



## **Microfinance Investor Roundtable on Responsible Finance**

*Madrid - June 4, 2009*

On June 4 2009, CGAP organized a Microfinance Investors Roundtable on Responsible Finance to advance transparency on social performance in microfinance. The meeting was sponsored by AECID, who also hosted the Annual Social Performance Task Force (SPTF) meeting which took place in Madrid on June 2 and 3. The meeting built upon the results of the first Investors Roundtable held in Paris, June 19, 2008. The first meeting in Paris set a clear agenda for social investors and since then, three investors' working groups have worked on developing specific parts of the agenda. 33 participants attended this year's meeting representing leading asset microfinance management companies, public investors, rating agencies, standard setters and support organizations (see Annex 2 for participant list).

The agenda was divided in two parts. The objective of the first session was to discuss latest trends on the SRI market and microfinance investments in the context of the global crisis. The objective of the second session was to report on the progress of the three working groups and discuss next steps. Xavier Reille introduced the objective of this social investor meeting and links with the work of the SPTF. Frank DeGiovanni highlighted the achievements of the SPTF and progress made to improve transparency on MFI social performance.

### **Update on SRI trends by Eurosif**

Marion de Marcillac, Head of Research at Eurosif, the trader association of SRI investors in Europe, updated participants on the state of SRI in Europe. She highlighted the following:

*SRI shrinks but subscriptions outperform mainstream investment.* According to Eurosif, the size of the SRI market has shrunk significantly in Europe in 2008 (from -38.7% in Switzerland to -0.7% in France). However, the crisis is also pushing investors towards SRI and retail SRI appears to be sticky. In the first quarter of 2009, new subscription for SRI funding has grown (10% according to Lipper Feri), outperforming subscription for mainstream funds. More asset managers are joining and endorsing the UNPRI principles (362 investors in 2008 against 526 in 2009). With the exception of Citigroup and JP Morgan, SRI staffing is stable or growing in most financial institutions. APG has even doubled its SRI team in May 2009.

*SRI Interest in microfinance.* SRI investors are interested in microfinance's social impact, good image and relatively good return/risk profile. At the same time, some problems and obstacles remain for increased investment in microfinance such as lack of transparency and disclosure on ESG practices, a highly volatile currency risk and lack of appropriate products. Microfinance is also perceived as too small to invest and it appears to be an illiquid asset class. Reputation risk associated with lending to the poor also appears high. Finally, assets managers are not sure where to place microfinance. A survey conducted at the Annual Meeting of Eurosif indicated that only 52% of asset managers were considering microfinance as part of SRI.

## **Discussion on investment trends in microfinance**

*Foreign capital investment in microfinance continues to grow.* Xavier Reille highlighted that total stock of foreign capital is estimated at \$11.3 billion in 2008 and will probably range between \$12 and \$15.8 billion in 2009. Retail investment in microfinance continues to grow because, and despite of, the crisis. Institutional investors are not withdrawing and public investors are ramping up their microfinance portfolio and gaining market share. Public investors now represent 55% of foreign capital investment in microfinance.

*Funds confirmed trends.* Lisa Sherk from Blue Orchard confirmed this trend and indicated that they had not experienced a drop in assets under management (AUM). Blue Orchard saw more inflows of institutional investors in Q1 2009 and a stable performance of MF funds (+6% for Blue Orchard). responsAbility also reported continued growth with \$70 million in the first quarter of 2009, according to Nancy Sommer. Isabelle Barres from Kiva mentioned a record number of investments in the first quarter of 2009: 70% of funds entrusted to Kiva remain in the system which demonstrates the stickiness of retail investors. On the other hand, demand for investment from MFIs has slowed down, there have not been any defaults of MFIs (yet) but portfolio quality is deteriorating.

*More demand for transparency on social performance.* Investors' increased interest in social performance had already started before the global crisis. Investors are more interested in showing social impact and outreach of microfinance. MIVs are addressing these issues by pro-actively anticipating investors' questions and communicating on topics such as interest rates and consumer lending. The participants agreed that there is a need to continue monitoring social indicators and standards to ensure microfinance stays responsible and differentiates itself from bad financial practices.

