

The Universal Standards Implementation Series

Dimension 6: Balance Financial and Social Performance

Guest speaker:

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Agenda

- Review of Dimension 6 of the Universal Standards for SPM
- Presentation by Olga Torres & Tanmay Chetan, Agora Microfinance
- Discussion with Participants
- Wrap-up

There are 19 standards, organized into six dimensions.

Today we will discuss dimension 6.



Dimension 6 of the Universal Standards

- **Title:** Balance Financial and Social Performance
- **Rationale:** An institution's financial decisions and results should reflect their social goals
- **Four standards:**
 - **6a-** Growth
 - **6b-** Returns & financing structure
 - **6c-** Pricing
 - **6d-** Executive compensation

Dimension 6: 4 Standards

- 6a- The institution sets and monitors growth rates that promote both financial sustainability and client well-being
- 6b- Equity investors, lenders, board and management are aligned on the institution's double bottom line and implement an appropriate financial structure in its mix of sources, terms, and desired returns
- 6c- Pursuit of profits does not undermine the long-term sustainability of the institution or client well-being
- 6d- The institution offers compensation to senior managers that is appropriate to a double bottom line institution

6a- The institution sets and monitors growth rates that promote both financial sustainability and client well-being

Essential Practices

- Set a policy on sustainable target growth rates, for all branches/ regions and all product types, considering the institution's growth capacity and the markets being targeted
- Analyze growth rates and market saturation to assess whether growth policies ensure both financial sustainability and client well-being
- Monitor whether internal capacity is keeping pace with institutional growth in number of clients and amount of loans and deposits, and enhance that capacity as needed

6b- Equity investors, lenders, board and management are aligned on the institution's double bottom line and implement an appropriate financial structure in its mix of sources, terms, and desired returns

Essential Practices

- Set clear policies on desired level of returns and on how those returns will be used
- Engage with funders whose expectations for financial returns, timeframe and exit strategies are aligned with your social goals and stage of development
- When deciding on funding sources, understand what cost would be passed on to the client
- Protect client savings and cash collateral
- Maintain a transparent financial structure

6c- Pursuit of profits does not undermine the long-term sustainability of the institution or client well-being

Essential Practices

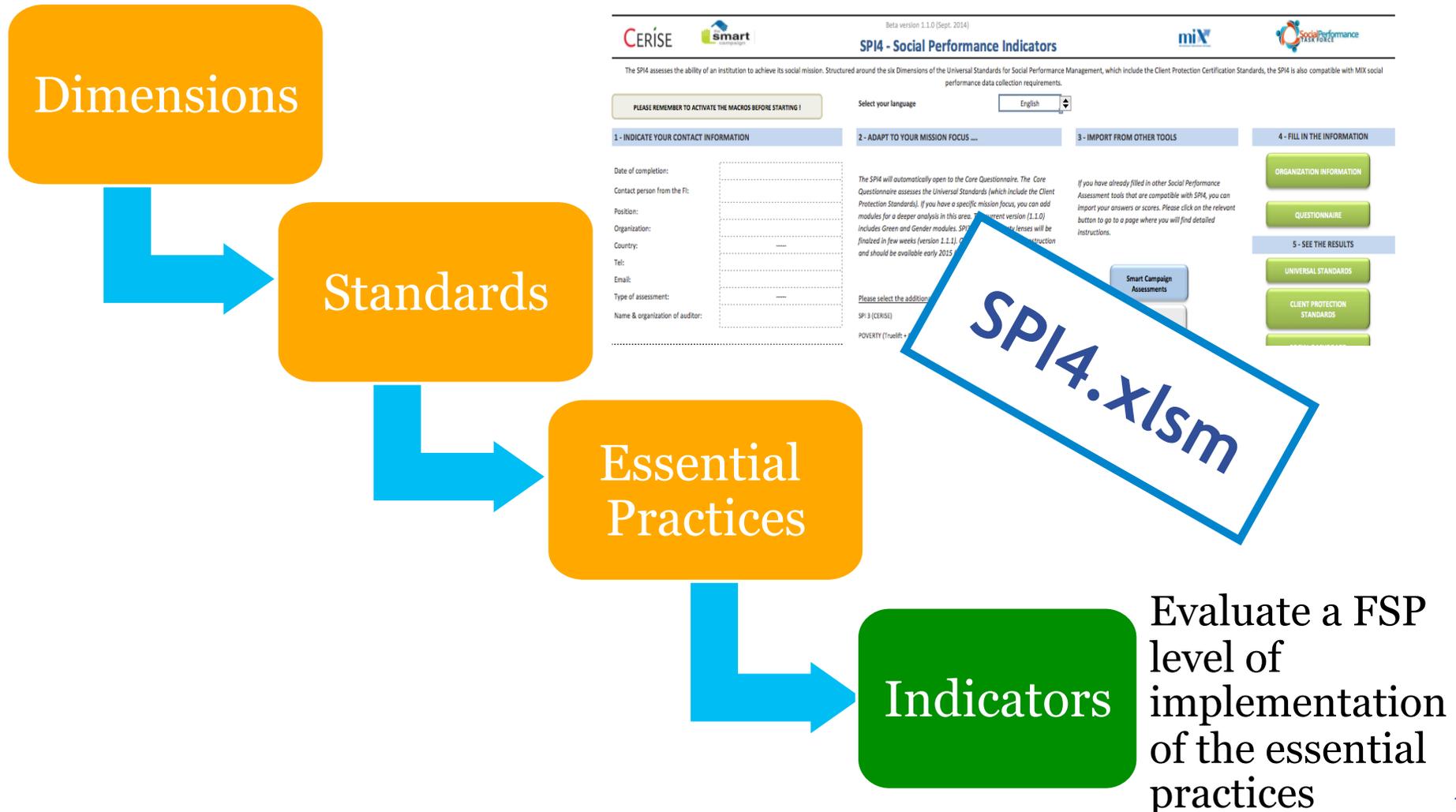
- Set market-based, non-discriminatory pricing
- Ensure efficiency ratios are aligned with peers
- Do not charge excessive fees
- Monitor whether pricing levels are consistent with your policies on returns
- Establish a field-officer-to-client ratio that promotes high service quality for clients

