Sharing innovative practices for responsible microfinance investment

Brief No.2
Strengthening Governance for Responsible Finance: Examples from European Investment Funds

prepared by the e-MFP Making Microfinance Investment Responsible (MIR) Action Group

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EUROPEAN MICROFINANCE PLATFORM

The European Microfinance Platform (e-MFP) was founded formally in 2006. e-MFP is a growing network of over 130 organisations and individuals active in the area of microfinance. Its principal objective is to promote cooperation amongst European microfinance bodies working in developing countries, by facilitating communication and the exchange of information. It is a multi-stakeholder organisation representative of the European microfinance community. e-MFP members include banks, financial institutions, government agencies, NGOs, consultancy firms, researchers and universities. e-MFP's vision is to become the microfinance focal point in Europe linking with the South through its members.

EXECUTIVE SECRETARIAT

Christoph Pausch, Executive Secretary
Niamh Watters, Information Officer
Juana Ramírez, Microfinance Expert
European Microfinance Platform (e-MFP)
2 rue Sainte Zithe
L-2763 Luxembourg
Tel: +352 2627 1355
contact@e-mfp.eu
www.e-mfp.eu

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STRENGTHENING GOVERNANCE FOR RESPONSIBLE FINANCE: EXAMPLES FROM EUROPEAN INVESTMENT FUNDS

The microfinance sector is renewing its commitment to the double bottom line. In the last 2 years, more than 300 MFIs have reported social performance standards to the MIX. Over 500 have conducted social performance audits, 200 have undergone social ratings, and nearly 1000 sector stakeholders have endorsed The Smart Campaign1. Microfinance investment funds are collecting more social performance data than ever before and actively exploiting it in their day-to-day operations2. As positive as this is, enthusiasm alone cannot mitigate the risks facing the sector. Reputation risk, uncontrolled growth, overheated markets and economic crises still threaten to undermine progress. In addition, the flush of new tools, reporting formats and management approaches have left many actors overwhelmed. Now more than ever, strong governance is needed.

Governance refers to the decision-making mechanisms stakeholders use to regulate their activities. Good governance hinges on shared values, transparency and common goals. Recent efforts to endorse common principles and harmonize social performance reporting formats3, for example, contribute to sector-level governance, while audit and ratings of MFIs’ social performance can reinforce and orient decision-making mechanisms at the MFI level.

Microfinance investment funds have a critical role in governance. At the sector level, they carry considerable weight, channeling US$ 8 billion in investments to MFIs worldwide4. At the MFI-level, they have the potential to influence strategy and operations in a way that few stakeholders can, particularly as equity investors. This brief explores examples of how microfinance investment funds are stepping up to their governance role at the sector level, through investor coordination, and at the MFI level, through operational tools.

STRENGTHENING SECTOR GOVERNANCE THROUGH INVESTOR COORDINATION

As microfinance investments funds flourish, the need for greater coordination is becoming clear. Initiatives like the Principles for Investors in Inclusive Finance (Box 1) are one form of coordination; efforts to collaborate around targeting objectives (Box 2) and due diligence missions (Box 3) are another. If competition can be set aside, coordination can help promote growth in new markets, decrease the burden on MFIs, raise awareness on risks and collective mitigation strategies, and optimize human resources that can later be used to focus on capacity building. Investors say that coordination gives a richer perspective on the MFI’s social and financial performance, and facilitates exchange of information on investment criteria, processes, tools and contracts, thus furthering efforts to harmonize standards and set benchmarks.

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3. European Dialogue No.3
At this stage, joint actions like shared due diligence missions and informal working groups appear to be much easier to put in practice than a formal institutional collaboration.