Several participants (e.g., Incofin, Oikocredit, Triple Jump, AECID, Alterfin) exchanged on the systems they have put in place to ensure they invest in responsible MFIs. Incofin shared its social performance management tools and due diligence approach. Oikocredit presented its comprehensive approach, successes and challenges in bringing social performance issues to the heart of Oikocredit's managerial processes. Triodos voiced the need for asset managers' social audit and Kiva suggested introducing a Code of Conduct for MFI investment and a label for funds.

*Crowding in or out – how do DFIs react to the crisis?* Participants discussed the increasing market share of DFIs in microfinance. DFIs have played a very important role in restoring confidence in the microfinance market by providing capital to support cash trapped MFIs. However, participants raised concerns about DFIs' exit strategies and lack of transparency about the terms and investments of the emergency liquidity facility sponsored by DFIs. AECID shared their policy to avoid crowding out private capital: they are moving out of the LAC region (only with punctual investments in rural areas) and focusing on local-currency investments in Sub-Saharan Africa. Overall, there is an increasing sense of competition between public and private lenders (especially in LAC), as MFI capital needs are shrinking as a result of reduced growth.

## **Investors' Working Groups: Progress Update**

Since last year's Investor Roundtable three investor working groups have worked hard to improve transparency on social performance. The three working groups build on one another and use the SPTF/MIX framework and indicators for social performance as their basis (see <http://www.themix.org/sites/default/files/Social%20Performance%20Report%204-27-2009.xls> ).

Working Group*	Objective	Results
<b>Client Protection</b>	Identify options for investors to build the Client Protection Principles (CPPs) into their processes, promote exchange, and look into investor accountability	<ul style="list-style-type: none"> <li>- Toolkit for fund managers to implement CPPs in screening, due diligence, monitoring and reporting processes.</li> <li>- Reporting guidelines for investors on CP incorporated in MIV survey. First results expected in fall 2009.</li> </ul>
<b>Core Social Performance (SP) Indicators</b>	Agree on a set of core (minimum) social performance indicators for MFI investees to report to investors, based on SPTF/MIX framework	<ul style="list-style-type: none"> <li>- Set of 10-12 SP indicators from the SPTF list are prioritized <i>for annual reporting by MFIs</i>, starting 2009.</li> <li>- The working group will continue to refine the indicators and to look into other indicators, e.g. related to poverty measurement, employment and environment, which are not yet included in the core set due to data collection challenges.</li> </ul>
<b>ESG MIV Disclosure</b>	Develop a responsible investment section in the MIV Disclosure Guidelines	<ul style="list-style-type: none"> <li>- 10 Environmental, Social and Governance (ESG) indicators have been agreed upon for <i>reporting by MIVs</i>. These indicators will be incorporated in the 2009 MIV disclosure guidelines.</li> <li>- Indicators piloted in 2009 MIV survey. Depending on outcome and experience the indicators may be adjusted next year.</li> </ul>

\*For composition of working groups and other details, see the presentation at: <http://www.cgap.org/p/site/c/template.rc/1.26.10702/>

### Feedback from investors – Client Protection

#### *Examples of implementation of Client Protection Principles:*

- Triodos started implementing CP in due diligence guidelines. The emphasis is on the first two principles (over indebtedness and transparency). Also, Triodos has started an internal exercise of comparing interest rates of investees to get a better overall picture before taking stands.
- Triple Jump calculates APR together with investees to encourage greater transparency.
- AECID included CPPs in the contracts with their partners, but finds it difficult to control the implementation.
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*Challenges with implementation of client protection in investment processes identified include:*

- It is not easy to evaluate client protection (e.g. over indebtedness), as standards are not clear and they are often market specific.
- How can endorsement of CPPs be checked and enforced? MFI adherence to CPPs needs to be externally verified (by investor itself or, for instance, a rater) as it's hard to substantiate by self-reporting (easier to check boxes than to demonstrate actual behavior).
- How to react as an investor in a market where none of the MFIs is transparent; do you decide not to invest?
- It is harder for an individual investor to change behavior in a market, the roles of networks and policymakers are also important.

