

## **Mainstreaming Social Performance in Microfinance: Implementing the “double-bottom line”**

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# **Pilot Comprehensive Ratings of three MIVs**

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# Rating of MIVs



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- Why rate an MIV?
- Elements of rating – financial and social?
- Selected results – 4 MIVs
- Preliminary conclusions – defining a ‘social’ investor

# Why rate MIVs?



Prospective  
investors/  
Investees (MFIs)

- Assess investment purpose and performance in relation to own investment /performance goals and social values
- Compare different funds

MIV management

- Systematic profile and analysis of strengths and issues

# Pilot ratings (about to finalize)



Anthos

- Dexia Micro-credit Fund – DMCF (Blue Orchard)
- Oikocredit

SDC

- Incofin cvso & Rural Impulse Fund (RIF)

# Elements of rating



## Governance & institutional overview

- Board composition; legal structure
- Staff; Orientation and values;
- Overall track record (growth and returns)

## Strategy & management

- Investors
- Market positioning (regions/investees)
- Investment policy and process
- Oversight and controls

## Financial performance

- Fees and returns to investors
- Portfolio quality – investee level
- Fund efficiency
- Financial risk management

# Elements of rating: social



## Social performance - systems

- Clarity of mission and social objectives
- Approach/initiatives for social performance
- Investee selection; terms of investment
- Values of social responsibility
- Guidance/TA support to investees

## Results - investees

- Feedback from investees (MFIs)
- Outreach to end clients (HDI analysis)
- MFI systems /SP information – targeting, market intelligence, client protection
- Portfolio information – products analysis

## Results – end clients

- Rural, women
- Client exit
- Outcomes/change

# Mission and values



- **Mission statements:**
  - *“Empowering the poor/disadvantaged people”... “Socially responsible investments”... “Contributing to alleviation of rural poverty”.. “demonstrable social impact” “sharing resources”*
  - Not defined or monitored
  - Some social objectives: % investment to S Asia, sub-Saharan Africa (Oiko) or rural populations (Incofin RIF)
- **Engagement with international initiatives:**
  - Client protection (all have signed on); MFI Social ratings/audits (Oikocredit); tools for poverty assessment (Oiko), Environment (Incofin, Oiko)



# Snapshot: investment and clients



	<b>DMCF</b>	<b>Oikocredit</b>	<b>Incofin CVSO+RIF</b>	<b>CGAP - MIV Average</b>
Assets (\$mn)	536	752	58	76
MFIs	98	543	43	
SMEs	-	256	-	
End clients of MFIs	9,450,000	14,700,000	3,000,000	
End clients supported by MIV (est.)	380,000	760,000	70,000	46,270

