

European Microfinance Week
Luxembourg 12th – 14th November 2008.

SOCIAL PERFORMANCE WORKING GROUP
**'Draft Framework for Assessing
Microfinance Investment Vehicles'**

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Framework for assessment aims to to
answer the question:

” I am interested in Microfinance: How do I
know where to put my money to make the
greatest impact and get a decent financial
return?”

Underlying assumptions:

1. Capital from a variety of private sources will continue to flow to the MF sector [foundations, private banks, family offices, asset managers]
2. Recognition by private investors of main 'selling point' of MF: low correlation of its financial returns with developments on global financial markets

Underlying assumptions (cont'd)

3. Paucity of verifiable quality information + data on social performance make investors reluctant to enter the field
4. Some private funders may go for direct investment/ lending to MFIs or to MF clients (e.g. through KIVA). Others may prefer MF funds managed by MIVs.

Four main categories (see paper):

- 1. Financial rating**
- 2. Investment rating**
- 3. Organizational Rating**
- 4. Social Impact Rating**

The first three categories are not the focus of this workshop but may impact social impact.

POSSIBLE TRADE-OFFS BETWEEN COMMERCIAL AND SOCIAL

Category 1 Investment rating:

- *Financial return* (especially on equity).
High score for good return. But > 15 % may be regarded as excessive if client MFI makes profits by serving the poor
- *Country risk*
Greater risk in poor countries

Category 3: Organizational rating;

- What are the incentives for staff (manager + investment officers) of MIVs ?
- Is ‘carried interest’ [depending only on financial return] the right one to optimize social impact of investments.

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Framework can be adjusted to specific interests of private investor:

- More or less weight can be given to Social Impact
- Adding special categories or criteria such as portfolio targets for
 - sub-Saharan Africa;
 - small emerging MFIs;
 - etc.

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Criteria for Social Impact scoring :

- 1. Intent and design** (Mission)
- 2. Activities** to support social mission
- 3. Tracking** clients' (=MFIs) Social Performance
- 4. Transparency** to investors/fund providers
- 5. Community** responsibility as employer, etc.
- 6. Scale and outreach** through MFIs financed
- 7. Leverage**
- 8. 'Mission drift'**. Protection against it.

Under Tracking MFI performance to consider:

- The ability and willingness of the MFI to report to the MIX on Social performance according to industry accepted criteria.

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Questions you are very much invited to react to:

- *Can this framework be helpful for MIV assessment and monitoring ? What should/could be changed ?*
- *How can the ‘triple bottom’ aspect be strengthened?*
- *Is it appropriate for rating and benchmarking MIVs?*
- *Can it help to establish eligibility of a MIV to play an intermediary role in the allocation of subsidies from the Social Rating Fund ?*

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THANK YOU