

Microfinance Social Investor Meeting June 20, 2011 – Den Bosch

Summary

On June 20, 2011, the Investor Group of the Social Performance Task Force (SPTF) and CGAP organized the Microfinance Social Investor Meeting for the fourth time¹. Over 50 participants representing 34 investment organizations that are directly investing in MFIs, including Microfinance Investment Vehicles (MIVs) and Development Finance Institutions (DFIs), discussed their role in making microfinance more responsible. See the participant list in Annex 1.

The meeting built upon the results of the four action groups that were created following last year's meeting addressing (1) Profiling MIV intent; (2) Overindebtedness; (3) Harmonization of due diligence; and (4) MIV ratings.

This year's discussions focused on practical steps to implement the Principles for Investors in Inclusive Finance (PIIF). A "temperature check" indicated that participants considered their fellow investors particularly weak on crisis management, while also reporting monitoring and due diligence processes can clearly be improved.

Investors are keen to share experiences on implementation of the PIIF. Several examples of implementation were highlighted during the meeting and investors agreed to share action plans. Incofin, Oikocredit, SNS and Triodos already developed an action plan which is uploaded on the PRI intranet site that is only accessible to signatories. Other signatories are invited to do the same². (See PIIF website: www.unpri.org/piif)

The discussion highlighted that investors are part of a value chain – although MIVs are direct investors, they are also intermediaries – and need to engage with their investors and to have a clearer understanding of the value chain and the system.

A more in-depth discussion was held on several topics related to implementation of the PIIFs. Investors shared experiences on how to reflect responsible investment standards in loan covenants and in determining the right level of investment in a given market. They also focused on the role of investors in avoiding overindebtedness and specific opportunities for equity investors to use their engagement to advance responsible finance. Concrete steps were agreed to share and potentially harmonize due diligence tools among a dozen MIVs, explore joint due diligence missions and ways to assess interest rates of MFIs.

¹ Social investor roundtables held in Paris (2008), Madrid (2009) and Bern (2010). For more information see: <http://www.cgap.org/p/site/c/template.rc/1.11.126928/>

² For Social investor groups members that have not yet signed the PIIF and have an interest in the action plans, please contact Emilie Goodall (emilie.goodall@unpri.org)

While the emphasis of the meeting was on knowledge sharing on implementation, a representative from the UN-backed Principles for Responsible Investment also elaborated on the process to put in place an assessment framework for tracking performance on PIIF implementation.

The Social Investor Group of the SPTF will continue to share experiences and practices and work closely together with the PRI on the implementation and monitoring of the PIIF.

The following action groups are proposed to follow up on ideas discussed at the Social Investor Group meeting. Investors can sign up for these groups and together agree on a work plan for the year.

1. Due diligence tools sharing – led by Christophe Bochaya of Triple Jump
2. Overindebtedness – led by Ximena Escobar de Nogales of Blue Orchard
3. Responsible covenants – led by Dina Pons of Incofin
4. PIIF sharing learning on implementation and developing assessment framework – led by Antonique Koning, CGAP

The Social Investor group expects the SPTF to continue to coordinate and bring together different initiatives that are advancing the social performance in the delivery of microfinance. The SPTF should challenge all stakeholders including the investors to be ambitious in their goals and targets in terms of achieving a more balanced financial and social performance.

The Social Investor Group will continue to provide a platform for investors to communicate, exchange and act in concert to send a strong signal that social performance is valued. Investors are invited to be pro-active and participate in the action groups throughout the year to achieve progress towards the next annual meeting.

