign investment is far more likely to prioritize investment profitability at the expense of human development (eradication or reduction of poverty), cultural diversity, environmental protection (sustainable development), etc.
3. Foreign ownership can also lead to over indebtedness of the MFI.
4. Foreign investment can weaken MFIs capacity to mobilize local resources.

Pascale Bartz

Negative point no. 1: Do you think that foreign investors impose operating procedures with regard to governance that are ill-suited to local practices or, are difficult to accept by MFI staff? In other words, would you say that foreign owners do not understand local constraints?

JKN: I think that at the start of a foreign investment agreement, MFI managers do not always apprehend the full scope of requirements of foreign investors. It is once the partnership is underway that issues, which initially seemed minor, become important. I will not say absolutely that foreign owners are insensitive to local customs (because more and more investors do understand the importance of local realities), but rather that MFI staff do not always understand, or underestimate, the investor's interest in governance issues.

PB: Negative point no. 2: Does this imply that foreign owners' expectations in terms of profitability have an impact on interest rates applicable to microentrepreneurs? Would they be lower if there were only local investors?

JKN: Indeed, an interesting question! I must say that it would be presumptuous to affirm that the expectations of foreign owners in terms of profitability has an impact on interest rates paid by microentrepreneurs, especially as MFIs often align with market rates without truly costing their products. All I'm saying is that the owners of foreign capital often have a hard time understanding certain local practices, and tend to want to systematically apply international standards.

PB: If MFIs do not cost their products, does that mean there is a margin between a "fair interest rate" and an "opportunity interest rate" that is driven by profit-seeking rationale?

JKN: Regardless of whether they have foreign investors, MFIs set "opportunity interest rates", i.e., effective interest rates of 14-50% or even more—this range was identified in a UNDP study in Togo in 2009; usury rates are 27%. The few MFIs that try to apply a "fair interest rate" seriously struggle with expansion and must deal with challenges related to governance, finding skilled human resources, and accessing long-term refinancing. Of course, interest rates applied to microentrepreneurs must come down, but the concept "responsible investment" must mean the same thing to all stakeholders. This is not always the case.

PB: Do microentrepreneurs really have problems with repayment and overindebtedness?

JKN: Cases of overindebtedness of microentrepreneurs are legion in Togo. There are cases of microentrepreneurs defaulting on loans from three, even five different MFIs over the same period.

PB: Are tools for measuring social performance/impact widely used by MFIs in Togo? If so, is there evidence of improved quality of life of microentrepreneurs over the medium or long-term?

JKN: Based on my experience with leading MFIs in Togo, I would say that some large MFIs have social performance/impact assessment tools at their disposal. But these tools are not necessarily used, because concerns about financial performance outweigh those of social performance. Poverty is so severe that it is difficult to see any real social change. Nonetheless, microfinance has allowed a good portion of the population (over 600,000 direct beneficiaries) to cope with the economic crisis facing Togo.

PB: Negative point no. 3: Is there «pressure» from foreign investors to take loans, even in absence of client demand? I know that microfinance funds in Luxembourg often have more liquidity than loan possibilities. The loan market appears to be saturated. Is there no longer a need?

JKN: Sometimes foreign investors pressure (tactfully) MFIs to accept an investment even if the MFI has no real need. In this case, the MFI must draw up a business plan from scratch to justify the existence of a need. In reality, the needs are enormous, but there is a lack of genuine market studies to propose appropriate products. Funding is distributed without any real strategic plan and it addresses all the needs at once. It would make more sense to encourage specialized MFIs. For example, create an MFI to cover clean

energy needs (solar or other credits). Most MFIs provide the same kind of loans, so that the impression is that the loan market is saturated.

PB: Do MFIs verify the business plans of the microentrepreneurs they finance? Are they expected to demonstrate social responsibility?

JKN: MFIs are not interested right now in the social responsibility of a microenterpreneur's business. The most important thing is that the project gives a return on investment so that the microentrepreneur can make payments. In reality, MFIs can only make suggestions to microentrepreneurs, even if their project is ethically or environmentally questionable.

PB: Negative point no. 4: What kind of opportunities are available to MFIs to mobilize local resources?

