

**Social Investor Working Group Meeting
Marrakech – 2016 SPTF Annual Meeting
May 29, 2016**

Welcome

Dina Pons (Incofin IM, co-chair of the SIWG) welcomed participants and provided a brief overview of the objectives of the Social Investor Working Group (SIWG)

The current priorities of the SIWG, which were discussed at the previous meeting in NYC and for which we will provide updates today include:

1. Harmonizing investor due diligence and monitoring on social performance -- uptake of SPI4 ALINUS
2. Harmonizing loan agreements covenants in support of responsible microfinance
3. Measuring and reporting on social outcomes – guidelines and indicators being developed through the outcomes working group. We will be soon launching a pilot to field test the work
4. Pricing transparency – defining a model to continue to have transparent pricing data in the post MFT era
5. Aligning efforts with other initiatives in responsible finance (including PIIF, GIIN)

Other topics discussed in NYC included how to prevent over-indebtedness with the MIMOSA 2.0 tool and the development of social impact bonds. While we will not go into detail in these two topics today, we will continue to discuss these important topics going forward. Furthermore, for the investors in the room interested in learning more about MIMOSA 2.0, but Daniel Rozas is present in the room and can answer any questions on the updates and projects for the tool.

Dina also provided an update in the governance of the group and the SPTF. After several years of service, Dina is stepping off the SPTF board and also as co-chair of the SIWG. She –and Incofin - will remain an active participant of the SIWG. As result of the recently held elections for the SPTF board representing investors, Christophe Bochatay (Triple Jump) and Margot Quaegebeur (Anthos) have joined the board. They will both also join the leadership of the SIWG as co-chairs, together with Jurgen Hammer.

Update on PIIF (Principles for Investors in Inclusive Finance)

Jurgen Hammer (Grameen Credit Agricole, co-chair of the SIWG) provided a brief update of the current exchanges and collaboration between PIIF and the SPTF and topics relevant to investors in the room.

- The 2015 PIIF Report on Progress (based on 2014 data) was completed by +55 institutional investors. Results from this report showed little change with report from previous year.
- 2016 Plans:
 - PIIF plans the 2016 PIIF Report to be available in a more timely fashion (2016 report to be ready by September of this year) and include more concrete examples of investors implementing the PIIF principles.
 - PIIF and SPTF are in conversations to collaborate in the developing of a Market Map project that will provide key information in the impact investment market (SPTF's role would be to help develop the financial inclusion section of the map). The goal of the project is to connect investors to investment products through a web-based tool allowing easy access to key information on Environmental and Social thematic investments, and to help investors to identify potential investment opportunities and financial products to invest in this field.

Update and Uptake on the SPI4 and SPI4 ALINUS

Jon Salle (Cerise) provided an update on the recent developments of the SPI4.

- +150 SPI4 assessments completed and shared with Cerise, from 55 different countries
- SPI4 being downloaded an average of 10x a day from the Cerise website
- 6 FSPs using SPI4 as their Social Statement
- SPI4 is gaining traction in significant microfinance markets, including Philippines, India, Bolivia, Morocco, Ecuador, Kenya, and Ghana.
- Enhanced import modules include incorporating Smart assessment and certification files and MIX MRE files.
- Cerise has been working with MFC to develop a reporting for country networks

The benchmarks for SPI4 ALINUS show very close alignment with data coming from benchmarks of full SPI4.

Recent outreach of SPI4 ALINUS has included

- Email campaign to +40 FSPs that had completed an SPI4 to encourage them to share the results with their investors
- Email campaign to 20+ MIVs on SPI4 ALINUS to encourage them to share with their investees
- Since the March 2016 SIWG meeting in NYC
 - Several investors in pilot testing – Trijple Jump, Symbiotics, ADA/LMDF, Desjardins, CGAF, Incofin, Pamiga, Cordaid, Oickocredit, DC
 - Virtual trainings
 - In person trainings

