Minutes of the Savings and Credit Forum

Mainstreaming Social Performance in Microfinance: Implementing the "double-bottom line"

2 July 2010, Berne, Switzerland

The savings and credit forum of July 2nd 2010 took place during the Social Performance Task Force (SPTF) Meeting 2010 and targeted in particular Swiss microfinance actors. The objective of the forum was to provide an overview on the latest evolutions of measuring and reporting social performance among microfinance institutions on one hand, and of measuring and reporting social returns of investments of (Swiss) microfinance investors on the other.

The forum was opened by Peter Tschumi, SDC focal point Employment and Income, who welcomed the speakers and participants and recalled SDC's long term engagement in social aspects of financial sector development. Since 1996, SDC has supported the development of social performance measurement tools, in particular the CERISE tool (see below), the Rating Initiative and the Smart Campaign. Hans Ramm, responsible for Financial Sector Development at SDC presented the speakers, the programme of the day and moderated the discussions during the day.

The morning session, dedicated to **social performance mainstreaming of microfinance institutions (MFIs)** was opened by Laura Foose from the SPTF, who introduced the definition of social performance (i.e. the effective translation of an institution's mission into practice in line with accepted social goals) and the different **dimensions of social performance as well as related tools and initiatives**. She emphasised that today only 30% of MFIs aim at "improving the lives of the poor". The majority of MFIs simply aims at providing access to financial services or to "responsible" financial services for the poor.

The second presentation by Adisa Mujkic, Partner Microcredit Foundation Bosnia, dealt with the creation of a **client debt advice centre**. This centre was set up in response to the exploding over-indebtedness of many microfinance clients in this country, due to a lack of consumer protection regulations, a rapid growth of MFIs and the negative effects of the economic crisis. The initiative to create this centre was taken by leading MFIs and sponsored by different investors and donors. The main functions of the centre are financial education of over indebted clients, resolution of disputes between clients and their MFI(s) and debt advice.

The two presentations were followed by a **Q&A session**. Major points discussed were: MFIs can use different indicators and methods to measure the poverty level of their clients, such as the PPI (Progress out of Poverty Index) and PAT (Poverty Assessment Tool), which are both multidimensional poverty scorecards derived from national poverty surveys. Other important sources of information for social indicators at client level are client satisfaction surveys, food security surveys and tools provided by the Smart Campaign. To create and run a centre like the client debt advice centre in Bosnia, all stakeholders of the financial sector need to be involved, including the central bank. To avoid over-indebtedness, MFIs have also a responsibility in financial education of future clients, in making thorough analyses of credit applications and in promoting the creation of an effective credit bureau.

The third presentation of the morning, by Cécile Lapenu from CERISE, was dedicated to one specific tool, the **CERISE SPI (Social Performance Indicator) audit tool**, which can be used by MFIs to: 1. make a diagnostic of their social performance, 2. manage their operations and 3.

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communicate their social performance and compare with other institutions. The tool is used by 250 MFIs, as network benchmark and in the dialogue with social investors.

Frances Sinha from M-CRIL presented the **Social Rating Tool for MFIs**. Social ratings concentrate on the first three dimensions of social performance, which are “Intent & Design”, “Internal Systems & Activities” and “Outputs”. A social rating is a systematic, focused and relatively quick method to provide an external opinion of an MFI’s capacity to put its mission into practice and to achieve its social goals, as well as to highlight areas of strengths and weaknesses. Social ratings are not intended to measure outcomes and impact, which have to be done through complex and costly impact assessments. More recently, M-CRIL has also performed “enhanced social ratings” which, as opposed to “standard social rating” include field level data collection providing first hand information from the clients. While up to 2006, only 20 social ratings had been conducted by the four microfinance rating agencies (M-CRIL, Microfinanza, Planet Rating, MicroRate), the number increased to 80 in 2009.

To close the morning session on MFIs, Cécile Lapenu presented the **correlations between social (SP) and financial performance (FP)**, based on a sample of 350 SPI audits done all over the world since 2005. For instance, the analysis shows that social responsibility correlates with higher staff productivity and better portfolio quality. Cécile also presented a study done by Incofin based on a sample of 80 institutions from 36 countries, which confirms the positive correlation between SP and FP of MFIs. Interesting conclusions from Incofin are that on average, for profit MFIs (bank and non bank) show higher SP scores than not-for-profit MFIs (NGOs). A good customer service and sound human resource policy are good both for SP and FP, and financial literacy has a positive impact on SP and FP. This study also shows that much can still be done by MFIs to implement consumer protection principles, in particular transparency of information, guidelines to prevent abusive debt collection and social and environmental exclusion lists.