**BOX 2. WORKING TOGETHER TO SUPPORT TIER 2 AND TIER 3 MFIs**

In June 2011, Investors which included many European Microfinance Platform members, Grameen Crédit Agricole Microfinance Foundation (GCAMF), Luxembourg Microfinance and Development Fund (LMDF), Alterfin, Etimos, PlaNE-rnsAbility, Solidarité Internationale pour le Développement et l’Investissement (SIDI), Cordaid, Triple Jump, Oikocredit, Incocin, and Norwegian Microfinance Initiative formed a working group to better understand each others’ investment practices. The group’s overall goal is to identify common challenges and opportunities for collaboration in view of supporting tier 2 and tier 3 MFIs. In particular, they want to formulate a standardized definition for tier 2 and 3 institutions, build a directory of tier 2 and 3 investors, reflect on foreign exchange hedging and small transaction sizes, and discuss how to better coordinate efficient technical assistance. A second meeting is planned during the European Microfinance Week in November 2011.

**BOX 3. CGAMF AND TRIPLE JUMP IN INDONESIA**

In Indonesia, GCAMF and Triple Jump conducted joint due diligence and proposed a syndicated loan to MFI MBK Ventura. Already a Triple Jump investee, MBK Ventura wanted a new loan in local currency. Triple Jump had already reached its funding ceiling with the MFI and contacted GCAMF to discuss a co-financing operation. GCAMF was already familiar with MBK Ventura, having already contacted the institution in the past.

Everyone benefitted from the operation. Triple Jump was able to meet its partner’s needs, MBK Ventura received the financing it needed and expanded its investor pool without the additional costs that come with putting together a new partnership (due diligence, legal costs, reporting costs), and GCAMF was able to launch a new deal in Indonesia.

Due diligence was conducted during 3 days in early February 2011 in the presence of investment managers from Triple Jump and GCAMF, and the development director of GCAMF. Two contracts resulted:

- A loan contract between the two investors and the MFI and
- A syndication contract between Triple Jump and GCAMF, stipulating that GCAMF pay Triple Jump for handling the loan administration (back office management and reporting).

The MFI reimburses into Triple Jump’s account, which in turn reimburses GCAMF. Each investor covers the foreign exchange fees. The total loan comprised of € 500,000 from Triple Jump and € 800,000 from GCAMF.

Triple Jump and GCAMF discussed the margin together, and Triple Jump led negotiation with the MFI. The two investors’ investment committees both approved the loan in March 2011, and the loan was disbursed in April.

Sometimes, coordination is the result of serendipity: a shared objective combined with being in the right place at the right time. However, in the early stages of collaborative efforts, the lack of formalized planning does not make investor coordination any less beneficial.
The decision to conduct joint due diligence of ProMujer Argentina emerged from a short conversation at a conference, in which the two investors realized they were targeting the same type of MFIs. Both were planning to attend an upcoming event in the region, and knew they would have staff there at the same time. More fundamentally, they decided that their aversion for risk, limited investment capacity and need to optimize staff justified this innovative pooling of efforts.

Before the visit, ADA and PlanIS-responsAbility shared information from the MFI (business plan, financial statements, annual reports, report on current debt holders) but also their own documents (assessments and monitoring tool). They drew up the agenda together. A conference call was organized with the MFI to prepare the due diligence, and during the visit, there were joint interviews with management, joint field visits and joint negotiation with the MFI. Back in Europe, the two parties shared information to determine the next steps.

If two heads are usually better than one, investor coordination still has some constraints. Joint due diligence requires considerable preparation. And, time management for a three-day mission usually conducted by one fund becomes more difficult as the number of participants multiply. There is always the risk of potential competition between the funds to get the deal. Finally, strong presence of investors supporting the same regions or types of MFIs can quickly turn “coordination” into simply targeting the same MFI, and thus exacerbate geographic concentration of assets and even lead to over-indebtedness of the MFI (Box 5). On several occasions, investors had to revise their loan proposals downward, in order to avoid over-burdening the MFI. In this respect, foundations often have more flexibility than commercial funds.

Too much funding is only the 22th biggest risk for the sector identified by the 2011 Banana Skin reports, but “too little funding” went from the 6th to the 23rd risk from 2010 to 2011. ADA tackled the issue of investment concentration raising a key question: Can ‘bad’ microfinance practices be the consequence of too much funding chasing too few microfinance institutions? As they point out in a working paper published in 2011, about 86% of the total outstanding portfolio of the 7 major microfinance investment vehicles went to the largest 250 MFIs (largest in terms of total assets), 10% to the next 150 MFIs and only 4% to the remaining MFIs. Such focus on the larger, older and more mature MFIs, might accelerate their growth, but they might also lead them to become less strict in their analysis and follow-up of projects, offering riskier loans and thus contributing to over-indebtedness of clients. The smaller, younger and less mature MFIs, on the other hand, have fewer opportunities to grow and to become more competitive.