Investors in the room shared their progress/experience with the SPI4 ALINUS

- Triple Jump has reached out to 21 of their investees who have completed full SPI4 to compare it to their own tool. So far they have analyzed 7 of these.
 - The scores of SPI4 and their own tool are very aligned. The only complexity now is managing two sets of documents/tools
 - Scope of SPI4 very good – however, Triple Jump does not think all indicators in SPI4 ALINUS are necessary.
 - Key element in the tool is the justification – it would be good to have these more broadly throughout the tool (not just in some questions).
 - The challenge of Triple Jump is the reliability of data if the SPI4 is used as a self-completed tool
- Cordaid has been using the SPI4 for a year now (not the full tool).
 - Discussions of the investment committee regarding social performance and balancing returns have been very improved by the dashboard that the SPI4 ALINUS provides.
 - The Cerise website offers a manual that has been very helpful
 - Organizing trainings with their investees in order to improve the quality of the data provided
- BNP Paribas mentioned that the popularity of the tool has significantly increased.
- Deutsche Bank mentioned that until now they had relied on their proprietary tool. They have conducted a mapping between the ALINUS scorecard and their own scorecard and found it to be very similar. In the past there has been a bit of resistance to change from their own tool but are now getting closer to doing the switch.
- Alterfin is comparing results between ALINUS and their own scorecards.
- Pamiga Finance has worked with full SPI4 and also SPI4 ALINUS.
 - SPI4 ALINUS was very easy to integrate into their own system
 - Discussed it with their own investors – very well received
 - Signed a partnership with MIX Gold to add ALINUS data to the basic report of data that MIX will give them
 - FSPs received the news of moving to ALINUS very well – especially regarding reducing the reporting burden
 - SPI4 being used mainly as self assessment, data validation being done by MIX Gold
- JAIDA mentioned that 6 Moroccan FSPs have conducted SPI4 assessments. They now have a national benchmark with the results of these social audits. JAIDA is also assisting a FSP in Morocco with Smart Certification. Fatima also mentioned that JAIDA is interested in getting involved in the transparent pricing project.
- Oikocredit has been working with the SPI4 and the SPI4 ALINUS for a while. SPI4 ALINUS has been used in Latin America, conducted assessments in the field with Cerise.
 - Within Oikocredit still a bit of resistance to drop proprietary tool.
 - Conducting webinars with staff in West Africa together with Cerise on SPI4 ALINUS. Its important to Oikocredit that all staff understand the

rationale of using ALINUS. They hope that in the medium term (3-5 years) ALINUS is adopted as their own scorecard.

- Incofin has pilot tested the SPI4 ALINUS comparing the results of SPI4 ALINUS and their own tool for the whole South East Asia portfolio. Results were presented to senior management, and were very well received. As a result, Incofin will transition to using SPI4 ALINUS as their own tool!
 - Suggestions: would like to be able to preview scores before importing, ECHOS (own tool) a bit more strict than SPI4 ALINUS and would like to close that gap, APR calculation (would be good to generate benchmark graph in SPI4 ALINUS).
 - Benefits of using ALINUS
 - Enhancing of social performance analysis
 - Harmonizing with the industry – all talking the same language also helps achieve our value creation theory in SPM
 - Reducing data collection and reporting burdens
 - Increasing visibility towards asset owners community – ALINUS indicators can be benchmarked and also aligned with IRIS indicators.

Update and Uptake of Lenders Guidelines for Setting Reasonable Covenants in Support of Responsible Microfinance.

Dina provided an update on the harmonization of lenders covenants

- Working group was established in 2012
- Latest version of guidelines finalized in 2014
- Incorporated in PIIF under Principle 3: Fair Treatment
- As of today, there are 15 endorsers including Actiam, AFD, AECID, Agora, BNP Paribas, Deutsche Bank, Grameen Credit Agricole Foundation, Grassroots Capital Management, Incofin Investment Management, Oikocredit, OPIC, Proparco, Triodos Investment Management, Triple Jump.

Dina and Jurgen also provided a few examples of FSPs who have been benefited from having had harmonized covenants from their lenders. When covenants are explained to FSPs they are very well received.

