

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

Savings and Credit Forum, 2nd July 2010

Social Performance Mainstreaming at MIV level

Koenraad Verhagen
Argidius Foundation Investment Committee member

Presentation no. 6 :
13.30 – 13.45

(with thanks to CGAP for resource material and slides 3-7,12)

Savings and Credit Forum

Bern Friday, 2nd July 2010

Afternoon session

‘**Social Performance Mainstreaming at MIV level**’

Introductory Presentation:
by Koenraad Verhagen
Argidius Foundation Investment Committee member

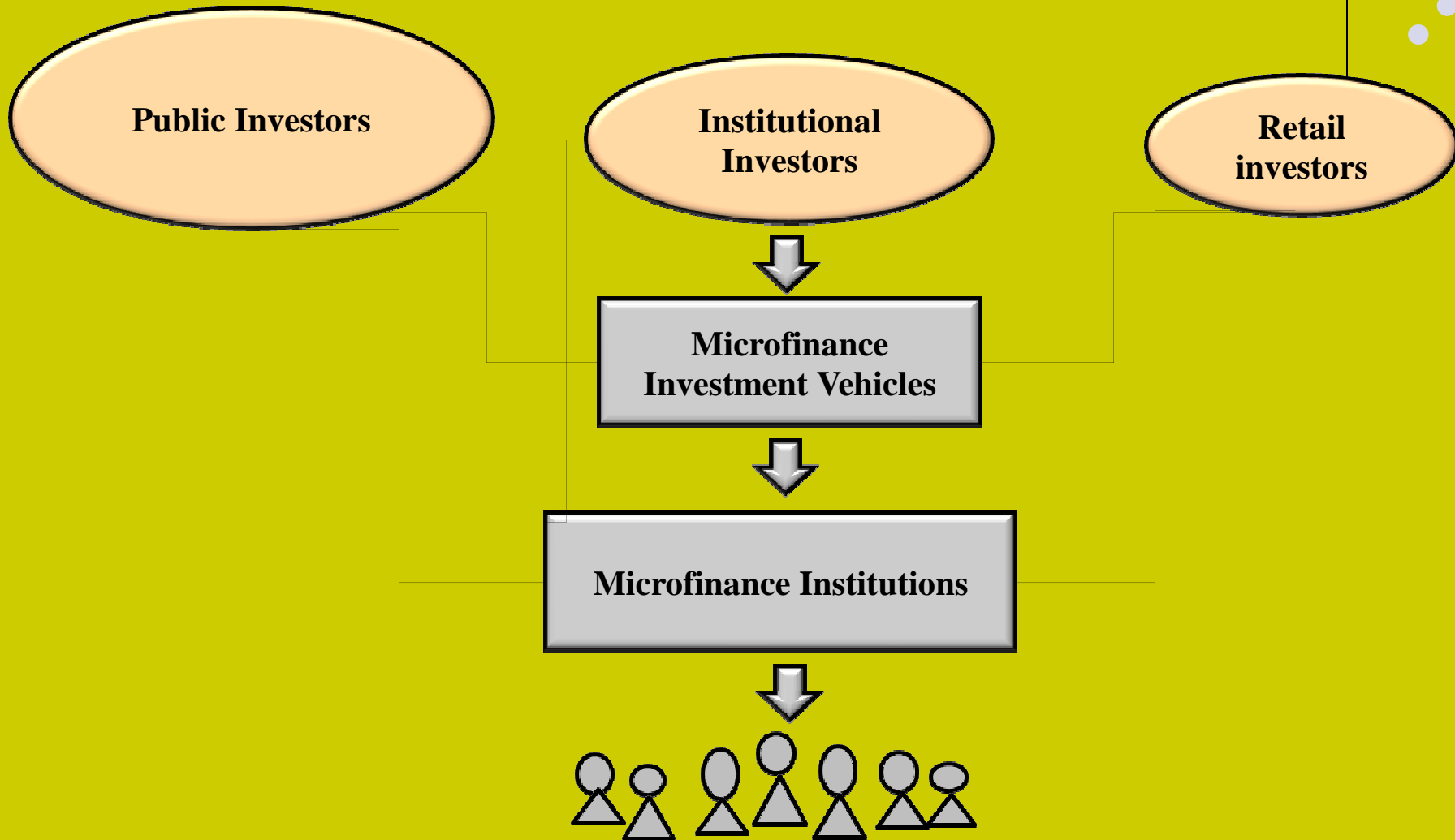
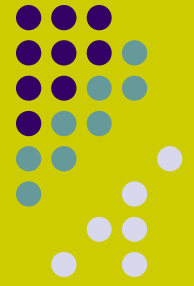
with thanks to CGAP for resource material and slides 3-7,12



Microfinance Investment Vehicles (MIVs)

- Are independent investment entities of various legal forms that have microfinance as a core investment objective and mandate.
- Most are self-managed or managed by an investment management firm.
- Receive money from multiple investors (public and private). Act as intermediaries to which investment decisions have been delegated. Are often referred to as 'social investors'.