#### *Updates:*

- The raters present at the meeting clarified that the CPPs are integrated in social ratings. Some issues are also part of traditional financial ratings (e.g. over indebtedness seen as a risk to the MFI). Ratings also provide a country context to the MFIs operations.
- Cara Forster of ACCION's Centre for Financial Inclusion informed investors that the "Beyond Codes" project is looking into indicators to assess MFIs practices with the 6 CPPs. The project undertakes pilots and will create briefs on good practices based on each principle for the Global Campaign on Client Protection.

#### *Conclusion and next steps:*

- Investors and MIVs agree with the importance of the Client Protection Principles and most have endorsed them. MIVs will report on their implementation as part of the MIV survey.
- Investors are committed to share experiences to improve client protection and look forward to receiving the CGAP toolkit and building on it.
- CGAP will coordinate with the Global Campaign for Client Protection and channel relevant information to investors. Include the Beyond Codes' assessments of MFIs' practices with the CPPs and case studies on good and bad practices as soon as they are available.

### **Feedback from investors - Core Social Performance Indicators**

The proposed set of core social performance indicators (see Annex 1) was selected following a survey done among 25 investors with the purpose to reach consensus on the reporting requirements to reduce the burden on MFIs. Participants of the meeting agreed with the prioritization and confirmed that they already collect data on most of these indicators. Participants agreed to apply this core set of indicators for annual MFI reporting on SP starting 2010 on 2009 data. At the same time, investors will still promote collection of a larger set of social performance indicators as recommended in the SPTF/MIX framework.

#### *Issues raised during the discussion include:*

- The main purpose of common SP indicators should be to stimulate transparency and improvements in MFIs' social performance management.
- Investors introducing this reporting framework need to overcome resistance from staff and investees – it is important to provide feedback and analysis on the data they collect.
- Indicators need to be refined and definitions understood by all. The SP report on the MIX includes many of them already.
- Third party validation of some of the qualitative indicators may be required (either by the investor or a rater).
- It would be good to reflect those core SP indicators in MIV disclosure so that MIVs aggregate the information on their portfolios.
- Several indicators were highlighted as important for investors, e.g. environment, employment, poverty measurement, but did not make the cut of the core set of indicators. This is partly because many MFIs do not have the systems in place to capture this data. FMO mentioned some of the tools it has developed to provide guidance in these areas. The reporting framework can evolve once these indicators become more measurable. Incofin, for example, has undertaken an analysis of the relevance of the 50 indicators in its social performance assessment tool. It concluded only 19 of them to be really important, which includes some in the core set. Comparison with research like this may help refine the SP reporting framework over time.

#### *Conclusion and next steps:*

- Participants agreed to integrate the proposed core social performance indicators into their reporting requirements for investees, starting 2009.
- The working group will refine the indicators (what to collect for each indicator) and ensure investors have clarity on the terms and definitions.
- Investors will review the experience with the core set of indicators, with feedback from their investees, in one year's time at the next Investors' Roundtable.

#### **Feedback from investors - ESG Disclosure for MIVs**

The MIV working group established indicators to improve transparency of Microfinance Investment Vehicles (MIVs). The framework adopted is the one generally accepted in the SRI world, including environmental, social and governance indicators (ESG) framework proposed by the UN-PRI. CGAP links and coordinates with other initiatives concerning MIVs' reporting, such as Lux Flag and The Rockefeller Foundation Impact project.

The working group selected 10 indicators covering environment, social and governance. The indicators were tested and included in CGAP MIV annual survey to be released in the summer of 2009. CGAP will produce a new version of the CGAP MIV disclosure guidelines including the new responsible finance (ESG) disclosures.

Cécile Lapenu of CERISE highlighted this level of reporting could help answering questions from investors on MIV performance. She also said that calculation and aggregation of indicators are challenging and need further testing

#### *Issues raised in the discussion included:*

- Triodos suggested using the current ESG framework as a starting point for MIV reporting on ESG issues. Some MIVs may choose, on a voluntary basis, to start adding aggregate data on the 10-12 core social performance indicators on which they will start collecting data from their investees.
- Several investors indicated that validation of information is key, as a mechanism to enforce standards or react to non-compliance.
- SIDI asked whether the reporting framework would translate in a rating, label, and certification of funds? Several private sector initiatives have started in this area.