The guidelines are out and available and there is a lot of value that investors can provide to FPS by agreeing to them. The guidelines remain a relevant tool particularly for:

- Tier II/III MFIs, in non regulated markets with little covenant understanding (as portrayed in Dina's #1 example in Indonesia)
- Greenfields structuring their first debt deals to limit multiple covenants reporting in the future
- Tier I MFIs in high regulated competitive markets, to give bargaining power to request "responsible/needed" covenants
- In case of breach/default, it eases coordination during work-out groups

The revised version of the guidelines (incorporating feedback from endorsers) is available. The format is now an “educational group” for MIVs to disseminate with investees and asset owners.

The group would like to re-energize the conversation among endorsers and new potential endorsers.

Caroline Vance (Deutsche Bank) mentioned that we should be careful with messaging on covenants to make sure FSPs do not think that by signing the document they give away their decision making. She also suggested discussing in more depth how the group would act in case of a breach. Jurgen mentioned that at the end of the document there is a section that addresses how to coordinate and work in such a situation.

In relation to preventing breaches, Mathieu Merceret (Pamiga) mentioned the importance of making sure FSPs understand what they are signing.

Paul Luchtenburg (UNCDF) mentioned being very impressed with the work of the covenants, and the success of the SIWG in developing them. He added that they can also be used to empower FSPs to identify when a covenant being presented to them is out of line with the industry (i.e. With the guidelines).

Beatriz Moran (COFIDES) mentioned they agree and support the convenats.

Jurgen added that they should also be promoted by networks with their members.

Measuring, managing and reporting social outcomes

Lucia Spaggiari (Microfinanza Rating, Outcomes Working Group eMFP/SPTF) provided an update on the development of the guidelines for measuring, managing and reporting social outcomes for investors. Today’s session focused on how investors can get outcome data from investees. She shared a framework –developed based on experiences shared by investors- on how to obtain social outcome data. While there is no one single strategy for collecting outcome data there are seven decision steps that are common to all strategies. These include:

1. Coverage
2. Indicator comparability
3. Approach for implementation
4. Robustness of the method
5. Source of data
6. HR resources required
7. Budget required

In the development of the guidelines, Lucia mapped several investor organizations (Oikocredit, Triple Jump, BBVA MF, Saron, Root Capital, Acumen, Bamboo Finance) to the framework mentioned above.

A few questions came up in regards to clarifying the difference between outcome and output indicators, specifically regarding particular indicators being used by some of the investors in the case studies presented by Lucia (e.g., related to number of jobs created/sustained over time). Frances mentioned that this is an important part of the outcomes working group and will be discussed in the outcomes session on Monday.

Lucia asked investors in the room to share their experience on outcomes.

Dina mentioned that Incofin does not have a strategy for tracking outcomes and that the guidelines being developed will be very helpful. As she thinks about adopting a strategy, she wondered why some investors (e.g., TJ and Oikocredit) decided to not go for full coverage (measuring and tracking outcomes of all investees).

Christophe mentioned that Triple Jump's outcome strategy was developed as an effort to better understand what was going on with the FSPs at the client level, but not necessarily to compare their entire portfolio. At the same time, they are now facing requirements of some investors to report on specific outcomes, which they find easier to do on larger SMEs than with smaller organizations that do not capture data in such a detail, or do not renew the analysis made every year. This is why working with a sample is easier than with the full portfolio.

Andrea Dominguez mentioned that in the case of Oikocredit, their outcome strategy was a result of their mission of supporting partners to become stronger. The program first started in the Philippines and is now also in place with FSPs in India and other countries of Southeast Asia. In 2016 Oikocredit is expanding its outcome measurement efforts to FSPs in Latin America (starting in Nicaragua). They have 2 sets of criteria for engaging FSPs -- commitment from FSPs (in terms of availability of staff) and MIS in place.

She also mentioned that FSPs are starting to see the value of gathering and utilizing data. The goal of Oikocredit is to have 50 FSPs partners trained in outcomes management.

Laura Foose (SPTF) mentioned the pilot that SPTF is starting to test the social outcome indicators being developed by the Outcomes Working Group. The pilot will initially start in Peru and we would like to extend it to other countries (e.g., India). She encouraged all investors in the group interested in being part of the pilot to reach out to her/SPTF.