In an online discussion on the paper, Elizabeth Ventura, of Confianza Peru shared that in Peru, market segmentation has driven up the price of financing of Tier 2 and 3 MFIs and drawn new private capital to Tier 1 institutions, motivated by high potential returns. This has led to much stronger competition, saturation of markets already being served and, ultimately over-indebtedness of clients. The result has been a drop in portfolio quality and the introduction of credit scoring methods that exclude a large part of the population.


Nevertheless, when objectives and expectations are clear, coordination can be a crucial risk management tool. Take, for example, a MFI that defaults on a loan. Investors may want nothing more than to get a full report as quickly as possible, in order to pressure the MFI to repay. If all the investors react the same way, MFI management will be bogged down by urgent requests rather than concentrating on what is going on in the field. A coordinated response both encourages investors to reflect before they react and sends a coherent message to the MFI.
Investor coordination is still nascent, and far from systematic. In many cases, it is a reaction to a rising threat, like in the case of over-indebtedness (see Box 7). But, as non-investor stakeholders work to put the tools in place to promote transparency and information sharing, coordination will become a lot easier. The MIX is working in this direction, with its Funding Structure Database (FSDB) and a new certified reporting format with more detailed, reliable and complete information for investors. This new format is expected to reduce the number of requests for information from MFIs and provide more accurate data on their level of indebtedness. Similar efforts are being made through Syminvest and Luminis, two platforms developed to enhance access to information for investors.

**BOX 6. EXAMPLE OF LENDERS’ GROUP**

When MFI partners breach covenants or risk default on their loans, some lenders attempt to organize a “lender’s group”. This starts by setting up a mailing list that includes the representatives of each organization funding the MFI. The group together decides on the process of increased monitoring, the questions they want to ask the MFI and the additional information they need. The MFI then replies to the group, rather than to individual institutions. This group approach avoids over-burdening the MFI and facilitates collective decisions rather than individual reactions. Lender groups are also necessary to harmonize the negotiations on standstill agreements, debt restructurings and TA support to help the MFI to overcome the specific challenges. The challenges that can come with formalizing a lender’s group point to the importance for an MFI to carefully select funders and donors who, in crisis, share the same values, visions and philosophies.

**BOX 7. INVESTORS COME TOGETHER TO ADDRESS CLIENT OVER-INDEBTEDNESS**

As the sector matures and high penetration markets become saturated and overheated, “learning the new rules of the game in saturated markets is a new challenge for all microfinance players” (CGAP Microfinance Blog, 29/09/2011). Investors are confronting this new reality in a number of ways.

**ResponAbility, Triodos and the Council of Microfinance Equity Funds** are co-financing a research team from the University of Zurich’s Center for Microfinance to explore over-indebtedness. The research (Kappel et al 2010) aims to identify early warning signs of over-indebtedness (OID). Drawing on data from countries facing over-indebtedness crises, the researchers came up with a set of 14 potential indicators to build the OID Index.

- Remittances (in USD) per capita
- MFI liquidity
- Market penetration
- Average loan balance per borrower
- Growth rate of total loan portfolio
- Productivity (borrowers per staff member)
- Quality and use of credit information system
- Loan requirements and lending methodology
- Perceived commercial bank involvement
- Growth and market targets
- Perceived levels and trends in competition
- Multiple lending
- Perceived investment flows
- Consumer lending

The authors emphasize the preliminary nature of their first findings, due to small sample size and data issues, but find that Bosnia and Herzegovina, Cambodia and Peru are at risk for over-indebtedness.

The authors reveal that a wealth of frequent and standardized macroeconomic and microeconomic data are required to build a comprehensive OID early warning index, but that for now, not all indicators used to construct the index have widely accepted standard definitions. The research team is therefore conducting follow-up research with Crédit Suisse to specify some of these indicators and suggest standard measurements. The first indicator tackled is the measurement for “market penetration” in microfinance markets.

