Session Title: Social Investor Working Group Meeting
Date: 19 February 2018
Time: 11h00-18h00
Speakers: *Leticia Emme (SPTF), Christophe Bochatay (Triple Jump), Daniel Rozas (MIMOSA, eMFP), Frances Sinha (MCRIL), Catalina von Hildebrand (NpM), John Alex (Equitas), Cecile Lapenu (CERISE) and Jurgen Hammer (Grameen Credit Agricole), Dannet Liv (Incofin), Isabelle Barres (Smart Campaign), Lucia Spaggiari (MicroFinanza Rating), Laura Foose (SPTF), Buhle Goslar (Jumo), Ximena Escobar (Bamboo Finance), and Prerna Saxena (IFC)*

Welcome and Updates

- Leticia Emme (SPTF) and Christophe Bochatay (Triple Jump, co-chair of SIWG and Board Member of SPTF) welcomed investors around the room.
- Christophe flagged off the session by defining the goals of the investor group and its agenda for the day, emphasizing the importance of collaboration among members.

Over-indebtedness in India

- Daniel Rozas (MIMOSA) provided an update on the latest MIMOSA (Microfinance Index of Market Outreach and Saturation) country report on India, with a focus on Uttar Pradesh, Tamil Nadu and Maharashtra at the district level.
- A snapshot of findings showed that the South Indian market was highly saturated. Daniel explained the challenges in obtaining reliable data from entities and regulators.
- The report recorded a shift in majority microfinance portfolios from loan sizes of 10k-20k to loan sizes of 20k-50k. Banks and MFIs are no longer clearly delineated based on loan size.
- The Indian industry resembles that of Peru. Given that the market space is becoming common, the regulator will have to revise multiple lending restrictions presently applicable to MFIs alone, to ensure healthy competition.

Implementing the Universal Standards in India

- Frances Sinha (M-CRIL) used Dimension 5 of the Universal Standards (Treating Employees Responsibly) to discuss whether the Universal Standards should be tweaked to the Indian context.
  - Frances provided context to MFI lending in India. MFIs have a margin cap, hence there is a drive for operational efficiency which often manifests as low pay to ground staff (while high compensation to CEOs persist). She acknowledged cultural and infrastructural differences between MFIs in different geographies in India, especially between the north and the south and between the same MFIs operating in different states or rural vs. urban areas.
  - In most cases, particularly in the north, field staff is recruited from the same background as clients – often 10th and 12th grade graduates. This is to deliberately move away from the distance that formal lending channels have with clients. This tends to be the first job for staff, and to mitigate fraud, they are moved away from home areas, and frequently transferred/rotated to different areas every six months, which can be a barrier to relationship building with clients. Staff have early start

work days and are required to travel around on motor bike; this leads to a low percentage of staff who are women.
  - Local investors mentioned how their partner MFIs are encouraged to maintain gender parity in hiring and that remuneration is becoming more competitive for field staff. In Equitas, only 30% of staff are women, but this percentage is increasing.
  - Someone asked whether labor laws relating to working hours were adhered to in India. It was observed that in practice, the 8-hour workday was often exceeded. However, due to technology, work-from-home options are easier to exercise.
  - Attrition is another concern given that it is high during training.
  - Labor unions are not yet very present among MFI staff. However, this may change as MFIs move towards a small finance bank set-up. Still, unionization is rare even in private sector banks.
  - Data collection and payments are increasingly being made digitally, which cuts extra hours in the office.
  - Benchmarks of Dimension 5 of the Universal Standards in India paint a rosy picture. as only the "high achievers" have conducted an SPI4. It would be interesting to see how the numbers change as more organizations conduct the social audit.
  - Some things not captured by the Universal Standards that are important in regards to employee experience:
    - the Trust Index (evaluating employee experience)
    - Culture audit (people practices).

    Some investors mentioned the need to explore these prior to investment in Indian MFIs. It was also noted that many companies ranked as 'best places to work' are large corporates which have plush conditions that MFIs cannot replicate.
  - It was also noted that while early stage MFIs have CFOs and CEOs, appointing a qualified HR head is often seen as a low priority.
  - According to multiple investors, best practices for remuneration are to maintain policies, be transparent about them, and cap executive remuneration. Another point discussed was the importance of tying business risks to treatment of employees, both to investors and management.