6d- The institution offers compensation to senior managers that is appropriate to a double bottom line institution

Essential Practices

- Ensure that compensation of the CEO/Managing Director and other senior employees is in line with your social goals
- If senior management compensation is in part incentive-based, include the social performance evaluation
- Upon request, transparently disclose compensation to regulators, auditors, raters, donors, lenders, and investors
- Calculate the difference between the average compensation of top level executives and field employees, and analyze whether this spread is consistent with the your mission

The SPI4 and SPI4 ALINUS - assessment of Universal Standards implementation based on indicators



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Introduction to Agora Microfinance

- Microfinance Operator-Investor
- Agora Microfinance N.V., the investing company
- AMK (Cambodia), AMIL (India) & AMZ (Zambia) as three portfolio companies (investees): majority held equity stakes
- AMIL & AMZ greenfield operations started 2011-12

Introduction to Agora Microfinance

- Clients: AMK 450k, AMIL & AMZ 10k each
- Products: Loans, deposits (AMK only), m-insurance, Remittance/m-payments (AMK only)
- Combined assets \$165m
- AMIL and AMZ break-even 2015-16

Why is dimension 6 “balance social and financial performance” important to you as investor?

- We see them as two sides of the same coin: social performance aims to improve clients’ conditions, which in turn can only have a positive impact on MFI performance
- Skewed operations – on either end – are not sustainable in our view, and do more harm than good to clients, MFI and the industry

What mechanisms have you put in place to meet the standards and practices of this dimension?

- Governance: focusing on operational, financial and social strategy from the beginning
- Research capacity to obtain, analyze and operationalize market as well as client information
- Expectations on executive management, investors' and MFI profits attractive but reasonable

How do you set and monitor growth rates?

- Determined by market conditions (demand), funding and internal capacity, reviewed every six months
- India example: slower growth to allow for product suitability/customisation, better financial controls
- Zambia example: faster growth had to be revised due to internal capacity challenges

How and why did you decide on the appropriate financial structure of Agora?

- Holding Company structure
- Exits not at a pre-determined date provides flexibility in managing investments
- Downside: Harder to raise funds
- Upside: Exit priority less likely to put pressure on MFIs

How do you set your financial return expectations?

- Equity investments aim for a reasonable MFI level profitability ***in local currency***.
- Assuming the social goals are being met, the financial returns that we target are:
 - Long-term MFI profits at cost of debt + 3%-5%
 - ~ 12%-15% RoE for investors in USD terms
- When profits exceed these levels there is a discussion on client-level pricing