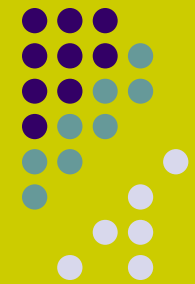
The funding landscape



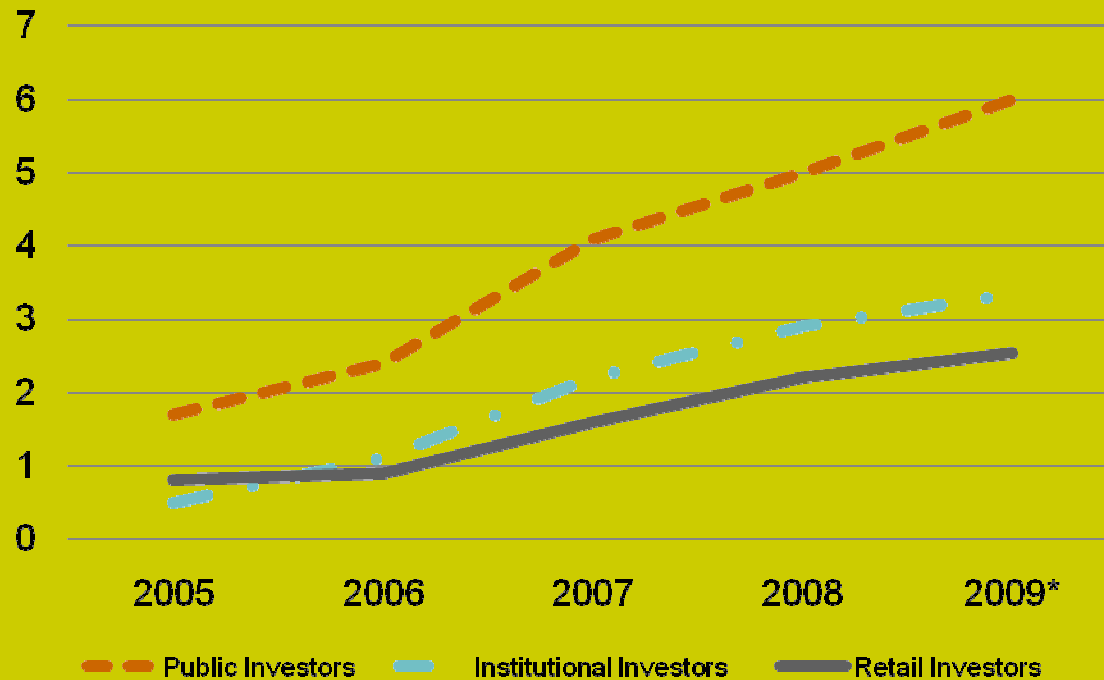
Types of Investors

- Public Funders : SECO, KfW, IFC, etc.
- Private Institutional Investors: Pension funds, Banks, Companies, NGOs, Foundations
- High Net Worth Individuals: Investing Large Sums (e.g. US \$1 million)
- Retail Investors : Individual (small) Investors

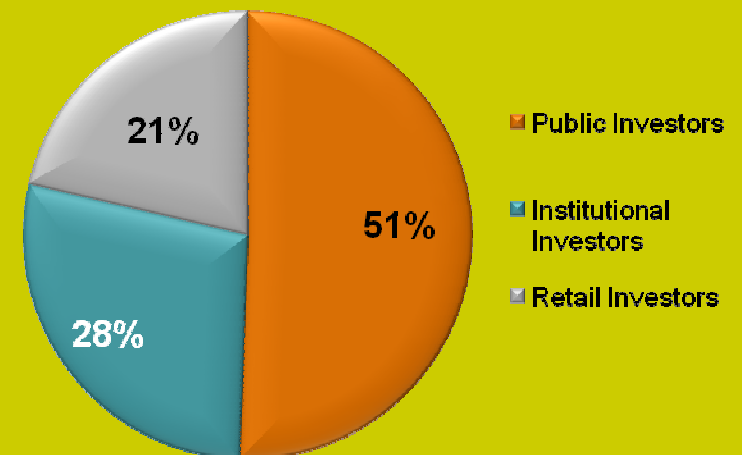
Public Investors still dominant



Investment in Microfinance (USD bn)

