

EVALUATING MIV'S SOCIAL PERFORMANCE

Responsible investment in microfinance

Why assessing SRI in microfinance?

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□ High growth and high concentration

e.g. 5 countries with more than 50% of investment

⇒ Diversify the investments

⇒ Value risk-taking MIV

⇒ Strengthen comparative advantage of each MIV

□ Promotion of SP in the MF sector

Need for transparency on ethics at MIV level :

⇒ Promote Environment Social & Governance standards (ESG)

⇒ ESG promotion requires indicators

⇒ Positive effects on attractiveness of MF investment

How to assess SRI in microfinance?

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- Principle: Evaluate consistency between MIV's self-reported mission and actions (not normative)
- Cerise's approach:
 - Pioneer in SP assessment of MFIs since 2001
 - Wide and open participation of diverse partners
 - SPI tool is the most used SP tool (more than 150 MFIs)
 - SPI framework inspired most of sector SP approaches
- Cerise initiated a process with investors: Iterative process to build a framework and integrate partner investors' contributions and feedback

What to assess as SRI in microfinance?

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3 components to value SRI in microfinance :

- Starting from the fund's social strategy as a point of reference
- Valuing and aggregating information collected on social performance of partner MFIs (SP assessment at the MFI level)
- Assessing socially responsible investments through Social Performance Indicators applied to investors' practices

Assessing SRI through SP indicators

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- Framework in 4 key dimensions
 - Outreach of « excluded » MFIs
 - Adequation of services
 - Reinforcement of MFIs
 - Fund's social responsibility
- Framework aligned with the UN Principles for Responsible Investment: **E**nvironment, **S**ocial, **G**overnance

Dimensions and criteria for a SRI in Microfinance

Dimensions	Environment	Social	Governance
1. Targeting		1.1. Countries (outside of the top 5 countries) 1.2. Rural areas 1.3. Second tier MFIs (first MIV, size, age, FSS,)	
2. Adaptation		2.1. Diversified services & MFIs (loan, equity, guarantee, NFS / types of MFIs/costs of service) 2.2. Risk management (loans in local currency)	2.3. Technical support (SIG/SP, SP training for MIV staff)
3. Reinforcement			3.1. Active governance promoting SP (shareholder agreement/SP) 3.2. Fund's expectations on IRR 3.3. MFI's local reinforcement (promotion of saving, use of guarantee)
4. Social Responsibility	4.3. Promoting environmental standards <ul style="list-style-type: none"> • within MFI • for financed activities 	4.1. Collecting SP data on MFIs 4.2. Promoting SR standards (client protection principles, human rights, anti-corruption, decent work)	

Conclusion

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- A framework to value MIV responsible investment in MF
 - A « socially responsible chain », from MFIs to investors
 - A transparent and diversified sector of MIVs able to answer to multiple needs for inclusive finance
- Future steps:
 - Discussion / validation of the indicators by MIVs and MF sector
 - Collection of information from MIVs (Cgap)
 - Identification of MIVs by main SP orientations



Appendix

Targeting (dimension 1)

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Examples of indicators

Geographical targeting (country)	# MFIs	€
Investment outside of the top 5 countries		
Individual targeting (rural)	# MFIs	€
MFIs with more than 75% of portfolio in rural areas		
Mix MFIs (rural, urban, peri-urban)		
MFIs with more than 75% of portfolio in urban or peri-urban areas		
Individual targeting (poverty zones)	# MFIs	€
MFIs with more than 75% of portfolio in poor areas according to national criterias in concerned country		
Mix MFIs (intervening in poor and richer areas, or intervening nationally)		
MFIs with more than 75% of portfolio outside of poor areas according to national criterias in concerned country		
Individual targeting (type of MFI)	#MFIs	€
Size : loans portfolio < \$8 millions (LAC : <\$15 Millions)		
Age < 8 years		
<u>RoE</u>		
Equity < 25% of Capital employed		
Arrival rank as an investor: MFI for which the fund was a pionnier		

Ex indicators: targeting

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- Country of intervention:
 - Number and % of partners MFIs not located in the top 5 countries
 - Volume and % of portfolio not located in LAC or ECA
- Zone of intervention (poverty)
 - % of partners MFIs (in number and in volume) with more than 75% of clients in rural areas
- Individual targeting: second tier MFI
 - Size : loans portfolio < \$8 millions (LAC : <\$15 Millions)
 - Age < 8 years
 - RoE < 12%
 - Equity < 25% of Capital employed
 - Arrival rank as an investor: MFI for which the fund was a pionnier