Report

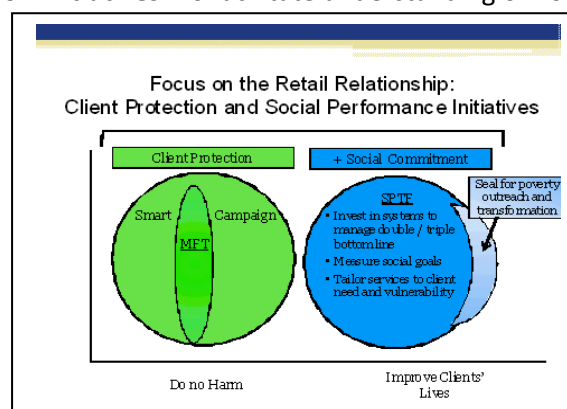
Thirty four investment organizations that are directly investing in MFIs, including MIVs and DFIs, discussed their role in making microfinance more responsible. See the participant list in Annex 1.

1. Introduction

Update on action groups. Following last year's roundtable the Investor Group created four action groups that reported on progress made:

- Profiling MIVs: objective to clarify intent/social performance expectations/risk-return profile. Drafted a proposed framework for disclosure on MIV intent to be integrated in reporting platform.
- Tool sharing and harmonization: objective to share tools on social performance screening, due diligence templates, and reporting templates used to collect SP data from MFIs, in order to improve and align them. Group of MIVs is working on 10 common due diligence questions (SNS, Oikocredit, Cordaid, Triple Jump and Incofin)
- Country-level analysis of market over-indebtedness (OI): Explore how investors can tackle OI and coordinate responses. Coordination calls on particular country cases, Peru and Kyrgyzstan. Idea to launch a study on OI in Peru.
- MIV ratings: Discuss a new framework for financial and social ratings of MIVs. Monitored a pilot with three MIVs last year. Need to agree on standards/definitions re what is "fair" and "responsible." Intention to integrate learning into development of PIIF assessment framework.

Overview of social performance and client protection initiatives. To facilitate understanding of how different efforts and initiatives in responsible finance are related to one another, CGAP presented the slide to the right. The PIIF makes references to both client protection and the broader social performance concept in addition to a responsible investment focus and fair treatment of investees.



2. Principles for investors in inclusive finance – from pledges to real action

Principles for Investors in Inclusive Finance

- Range of services
- Client protection
- Fair treatment
- Responsible investment
- Transparency
- Balanced returns
- Standards

Jacco Minnaar of Triodos Investment Fund

Management introduced a discussion on the PIIF. He also explained the PIIF's integration in the Principles for Responsible Investment (PRI). The discussion among investors focused on what to do to effectively implement the PIIF.

Examples:

Incofin: Range of Services – refine indicators for rural financial service delivery; on equity side trained all directors representing Incofin in boards on PIIF and SPM.

SNS: Action plan that differentiates SNS responsibility versus investees, sector, investment officers and shareholders.

Cordaid: Support product development with TA and grant funding complementing investment.

Oikocredit: Discount on interest rate to reward strong social performance. Forty social audits of investees supported and TA and grant funding offered to improve client protection and social performance. Oikocredit introduced a responsible investment score card which also includes a review of the EIR with an attempt to define what is reasonable for Oikocredit. Clearly though this particular benchmark is still work in progress. The scorecard also relates CEO remuneration, dividend policy, growth perspectives/strategy to each other and to the interest rate.

Grameen Credit Agricole: Aspirational standards on interest rates charged by investees, stimulated by Professor Yunus who is a board member. This challenges Grameen-CA to be creative in expanding portfolio and selecting partners.

Finance in Motion (FiM): Finds challenges in bridging the gap between retail focus of the client protection principles and the investor level Environmental, Social and Governance (ESG) focus of the PRI. Existence of multiple initiatives makes it more complicated. FiM has created the ESGRID to integrate all including the OECD corporate governance principles. Reflection of FiM actions related to the PIIF:

Range of services: addresses financial systems approach – FiM has been supporting transformation of MFIs, focus on MF banks rather than Microcredit organizations (because more sustainable model).

Client protection: work on OI (Bosnia study, Kosovo about to be finalized, doing a study in Azerbaijan too) → translate into engagement with the MFIs and associations.

Fair treatment: hard currency lending, actively looking at setting up own local currency facility (existing facilities don't offer adequate solutions).