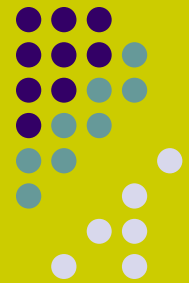


2009

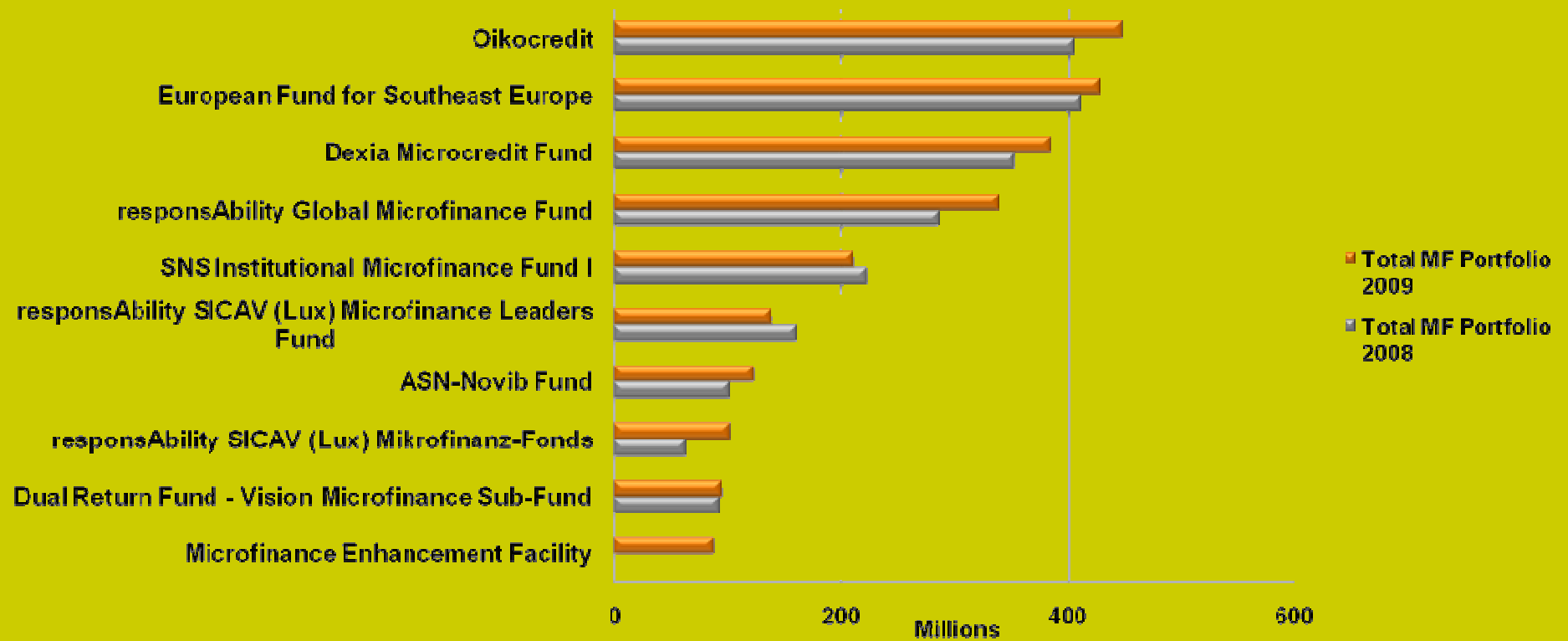


Source: MIX data, 1400 MFIs are reporting to the MIX. * 2009 CGAP estimate.

