

SPTF Annual Meeting 2016: Plenary Day 1 Notes

All Roads Lead to the Universal Standards

Speaker: Dina Pons, Incofin, SPTF board member, co-chair of the Social Investor Working Group

- Ms. Pons began by welcoming everyone to the conference and sharing why she decided to work in the microfinance industry: to contribute to the goal of financial inclusion, which has the potential to create both social and financial benefits.
- Ms. Pons shared a personal story from when she worked as an analyst at a rating agency. Her organization conducted double ratings, meaning both financial and social, and she recalled the contrast during the debriefing sessions, which were attended by board members, senior management, and the analysts from the rating agency, between discussions of the financial rating and the social rating.
- With the financial rating, the analysts often did not agree among themselves about what *conclusions* to draw, but there was a very clear consensus about the concepts, ratios, formulas such as how to measure portfolio quality or to assess the strength of the internal audit function (for example, responsibilities of the audit team, frequency of audits, methodologies to ensure independence of the audit).
- With the social rating, it was not the same. Sometimes the institution being rated had always described itself as social but had never actually had a social rating. Sometimes, the institution was not focused on social performance and was not interested in the social debriefing, and claimed that what the analysts were saying was unproved and surely subjective.
- **The greatest success of the Social Performance Task Force (SPTF), through expert input from more than 400 of its global members, is to have been able to gather, collect and develop, in a rigorous and transparent process, one of the most powerful documents in the industry – the Universal Standards for Social Performance Management.** This document provides a common language to express good practices in social performance management, facilitating understanding, implementation, and measurement of social performance practices. Our industry needed this document in order to continue to be able to claim that it truly is a double bottom line industry, pursuing both social and financial goals.
- With the Universal Standards, SPTF and its members are able to contradict the argument that social performance is subjective. The Universal Standards are to social performance what financial statements are to financial performance. With the Universal Standards, we speak a common language.
- Ms. Pons addressed those new to SPM in the room: The next time a cynic says to you, "...social performance is not a well defined concept, no one is in agreement about it, all of it is subject to interpretation, it really remains subjective..." I ask that you show them the Universal Standards for SPM document and tell them that their information is out of date, that the industry actually has reached agreement on ca

common language and a set of standards. **The Universal Standards for SPM are the social statement of our industry.**

- The Universal Standards are structured around six dimensions.
- Ms. Pons said she would speak about her experience in all six dimensions of management activity and began with dimensions 1 and 2: 1) Define and monitor social goals; 2) Ensure board, management, and employee commitment to social goals.
- Ms. Pons shared another personal story. In 2013, Incofin became a minority shareholder of a small bank in Asia. Dina's investment manager came back from his first board meeting at this bank and mentioned that while the organization had social performance activities, they had no methodology to track whether these were in line with their mission. He said, "Dina. I am realizing that this bank, in which we have become an investor, has a social mission and implements microfinance activities, but no one has ever considered how coherent the bank's activities are compared with its social mission. Is there a methodology that could help me convince our new partner that it must verify whether its microfinance activities actually align with its social mission?" Dina answered that she, personally, did not have a methodology, but the industry has defined THE methodology. Then she downloaded the Universal Standards manual as well as the implementation guide and practical case studies related to dimensions 1 and 2 (from the SPTF Resource Center) and handed these materials to Incofin's investment manager to share with the board and staff of the microfinance bank. Six month later, and thanks to the use of these materials, the bank set up a dashboard of its social indicators in line with its mission, and created a social performance committee within the board.
- This is just a small example of the power, use, and value of the Universal Standards. It was not a case of Incofin imposing its own methodology. Rather, our partner bank understood that we were proposing to put in place a methodology recognized by the industry.
- Dimension 3 – Define products, services, delivery models and channels that meet clients' needs and preferences. Ms. Pons did not discuss this dimension as the next panel was going to explore it in depth.
- Dimensions 4 and 5: 4) Treat clients responsibly; 5) Treat employees responsibly. For Ms. Pons, these dimensions prove the intelligence and the modesty of the SPTF. Why? In these areas, SPTF recognized that there already existed strong work developed by other organizations. Instead of reinventing, therefore, the SPTF integrated the work of other. Specifically, the Universal Standards integrate the work of Smart Campaign related to client protection and the work of the ILO related to labor/staff standards.
- Note that, as we will hear in a later session, the client protection principles are practices relevant of course to financial service providers, given their direct contact with clients, but also to central banks, whose regulations are guided by the same principles.
- Let's look at the example of preventing over-indebtedness. When I look at the number of practices in the Universal Standards related to preventing client over-indebtedness, I see that we are very from subjectivity. Any financial service provider that seeks to prevent client over-indebtedness will find the practices in this dimension

useful: limiting the number of parallel loans, promoting use of credit bureau information, methods to calculate client capacity to repay a loan. We are seeing these practices integrated into the regulatory framework of certain countries, where the regulators take care to contain tendencies to increase loans.

- Dimension 6 – Balance financial and social performance. This dimension provides the logical but also bold reminder that a financial service provider must assure its financial performance in order to be socially responsible. As we all know, microfinance is a particular sector where the profit earned by the organization is directly drawn from the interest charged to a client. This dimension helps us think of the balance between financial and social performance. We have a responsibility to be very thoughtful about our business model. Dimension 6 reminds us of this and lists very concrete practices. For example, it helps the financial service provider reflect on whether the amount of profit it is earning, as required by its investors, is the result of efficient operations and a reasonable price. The dimension also reminds us that the value created by a financial service provider can be the result of reasonable growth, whereas the result of too-rapid growth in pursuit of short-term returns on investment.
- As demonstrated by these examples, the Universal Standards are not a theoretical manual of what organizations must do. They are practical standards created for the industry and by the industry.
- SPTF members did not stop at the development of the Universal Standards. SPTF also teamed up with other industry leaders in an effort led by CERISE to develop the SPI4, a social assessment tool fully aligned with the Universal Standards that assesses Universal Standards implementation.
- Today, we are at crucial point of dissemination and implementation. We have the Universal Standards and we have the assessment tool (SPI4). Our duty today is not only to promote the tools, but to implement them. More than 150 organizations have conducted SPI4 assessments, investors are adopting it also¹ for their social due diligence and monitoring it. The more we all use the same tool (FSPs, investors, raters) the more we all contribute to a common language, and the better able we will be to produce consolidated information about our industry that we can analyze to determine whether we are truly in the process of achieving both social and financial benefits, which is our entire reason for being.
- The task is huge, the challenge is historical. We need to continue to work together as an industry. Convince skeptics not with options but with objective tools and information. We must change our practices to keep clients at the center of all our decisions, while all the while ensuring financial sustainability. We can prove that our model for how to solve the problem of financial exclusion can be sustainable in the long term while being implemented in a socially responsible manner, with social indicators that allow us to prove our performance.

¹ Investors have developed a shorter version of the SPI4 called the SPI4 ALINUS to use as the common social due diligence and monitoring tool.