SIDI: established a fund entirely focused on agriculture, another one to rural MFIs in Africa. SIDI is still exploring signature of the PIIF and has questions on:

Range of services: need to have funds to support MFIs to diversify (especially Tier 2), not just exhort them to do so – are there enough funds for that?

Interest rates: SIDI uses margin analysis in its due diligence process (with MFT and CAPAF tools to calculate EIR) but finds it hard to do at institutional level rather than product level, requires weights and a lot of data and analysis. Question becomes the value-added to clients, staff, shareholders, and capital investment.

“Fair returns”: example of the LAC fund; same investor participating as an equity investor and a lender – relatively high interest rate on the new financing, big debate regarding whether to accept, and if they do that, will need to adjust the internal rate of return in the fund downwards so as to not pass the cost on to the client. There is a need to have transparent reporting on who is getting what in the value chain?

MIF: Supports Microscope analyzing regulatory environment and financial infrastructure stimulating responsible finance, including indicators on credit bureaus and transparency in pricing.

MIX data and analysis reflecting on what is responsible growth, profit and efficiency

Adrian Gonzalez of the MIX presented recent analysis on these topics. Some of the highlights and more debated issues included (Data of 100 countries, 1000 MFIs, 7 years of data until 2009):

Growth:

- “Accelerated growth” alone is not correlated with recent portfolio quality crises (overheating only if growth over 250%) – but this is based on data only through 2009. It is hard to account for lag effect and maturity of MFIs and need to account for potential of market and impact of country/political risk (growth brought down to 0 as a result of crisis prior year)?
- But growth matters – statistically, extensive (new borrowers from new branches) growth healthier than intensive (new borrowers from same markets)
- Market saturation more important than individual MFI growth per se: “overheating” if number of accounts > 10% total population. This is the boundary that seems to be associated with higher risk (last 7 years of data). Ceiling may be lower than we think.
- Aggregate country growth matters: “heating” = aggregate country growth > 60%, “overheating” = aggregate country growth > 125%
- Country-level factors: regulation quality, availability of credit information sharing (CIS), MFI risk management systems and quality, prevalent business models
- Countries that are close to 10% threshold: Bangladesh, Bosnia and Herzegovina, Cambodia, Mongolia, Peru, Sri Lanka, Vietnam. Just below 10%: Nicaragua, Bolivia, Kosovo, Armenia. Paraguay. But this is aggregated at national level, the percent of population that is economically active would make a big difference, it does not include other lenders or microfinance loans, and it does not account for loan size.
- Growth general recommendations: do look at the market as a whole → need more nuanced analysis and better market intelligence

Profitability:

- Persistent negative profits are risky
- Noisy measure
- Low profits are not necessarily good if due to inefficiency, compensation too high
- High profits may be risky: may be due to high costs, poor compensation, poor risk management. May lead to reputation risk. Distribution of surpluses?
- India profits actually lower than average on global basis

Efficiency:

- Rural MFIs appear actually to be more efficient than urban MFIs (but because they focus on towns rather than truly rural) → need more detailed rural definition (remoteness, degree of agrarian dependence) rather than current definition, in order to provide incentives and support.
- If one would follow Prof Yunus red, orange, green measures for interest rate only 10% of MFIs reporting to MIX would be in the green zone

3. Deep dive in implementation of the PIIF: responsible covenants and investing adequately

Responsible Covenants

The small group session on responsible covenants tried to address three questions: (i) what would be toxic covenants; (ii) what would responsible covenants look like; and (iii) can we move towards harmonization of a core set of covenants to achieve more responsible finance?

(i) *Toxic covenants*: Are there covenants which, by being included in loan/shareholders agreements, or by purposely being absent from those documents, cause harm to an investee?