# Criteria in screening investees



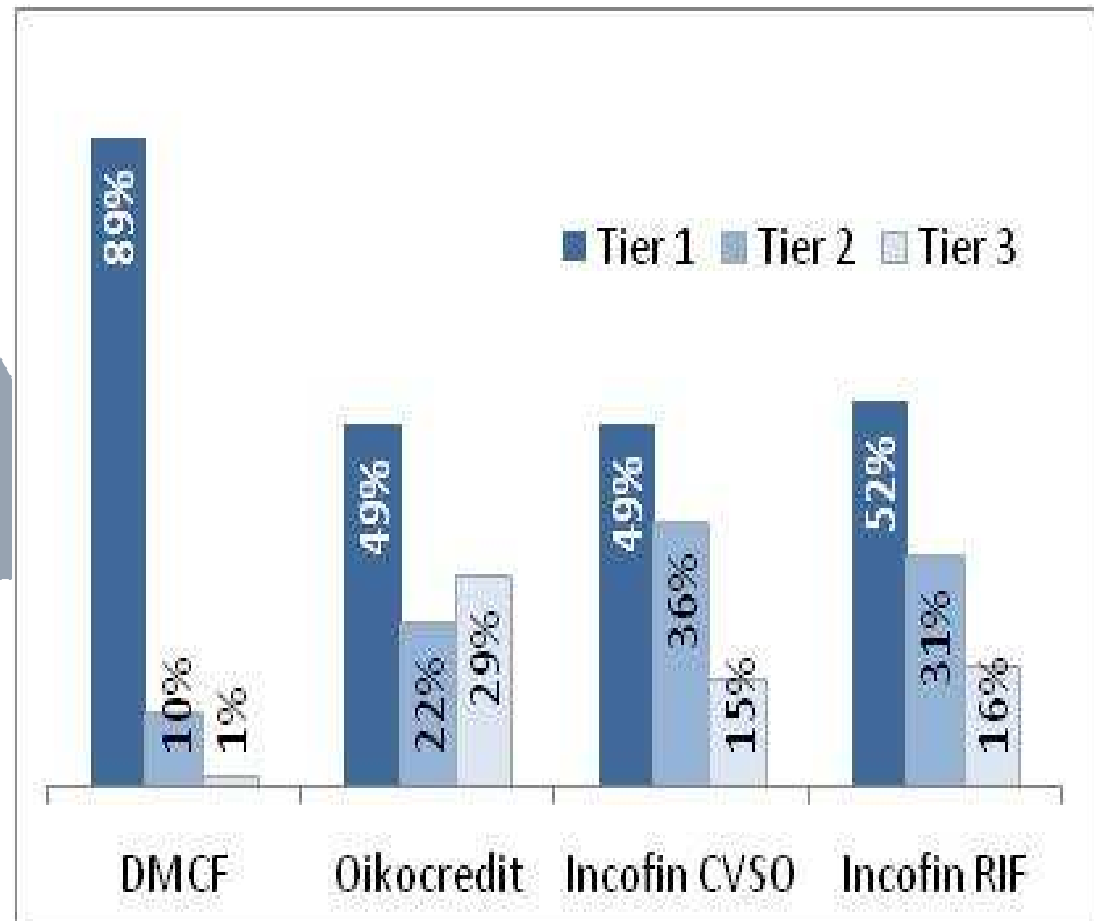
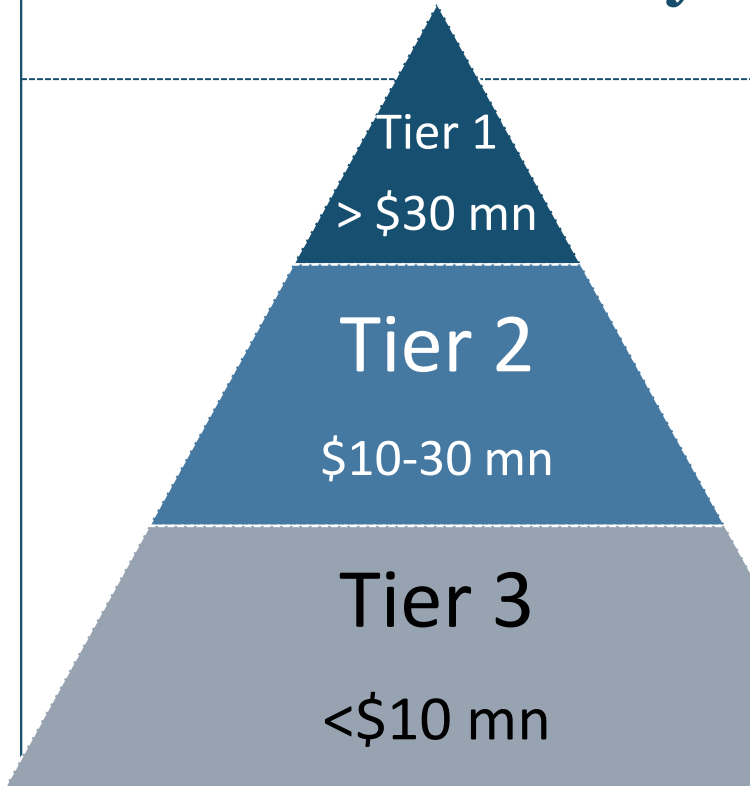
## Financial - established

- Due diligence visit and detailed report
- Audited financial reports
- Profitability, efficiency, portfolio quality indicators