In 2010, BlueOrchard convened several meetings during regional conferences in Latin America to discuss overindebtedness and its prevention. Representatives of 12 microfinance investment funds participated to discuss the situation in Peru, given growing concerns about the level of competition in the country. In 2011, investors are focusing on the situation in Cambodia. A group of 3 investors, led by BlueOrchard is commissioning a study on the topic.

**Finance in Motion** (manager of European Fund for Southeast Europe) has conducted studies on overindebtedness in Bosnia and Kosovo and is currently finalizing one in Azerbaijan. Data from Kosovo for example, shows much lower levels of over-indebtedness than in Bosnia: one likely factor is the existence of a functioning credit bureau to which all MFIs have reported for the past 5 years. Some investors, such as KfW, are putting more emphasis on credit bureaus in their due diligence and have developed checklists for staff to analyze the effectiveness of the credit information sharing at the country level.
STRENGTHENING GOVERNANCE AT THE MFI LEVEL

MFIs often have multiple objectives (financial, economic, social, environmental). Moreover, they must take into account stakeholders who are not necessarily represented on the Board of Directors. In this complex reality where corporate interests of investors intersect with social utility, strong governance is essential for the MFI to achieve the double or triple bottom line. Among the tools being tested to reinforce governance at the MFI level are shareholder agreements, social performance committees, and self-evaluation tools.

SHAREHOLDER AGREEMENTS

Shareholder agreements are an opportunity to set common rules and commitments among equity investors. Those agreements may include conditions to respect client protection, or commitment towards specific social objectives.

BOX 8: SHAREHOLDER AGREEMENTS WITH SOCIAL COMMITMENT

Focus on client protection. Incofin systematically integrates the client protection principles and social and environmental requirements in all shareholder agreements:

“[the partner has] to ensure that it complies with applicable social and environmental laws and respects all other social and environmental requirements as requested by the Investors, including without being limited to:

- Endorsing the Smart Campaign and defining and putting into practice the necessary tools to respect the Client Protection Principles;
- Reporting to the MIX Market on social performance;
- Complying with the IFC Social and Environmental Guidelines (including the list of excluded activities which shall be annexed to the Shareholders Agreement).”

The Incofin representative at the Board level is the key reference for following up on the effective implementation of such principles.

Senegal: promoting rural outreach and SPM systems. Saint Louis Finances (SLF) is a new rural microfinance institution located in Saint Louis, Senegal that started operations in April 2011. Offering a full range of services, credit, savings, and transfers to a large population living in the region, SLF will provide financing solutions to people living in rural areas.

Rural focus has been defined in the DNA of the MFI, through general principles outlined in the Shareholders’ Agreement that was signed on June 2010 in Dakar between KfW, IFC, Swiss Microfinance Holding (SMH), Oikocredit and Investisseur & Partenaire (I&P). This agreement demonstrates their willingness to invest together in SLF, and fixes also some general principles on social and environmental management of the MFI. FIDES, a Swiss-based company that focuses on rural microfinance, will manage the MFI for at least the first four years of operation.

Different aspects related to responsible finance have been integrated in the Shareholders’ Agreement:

- The core of the Shareholders’ Agreement undertakes to establish a Social and Environmental Management System and to designate a Social and Environmental Management System Officer.
- For the environment, a classical exclusion list (based on IFC and KfW principles) annexed to the Shareholders’ Agreement. Beyond this list, specific requirements are included so that SLF, as a rural MFI, shall finance environmentally sound projects which are at least in compliance with the local environmental laws and regulations and which contribute to the economic development of Senegal. The rural MFI’s clients are required to comply with national/local health, safety and environmental legislation and standards. Furthermore, the rural MFI shall ensure that the identification, credit analysis, and supervision of projects are carried out with due regard to ecological and environmental factors.
- For client protection, SLF must fully comply with all existing and future national laws and regulations on consumer protection and in particular, provide clients with clear and comprehensive information on the characteristics of all financial services. In addition, SLF must critically review each client’s repayment capacities before signing a loan agreement and refrain from any form of unfair or even harmful debt collection practices.
- Rural outreach: the investors came in because of the rural orientation of the MFI. The mission of SLF is defined in the Operating Policy Statement annexed to the Shareholders’ Agreement and states that SLF aims at promoting access to a wide range of financial services in rural and semi-urban areas of northern Senegal.
Indicators to be reported show also the importance of savings (i.e. one of the four performance indicators which are used to define the success of SLF; see below) and gender (e.g. all data are disaggregated by gender to follow outreach to women).