What would be “outrageous” or “irresponsible” covenants? Some examples:

- On the solvency - Not requiring minimal capital adequacy ratio; No leverage (debt to equity ratio) covenants
- Profits – ROE covenant too high, or minimum interest rate flow or ROA >25%
- Portfolio quality: Lack of covenants on portfolio quality
- Portfolio growth: Annual growth rate of more than 25%/100%
- Client retention ratio – is this appropriate, in highly competitive market with limited product development skills and budget?
- Reporting: Require collection of data on dozens of indicators including those more appropriate for social performance, regular monitoring and evaluation
- Poverty measurement: Setting targets for poverty outreach in early stage of institutions. Imposing them to set targets where baseline costly and no data available to know what is appropriate/achievable

(ii) *Responsible covenants*: What covenants could we agree to systematically include in our loan and shareholding agreements in order to promote responsible financing? Equity and debt deals require different types of covenants. Below are proposals for responsible investing by type of investments.

On the debt side:

- General limitation on growth and profits (except being profitable) covenants
- Portfolio quality (including PAR, restructuring, write-offs)
- Pricing: no agreement on pricing ceilings but a general agreement on the possibility to invite MFIs to decrease their interest rates over time if they are relatively high
- Participate actively in MFT, reporting to the MIX, adherence to the client protection principles (CPPs)
- Maximum average loan size
- Forex exposure - and passing this risk along to client
- Clear definition of what constitutes incidence of default (and no to having a catch-all clause that gives the lender extraordinary rights). Be clear regarding the process that will actually be followed if a loan falls into technical default – exactly what will the lender do and when will a loan get called?

Examples of individual investors:

- Symbiotics uses responsible finance language agreed upon with KfW in its loan agreements for REGMIFA – mainly related to CPPs, do social due diligence each year to assess whether CPPs are being implemented
- Ford Foundation targets poverty outreach MFIs, so covenants include certain percentage of poor clients (comment that very difficult to operationalize) – Ford negotiates for every investment – they think that if there is no covenant, you get mission drift. Number adjusted over time, based on experience

On the equity side:

- Dividend policy/cap – disagreement regarding a quantitative benchmark but generally agreed that the correct level depends on the stage/type of the company, to be set in other documents over time at least, the profit allocation should be defined
- Adhere to and participate in key initiatives: report to credit bureau as soon as it exists; Smart, MFT, SPTF
- Remuneration: ratios between field staff vs. top staff (do we know enough? Proposals included 1:10, 1:3)
- Broader policy expectations on financial and social performance.

(iii) Steps forward: towards a harmonization of all MIVs' covenants to ensure responsible financing?

There was a common agreement that defining common covenants would be a true proof of responsible investment as MFIs' covenants monitoring would be easier and MIVs would send the same message in terms of what is being considered a sound "social and financial performance". There is a proposal to create a working group with the objective for MIVs to come up with a set of core social, financial and legal covenants that all MIVs would agree to use in their respective loan and shareholding agreements to simplify the loan reporting requirements towards MFIs and to promote the same responsible investment values within the whole industry. Incofin proposed to host the group and play the role of moderator involving investment manager Dina PONS and Incofin's Senior Legal advisor, Ellen Wouters.

Investing Adequately

The small group on investing adequately discussed what level of investment is responsible from an MFI and market saturation point of view? From a short discussion it concluded:

- **Red flags** for investing are not related to individual indicators but rather a combination of indications in the market or the respective institution. These indications may lead an investor to go in for shorter time period and monitor more closely
- **Review our own practice** - red flags in investor behaviour? Need to have dynamic (minimum) investment criteria for potential investees according to market characteristics and according to the role they play / market contribution. Should avoid herd behaviour – do not all focus on the same MFIs
- **At institutional levels, biggest issue is growth** – needs to be analyzed carefully, are there adequate systems to support growth, what are the drivers (extensive vs. intensive), how does portfolio behave? Staff and client retention? Incentive systems for staff/management/SHs? What kind of lending (consumer vs. microenterprise)?
- **Investors should be careful not to relax** – do we fall into the same behaviour that MFIs do (careful due diligence the first time, but more lax the next time around). Could we combine our resources better? Share your concerns with your colleagues – ask them to take a look – cooperate on due diligence and follow-ups. Continue to educate the partner over the course of the relationship.