Responsible Exits

- Catalina von Hildebrand (NpM) provided context on the recent research conducted on responsible exits. Daniel Rozas (e-MFP) shared the process suggested to come up with a shortlist of entities based on several steps/screens, including meeting with regulatory approval, checking for exclusionary criteria like criminal history, non-transparent funding, etc. Other steps include:
  - *If minority stake:* Level of diligence will vary depending on stake to be sold (minority stake will be simpler), and whether board composition changes. Must examine whether the prospective buyer has an established track record of social investing, whether they have committed to social performance and client protection in the past, and whether they will add strategic value.
  - *If majority stake:* A consortium of sellers would have to arrive at a consensus on threshold of acceptability beforehand. Significant observation was that buyer profile did not matter. Sellers agnostic between FinTech, banks, VC, etc.
    - Will they add strategic value? Will they take the company to where I could not?

        - Does this align with the buyer's investment plans for the future?
        - Resources: Deep pockets and ability to introduce capital if required, as well as to provide non-financial support.
        - Plans for higher management.
        - Willingness to make explicit commitment to social mission *vide* a letter of comfort.
- John Alex (Equitas) spoke about the Equitas IPO and converting into a small finance bank. To go public, Equitas had to merge its various lending businesses. He discussed some of the key characteristics that helped ensure it was a responsible IPO:
    - More than 90% of investors were foreign investors and had social focus. Equitas made it a point to be 'fair and transparent' as a guiding principle from the start of business in 2006.
    - Even the disclosure document for public issue, and roadshows, mentioned that Equitas had a social purpose – with CEO salary cap being 40x that of the lowest paid employee, interest cap at 26%, and 5% of annual profits going toward housing, food security, livelihoods, etc.
    - Equitas was upfront with merchant banks and investors about social focus prior to IPO. It is hopeful about inspiring other organizations to focus business and social goals on a parallel level.
    - Equitas did not have buyer selection, and priorities were set in stone in the constitutional documents.

SPI4 and ALINUS

- Cecile Lapenu (CERISE) and Jurgen Hammer (Grameen Credit Agricole) led a discussion about the SPI4 Social Audit tool and the ALINUS.
- Cecile noted that the tool (currently Excel-based) might become an online tool in the future. ALINUS helps FSPs and investors speak the same language and allows investors to concentrate on what's important and compare with benchmark of peer organizations. Cecile updated the group on the FSPs, funds, and networks using ALINUS at present.
- She also pointed to the resources that are available to help through the conduction of SPI4 including the SPI4 audit guide and the Universal Standards Implementation Guide.
- Some investors provided testimony of use of ALINUS, which included Grameen Credit Agricole Foundation, Oikocredit, Incofin, and SIDI.
    - Grameen Credit Agricole Foundation has used the SPI4 ALINUS to analyze its portfolio. As a result, it was able to identify the geographies in which key strengths existed and where there were areas for improvement. This helped reformulate a strategy for origination (for example, overperformance in Tier 1 MFIs, and underperformance in Tier 2 MFIs).
    - SIDI noted that it originally had an internal tool but as it moves toward a more global, outcome-oriented approach, it is integrating SPI4 to see how it is positioned with other benchmarks. SPI4 also helps it to define social objectives with clients.
    - Incofin dropped its proprietary tool and adopted SPI4 ALINUS after pilot testing in its Asia portfolio. Findings of the pilot showed that investment managers did not find transitioning to ALINUS to be more time consuming than its in-house tool. Benefits also included having precise yes-or-no audit responses to the Universal Standards and less subjectivity. Presently, Incofin does all due diligence via ALINUS on excel, but soon hopes to take ALINUS online.