The **Q&A session** provided more information on the SPI audit tool: it has the advantage of being very simple to use for MFIs, as it needs only a half day introductory workshop, often organized by professional associations or investors. It is a self reporting tool, as opposed to the rating, and as such, is an effective way to make the MFI think about social performance.

After the lunch break, the afternoon session was opened by Koenraad Verhagen from the Argidius Foundation, who gave us a comprehensive overview of **social performance mainstreaming at the level of Microfinance Investment Vehicles (MIVs)**. MIVs are independent investment entities which mainly (but not exclusively) invest in MFIs, and whose funds come from public funders (51%), private institutional investors such as pension funds, banks, companies, foundations, etc. (28%) and individual investors (21%). Around 17% of MFIs’s assets are financed by MIVs, positioning the latter as important potential drivers of social performance. However, while social performance mainstreaming is relatively well developed at the level of MFIs, MIVs can still improve the measurement of SP of their investments and to promote SP mainstreaming at the level of their investees.

Koenraad’s presentation was followed by three examples of how Swiss **MIVs report on social performance.** Cécile Koller of responsAbility Social Investments explained that her institution periodically publishes a social performance report showing the achievements of its approximately 250 investees in five categories based on 19 evaluation criteria (55% quantitative, 45% qualitative): 1. Mission and objectives. 2. Products and services. 3. Operational systems and processes. 4. Outreach and financial inclusion. 5. Contribution to local economic development. Kathryn Imboden of FIDES/SMH emphasised that her institution currently reports on social performance based on the MFI’s management information system by indicating the poverty level and profile of their investees’ clients and by gathering additional data through in-depth and vulnerability analysis. In future, FIDES/SMH will promote further development of MFI’s social

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performance reporting as an important management tool for MFIs and decision base for investors in SMH. The last presentation on Symbiotics Investment Management (which is an advisor of MIVs), was given by Daniel Schriber. Symbiotics is currently improving its social performance reporting by creating an annual reporting form for MFIs to report on qualitative Environmental, Social and Governance (ESG) principles, aggregate social grading rates obtained by MIV investees, and calculate average indicators among others.

The **Q&A session** following these four presentations highlighted the risk to overburden the MFIs with different reporting systems by MIVs. The latter however, use the existing SP measurement systems (such as CERISE's SPI, social ratings, the MixMarket), adding just a few specific indicators. The high financial return of MIVs was questioned by the audience, to which MIVs answered that returns are quite volatile. ReponsAbility, for instance, witnessed a decrease in its average return, from 7.7% in 2008 to 1.3% in 2009. Koenraad reminded that there are no benchmarks in the industry about what is a "fair interest rate"; the Smart Campaign should provide more transparency on this issue.

Cécile Lapenu, CERISE and Ging Ledesma, Oikocredit presented us their joint initiative in developing a **social audit tool for MIVs.** The framework of this tool is based on four dimensions of SP (outreach, appropriate services, governance and social responsibility) and is aligned with the UN ESG principles and CGAP's MIV disclosure guidelines. The objectives of this initiative are to foster transparency about MIV's social performance, contribute to risk management by better knowing the investees, be more socially responsible and communicate about microfinance investments. In Oikocredit's personal experience, the MIVs' future challenges with respect to SP are to train staff on SP, strengthen SP in due diligence, improve the quality of information, collect feedback of investees their satisfaction with the MIV, improve knowledge management and provide MFIs with the capacity not only to assess, but also to manage SP.

Frances Sinha, M-CRIL, presented us the results of a **pilot comprehensive rating of three MIVs**. First conclusions of this study show that while all MIVs have a social mission, they charge market rates to MFIs and have high expectations on return on equity. They have different screening processes in terms of social indicators used, differ in the depth of outreach and provide technical assistance/guidance to MFIs in different ways. According to Frances, "social" investors still offer lower than commercial rates of return to investors, some help the MFIs to fund their loan loss provision and hedge investments in local currency (Oikocredit).

Patrick Elmer, Credit Suisse, made the last presentation of the day showing the **importance of social performance for private and institutional microfinance investors**. Credit Suisse made a query among their clients investing in microfinance, confirming the general impression that most investors invest in microfinance because of the high social return. 53% of these investors, however, expect a financial return of more than 2%. The speaker emphasised that investments in microfinance will still increase in coming years. Nevertheless, investors will become more selective as to which fund they invest in. The key will thus remain the reputation of MIVs and banks, on their side, will have to scrutinize these more closely.

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