Ex indicators: adaptation of services

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- Range of services:
 - ▣ % regarding number of offered services
 - % Short Term loans (<2 years)
 - % Long Term loans (>2 years)
 - % Equity
 - % Guarantees
 - % Others

- Quality of services / Currency risk management

- Support

Ex indicators: reinforcement of the MFI

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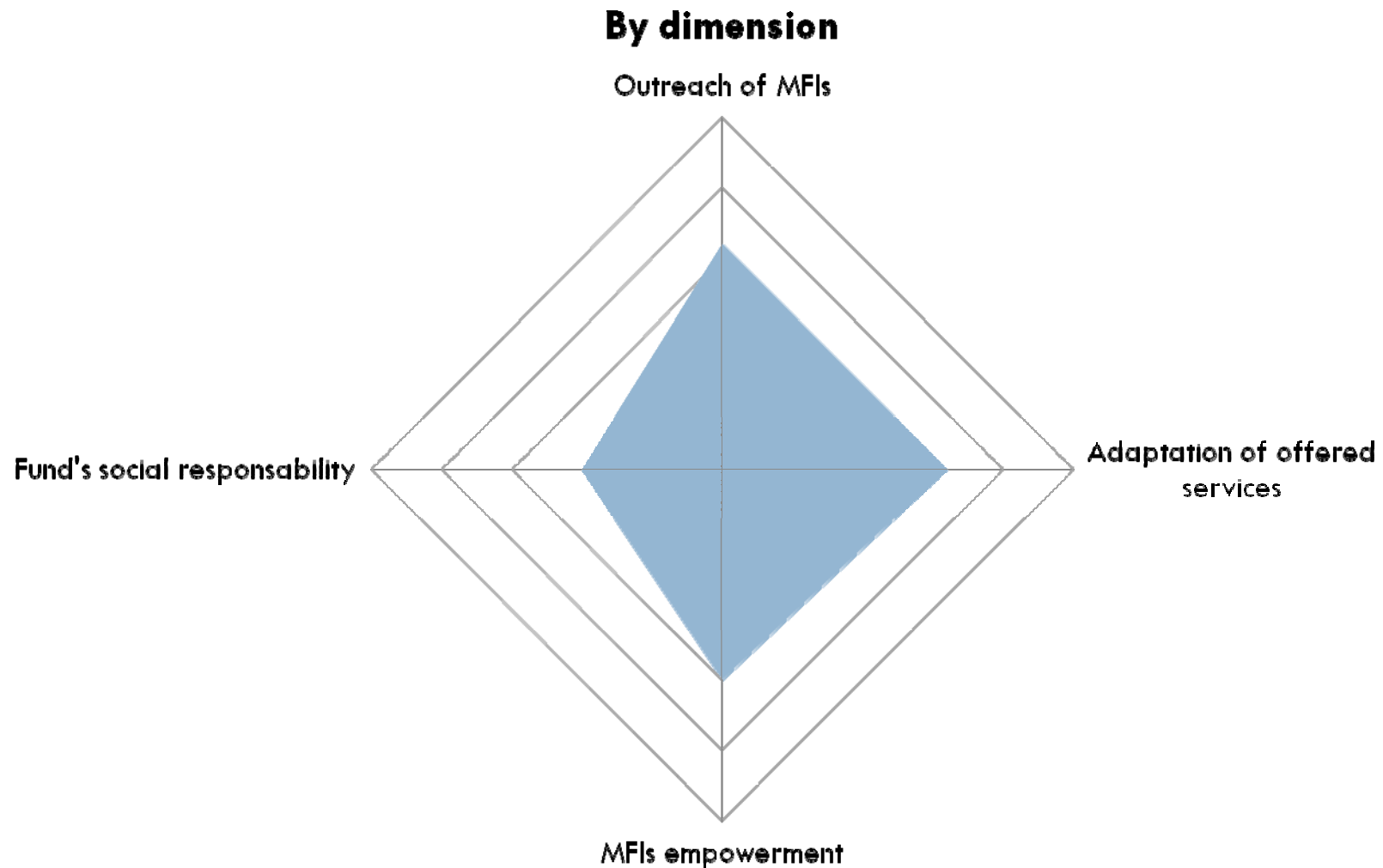
- Active governance: shareholders agreement
 - ▣ Number of MFIs with a SA / Number MFIs total
 - ▣ Volume of portfolio with a SA / Volume total

Ex indicators: social responsibility

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- Agregation of SPI results at the level of the MFI
- Number of MFIs where environmental standards are promoted (in number and in volume)

Graphic representation of results: dimensions



Graphic representation of results: criterias

By criteria

