

**SPTF Social Investor
Working Group**
May 12, 2022

Reaction to Bloomberg Article and YouTube Report, “The Dark Side of Microfinance”

- On May 2, 2022, Bloomberg Storyline published a video feature story, *The Dark Side of Microfinance*, which highlighted abusive collection practices and other forms of client exploitation among microfinance providers. The link to the video can be found [here](#) as well as the article [Big Money Backs Tiny Loans That Led to Debt, Despair and Even Suicide](#) and subsequent article specifically on Cambodia, [World Bank Reviews Alleged Abuses by Cambodian Microlenders](#).
- SPTF put together an open letter to the reporters of that story, setting forth the ways the Universal Standards safeguard against such abuses for the last 10 years. You can find SPTF’s full response [here](#).
- The report by Bloomberg fails to highlight the work that has already been done around consumer protection standards. The video and article speak about the lack of regulatory oversight, the fact that MFIs are operating on their own terms, the lack of standards and practices that protect borrowers, and interest rates and profit levels. All of these topics are at the core of SPTF’s work so far.
- We hope to answer the following questions in today’s conversation:
 - What have you heard from your stakeholders in response to Bloomberg’s report?
 - How can we better respond to these concerns?
 - What have you done as investors so far?
 - What are you planning to do?
 - How can SPTF help you provide a more nuanced and honest picture of what the industry is all about?

Dannet Castillo (Incofin):

- We have been following this conversation very closely and have read SPTF’s open letter. We fully agree with what has been written in that document. We think that what is included in this new Bloomberg article is nothing new. They are pulling data from old sources and not looking at enough samples. We do not think it is a very up-to-date picture, especially since they did not cover any of the positive work that has been done by SPTF and the client protection principles.
- The investment strategy at Incofin for many years is to work only with clients that have client protection certifications. Over the past five years, we have started to divest in the market, moving away from institutions that are not even bothering to consider client protections as an important part of their business practices. We discourage other investors from investing in institutions that are not certified and show our portfolio as a way to protect the market and industry. We’ve seen that some of our warnings are not always taken into consideration, and institutions that are either non CPP-certified or have had their certification revoked are still receiving large amounts of financing. We will continue to say this is how we are going to operate in Cambodia.
- In the coming weeks, we plan to promote positive outcomes through articles to the public. To combat the negative parts, we need to provide more positive stories.

Safeya Zeitoun (Tameo Impact Fund Solutions):

- Investors tend to be very unhappy with this kind of news. What has been disappointing is that there have not been many counter arguments to what this type of article has been saying. As Dannet pointed out, a lot of the data in the article is outdated. If you look at the aggregate data they use, it was on funding flows, and the data on impact and clients is very little. They only mention a few number of cases, and it’s not something that is necessarily

new. I'm not saying that having any suicide is acceptable, and no one is going to lessen the gravity of that; however, it's true that the article completely disregards any positive effects of microfinance over the past years and acts as if it is entirely predatory which time and time again has been shown not to be the case.

- We have done a lot of interviews with end-clients asking how they have been impacted, and an overwhelming majority do say they experience positive impacts and that is completely missing from the picture in this article. It's almost as if they are saying that it is only negative impacts and only people being harmed so that banks can make money which is obviously not the case. They don't mention any of the academic research which has been ongoing for decades that has been measuring impacts more on aggregate than anecdotal evidence.
- It's just a bit sad that Bloomberg publishes these things and the only concrete data they have is on funding flows. I am not saying that this data or the anecdotal evidence is invalid, but it is really missing the bigger picture on the end client impact, and it would be worthwhile for people to point in that direction so that we don't fall into the same bad reputation that keeps coming every couple of years around this.

Jurgen Hammer (SPTF):

- Safeya, you are much nicer to the journalists than I would be because they had much more than just the aggregate data. Laura and I interviewed with them, and I'm sure they interviewed many other organizations that gave them a much more nuanced picture. We know how the media works, and we can't change that. What we have to do is to take lessons and change our behavior.
- They did surprising big research, interviewing a large number of people despite the flatness and weakness of the report.

Laure Foose (SPTF):

- Shockingly, they interviewed us a year ago in June 2021. We sent them the information on the lenders' guidelines and a lot of the positive work that is being done in Cambodia by many of you. We shared with them the alternative bright side, and they used nothing of it. We sent them links and documents. Frankly, the result was pretty lazy for having a year of research.

Edouard Sers (Grameen Crédit Agricole):

- Indeed, we saw in this article many old news that we all know. One of the information that was a bit new that they pointed to was that microfinance is not always used for income generating activities. I believe that we could improve our response on that to better explain why it is used sometimes for non-income generating activities such as household needs. The impact generated by the different use may be different.
- We have recently co-financed an impact study with SIDI on the SEF in South Africa, and there are some interesting conclusions on the impact of microcredit. I feel like as an industry we could better articulate the positive impact that we have. My view is that using a microcredit for household needs is not bad and can have very interesting impacts in terms of household well-being.