In a relative nascent formal commitment towards Social Performance Management (SPM) and environmental systems, the shareholders have not imposed a specific reporting format but rather social and environmental principles. Indicators related to social performance and environmental issues have to be reported to the Board for information on an annual basis (there are no specific targets officially set up or “financial sanctions” in case of no compliance). SLF has adopted FIDES’ SP monitoring and management system with its mix of around twenty indicators across three key areas:

1. Client Poverty Measurement with a poverty scorecard for based on the Progress out of Poverty Index (PPI).
2. Client Profiling (demographic and portfolio): rurality, gender, enterprises (types, stability and size), and client use of services (retention, drop-out, distribution of loans and savings).
3. Vulnerability Analysis (coping and asset building strategies): Questions related to clients’ formal and informal savings behavior, formal and informal insurance and distress sale of assets. These questions are highly context specific and help in the design of products based on existing strategies.

The objectives of the company are translated in the Management Service Contract, with performance indicators. There are four main performance indicators that are used over a specific period of time to define the success of SLF by the shareholders:

1. Outreach of the credit services (number of outstanding loans),
2. Outreach of the deposit services (number of voluntary depositors on savings accounts + solidarity groups depositors),
3. Sustainability (net income) and
4. Quality of portfolio (PAR 30).

In addition, as the MFI is designed for rural outreach, the Board is monitoring where the branches are built, client profiles, how the products are designed and the percentage of rural versus urban clients.

The Shareholders’ Agreement is governed and construed by English law, which ensures legal enforceability of the Agreement’s content.

Examples of shareholder agreements beyond microfinance. Beyond the microfinance sector, Oasis Capital (advised by Bamboo Finance), specializing in the financing of social entrepreneurship, has defined concrete targets and language to protect the social impact of its investments. This entails, for example, including the commitment to reach above a target percentage of clients from low-income segments in the investment documentation and company by-laws. Another example concerns establishing a “put option” granting the investor the irrevocable option to require the company to acquire or repurchase its shares in the event a strategic change would affect the company’s commitment to low-income customers.

“Social” commitments in shareholder agreements bring to a new level the management objectives often visible in the business plan, by formally safeguarding the mission. But the trend is quite recent, and there are still no benchmarks to assess stated social goals. In addition, social principles do not necessarily resolve typical tensions (cost of rural outreach vs risk, for example) and shareholders’ profit expectations. Finally, in a very competitive market, investment managers of equity funds may be reluctant to apply strict conditions to shareholder agreements. Some investors may prefer to help MFIs improving their practices through monitoring.

Social Performance Committees

Whatever the content of the shareholder agreements and the MFIs’ mission, it is important that the Board commits to monitoring the MFI’s achievements and make appropriate use of social information provided. A few MFIs have developed Social Performance Committees at the Board level to help the Board fulfill this function (see the SPM resource center for examples).
AMK works with about 250,000 clients, mainly in rural Cambodia. AMK’s main shareholder is Concern Worldwide. Social performance was integrated at the Board level through a Social Performance Committee (SPC) that has been operational since 2006 (see European Dialogue N°2 and Imp-Act Case Study for a detailed description).

The SPC ensures that AMK’s objectives include social goals with verifiable indicators. Originally, it gave feedback to the management on their research agenda and the quality / trustworthiness of the findings, and reported back to the Board on whether performance was on track for each of AMK’s social performance dimensions (depth of outreach, demand-driven products, client protection & transparency and other CSR). Increasingly, the SPC is focusing on bridging the gap between research and operations, making sure findings are integrated into management decisions, both at management and at Board levels. One example of this at the management level, is the publication of one-page research summaries in Khmer, to make sure operational staff benefit from the research findings. Another example at the Board level, is the collaboration of the SPC in shaping realistic and appropriate targets for social goals now that there is enough trend data available.

