



**MIV Roundtable on Responsible Finance
June 19, 2008, Paris**

Notes on Proceedings

On June 19 2008, CGAP organized a workshop aimed at improving the transparency of microfinance investment vehicles (MIVs) on the non-financial bottom lines. A list of participants is attached. This meeting built on the discussions and agreements reached at the SDC meeting in Berne in March 2007 and the KfW-sponsored meeting on Responsible Finance in Frankfurt in early 2008.

Context

Xavier Reille opened the workshop by providing some context to the discussion and outlining the workshop objectives.

Investment in microfinance is still booming. There are 91 microfinance funds with \$5.5 billion assets under management according to December 2007 figures; a 79 percent increase since 2006.

More information is becoming publicly available on the financial performance of MIVs, however, there is less information available on the social and ethical performance of MIVs. This is at a time when microfinance is coming under increasing scrutiny. While many MIVs have developed individual policies, the time has come to develop industry-wide standards.

Xavier presented a Responsible Finance framework which encompasses practices ranging from client protection (“do no harm”) to social performance (“do good”) as a way of thinking about the issues for discussion.

Client protection	Corporate Responsibility/ Business Practices	Social Ethical	Social Performance
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The objectives of the workshop were to:

- Create bridges and improved communication between SRI community, MIV/investors and practitioners and raters
- Improve transparency on non-financial bottom lines (social and environmental)
- Agree on an action plan to advance reporting on responsible microfinance.

An Introduction to the SRI Universe

Matt Christensen from Eurosif, a forum of SRI investors and asset managers, made a presentation about how the SRI community views microfinance (attached).

He highlighted how microfinance is a recent entrant to the SRI world with attention focused on it as an alternative asset class only for the past 18 months. Microfinance still represents a very small percentage of SRI investment – about 0.1% of the expected \$5 trillion in global SRI investment in 2007, mostly coming from Europe.

SRI investment strategies are now moving beyond negative screening approaches towards integrating environmental, social and governance (ESG) factors into decision-making. Eurosif has developed the Transparency Guidelines for SRI fund managers signed by 150 funds.

SRI investors are interested in microfinance for a number of reasons including its non-correlation (so far, returns have little correlation with returns on equity and fixed income), lower risk profile, high growth and attractive returns. Social performance, though an important factor, is not a priority for SRI investors.

Matt highlighted how the fact that microfinance integrates social performance is interesting to SRI investors which are increasingly looking beyond negative screening towards investments that “do good”. However, the industry will need to develop the “hard nuggets of information” necessary to demonstrate its impact.

Focus on Demand: What do Investors Really Want?

Edda Schroder from Invest in Visions described her experience of the reasons different types of investors are investing in microfinance – public, institutional, semi-institutional (e.g. high net worth individuals and family trusts) and retail – and the questions they are asking about responsible finance issues (see attached).

This session highlighted how investors are a diverse group with a range of motivations and risk and return expectations. However, there is a common interest in transparency, good information/data and standardization.

Key points from the discussions were:

- The need for increased communication between investors and MIVs to educate investors about the risks and opportunities of microfinance.
- Building direct links between microfinance social rating organisations and investors. Given microfinance is such a small asset class, it was felt mainstream SRI research companies would be unlikely to put resources into social rating or screening services. Also, investors have little knowledge of specialised microfinance rating agencies and conversely microfinance raters need better understanding of what investors want from ratings.
- In addition to a need for more and better data on microfinance institutions (including, ideally a track record of three years), investors are interested in research and information at the sector/industry level, e.g. the impact of the food crisis and inflationary environment for microfinance → how resilient is microfinance truly?

When asked whether microfinance was an asset class today, a small number of participants voted “yes.” Matt Christensen suggested that microfinance practitioners and others have to think about what we want—if microfinance is or becomes an asset class, the focus will likely

be on big, commercial investors whose priority is financial returns. Also, if microfinance is truly mainstream the low correlation with other asset classes will likely disappear.

Microfinance Social Performance Standards and Social Rating Services

Laura Foose, coordinator of the Social Performance Task Force (SPTF), provided participants with an overview of the Social Performance Task Force, how it defines social performance and examples of tools which exist to measure social performance (see attached).

Laura shared with the group the emerging consensus among SPTF members of core indicators to report on social performance. MIV participants agreed to look at these indicators and report back to Laura which ones were of most relevance to them and any which were missing. Participants were pleased with the progress on common indicators. They recognised that a bottom up approach is necessary to ensure that social indicators also meet the needs of MFI management.

MIVs Current Practices on Responsible Finance

Sarah Forster presented the results of a survey on MIVs' current approaches towards integrating responsible finance issues into their investment processes (see attached).

At the end of the presentation, three questions were put forward for discussion. The questions and a summary of the responses from five working groups are summarized below:

1. What are the gaps between investor demand and MIV practice?
 - There are few gaps as investors are still asking simplistic questions, most of which can be answered by MIVs.
 - However, gaps do exist around impact measures (incl. poverty impact and women's empowerment), consumer protection issues, environment, governance, decent work and child labour.
2. How can responsible finance evaluation be most effectively and efficiently managed by MIVs e.g. in-house or out-source?
 - Consensus was that RF evaluation is best managed in-house with some standardisation across MIVs, and use of social ratings for verification purposes if there is investor demand.
3. Given different goals of MIVs and their investors, how much standardisation of RF practice and disclosure is possible? What should those minimum standards be?
 - General agreement on the need for a few minimum standards that look at consumer protection and SP issues (linked to indicators defined by SPTF and measurable by MFIs).