## Social - emerging

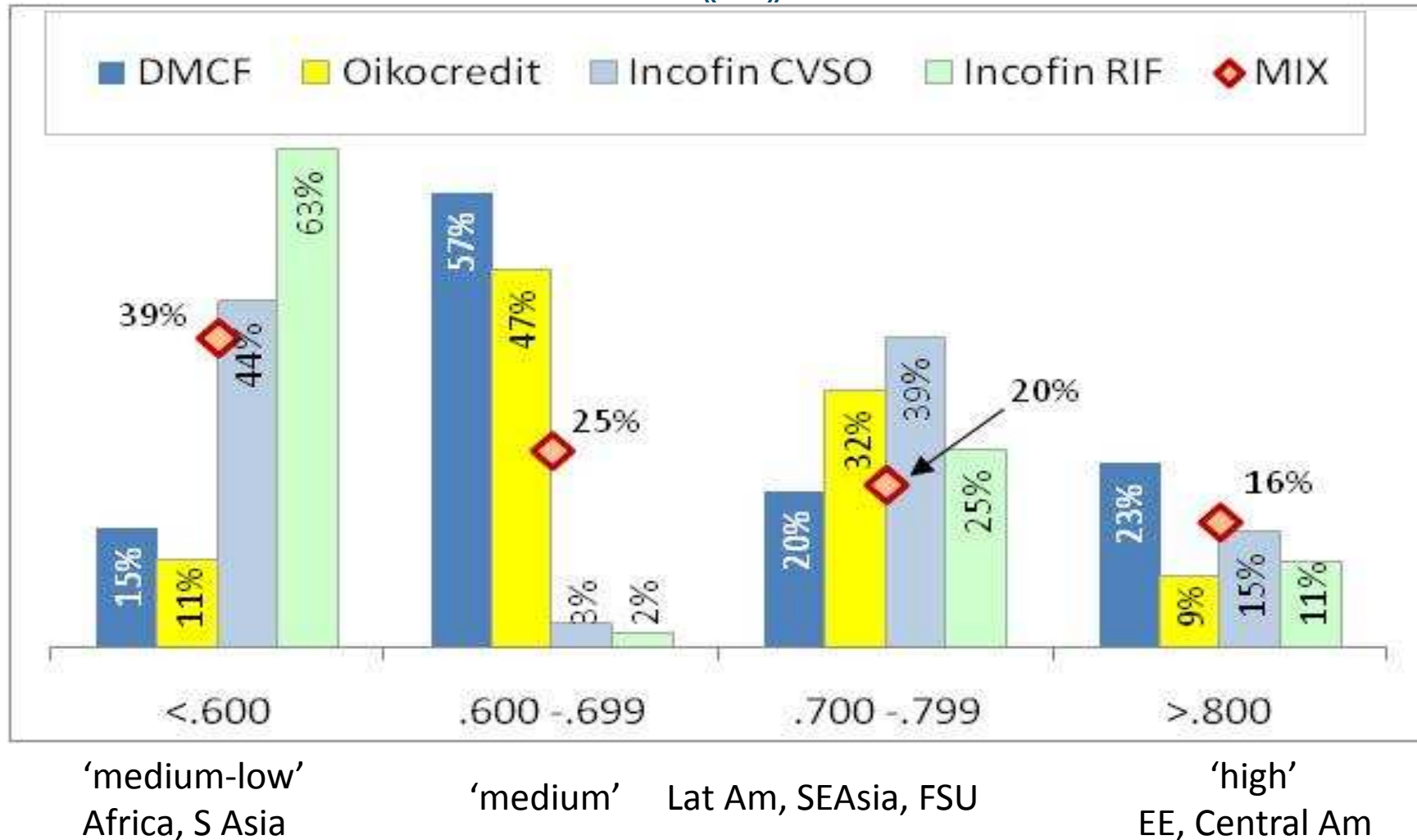
- Detailed social score cards – Incofin, since 2007; others under development
- Indicators – reflect key aspects of social performance (mission/governance, outreach/access, services, social responsibility)

# Investment – by size of MFI investee (assets)



# Investment – Client Outreach by HDI

(UN Human Development Index: per capita income, education, health)