Lending Guidelines Monitoring in Cambodia

- Dannet Liv (Incofin) introduced the "golden child" of MFI lending: Cambodia – poor, underbanked, but with socially responsible lenders, low PAR, and high ROE. Present issue is whether there is a problem of over-indebtedness.
- Daniel Rozas (MIMOSA) observed that there was market saturation, but PAR remained low. Growth of microfinance sector was twice that of GDP. The purpose of the study was to have a dynamic picture of over-indebtedness, which could be tracked and used in discussions with MFIs and investors. The study was conducted in association with the Cambodia Microfinance Association (CMA), ADA, BIO, FMO, Incofin, MIMOSA. A compliance dashboard has been developed that CBC monitors.
- Daniel explained the components of the dashboards. The portfolio has been growing, as well as loan size, but this is in the absence of multiple lending.
    - Findings from the study showed that while there is no multiple lending, there is *constant refinancing* by the same lender. Therefore, there is evergreening of loans, and the risk is similar to multiple lending. Business cycles are the same, and repayment capacity stays the same, but loan tenors are doubled or tripled. Clients do not protest as they seek the highest loan value.
    - It is crucial for investors to observe these dashboards and the indicators – measuring a) stage of refinancing, b) size of loan.
    - The concentration of refinancing takes place in the first 'trimester' of the loan.
    - Observation of the dashboard could lead to a new way forward for self-regulation.
- Isabelle Barres (Smart Campaign) noted the need for more specific guidelines in markets vulnerable to over-indebtedness. The Universal Standards do not explore this in detail as it varies from market to market. Institutions may not be able to do much on an individual level, as over-indebtedness is a structural problem. There is a need for an early warning system that can monitor client actions before over-indebtedness kicks in. Isabelle shared some findings from the recently published "Financial Diaries" study.
    - The study researched whether clients were experiencing over-indebtedness (interviewed over 12 weeks, 6 interviews, over 730 payments).
    - Repayments exceeded capacity to repay.
    - MFIs looked at ability to repay from the point of view of the household, not individual, thus presuming the support of family in repaying.
    - During the study, many reported no earnings in this duration.
    - Remittances in Cambodia are significant, which is a risk in case they stop.

S&E performance of SME finance

- Lucia Spaggiari (MicroFinanza Rating) provided an update on the work that SPTF has been doing in exploring how the Universal Standards apply to SME finance.
- The first issue is defining what an SME is. Small and very small enterprises with assets < 3M USD have different issues from medium enterprises with assets between 3-25M USD. With medium enterprises, standards are well-covered with DFI policies.
- The issue arises with small and very small enterprises; they are not small enough to be ignored, but they not big enough to have in-depth E&S standards. The feasible approach is to have E&S risk management at the *portfolio* level. If full diligence is feasible, that may be adopted as well. Case-to-case approach necessary.

- From an investor point of view, the approach may be adapted to risk. One way to do this would be to set a threshold based on portfolio composition (indicative, 70% MF, 30% SME, to manage risk on par with an MFI).
- Social risks include child labor, health and safety, etc.
- Investors in the room noted they mostly work with “medium” enterprises which have fairly well-defined standards.
- Lucia mentioned that investor approach could be to either refrain from providing standards, or to handhold and suggest specific standards.