Investors have a unique overview of the sector which the MFIs often don't have. Can information investors have on the market overall be better shared to address the information gap?

4. Tracking performance of implementation of PIIF

Karin Malmberg of UNPRI presented the plans for developing an assessment framework for tracking investor performance in implementing the PIIF (see PPT). Main elements are:

- The core PRI framework, including: governance, responsible investment (RI) policy, RI strategy and objectives; resources for RI – responsibilities, training, incentives; capabilities/performance measurement/ incentives; participation in initiatives; public policy engagement; investor transparency; encouraging RI via third-party providers
- Plus an asset class supplement for Inclusive Finance including elements such as policies; investment research and decision-making processes; active ownership (engagement, voting); monitoring; encouraging responsible investment via third-party providers (e.g., brokers); investor collaboration (if asset class specific); outcomes achieved
- MIV disclosure guidelines will form the basis of the PIIF reporting for direct investors – various indicators that already align with PRI. Others such as fair treatment of investees and standards on balanced returns need to be developed.
- For indirect investors a different set of questions will apply: e.g. initial searches, integration into RFPs, integration in contracts, integration into incentive systems, performance monitoring/compliance assessment
- Voluntary survey in May-June 2012 and mandatory in 2013
- Based on self –reporting. PRI verifies 1/3 of all reporters each year (to talk through survey, to see if they fully understood the questions and provided adequate info). PRI excludes 5-10 endorsers every year due to failure to do reporting
- Is this more useful for reporting or for knowledge? Emphasis of reporting is on sharing knowledge and practices on implementation of the Principles more so than compliance.

Feedback on framework from indirect and direct investor:

- Anthos: Good tool for direct investors to monitor – language they understand and are familiar with.
- Blue Orchard: PRI framework is useful for self-analysis and also allows some comparison with other investors.

Discussion issues:

- Indicators in the assessment framework will likely 1) focus on investment decision-making processes; 2) exclusion or engagement with not-fully-compliant MFIs; 3) indicators can apply to one or several principles
- Can we enhance the knowledge value of this, so investors can really learn from each other? Starting now?
- How to reduce burden on others in the value chain, particularly MFIs. Figure out a way for reporting on MIX available to all investors with key set of indicators.

5. Deep dives on governance, overindebtedness and due diligence

(i) Governance role of equity investors

Equity investors can play an important role in ensuring and safe-guarding social performance at their investee MFIs through the governance process. As shareholders in the institutions, and with significant influence via seats on the Board of Directors, equity investors have a unique opportunity to encourage social performance. There are three stages in the investment process during which equity investors can leverage their governance responsibilities and roles to this end: (i) Pre-

investment; (ii) During the investment and (iii) Exiting. The break-out group led by Stefanie Dolan of Council of Microfinance Equity Funds (CMEF) came up with following recommendations:

Pre-investment

- During the diligence process, the first screen is typically for financial performance, but social performance is becoming an increasingly important aspect of the assessment process. Examining any available social ratings and/or governance ratings for the institution, as well as carefully assessing management's willingness and commitment to social performance (which could be demonstrated by board composition) is recommended. It is important to gauge management's interest/openness to focusing and improving on their existing social performance efforts and dedication to strong governance practices; if management is hesitant on either front that could serve as a red flag.
- The negotiation process and drawing up of a shareholder's agreement is another important area in which equity investors can leverage their position. Some social investors are now including social covenants in their terms and conditions, including reporting social metrics to the MIX and/or getting a social rating done every few years. Other investors may tie TA targeted to social performance to their investment, in order to help an institution achieve higher social performance goals.