Tatiana Kalinina (Triodos Bank):

- I think what is going on in Cambodia is a good opportunity to highlight the work that SPTF is doing with the client protection pathways. This creates exactly the momentum to jump on this wave and say this is exactly why we are there and doing this work. Indeed, not everyone in microfinance is adhering to these principles so you have some institutions that are more impactful and responsible than others.
- Recently, we were working with 60 decibels, and I wonder if there is an opportunity to work more with them because they are really bringing the voice of the clients to the forefront. I think working with them as an intermediary could be a way to show what good feedback is.

Laure Foose (SPTF):

- We have actually financed through our Responsible Inclusive Finance facilities several of the financial inclusion impact studies that have been conducted by 60 decibels. We are doing a correlation analysis with them ahead of our annual meeting in September. What we want to do is take the financial inclusion index data and show how strong social performance management practices can lead to strong outcomes. Very much in line with what you are saying Tatiana.

Jurgen Hammer (SPTF):

- This conversation has been very much in line with the tone of our open letter. This is exactly why this network was created. This is what we have been dedicating our work for in the last 50 years. This is why we have been integrating lessons learned from failures. As many of you know, we had spent a year on improving client protection standards in terms of content and methodology (i.e., the certification and the different levels) in Cambodia.
- Yes, there is a big need for us to communicate, but there is also a big need for this industry to be much stronger and more aligned to all of the work that has been done. We think it is a moment to say “guys in the market, use these tools”. The client protection today is the best we can get in our industry in terms of testing, going forward and making it applicable and implementable. We have started a big effort to reach out to the DFIs to also jump on that train. Our best response is to highlight all the investors in this group that have aligned their work with the principles.

Safeya Zeitoun (Tameo Impact Fund Solutions):

- We worked with 60 decibels when they were preparing the questions for clients and had them include questions around whether clients were able to repay the debts, whether the loans are a burden for them to repay and also asking if they need to make sacrifices to repay the loans. This data has already been collected from 18,000 microfinance borrowers, and the results are going to be published in a few weeks. It is interesting to see the correlation between which clients are saying they are having more trouble repaying the loans and to take the lessons learned from that and share them with the industry. I think one of the trends we saw is that the burden of repayment was lower for group lending than for individual lending.
- I do think it is a good moment to encourage people to use the standards and for more organizations to do outcome measurements and make sure that people’s voices are heard. If they are exploited, then we should work to identify the main risk factors that cause them to be burdened by the loans.

Edouard Sers (Grameen Crédit Agricole):

- We started receiving some results from the 60 decibels survey. There are a small percentage of clients who are struggling to repay loans and are making sacrifices. We plan to connect with each MFI and go over the results with them, but I also wonder if there is an option to meet with them as a group.

Laure Foose (SPTF):

- In the 60 decibels draft report that we’ve seen, one of our comments was that there should really be a discussion around how to use outcomes data and not just around how to conduct the surveys. It’s wasted unless you take what is in the survey and make use of it for decision making. We want to do a big push on how to use the outcomes data for decision making. We were planning to do this at the annual meeting, but we could do it earlier through this working group or webinars if you all are interested.

Jurgen Hammer (SPTF):

- To Renee's comment in the chat: As you know, we have had a soft approach to regulators since it's really off-network, but we have been cooperating with the Alliance for Financial Inclusion (AFI) and have been invited to join the [Consumer Empowerment and Market Conduct Working](#) Group (CEMCWG) in early June to make a presentation on the new client protection pathway. I think it is a very important step to showcase all the practical experience that already exists and make sure that regulators see the market risk of those types of articles. We want to make sure that they are aware that over 15 years, this sector in a self-regulatory way has taken the responsibility to define what is responsible client treatment. This information has already tested and the quality is already verified by all you guys. We hope that this is the beginning of a more systematic cooperation with regulations.
- To Paul's comment in the chat: we have reached out to EDFI saying let's have a discussion. I think we need to get DFIs more involved and recognize the work that you all are doing as fund managers to make sure that your investees are responsible. I have been invited to speak at the KfW financial retreat in June on standards and responsible finance. If you have contacts at any specific DFIs, feel free to reach out to me and Laura.

Emmanuelle Javoy (Symbiotics):

- I wanted to share a few comments. Of course, the Compartamos IPO is very old, but it is the same business model and followers. My first reaction was that we are not going to publish any nice stories for now, but we are first going to be transparent about those risks and ask questions about microfinance (i.e., why are the interest rates higher?). Some of our funders are asking for more and more information on that. We have stricter guidelines now on client protection assessment because even before the article, this is something that is so important to us. We should separate positive impact and social risk. Client protection is a risk, and positive impact is something else. We should also better communicate that we understand the risks and are working to combat them.