## Funders ...

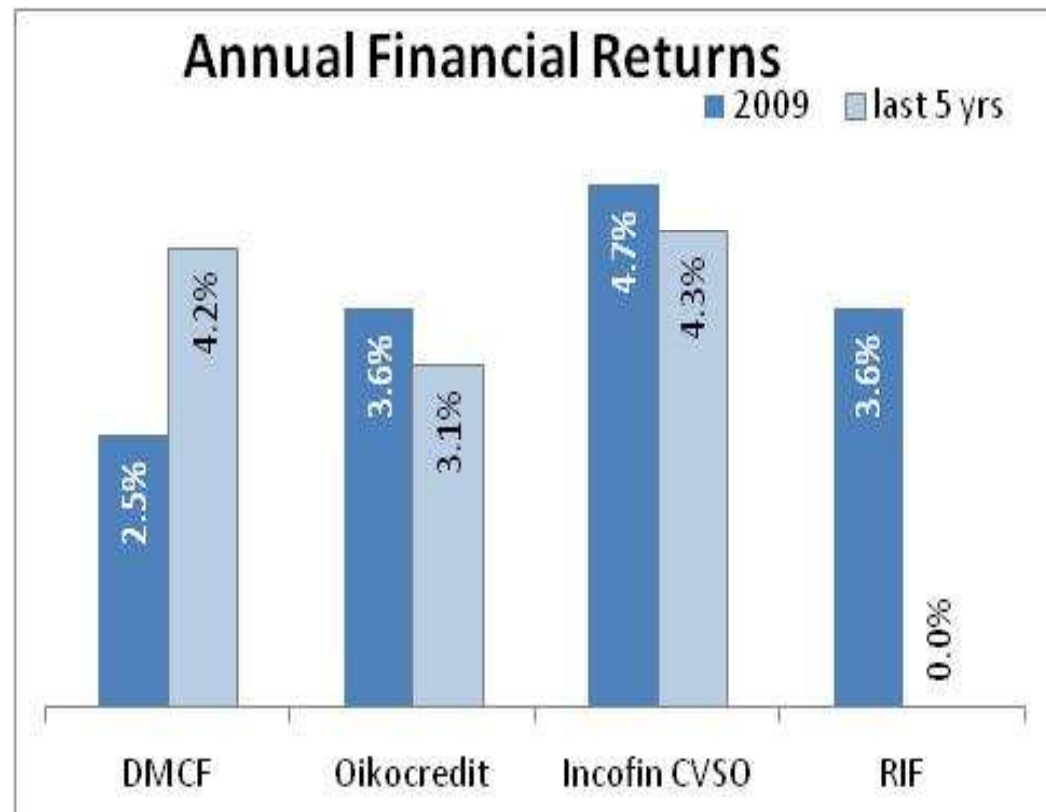
	<b>DMCF</b>	<b>Oikocredit</b>	<b>Incofin CVSO</b>	<b>RIF</b>
Investors	Pension funds, Banks, individuals	Churches, Support Associations open to individuals; other 'like-minded' institutions	Banks, DFIs. Labour unions, Foundations, individuals	Banks, Labour Unions, DFIs, Foundations
Minimum investment	\$10,000	\$250	\$150 (=1/20 share)	\$150.000
Different countries	~10 (W Europe)	17 (Mainly W Europe, also – US, SE Asia/Pacific, Central Am)	Mainly Belgium	4 Belgium, Germany, Holland, US

# ...reporting ...and returns



- Investor Communications – most detailed Incofin RIF (quarterly), monthly summary (DMCF); annual (Oikocredit)

- Returns, differences in:
  - Hedging to meet variable target (DMCF)
  - Long-term equity investments (Incofin & Oikocredit)
  - High provisions (Oikocredit)
  - Other fund management income (Incofin CVSO - historic)



# Best Practices in Financial Risk Management



- Regular monitoring (monthly/quarterly) of investee financial/portfolio data (Blue Orchard, Incofin)
  - More frequent in cases of special concern
- Annual due diligence visits (all)
- Coordination with other investors when dealing with distressed investees (Blue Orchard, Incofin)
- Close interaction with investees by country offices (Oikocredit)

# Emerging best practices for social performance



- **Designated responsibility for social performance**
  - individuals - separate, beginning to be integrated
- **Social performance screening of MFIs**
  - And factoring into cost of funds
- **Social performance reporting**
  - Still to develop systematic monitoring and potential to link with global reporting (to the MiX)
  - Can monitor data on MFI yields (reflects costs to end client)
- **Technical assistance for social performance**
  - Variable (as part of due diligence) – depends on grants (Oiko), equity investments



# Defining a “social” investor



- **All**
  - have a social mission
  - charge market rates to MFIs; equity expectations also high (IRR – 12%)
- **Differences in:**
  - screening process (systematic application of social indicators); though still to factor this into costs to MFIs
  - Depth of outreach (region, size of investee)
  - Technical assistance/guidance (perceived need of MFIs)
- **Lower than commercial rates of returns to investors**
  - Helps to fund loan loss provision (for higher risk investments – Oiko) and to hedge investments in local currency