During Investment

- Board composition is an effective way to promote social responsibility. Board training in social performance management and the creation of a social performance committee was considered ideal, but often too demanding to be in place at many institutions. A balanced board may be a more realistic / achievable goal, including close collaboration and open communication among board members particularly around the topic of social performance. Moreover, the Board should play a critical role in mainstreaming the discussion and understanding of SPM throughout the institution, by creating specific social performance indicators to be reported to and tracked by the Board.
- Incentive systems must also be linked to social objectives, for all levels of staff – loan officers up through senior management.
- Differing expectations – and pressures – for returns. With more mainstream investors entering the microfinance arena, social investors now face increased competition and often increased pressure from their own investors to achieve specific levels of return. How can investors manage the balance between investing in social performance, yet achieving financial gains? There is a need for the “business case for SPM” to share with funds' investors in order to educate them about the benefits and importance of social performance.
- There are different “seasons” in an organization's life cycle: sometimes institutions must focus on efficiency and financial performance, while other periods allow for more attention to social responsibility and impact. Just as the institution's management and staffing may change to reflect this balance, so must the Board's composition. However, at all times, it is critical to have the right equity investors on the Board to blow the whistle if the focus on profitability and/or finance becomes too extreme, in order to ensure the proper financial / social balance.

Exiting

- Social investors do not have a wealth of experiences to draw upon yet. This is a stage that requires more attention and discussion. The decision of how to exit and to who will be a topic of

increasing importance as more mainstream investors are attracted to microfinance investment. As one suggestion, clauses about who to exit to can be written into the shareholders agreement.

Next steps:

- One of the CMEF's new projects for 2012, "Getting Real on Returns" (focusing on actual expected rates of return from social investment funds that are CMEF members), could help to manage institutional investors' expectations and educate them on the importance of a long-term timeframe and patient capital.
- Several initiatives on governance are coming together in an effort coordinated by the Geneva Microfinance Forum.

(ii) Overindebtedness

Overarching message: No single actor can solve this problem. Neither MFIs nor investors can fully protect themselves against this risk. There is a need for systemic changes and collective action.

What are investors doing to address over-indebtedness risks?

How are their policies, procedures and practices different from what they were a few years ago?

Investment and portfolio policy:

- Focus more on diversifying portfolio (within and outside of microfinance assets)
- Reduce country exposure limits
- Closed funds for 6-7 months – "We have more money than we can place well right now."

Partner engagement:

- More awareness-raising and engagement around risks of market saturation and over-lending, need for stronger credit processes
- Capacity-building to address weaknesses (e.g., in credit risk management policies, systems, training and controls)

Due diligence:

- Spend more time doing it for each investment.
- Systematic integration of CPPs into the due diligence process (e.g., Oikocredit and others – each investment must address each CPP and review of this is a formal part of the Investment Committee process).
- Distinguishing due diligence between client overlap and over-indebtedness.
- More attention to product design and suitability for the client segment(s).
- Much more focus on portfolio quality, more detailed sampling procedures.
- More thorough review of MFI credit policy and how it is performing (including detailed analysis of how well it performed to manage risk during a crisis – feedback loop of portfolio performance data into updating the credit policies).
- Re-emphasizing the importance of thorough cash flow analysis, loan use checks, and analysis of the actual economic value-added for the borrower.
- More thorough assessment of how this is translated throughout the credit process from policy to procedure to staff training to internal controls.
- More attention to incentives created by loan officer productivity and performance compensation schemes.
- Exploring how debt-to-income ceilings are set and administered in the credit policy
- Want more client-level indicators of distress – early warning of coming problems before they are detected in deteriorating loan repayment. Example: qualitative research in Cambodia.

Also more time on transparent disclosure of credit price (including EIR) – this has at least an indirect effect on over-indebtedness, as it affects the affordability of the loan (and the client’s understanding of how much they will actually need to repay over the life of the loan).

Ratings and audits: Increased use of social ratings and social audits with CPPs fully integrated into tools. Sometimes require ratings analysts to also prepare country-level reports and updates (as well as MFI level ratings) based on interviews and qualitative information. Fewer financial-only audits.