JKN: I admit that it is more beneficial for MFIs to rely on foreign investment (usually granted at lower rates) than local resources only (rare and difficult to mobilize), as local investors generally lack confidence in MFIs' ability to maximize their investment. The local resources directly available to the MFI are members' deposits. Bank credit is harder to access because the rates are often prohibitive. Moreover, the relationship between banks and MFIs is not always easy; in Togo, for example, some banks consider MFIs true competitors. As for resources from financial markets, I have to say the stock market culture has not yet become the norm. Moreover, conditions to enter the stock market are strict, and most MFIs do not yet meet them.

PB: What suggestions do you have to make microfinance a socially responsible investment?

JKN: As I stated above, for foreign private investment to be responsible, it must go beyond a simple financial partnership with MFI managers. I mean that we must go to the bottom of the pyramid to help train MFI clients and educate people on the need for responsible investment at all levels. If possible, foreign investors and MFI managers must establish ethical codes and avail themselves to mutual monitoring. Another suggestion is to make an effort to improve MFI governance. The governance problem undermines the scope of investment, regardless whether it is foreign or local.

Conclusion

The above exchanges reflect different experiences with foreign and local ownership and offer some perspectives for the definition and assessment of responsible microfinance investment. Frank Bakx concludes that there definitely is a difference between local and foreign equity investments and that it is a criterion that should be included in the definition of responsible microfinance investment. Luis Castillo sees the important difference as more than just local vs. foreign, but active vs. passive investors, and Jacques Koami Nagnimari and Pascale Bartz agree that what is key to responsible microfinance investment is more "training, governance and ethics" so that investors are more than just "financial partners".

To continue the discussion, ADA and e-MFP have established a communication platform to facilitate contact between MFIs and investors and encourage exchanges on foreign and local (equity) investments in microfinance. The platform will kick-off discussions in the course of the e-MFP European Microfinance Week 2010. To participate in these discussions, please write to discussion.ada@microfinance.lu.

The Social Impact of Guarantees: the Experience of RAFAD and FIG

DOMINIQUE FALQUE, RAFAD FOUNDATION[43]

Guarantees are a multi-purpose tool; they can act as a catalyzer, serve to mitigate risk and promote diversification. Guarantees are also a gateway to social impact: by promoting and mobilizing local resources, guarantees build bridges between banks and economic actors with strong potential to create jobs. In this article, RAFAD describes its experiences with its guarantee instrument, International Guarantee Fund.

RAFAD and FIG: innovating through guarantees and targeted support

Since 1985, RAFAD (Research and Application for Alternative Financing for Development) Foundation has facilitated access to financial services for actors excluded from conventional financial systems. RAFAD seeks innovative financing solutions and provides bank guarantees to selected projects, through the International Guarantee Fund (FIG), a cooperative founded in 1996. The beneficiaries of these guarantees are agricultural cooperatives, rural microentrepreneurs and microfinance institutions (MFIs) in Africa and Latin America.

According to CGAP, guarantees are essential because **without them, many enterprises would not have access to the funds they need** to emerge and develop (Focus Note no. 40, 2007). However, it is RAFAD's experience that bank guarantees facilitate and accelerate development only when accompanied by training, audit and advisory services.

Actions to identify, analyze, coordinate, assess feasibility, train and monitor beneficiaries are essential to ensure the guarantee has sustainable impact on the

Targeted support to Chilean cooperatives

RAFAD/FIG's Facilitating Access to Microcredit through Training project offers training workshops for managers of small and micro-businesses and cooperatives to enhance financial management and negotiation skills and build capacity to manage a mutual guarantee fund. In November 2009, five Chilean cooperatives attended a training seminar in Punta Arenas, with a second seminar planned in the north of Chile. The ultimate goal is to create 3 sectoral guarantee funds.

43 Translated from French by Bonnie Brusky.

institution's development. Soaring food prices in 2008 and the financial crisis in 2009 left in their wake a challenging environment for MFIs and cooperatives (tough conditions for accessing credit, declining exports and reduction of migrant remittances to their families). In this context, this kind of targeted support is even more necessary.

RAFAD has launched a Local Resources Mobilization Program for 2011-2015, dedicated to providing advisory services to agricultural cooperatives, groups of small enterprises and small and medium-sized MFIs in rural areas, to accompany them in setting up guarantees and sectoral guarantee funds. The program operates through local antenna based on five Sub-Saharan African countries.