Digitalization and FinTech

- Laura Foose (SPTF) mentioned the partnership of SPTF and CDC in hosting a webinar series for investors on FinTech to discuss key aspects of client protection during due diligence and monitoring. Two webinars have been done and more will be taking place in the coming months. Recordings and presentations from past webinars can be accessed here.
- Isabelle Barres (Smart Campaign) noted how complex FinTech is, as it is often spoken of as a homogenous asset class, whereas it is important to understand what is being delivered, who the clients are, type of activity, the algorithms involved, etc. Activities in the FinTech space include lending, insurance, other financial products, liaising with regulators, blockchain-aided tech, capital markets, etc. It’s a fragmented world with different models.
- Two elements that will influence guidelines for FinTech as opposed to brick-and-mortar are: a) use of technology, and moving from high-tough to low-touch, and b) decentralization, with more partners on the value chain, which will require better identification of responsibility.
- Similar to the SPM theory of change for MFIs, FinTechs will need to show commitment, have know-how, and have information management systems to track change.
- Smart Campaign constituted a Community of Practice for practitioners in this fragmented community to discuss topics like transparency, underwriting, sales, complaint resolution, etc. It is working toward setting standards in consultation with investor and donor requirements.
- Isabelle used the example of mobile credit to articulate the difference in practice between the former and non-analog credit: digitized fund transfers and marketing, big data-influenced credit decisions, etc. The Community of Practice identified transparency as a crucial standard in the mobile credit business.
- Buhle Goslar (Jumo) shared the case of Jumo, a mobile FinTech company interfacing between banks and consumers. It issued mobile loans in 2015 and had a Smart Campaign assessment conducted in 2016. Its focus is on scaling up customer centricity.
    - Jumo uses alternative behavioral data instead of financial data to make credit scoring decisions with a mix of qualitative and data-driven models.
    - It focuses on transparency. In a physical model, transparency would translate to asking an entity if they explained terms and conditions on a piece of paper. Jumo intended to stay transparent in the FinTech space as well; however they knew that sending SMS messages, while helping tick the box, would not result in tangible social performance. It also did not want to increase data costs to clients. Analytics revealed that clients interacted with USSD screens, so Jumo downsized terms and conditions to under a page and included them in simple language into the USSD menus.
    - Jumo does not engage in push marketing. Competitors engage in heavy SMS marketing. But Jumo decided upfront what marketing would look like for each product, and it specified when SMS messages would be sent (only working hours, not

during holidays, etc), in alignment with the exacting consumer protection legislations in South Africa.
    - Jumo also has a social impact and ethics committee whom they report the above findings to.
- Ximena Escobar (Bamboo Finance) shared the learnings of Bamboo Finance in the FinTech space, in which it has invested 20M USD in Chile, Colombia, and Peru, as well as in other companies who have partial exposure to FinTech ("pay-as-you-go" models). FinTech has tremendous scope in reaching the underserved and reducing transaction costs. But trust issues will need to be addressed, as well as the problem of client's unfamiliarity with a transaction with an anonymous interface. The issue of power imbalances observed in MFIs also persist in FinTech.
- Prerna Saxena (IFC) shared the work that IFC has been leading in developing guidelines for responsible investing in FinTech. These guidelines have basis in the G20 High Level Principles of Digital Financial Inclusion. They acknowledge the importance of investing responsibly, requiring that investors self-subscribe to the guidelines, and ensuring that investees adhere to it as well.
    - Efforts are ongoing to engage and broaden investor awareness. The efforts were initiated by Goodwill in 2016, who reached out to form a broad core group, drafted guidelines, and started a consultative process.
    - The group would like to receive further feedback from investors during the next few months before finalizing the guidelines in June 2018.
    - Participants noted the distinction between high-level guidelines and practical standards. Both require candid discussion and extensive consultation. As a next step, SPTF will follow up with investors to get them engaged in providing feedback to the existing draft of the guidelines.

Data Platform

- Lucia Spaggiari (Microfinanza Rating) reviewed the platform model and status of development. The governance of the platform is composed of ADA, Smart Campaign, Cerise, Deutsche Bank, and others, with ownership of the data remaining with data providers.
- The initiative has partnered with MIMOSA so the data would be available on the same platform as reports.
- Subscription is required to access data. Data providers may access high-level data and broad global reports for free in exchange for providing data. Customized data analytical tools and reports will involve a cost.

Aligning efforts with initiatives in impact investing

- Leticia Emme (SPTF) provided updates on the work of various initiatives in the broader impact investing sector on impact measurement and management and how the SPTF has been involved with many of them. This is in response to the request from investor members for SPTF to coordinate with ongoing efforts in the broader impact investing sector.
    - As many initiatives develop tools and resources for the different investment themes, it is important that SPTF is involved so that investor members can help shape the tools and resources being developed for financial inclusion. The financial inclusion sector – and its tools, standards, and collaboration achieved – can also be an example to other sectors.