Half of FCI managed by MIVs



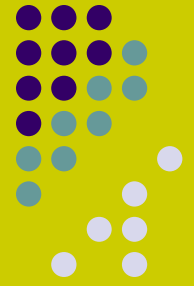
Top 10 MIVs



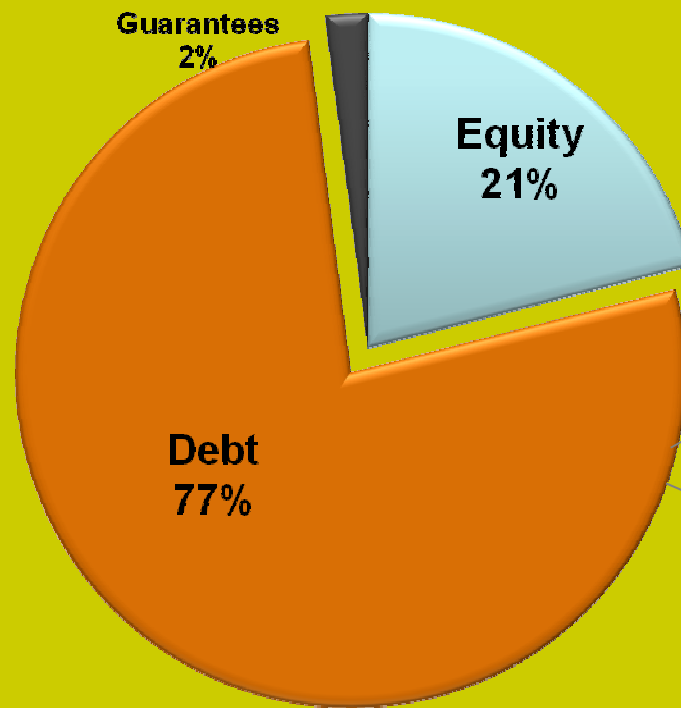
Top 10 MIVs Microfinance Portfolio: **2.4 bn USD**

Source: CGAP MIV Survey

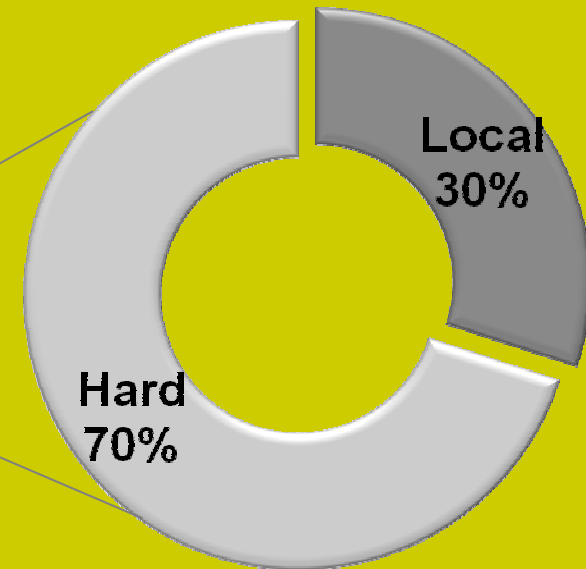
Composition of cross-border investment in microfinance today