The catalyzing effect of guarantees

FIG was designed and operates based on the principle of leverage. The leverage effect indicates to what extent an action undertaken multiplies impact, in a way that is clearly causal. FIG's leverage effect can be clearly measured by the number and volume of loans which have been made thanks to its guarantees.

Since inception, FIG has issued more than US$ 53 million in guarantees and leveraged over four times this amount (US$ 215 million) in bank financing for cooperatives and small and medium-sized MFIs. This financing has helped support the activities of 250,000 microentrepreneurs.

The catalyzing effect can also be measured by other indicators, such as:

- Improved rating scores, increased self-sufficiency and increased visibility (measured by number of exits from the top over a given timeframe).
- Increased value of an institution's equity.
- Employment generation, increased savings mobilization, even implementation of insurance and employee benefits schemes.
- The total amount of collateral required by the bank for a loan, in addition to the FIG guarantee, in order to appreciate its true value.

Vital Finance, Benin

Vital Finance offers microloans to both microentrepreneurs and NGOs as well as business development services. Steady portfolio growth pushed Vital Finance to request refinancing from FECECAM (Fédération des Caisses d'Epargne et de Crédit Agricole Mutuel du Bénin, comprised of 97 cooperatives with 313,676 members), who in turn required a guarantee. In 2000, FIG provided a 80,000 EUR guarantee to facilitate the transaction. The loan from FECECAM helped Vital Finance extend loans to 2500 microentrepreneurs, creating roughly 400 new jobs. Five years later, Vital Finance no longer needed guarantees to obtain refinancing and is now looking at other types of guarantees such as portfolio sectoral guarantees to help and grow their activity.

Guarantees as risk management tools

Setting up a guarantee with a local bank eliminates the currency risk that exists with a direct loan between a lender in the North and a borrower in the South. It also helps avoid complicated and costly hedging procedures, while sharing default risk with the local bank. This helps keep credit costs down. Moreover, it encourages bridge building between MFIs and local banks, fostering relationships of trust between the two actors.

Guarantees as tool to diversify

Currently, nearly 90% of investment funding benefits roughly 10% of the top-tier MFIs. Guarantees help reduce this concentration by facilitating financing opportunities for small and medium-sized institutions that are not eligible for large MIVs' direct investments. In RAFAD's 25 years of experience, it has built a knowledge sharing network that FIG has leveraged to promote second and third-tier MFIs, helping, for example, agricultural cooperatives secure financing to diversify into fair trade and organic farming.

Cercle de Sécheurs, Burkina Faso

The Cercle Des Sécheurs (CDS) cooperative groups together several associations that produce dried fruit and juices. The activity demands large amounts of capital to acquire inputs and finance production. As CDS grew, it struggled to find local financing and lack of capital became a serious handicap. In 1998, FIG provided a guarantee so that CDS could obtain a credit line to meet its working capital needs and increase export volumes. The FIG provided 100,000 Swiss francs, enabling CDS to access 40 million CFA, (leverage effect of 1.3). In 2010, FIG provided a new guarantee of 40,000 Swiss francs, which allowed CDS to access 60 million CFA.

Guarantees and MIVs

Guarantees can come in many forms—international guarantees; locally-funded guarantees; publicly-funded regional counter-guarantees; direct guarantees; portfolio guarantees; guarantee funds; investment funds; SME funds; microinsurance funds and social protection—regardless of the form, they have the potential to promote small and medium-sized rural MFIs by helping their clients access reasonably priced financial services.

MIVs looking to diversify their operations and enhance their social impact can benefit from RAFAD/FIG's network of local consultants and technical experts (ex., IRED, IPD, MAIN), well-placed to provide reliable economic intelligence on different countries, supply chains, organizations. As a developer, implementer and manager of national and sector-level guarantee funds, RAFAD/FIG has proven know-how in project management, risk analysis, feasibility studies and new tool development. These strengths enable it to reinforce institutions with socio-economic development potential.