- In 2017 the World Economic Forum (WEF) launched an umbrella effort to help accelerate impact measurement and management (IMM). Under this effort, several action groups were formed.
  - One action group is connected to the work of the Global Impact Investing Network (GIIN) to provide strategies and resources for evidence-based approach to investing. Through the project called Navigating Impact, GIIN has partnered with SPTF for the latter to help develop the financial inclusion theme. SPTF has formed a group of collaborators who are helping shape this work. The group has prioritized 5 impact strategies to develop. Each strategy will be based on the dimensions that emerged from the Impact Management Project, include links to the most relevant SDGs, and provide metrics and evidence-based links to outcomes and impacts. This work is ongoing and many investors are part of it already. Any other investors interested in participating of this effort should contact Leticia Emme at leticiaemme@sptf.info.
  - Another action group under the WEF was led by the SPTF to develop guidance for engaging all affected stakeholders in impact investments. The Impact Management Project (IMP) has integrated the document that was developed by a group of +20 experts. The document, which gathers existing practice and examples into one document, provides a cycle of engaging with stakeholders, setting objectives, prioritizing the stakeholders and how to do so, implementing activities, understanding the experience of affected stakeholder's (people and planet), using data from measurement to learn and report, and re-setting objectives based on learnings. Leticia also mentioned that while the publication of the guidance document is an important step, further steps are needed to change practice. SPTF has been in conversations with GIIRS, Feedback Labs, and TONIC to help them integrate concepts of stakeholder engagement into their tools and surveys.
  - Another action group is related to the work of the Impact Management Project in setting shared fundamentals on impact measurement and management. The project has gathered input from +700 organizations.
  - Another action group is related to the work of the GIIN in developing an open resource for IMM tools and resources: the Impact Toolkit. SPTF and CERISE have submitted the Universal Standards, the Universal Standards Implementation Guide, and the SPI4 so that they are featured in this resource hub.
- UNPRI has also been active in developing resources for investors in impact investing. It has developed impact investing market maps for several investment themes. They partnered with SPTF to conduct a consultation process for the inclusive finance theme. SPTF held several calls with investors to gather feedback to the version developed by UNPRI and has recently submitted all feedback to UNPRI for them to integrate and finalize the market map.

Christophe Bochatay closed the meeting with concluding remarks and thanked all investors for their active participation. The next in person meeting of the group will likely take place in Luxembourg in June. SPTF will provide further details as they become available. Visit the SPTF Social Investor Working Group webpage for updates on its future meetings and work.

List of Participants

Organization	Name
Accion Technical Advisors India	Agrawal, Abhishek
ADA	Canetti, Sarah Canetti
AFD	Beck, Charlotte
Bamboo Capital Partners	Escobar, Ximena Escobar
Caspian Impact Investments	Pramod, Aishwarya
Center for Financial Inclusion (CFI)	Rhyne, Beth
CERISE	Lapenu, Cecile
Deutsche Asset Management	Howe, Sarah
Développement international Desjardins	Cote, Alexandre
Dia Vikas Capital Pvt. Ltd.	Bid, Manas
Dia Vikas Capital Pvt. Ltd.	Rajpal, Padma
Equitas Small Microfinance Bank	Alex, John
Grameen Credit Agricole Microfinance Foundation	Hammer, Jurgen
Grameen Credit Agricole Microfinance Foundation	Campos, Eric
Grameen Foundation India	Zia, Wamiq
Grassroots Capital/ Caspian Impact Investment Adviser	Hamilton, Anna
IFC	Saxena, Prerna
IFMR Capital	Mandhanya, Amit
Incofin	Liv, Danent LInarin
InFiNe	Van Ouytsel, Catherine
Juno	Goslar, Buhle
M-CRIL	Sinha, Frances
MicroFinanza Rating	Spaggiari, Lucia
MIMOSA / European Microfinance Platform (e-MFP)	Rozas, Daniel
NpM, Platform for Inclusive Finance	von Hildebrand, Catalina
Oikocredit (Maanaveeya Development & Fin. Pvt. Ltd.)	Potay, Madhavi
SIDI	Marcoux, Estelle
SPTF	Emme, Leticia
SPTF	Foose, Laura
Swiss Agency for Development & Cooperation	Ramm, Hans
Symbiotics Group	Saldanha, Shefali
The Smart Campaign	Barres, Isabelle
Triple Jump	Bochatay, Christophe
UNCDF	Luchtenburg, Paul