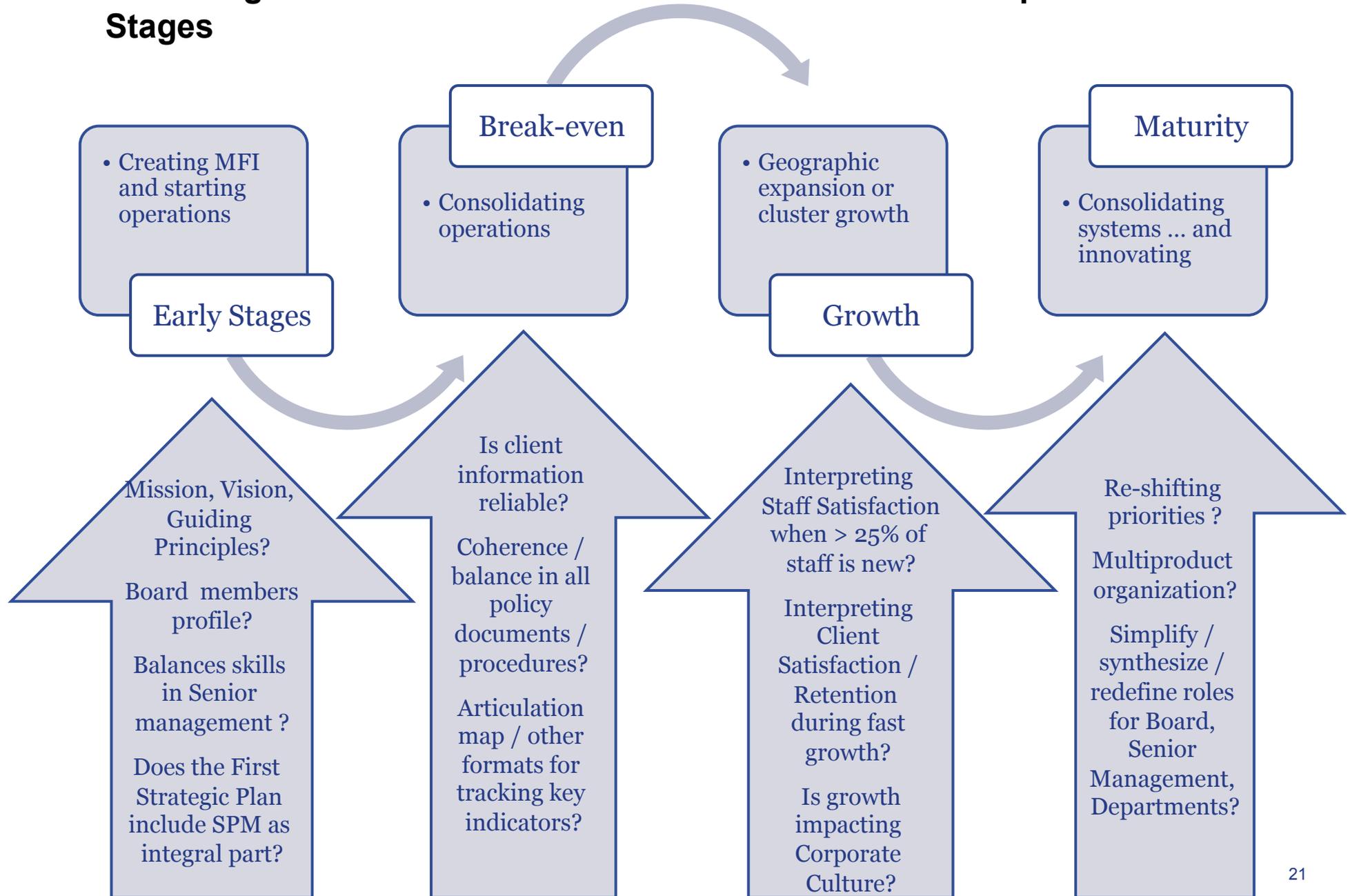
How do you balance senior management compensation with your social goals?

- Senior management compensation indexed to lowest professional salary in the company. (Lowest: Highest salaries between 30X-40X)
- Typically senior management not a significant shareholder

What is your advice for other investors and practitioners?

- Balancing Social and Financial Performance is not only applicable to profitable institutions
- Balancing Social and Financial Performance is also linked to the operational stage of the MFI (not only to its external context)
- If the aim is to balance, best to tackle it from the very beginning. If treated as an “after thought” it is more likely to become a trade-off