Like other actors working in solidarity-based finance and development, FIG is concerned by the instability and fluctuations that characterize today's economy. The 2009 crisis revealed many dysfunctional aspects of the financial sector. It is not yet clear what lessons have really been learned. What is certain is that traditional instruments are no longer enough to fulfill development goals. Guarantees, with their potential for strong social impact, offer a noteworthy addition to the social investor's toolbox.

Appendix

APPENDIX: SOME REFERENCES

Abrams, J., & von Stauffenberg, D. (2007, February). Role Reversal: Are Public Development Institutions Crowding Out Private Investment in Microfinance? MicroRate Inc.

Armendariz de Aghion, B., & Morduch, J. (2000). Microfinance Beyond Group Lending. Economics of Transition, 8(2), 401-420.

Boyé, S., Abrams, J., & Poursat, C. (2009). Le guide de la microfinance (2nd edition). Paris: Eyrolles.

Capron, M., & Quairel-Lanoizelée, F. (2005). La responsabilité sociale de l'entreprise. Repères Gestion. La Découverte.

CERISE, 2010. Social Audit tool for Microfinance Investment Vehicles – SAM, CERISE.

CGAP. (2006). Good Practice Guidelines for Funders of Microfinance. Paris: CGAP.

Christensen, M. (June 19, 2008). SRI in Context. Presented at the MIV Roundtable on Responsible Finance, Paris: CGAP.

Cull, R., Demirgüç-Kunt, A., & Morduch, J. (2006). Financial Performance and Outreach: A Global Analysis of Leading Microbanks (Policy Research Working Paper No. 3827). Washington, DC: World Bank.

Dieckmann, R. (2007). Microfinance: An Emerging Investment Opportunity. Deutche Bank Research. Frankfurt am Main: Deutsche Bank.

Doligez, F., & Lapenu, C. (2007). Mesurer les performances sociales: les implications pour le secteur de la microfinance. Revue internationale de l'économie sociale, 304, 46-62.

Global Reporting Initiative. (2002). Sustainability Reporting Guidelines 2002. Boston: Global Reporting Initiative.

Guérin, I, Lapenu, C., Doligez, F., (dir). 2009. La microfinance est-elle socialement responsable ? Dossier Revue Tiers Monde, N°197, Jan-Mars 2009, 146 p.

Hashemi, S., Foose, L., & Badawi, S. (2007). Beyond Good Intentions: Measuring the Social Performance of Microfinance Institutions. Focus Note 41. Washington, DC: CGAP.

Ivatury, G., & Abrams, J. (2004). The Market for Foreign Investment in Microfinance: Opportunities and Challenges. Focus Note 30. Washington, DC: CGAP.

Ivatury, G., & Reille, X. (2004). Foreign Investment in Microfinance: Debt and Equity from Quasi-Commercial Investors. Focus Note 25. Washington, DC: CGAP.

Jacquand, M. (2005, August). Measuring Social Performance: The Wrong Priority. UNCDF's Microfinance Matters (15).

Kaddaras, J., & Rhyne, E. (2004). Characteristics of Equity Investment in Microfinance Council of Microfinance Equity Funds.

Lapenu, C., Ambert, A., Bedecarrats, F, Brusky, B. 2009. Promoting Responsible Finance : a social audit tool for investors, SPI 3 Discussion Paper N°17, CERISE.

Lascelles, D. (2008). Microfinance Banana Skins 2008: Risk in a Booming Industry. Centre for the Study of Financial Innovation.

Littlefield, E., & Rosenberg, R. (2004). Breaking Down the Walls between Microfinance and the Formal Financial Sector. Finance & Development, 41(2), 38-40.

MicroRate. (2008). The 2007 Microfinance Investment Vehicles Survey (p. 39). MicroRate.

Morduch, J. (1999). The Microfinance Promise. Journal of Economic Literature, 37(4), 1569-1614.

Morduch, J., Hashemi, S., & Littlefield, E. (2003). Is Microfinance an Effective Strategy to Reach the Millenium Development Goals? Focus Note 24. Washington, DC: CGAP.

Principles for Responsible Investment. (n.d.). . UNEP Finance Initiative and The Global Compact. Retrieved from http://www.unpri.org/principles/

Reddy, R., & Rhyne, E. (2006). Who Will Buy Our Paper: Microfinance Cracking the Capital Markets? The Realities of Linking Microfinance to Local and International Capital Markets InSight, vol. 18. Boston: ACCION.