Loic De Cannière (Chair of the Board of Directors at SPTF):

- I think we should also spread the message of what are the expectations around microfinance, what can we expect microfinance to achieve, and what microfinance cannot achieve. We should be very clear and use the outcomes studies we are doing—like the one with CERISE—to be very transparent and say in some cases microfinance does not have any impact, sometimes it helps clients to be more resilient, in others it improves the economic situation but sometimes it also worsens the economic situation. I would encourage everyone to look at each other's studies and see how we can better define the expectations for microfinance.

Transition to CERISE + SPTF Annual Meeting Discussion

Amelia Greenberg (SPTF):

- We have worked more on the agenda for each of the meetings. The first is June 22 online in coordination with the OECD, and the main elements of that presentation will feature a PhD researcher who did a study on finance for development impact, focused also on risk mitigation and doing good. They want to understand the best way to direct investment and donor funding toward the SDGs. The study looks at what is working and what's not working according to the stakeholders who are making decision about what to fund. The PhD researcher is going to share the results of her study, and some of the issues that surfaced when she was talking to different stakeholders.
- After she presents her study, we will have a little break and then we will have a panel discussion where someone from OECD, CERISE, ODI, and IDB will go into more detail regarding some of the questions she raised. We'll start with the main question of how the OECD's impact standards for financing sustainable development complement the updated

universal standards and how working together makes us more likely to achieve positive outcomes. The panel will also talk about where the standards fit with all the other principles and guidelines and why they are still filling a gap in terms of concrete actions that different actors can take. Then, the panel will discuss some of the obstacles to success, specifically around data and coordination.

- In September, what we want to do is focus on case studies. It will be an all-day in-person meeting with no online option. We've set aside three different time blocks to talk about case studies and six different studies will be represented so you can choose which three out of the six you would like to attend. Each case study discussion will feature speakers from more than one level in this chain of actors (i.e., the DFIs, donors, MIVs, and financial service providers). The examples will be pulled from real life, and we'll dive into what certain entities are doing and what lessons they've learned. We will also highlight for the audience how the Universal Standards align with the STI tool or the client protection research tools that we offer.
- **September 30th** is the day in coordination with OECD. Another major theme of their standards and our interests is governance, so some of the case studies examples will be about understanding what impact we are having and how to set up governance structures.
- Just to clarify, **September 28 and 29** will be the SPTF annual meetings and that's separate from the OECD meeting on the 30th. The 28th will be a working meeting day, so we will have an investor working group meeting and a digital financial standards (DFS) working group meetings that day. The 29th will be a big plenary day where we will stay together and be an opportunity to celebrate the 10-year anniversary of the Universal Standards and reflect on what they have done. We should be thinking about what we did the last 10 years and what we should look to do in the next 10 years.
 - One plenary session will focus on market systems thinking about some of the other actors, particularly regulators and national associations, who can use our tools.
 - We will have another plenary session on outcomes where we combine the data from the 60 decibels study on outcomes and our database around social audit data and do some interesting correlation analysis. We also want to more seamlessly integrate outcomes data in the SPI tool.
 - The third plenary session will focus on the environment. We now have a mandatory dimension 7 in the standards that is fully aligned with the new green index. We have a lot of very interesting case study examples of organizations that are implementing them in order to promote client wellbeing and their own sustainability.

Laure Foose (SPTF):

- On Edouard's question regarding the 60 decibels study, about 50 have an SPI and outcome survey results. We asked Sasha to work with organizations that had this data because we are hoping that we will see in the data that strong social performance management practices lead to these better outcomes. This data is a little biased because it is working with stronger SPM performers. In the future, it might be helpful for 60 decibels to also include fintechs, banks, and new operators that are not necessarily using the Universal Standards in their work. We could see if there is a difference between the outcomes of these two types of groups.

Jurgen Hammer (SPTF):

- Before I forget, we posted our open letter to Bloomberg on the Investor Working Group's LinkedIn page, so do have a look when you have a moment. Feel free to share communications or relevant reports that you have done there.
- One thing we have not spoken much about is the effect of the war in Ukraine. For your information, we had a call earlier this week with MFC, the network for Central Asia. We are thinking of scheduling a separate event for those who will be joining the MFC conference in Istanbul, specifically on topics related to Ukraine.

Franks Streppel (Triodos Investment Management):

- I think we have already discussed in this group and others the effects of the war in Ukraine. As a sector, we have proven that we are able to cooperate constructively, especially at the times of COVID. There are quite a few things that remain more or less the same. We obviously did the MOU which gives some guidance on the multistakeholder relationship and approach. One of my big takeaways from the call earlier this week was that we may need to be more active engaging with the MFIs out there. As a sector, a vote of confidence and support is valuable. The MFC conference could be an opportunity to dust off the old MOU and maybe make it more generic.

Closing Remarks

- Join our newsletter to stay informed about upcoming events, tools and resources. You can download the newest Universal Standards that were released in March 2022.
- If any investors have additional feedback on indicators after today's discussion, please email Jurgen Hammer: jurgenhammer@sptfnetwork.org