Balancing Social and Financial Performance in Different Operational Stages



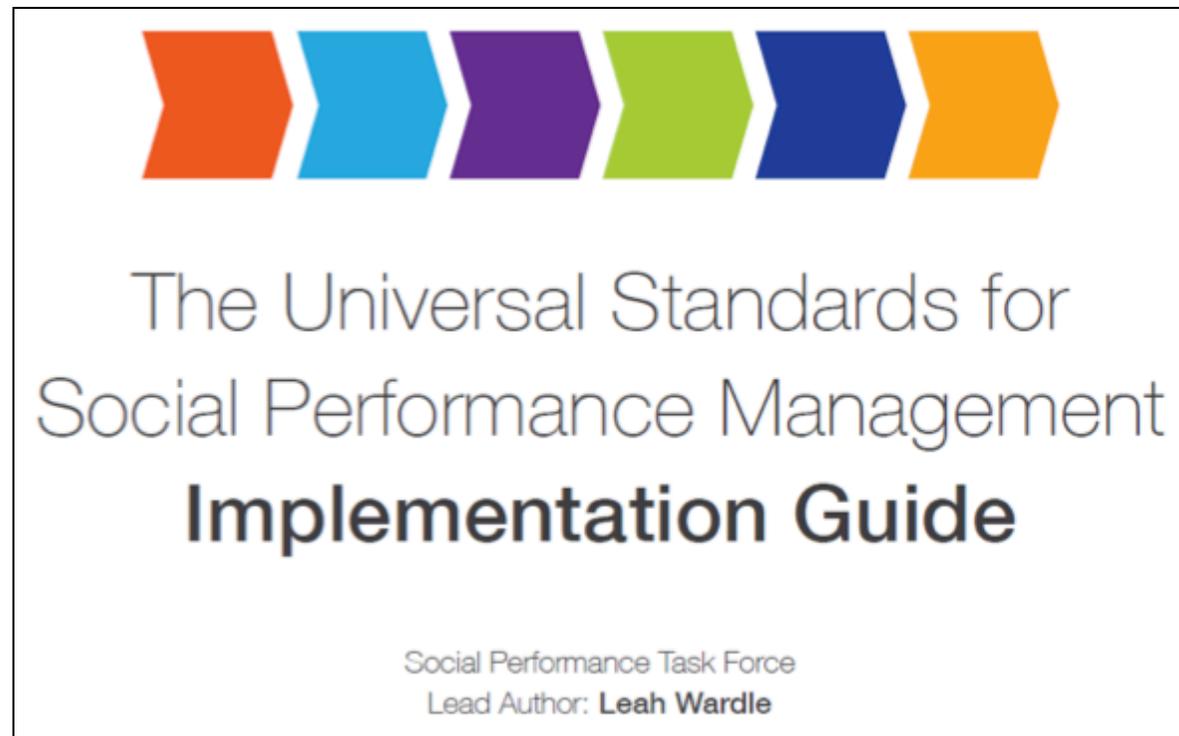
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Take Action: Use the Implementation Guide!



- Download the guide here: <http://sptf.info/spmstandards/universal-standards>

Take Action: Consult the Resource Center!

The screenshot shows the Social Performance Task Force website. At the top, there is a navigation bar with the logo, a 'Contact Us' button, a 'Sign Up / Registerse / Inscrivez-vous' button, a search bar, and a 'Select Language' dropdown. Below the navigation bar is a horizontal menu with links: Home, Universal Standards for SPM, Online Trainings, How Do I Start?, SP Tools, Resources, and SP Task Force. The main content area features a 'Featured Items' section with four items: 'Universal Standards Implementation Guide', 'Human centered design toolkit', 'Microfinance index of market outreach and saturation', and 'SPM4 Assessment Tool'. Below this is a grid of four dimensions: Dimension 1: Define and monitor social goals; Dimension 2: Ensure board, management, and employee commitment to social goals; Dimension 3: Design products and services that meet clients' needs and preferences; and Dimension 4: Treat clients responsibly. Each dimension includes a list of related resources.

Featured Items

- Universal Standards Implementation Guide**
The Universal Standards Implementation Guide offers comprehensive guidance to financial institutions on how to implement the practices found in the Universal Standards for Social Performance Management.
- Human centered design toolkit**
This open-source toolkit walks users through the human-centered design process and supports them in activities such as building listening skills, running workshops, and implementing ideas — all of which can generate insights into clients' needs that can be turned into effective product design.
- Microfinance index of market outreach and saturation**
The Microfinance Index of Market Outreach and Saturation is an analysis of credit market capacity using the Global Index dataset, offered by Planet Rating.
- SPM4 Assessment Tool**
The CERISE SPM4 is a social audit tool that can be used for reporting and performance management, to assess level of implementation of the Universal Standards.

Dimension 1: Define and monitor social goals

1. Strategic management toolkit handbook
2. Imp-Act Indicators practice note

Dimension 2: Ensure board, management, and employee commitment to social goals

1. Governance guidance

Dimension 3: Design products and services that meet clients' needs and preferences

1. Portfolios of the poor

Dimension 4: Treat clients responsibly

1. Avoidance of over-indebtedness: Guidelines
2. Calculating transparent pricing tool
3. Client complaint

- Visit the resource center here: <http://sptf.info/resources/resource-center>

Where to find more information:

- The Universal Standards of SPM Manual:
<http://sptf.info/spmstandards/universal-standards>
- The SPI4 social audit tool:
<http://cerise-spi4.squarespace.com>
- The presentation and recording from today's session:
<http://www.sptf.info/online-trainings/universal-standards-implementation>
- The SPTF Resource Center:
<http://www.sptf.info/resources/resource-center>
- The SPM Implementation Guide:
<http://sptf.info/spmstandards/universal-standards>



Thank you for your participation!