Investment approval: Turn down investment proposals (including renewals) that would previously have been approved, due to concerns about: 1) adequacy of MFI’s credit risk management, 2) potential market saturation and over-indebtedness, 3) whether the investment will add sufficient value to the MFI and to the sector; and/or 4) whether the investor’s and the partner’s mission and goals were sufficiently aligned.

Monitoring and reporting: Have increased reporting frequency and depth (e.g., many indicators now monthly rather than quarterly – during the crisis, some even more frequently)

Added-value of investment: Ongoing discussions within some MIVs and investment organizations about how to encourage a move away from the potentially oversaturated markets and into less well-served markets where the investment can add more value.

Investor collaboration at a sector and global level:

- Investors proactive in country-level consultations and work: BiH, Nicaragua, elsewhere. This included work with the industry associations and regulators
- Promoting credit bureaus and their use by partner MFIs
- BiH debt counselling centre has gotten investor (and other) support
- Collaboration on research, e.g., University of Zurich early warning index

Next Steps: Summary of potential follow-up actions

- *Definition(s) and measurement of over-indebtedness* need to be refined. This is especially important in the countries and sub-national markets where market saturation is a potential concern, e.g., countries scoring high on the “early warning index.” This can then help us assess better the extent of the problem in specific markets, including from the demand side. It could also provide the basis for tools that MFIs could use to survey samples of clients and get a picture of the nature/extent of potential problems. We all want to know more about what Deutsche Bank is doing to develop such a tool.
- *Real research on over-indebtedness is needed.* Particularly that which brings in credible data and analysis from the demand/client side.
- *Need to question the longstanding (and uncritical) focus on growth* that many stakeholders – including investors – have promoted. Need to re-shift the focus to “quality growth”, define what this means, and advocate that this is what all the stakeholders should be aiming for. Among the dimensions of this are:
 - Extensive vs. intensive growth (see MIX data and presentation)
 - Moving into underserved and new markets (including Tier II and III MFIs)
 - Serving riskier client segments (e.g., remote rural, agricultural, economic value-addition)
 - Quality and diversity of financial services – “how fully included are clients?”
- *Need to have an open dialogue* (particularly at country level) regarding the real drivers of market saturation and over-lending, and the role of competition and incentives (for lenders, for retail

providers) in creating greater risk of over-indebtedness. This includes exploring the tension with certain commercial goals, and how they can be balanced and the trade-offs better managed. Work with the national associations to convene consultative process with all stakeholders – industry, investors, regulators – on the country risks for market saturation and over-indebtedness, how to address them, and the role for each stakeholder.

- *Investors also can play a more coordinated and unified role in communicating about the problems* – and emerging solutions in the sector. This includes correcting misinformation that is in the popular media and political debates, identifying and using more credible information about the situation on the ground, and articulating the steps that different stakeholders are taking to reduce the risks of over-indebtedness in a comprehensive and proactive fashion.

(iii) Sharing and harmonization of DD tools / SPM scorecards.

There was a strong interest among direct investors for the discussion on sharing and potentially harmonizing due diligence tools on social performance, led by Christophe Bochatay , Triple Jump. The main motivations of investors are: (i) to improve investors' individual practices by sharing tools and methodologies and (ii) to create a common core of 10 indicators.

In addition to the five existing members (Cordaid, Oikocredit, Incofin, SNS and Triple Jump) the following institutions are among the ones that have expressed interest in joining the action group: EIB, Finance in Motion, Grameen Credit Agricole, Deutsche Bank, Triodos, responsAbility.

Common DD indicators

The 10 common core indicators should give a brief but overall assessment of an MFI's SPM. This initiative would differ from the MIX SP reporting to the extent that indicators would not be self-reported but be evaluated by Investment Officers during the due diligence process. With the approval of MFIs, results on those indicators should be shared among investors, possibly through a platform hosted by a third party. This on the one hand should help investors in screening potential new partners and on the other hand will lessen the burden on MFIs to report to several investors on the same indicators.