#### *Conclusions and next steps:*

- CGAP will share results of MIV survey with ESG reporting for 2008.
- The working group will refine and improve ESG indicators, core social performance indicators and more environmental indicators will be added. The governance section shall be refined.
- CGAP will coordinate with other investor reporting initiatives.

#### **Overall closing comments on next steps**

- ✓ Participants appreciated the clarity on the work of the different working groups and the results achieved in one year's time, and would like to have more exchanges within and among working group members in the course of the year (by email and phone) and meet again next year. The next meeting should be before the SPTF annual meeting and at least one day with more time for discussions and exchange of experiences.
- ✓ The SPTF investor working group shall be informed about the progress of each working group. A chair of the SPTF investor working group should be elected to facilitate coordination and exchange of information.

- ✓ More work needs to be done on indicators that are not defined/clear yet (Part II of SPTF/MIX framework). Dialogue between MFIs and investors may be useful to push this agenda forward.
- ✓ The working groups are open to all investors that are interested to join. For Client Protection, please contact Kate Mckee ([kmckee@cgap.org](mailto:kmckee@cgap.org)); for Core Social Performance Indicators, contact Alexia Latortue or Antonique Koning ([alatorue@cgap.org](mailto:alatorue@cgap.org) and [akoning@cgap.org](mailto:akoning@cgap.org)); and for MIV Disclosure contact Xavier Reille or Jasmina Glisovic-Mezieres ([xreille@cgap.org](mailto:xreille@cgap.org) and [jglisovicmeziere@cgap.org](mailto:jglisovicmeziere@cgap.org)).

## ANNEX 1: Reporting Frameworks

### PRELIMINARY SOCIAL PERFORMANCE REPORTING INDICATORS - JUNE 4 2009

PART I		SPS	SPTF/MIX indicators (prioritised by selected investors)	Parallel with ESG Framework/CPPs
(i)	<b>Basic details the MFI</b>	(i) g	Number of active borrowers	S3. # active borrowers
1	<b>Mission and Social Goals</b>	1a	What is your MFI's social mission?	
		1f	What kind of enterprises does your institution support? Micro, Small, Medium, Large	
3	<b>Range of products and services (financial and non-financial)</b>	3a	Which of the following financial products/services does your institution offer?: credit, savings, insurance, services	S4. % MFIs offering financial services other than loans
		3b	What are the lending methodologies of your institution?: individual lending, solidarity group lending, village banking, other	
		3c	Which of the following non-financial services does your institution offer to its clients: Enterprise Services, Adult Education Services, Health Services, Women Empowerment	
8	<b>Social Responsibility to Clients</b>	8a	What does your institution do to avoid client over-indebtedness? (Check all that apply)	CPP1: overindebtedness
		8b	How does your institution ensure transparent communication with clients about prices, terms and conditions of financial products? (Check all that apply)	CPP2: transparent pricing
11	<b>Geographic Outreach</b>	11a	Number and percentage of clients living in urban, semi-urban and rural areas	S6. % rural clients
12	<b>Women Outreach</b>	12a	Number of women active borrowers	
		12b	Percentage of women active borrowers	S7. % women clients

MFI level indicator S5 of the ESG framework "average loan size" is not included in the SPS report but should come from financial reports.

ESG indicator E1, S8 and G9 and G10 are not MFI-specific and refer to MIV policy and practice.



## Client Protection Principles Reporting Guidelines for Investors

The **Client Protection Principles** for microfinance and the accompanying **Campaign for Client Protection in Microfinance** are part of a collaborative initiative endorsed and led by a broad coalition of microfinance institutions, networks, funders, and practitioners. The purpose of the Campaign, which is housed at the Center for Financial Inclusion, is to ensure that providers of financial services to low-income populations take concrete steps to protect their clients from potentially harmful financial products and ensure that they are treated fairly.

Consensus has emerged about the following six Client Protection Principles (CPPs):

- Avoidance of over-indebtedness
- Transparent pricing
- Appropriate collections practices
- Ethical staff behavior
- Mechanisms for redress of grievances
- Privacy of client data

Investors endorers agree that the overall issue of client protection is important, and that these six specific principles are deserving of attention by the field as a whole. This entails a commitment to build the six principles into their own investment processes – screening, due diligence, monitoring, reporting, governance, and so on.