Lucia asked all investors in the group to please send her feedback on the draft version of the guidelines no later than the second week of June. The revised version – incorporating feedback from investors- will be shared in the coming months.

Transparent pricing data

Jurgen reminded everybody that it was investors -who last year at the SIWG meeting in Luxemburg after hearing that MFT would no longer be in operations – expressed interest in continuing to have transparent pricing data. Since then there have been many discussions in terms of how to put in place a model that would provide this data.

Lucia Spaggiari (Microfinanza Rating) provided an overview of the Data Platform model being proposed by Microfianza Rating in order to provide transparent pricing data of FPS to the market. This model can be coordinated with MFT, the Smart Campaign, MIMOSA, SPI4, other rating agencies, etc.

- Model Coverage - The model would gather pricing data but go beyond and include many other indicators that Microfinanza Rating gathers as a rating agency (e.g, balance sheets) and in the future continue to incorporate other available data by FSPs (e.g., outcome indicators, etc)
- Phase I – To cover the initial costs, subsidies could be contributed by MIVs, DFIs, Foundations. Data available would be that of Microfiannza Rating and MFT. Meanwhile a system would be built so that in Phase II other organizations can provide data.
- Phase II - Data would also incorporate submissions from other rating agencies, Cerise (SPI4), MIVs and DFIs, FI networks, individual FSPs. Microfinanza Rating would manage the platform, gather data, update and validate data, and be responsible for updating the APR prediction model. A website would be available for users to upload and download information. To cover the costs of this model there would be a subscription fee for users (DFIs, MIVs, regulators, research institutes, etc).
- Different that the MFT model, this model would only provide data to users (not open public). Aspects where the model would be better/equal than the MFT model include: confidentiality, access, collection, update, financial and social metrics, management expertise, cost. Aspects where the model will be a less valuable solution than MFT include uniform reliability of data (since it would include other sources of data), level of detail.
- Core and enhanced database – the core database would be the data from Microfiannza Rating. The enhanced database would include additional data from other rating agencies, MIVs and DFIs, validated SPI4 audits, FI networks, individual FSPs, etc.
- Quality control – there would be markers (e.g., 1 star vs. 3 stars) to show the quality of data.
- Uses of the data in the model include

- Assess responsible pricing
- Benchmark an investee to peers
- Benchmarks among investees
- Benchmarks investees to peers

Lucia asked investors in the room for feedback in three specific areas:

1. Are you collecting APR data? If so, how do you do it?
 - a. Oikocredit, BBVA FM, Deutsche, Grameen Jameel, BNP Paribas raised their hands.
 - b. Most of them calculate it on their own.
2. Is there willingness to pay a subscription fee for this platform?
 - a. Cordaid mentioned that it might be hard to explain the value to management without them being able to have a better sense/visual of the value that would be provided.
 - b. BNP Paribas was not sure about willingness to pay for subscription but mentioned that benchmarking would be an important feature.
3. What type of additional analysis and reporting format would be helpful?
 - a. More information on indicators to be available, information of the countries to be included.

Daniel Rozas added that the model proposed would be a one-stop shop for pricing, OID information, and potentially social outcomes. If this model does not exist, the information that until now was provided by MFT will no longer be available. It would also save time to investors in terms of them creating their own benchmarks. He mentioned that we should be aware of the chicken-egg problem (e.g., if waiting to see who else is involved to decide if to take part of it also means that if not enough people get involved on the beginning the model might not be viable and hence there will be no information for anybody).

Paul Luchtenburg (UNCDF) he mentioned that to make the model successful we need the type of “crusader” that Chuck was. The data is very important for the industry, but FSPs are not intrinsically motivated to provide it. We need somebody with the passion and perseverance to get the data. Obtaining data from raters/auditors is a good idea, but there are a lot of challenges to implement the model. It might be hard to get funding from investors. Lucia said that raters already have data (based on their ratings). Daniel Rozas added that this model would provide critical mass of data points.