While there is generally the concern that the many initiatives and investors' approaches to SP assessment can become burdensome for MFIs to respond to, this initiative should not completely replace investors' discussion on SPM during the due diligence process which is an essential element in promoting good SPM practices.

Joint due diligence

In the view of further sharing methodologies and approaches as well as using MFIs' time more efficiently, some investors have expressed the interest in conducting joint due diligence visits. A few examples of such collaboration have taken place successfully and have led to joint investments.

Sharing of practices on assessing interest rates levels

Most investors approach the issue of high interest rates charged by MFIs on a case by case basis. Some investors have started to develop a structured methodology or approach to assess interest rate levels. MFITransparency provides very useful country level data to be used in assessing interest rate levels.

There is an interest among investors in sharing practices on assessing interest rate levels and possibly in collaborating in the development of country level benchmarks or peer groups.

Next steps:

- Investors interested in joining the group, please send an email to christophe@triplejump.eu
- Mid July: first draft of common core indicators is sent to the group
- July – August: collecting feedback from group by email
- September: conference call to discuss second draft
- By December 2011: agreement on 10 core indicators and launch of platform for sharing results.
- We are looking for a volunteer investor to support Triple Jump and take the lead on sharing practices on assessing interest rate levels.

6. Conclusions

The Social Investor Group of the SPTF will continue to share experiences and practices and work closely together with the PRI on the implementation and monitoring of the PIIF.

The following action groups are proposed to follow up on ideas discussed at the Social Investor Group meeting. Investors can sign up for these groups and together agree on a detailed work plan for the year:

1. Due diligence tools sharing – led by Christophe Bochaya of Triple Jump
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The Social Investor Group will continue to provide a platform for investors to communicate, exchange and act in concert to send a strong signal that social performance is valued. Investors are invited to be pro-active and participate in the action groups throughout the year to achieve progress towards the next annual meeting.

ANNEX 1: Participants List

Agencia Española de Cooperación Internacional para el Desarrollo (AECID)	Barbara Quesada Piso
Agora Microfinance Partners	Olga Torres
Alterfin	Sofie Desmet
Anthos	Margot Quaegebeur
	Koenraad Verhagen
BlueOrchard	Lisa Sherk
	Ximena Escobar
BNP Paribas	Marie-Anne de Villepin
Cerise	Cécile Lapenu
CGAP	Katharine McKee
	Antonique Koning
Cordaid	Sacha Noe
CMEF	Stefanie Dolan
Deutsche Bank	Caroline Vance
European Investment Bank (EIB)	Marie Jacquesson
European Investment Fund (EIF)	Ricardo Aguglia
Finance in Motion	Klaus Maurer
	David Bartocha
Grassroots Capital Management	Anna Kanze
Grameen Credit Agricole	Jurgen Hammer
Ford Foundation	Frank de Giovanni
International Finance Corporation (IFC)	Paul Luchtenberg
INCOFIN	David Dewez
	Dina Pons
Kiva	Tim Hassett
Luxembourg MF and Development Fund	Gilles Franck
Microfinance Information eXchange, MIX	Adrian Gonzalez
	Micol Pistelli
Multilateral Investment Fund	Marten Leijon
Netherlands Microfinance Platform	Sergio Navajas
Oikocredit	Ab Engelsman
	Ging Ledesma
OPIC	Ben Simmes
Principles for Responsible Investment (PRI)	Richard Greenberg
Proparco	Karin Malmberg
responsAbility	Elodie Parent
SDC	Nancy Sommer
SIDI	Hans Ramm
SPTF	Silvia Cornacchia
SNS Asset Management	Laura Foose
	Marieke de Leede
Stromme Microfinance AS	Alexander Lubeck
Symbiotics Asset Management	Anja Husebo
Triodos	Jerome Audran
	Jacco Minnaar
Triple Jump	Ellen Willems
	Steve Evers
UNCDF	Christophe Bochatay
	Beth Porter