Reille, X., & Forster, S. (2008). Foreign Capital Investment in Microfinance: Balancing Social and Financial Returns. Focus Note 44 (p. 24). Washington, DC: CGAP.

SEEP. (2008). Social Performance Map. Washington, DC: The SEEP Network.

The Role of Investors in Promoting Social Performance in Microfinance. (2008). European Dialogue (Vol. 1). Luxembourg: European Microfinance Platform.

APPENDIX: SOME WEBSITES

ADA: http://www.microfinance.lu/en/home.html

ALTERFIN: http://www.alterfin.be/index.php?cid=32

BLUE ORCHARD: http://www.blueorchard.com/jahia/Jahia/pid/1

CERISE: http://www.cerise-microfinance.org

CGAP: http://www.cgap.org/p/site/c

FIG/RAFAD: http://www.fig-igf.org/en

GRAMEEN CREDIT AGRICOLE: http://www.grameen-credit-agricole.org/en/index.html

INCOFIN: http://www.incofin.be

LuxFLAG: http://www.luxflag.org/homepage.html

M-CRIL: http://www.m-cril.com

OIKOCREDIT: http://www.oikocredit.org/en/home

SIDI: http://www.sidi.fr/en.php

TRIODOS: http://www.triodos.co.uk/en/personal

TRIPLE JUMP: http://www.triplejump.eu

European Microfinance Platform, e-MFP: http://www.e-mfp.eu

GIIN, Global impact investing network:
http://www.thegiin.org/cgi-bin/iowa/home/index.html

Grameen Foundation – Poverty assessment (PPI – Progress out of Poverty Index):
www.progressoutofpoverty.org

Imp-Act Consortium: http://www2.ids.ac.uk/impact

IRIS USAID – Poverty assessment (PAT in line with US congress requirements for USAID projects): www.povertytools.org

IRIS (Impact Reporting and Investment Standards) – Creating a common language for reporting social and environmental impact: http://iris.thegiin.org

Microfinance Transparency – A global initiative for fair and transparent pricing in the Microfinance industry: www.mftransparency.org

Social Performance Task Force: http://www.sptf.info

Principles for Responsible Investment – UNPRI: http://www.unpri.org

Organization for Economic Co-operation and Development - OECD: http://www.oecd.org

Forum pour l'Investissement Responsable: http://www.frenchsif.org/fir.html

French Asset Management Association – AFG: http://www.afg.asso.fr/index.php?lang=en

Smart Campaign for Client Protection (Consumer Protection principles / Beyond codes in client protection – research): http://www.smartcampaign.org

SocialFunds - The largest personal finance site devoted to socially responsible investing: http://www.socialfunds.com

Social Investment organization - The Canadian Association for Socially Responsible Investment: http://www.socialinvestment.ca/

Association for sustainable and responsible investment in Asia - Asria: http://www.asria.org/

APPENDIX: SOME WEBSITES PAGES

CGAP Page for Donors and Investors: http://www.cgap.org/p/site/c/donors/

CGAP survey on MIVs: http://www.cgap.org/p/site/c/template.rc/1.26.14343/

The Paris Declaration and Accra Agenda for Action: http://www.oecd.org/document/18/0,2340,en_2649_3236398_35401554_1_1_1_1,00.html

Code de transparence pour les fonds ISR ouverts au public: http://www.frenchsif.org/le-code-de-transparence.html

Brooksbank, Daniel, (2010) UNPRI to start lobbying on ESG regulation, retrieved from : http://www.responsibleinvestor.com/home/article/unpri_to_start_lobbying_on_esg_regulation [Accessed 19,March 20010]

Chang , Christine, (2010) Special report: Evaluating the current mindset of investors globally and their attitude to microfinance as an asset class. Observations by Microfinance Investors at the Global Microfinance Investment Conference held in New York, retrieved from: http://www.microcapital.org/special-report-evaluating-the-current-mindset-of-investors-globally-and-their-attitude-to-microfinance-as-an-asset-class-%E2%80%93-observations-by-microfinance-investors-at-the-global-microfinance-in [Accessed June 3, 2010]