Instrument

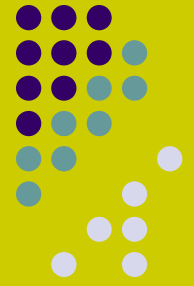


Currency

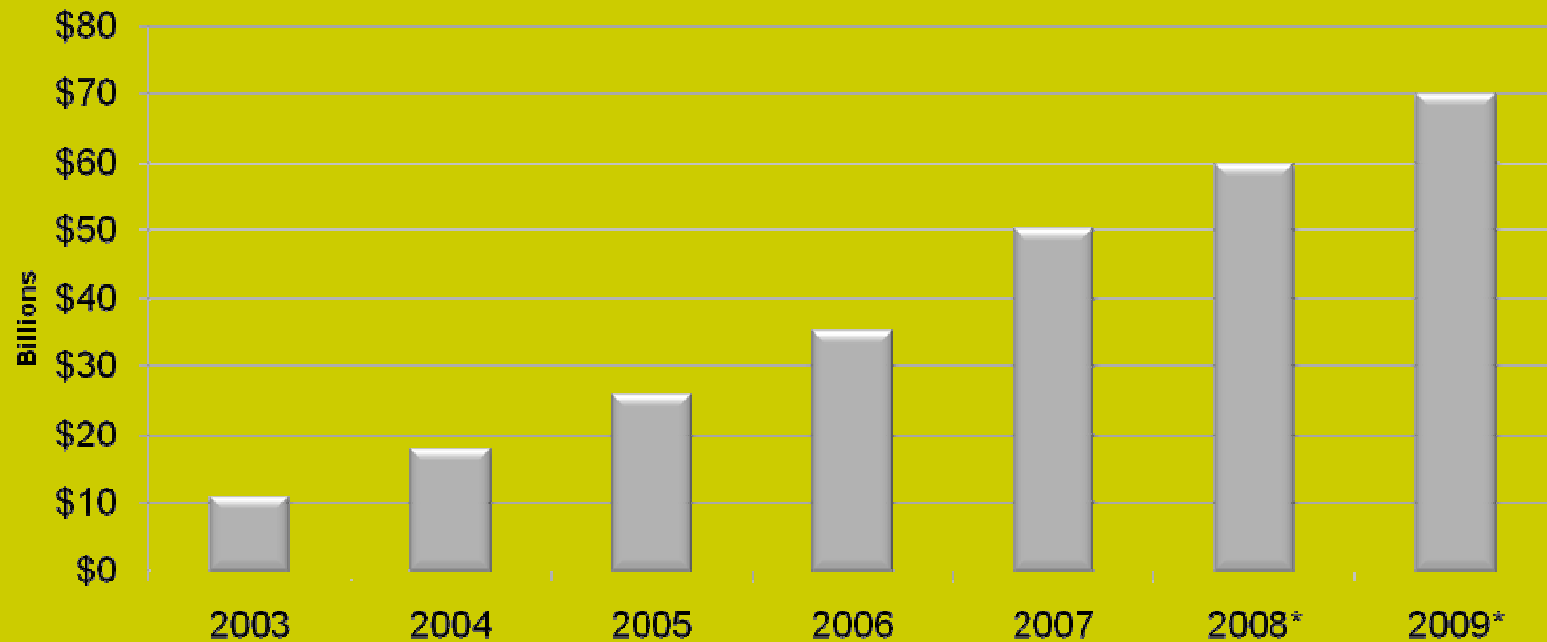


Source: CGAP Market Intelligence team

Exponential Growth of the Microfinance industry



2003-2009 Total Assets of MFIs



Source: MIX data, * 2008/2009 CGAP estimates



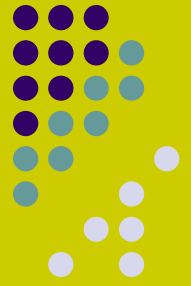
How important are MIVs for capitalizing the MF sector ?

- Total assets of MFIs: USD \$ 70 bn
- Total financing of MFIs by MIVs or other international intermediaries: USD \$12 bn
- MIVs are in a position to impact MFI Social Performance policies by investment criteria and conditions but cannot control
(unless they operate as Holding Companies which own and control the MFIs, like ProCredit and Finca do)



Social Performance at MFI level

- Over the past years 5 years concepts, frameworks, indicators, and tools have been developed
- Social Performance Measurement,
- Social Performance Management and Governance,
- Social Audit and Rating, and
- Standardized Social Reporting to the MIX



Social Performance at MIV level

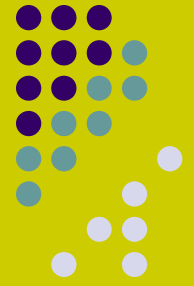
- Much less advanced
- Some MIVs, networks, rating agencies, family offices, and SDC are pioneering in this field
- CGAP has produced a draft paper for MIV 'Disclosure Guidelines for Reporting on Performance Indicators (2010) with the social aspects covered by ESG indicators
- (ESG-Environmental, Social and Governance)
- Work to be finalized

Recent developments in the Industry with impact on MIV 'Social Performance'



- In some countries exponential growth has led to:
 - systems being **overstretched** (Bosnia, Nicaragua, Marocco, Pakistan, some parts of India) leading to steep asset quality decline
 - MIV returns on debt investments (loans to MFIs) falling to **3.1 %** in 2009
 - leading MIVs being **overliquid**
- At the same time: Microfinance Equity Valuations keep growing (some MIVs and Private Investors aim at **15 to 30 % return** on equity investments)

CGAP's Outlook



- Slower growth, Slower returns
- Increased Focus on Risk Management
- More interest on Responsible Investment



Personal outlook

- The Microfinance ‘hype’ is over. Yet, growth potential of sector is still considerable in the long term
- Social performance ‘mainstreaming’ complicated by equity investors’ demands for high returns (15 - 30 %)
- Higher financial and political risk
- Social Investors may turn to other social investments
- For ‘Mainstreaming’ social performance at MIV level: still a long way to go
- Principles of Socially Responsible Investment are accepted by MIVs