To hold ourselves accountable for actual progress in implementing consideration of the CPPs into investor process, CGAP is proposing that each endorsing investor submit this simple report annually on the concrete actions they have taken to implement the principles.

The report focuses on specific steps that investors are taking to move this work forward, using a checklist format.

Details of this survey will remain confidential. Aggregate results will be analyzed and shared publicly to increase the understanding of what action steps investors are taking to implement the CPPs. This survey will be conducted yearly. Questions will be modified as practical implementation of the CPPs develops.

We thank you in advance for completing this survey by **June 8, 2009** and returning it to Estelle Lahaye (elahaye@worldbank.org) or Kate McKee (kmckee@worldbank.org)

### General i

Organization's Name			
Institutional type	Select institutional type	▼	If other, please specify:
<b>For investment organization only:</b>			
Total assets (December 31, 2008)	USD		
Total microfinance investments (December 31, 2008)	USD		

### Contact to discuss implementation of CPPs

First and last names	
Email	

### Client Protection Reporting Guidelines for Investors

Has your organization officially endorsed the Client Protection Principles?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Want more information
How does your institution incorporate the Client Protection Principles into your investment policies? (Check all that apply)	<input type="checkbox"/> We have informed all our investee MFIs of our endorsement of the CPP <input type="checkbox"/> We have revised our screening criteria to include CPP-related issues <input type="checkbox"/> We have revised our due diligence guidelines to include assessment of MFIs' implementation of the CPP <input type="checkbox"/> Staff/consultants/fund managers are trained on the CPP and how to integrate into the investment process <input type="checkbox"/> MFI implementation of the CPP is a factor in our investment decision-making <input type="checkbox"/> For equity investors: we have successfully got discussion of and endorsement of the CPP onto the Board agenda of partner MFIs <input type="checkbox"/> Compliance with the CPP is referred to in our financing agreements (e.g. within covenants, as an annex) <input type="checkbox"/> We have requested social auditors/raters we use to pay attention to CP issues <input checked="" type="checkbox"/> MFIs are requested to report on their implementation of the CPP: <input type="checkbox"/> As part of our regular MFI reporting format <input type="checkbox"/> Through the MIX Social Performance Standards report
	If other, please specify:
If you have other policies or practices designed to protect clients and ensure their fair treatment, please provide details here:	

## ESG INFORMATION

### Environment

1. Does your fund/ fund management company compensate for carbon emission?
2. Do you request the MFIs you fund to comply with an environmental exclusion list?

### Social

#### Outreach

3. Number of active borrowers financed
4. Access to financial services (other than loans)
5. Average loan size of MFIs
6. % of rural clients
7. % of woman borrowers

#### Client protection

8. Have you signed the Client Protection Principles (CPP)?

### Governance

9. Do you report ESG information to your investors?
10. Do you have staff trained (e.g. participation in external training programs and exchange, organized internal training) in responsible investment, social performance and/or ESG practices?

## ANNEX 2: Participant List

AECID	Barbara Quesada Manuel Cascantes
Alterfin	Sofie Desmet
Blue Orchard	Lisa Sherk
CERISE	Cécile Lapenu
CGAP	Antonique Koning Meritxell Martinez Xavier Reille
ConCap/EFSE	Milena Bertram
Eurosif	Marion de Marcillac
FMO	Anton van Elteren
Ford Foundation	Frank de Giovanni
Grameen Foundation	Sharlene Brown
Incofin	David Dewez
Kiva	Isabelle Barres
LUX Flag	Daniel Dax
Microfinanza Rating	Micol Guarneri
MicroRate	Sebastian von Stauffenberg
MIX	Micol Pistelli
Oikocredit	Ging Ledesma Yoliruth Nunez
Planet Rating responsAbility	Emmanuelle Javoy Nancy Sommer
SDC	Hans Ramm
SIDI	Bastien Médard
SPTF	Laura Foose
Symbiotics	Jérôme Audran Cédric Lombard
Triodos	Joke van der Ven
Triple Jump	Jessie Greene
MCRIL	Francis Sinha
Tembeka Investments	Michael Brand