Dina added that this is a very important initiative, as the industry currently does not longer have reliable updated pricing data. “Perfect is the enemy of the good” – the priority is to have APR data and around it SPI4 data. The industry needs this data. MIVs should try to convince their management to subscribe to an annual fee. Linking benchmarking data from SPI4 makes it even more convincing – as many MIVs in the room are already talking to their management about SPI4 as they pilot it.

Laura added that for those wondering why MIX would not be part of it, is that MIX was concerned about reliability of data. That is why having the raters involved makes sense.

Next Steps (by area of priority discussed):

- 1. Harmonizing investor due diligence and monitoring on social performance -- continue to push for further uptake of SPI4 ALINUS.**
 - a. Investors conducting (or close to conduct) pilots to complete pilots and report on them back to the group.
 - b. Investors not yet in pilot, to discuss with their organizations and conduct pilots

- 2. Harmonizing loan agreement covenants in support of responsible microfinance - The group agreed that it would like to re-energize the conversation among endorsers and new potential endorsers.**
 - a. Finalize revisions to document based on feedback received
 - b. Check in with current endorsers to ensure adoption/integration into their practices
 - c. Conduct a new “push” with potential endorsers
 - d. Case studies or testimonies of adaptors (implementation in standard loan documentation)

- 3. Measuring and reporting on social outcomes – guidelines and indicators being developed through the outcomes working group.**
 - a. SPTF to launch pilot to field test indicators and guidelines (first pilot to take place in Peru, additional ones to also be planned based on demand from regions and funding).
 - b. **Any investor interested in participating of the pilot, or having their partner FSPs be part of it, please contact us**

- 4. Pricing transparency – defining a model to continue to have transparent pricing data in the post MF*Transparency* era.**
 - a. Microfinance transparency to continue to revise the platform proposed based on feedback.
 - b. Investors to provide feedback on willingness to adopt the platform and pay a subscription fee.

- 5. Aligning efforts with other initiatives in responsible finance** (including PIIF, GIIN)
 - a. SPTF to continue to coordinate with partner initiatives.

Jurgen wrapped up the meeting and we all thanked Dina for her incredible work as co-chair of the SIWG.

Meeting attendees

	Organization	Name
1	Alterfin	Giordano, Caterina
2	Anthos	Quaegebeur-De Bruijn, Margot
3	BNP Paribas	Nayme, Alexandre
4	BBVA Microfinance Foundation	Garcia Van Gool, Stephanie
5	CERISE	Sallé, Jon
6	Compañía Española de Financiación del Desarrollo (COFIDES)	Morant, Beatriz
7	Cordaid Investment Management	Noe, Sascha
8	Deutsche Bank	Vance, Caroline
9	EDA/M-CRIL	Sinha, Frances
10	European Investment Bank (EIB)	Bargachi, Fildine
11	European Microfinance Platform (e-MFP)	Rozas, Daniel
12	Frankfurt School Financial Services GmbH	Menjour, Saad
13	Grameen Foundation India	Choudhury, Devahuti
14	Grameen-Jameel	Khimdjee, Zahra
15	Grammen Credit Agricole Foundation	Hammer, Jurgen R
16	Incofin IM	Liv, Dannet
17	Incofin IM	Pons, Dina
18	ING Bank Netherlands	Budjhawan, Roy
19	JAIDA	Bensaid, Fatima Zohra
20	JAIDA	Farah, Abdelkarim
21	JAIDA	Laasri, Ahmed
22	JAIDA	Rahaoui, AYA
23	Kiva	Costanzo, Nadia
24	Liechtenstein Development Service (LED)	Duenser, Heinz
25	LuxFLAG	Vankalas, Sachin S
26	Microfinanza Rating Srl	Spaggiari, Lucia
27	Oikocredit	Dominguez, Andrea Inés
28	Pamiga	Merceret, Mathieu
29	Symbiotics SA	Murray, Hannah
30	Triple Jump	Bochatay, Christophe
31	UNCDF	Luchtenburg, Paul W

SPTF staff included Laura Foose and Leticia Emme