The focus on how to measure social performance has shifted, as AMK develops new savings and remittances products. The definition of client retention has also evolved, as the management gains insights into how clients combine different types of products. Efforts are being made to hone internal audit processes, to include client visits, center meetings and specific questions that address client protection.

The SPC has helped AMK to define and monitor key elements of its social performance, as the institution has grown. As guidelines for good practice in social performance progress, more MFIs are beginning to implement these within their management and reporting systems, often without a specific committee, but designating a manager for the purpose. But AMK Committee member Frances Sinha notes that having such a Committee at the Board level is a way of tapping into relevant skills for different aspects of social performance management, especially client-level research, monitoring and reporting. It can be an important focal point for the MFI as part of its commitment to social performance.

**BOX 10. THE SOCIAL COMMITTEE OF THE BOARD OF DIRECTORS OF APOYO INTEGRAL (EL SALVADOR)**

Apoyo Integral (AI), a MFI based in El Salvador, provides savings and loans to more than 44,000 active clients. AI’s main shareholders are Holding FUSAI (Fundación Salvadoreña de Apoyo Integral), the ACP group, BlueOrchard and Incofin.

During the last quarter of 2009, a Social Committee was created at the level of the Board of Directors. This committee is composed of top managers selected ad-hoc and shareholder representatives.

The Committee was created due to increased scrutiny of financial institutions, combined with the Board’s desire to include in the Annual Operations Plan (AOP) a more suitable definition of the organization’s social vision. The AOP includes a social strategy that defines the objectives, framework and mechanisms to monitor and evaluate social performance. AI also wanted to reinforce its ability to stay true to its mission and deepen social impact by introducing products not yet available in its market segment.

The Social Committee is the entity in charge of receiving and ensuring follow up of the monitoring reports on AI’s social strategy and social performance. It supervises the implementation of measures and policies on client protection, social and environmental responsibility and transparency and provides support for services, projects and programs designed to assist AI’s clients. It also coordinates market research and product development research.

**Action Plan for 2010**

The social objectives defined by the board of directors, included in the AOP 2010, and followed by the SC were to conduct a financial and environmental education program for 5% of clients, to launch the natural disaster microinsurance product as well as micropensions, to extend the life and health microinsurance product to 30% of clients and to provide technical assistance through qualified professional architects and engineers to 15% of clients with housing loans.

In 2011, AI began offering loans for a renewable energy product, Salva Sol basic, a solar lamp that also serves to charge batteries and mobile phones. Loans of less than US$100 are offered to low income families to buy this product that offers social and environmental benefits, including health improvements (it replaces highly polluting kerosene lamps).
The SC is also overseeing projects such as the reintegration of juvenile delinquents from criminal gangs and contributing to raise awareness against preventable diseases.

The SC supervises social objectives and reacts if activities are not responding according to plan. For example, taking into account the absence of clients during the trainings, field visits were organized to motivate clients and get their inputs; clients responded that they prefer to have the training in their place of work to avoid closing their business while attending courses. AI is trying to improve the content and duration of trainings and better design training schedules.

The SC has some challenges to face. Internally, suitable mechanisms have to be defined to capture the necessary information to build up the social indicators and loan officers have to be trained and incentivized to collect high quality information. Clients are not always willing to provide additional information that is perceived as compromising.

With the products offered, the support of the shareholders, and the active role of the Social Committee, Apoyo Integral is demonstrating how an MFI can finance and distribute sustainable products and services that improve the lives of the low income communities it serves.

**BOX 11. UJJIVAN SOCIAL PERFORMANCE MANAGEMENT COMMITTEE**

Ujjivan in India created a Social Performance Committee composed of investors (Michael & Susan Dell Foundation, Sequoia Capital) and the Managing Director in 2010. The Committee was a response to a social performance report by EDA Rural Systems from early 2009, which stated that “the Board has hitherto concentrated mostly on the financial performance of the company and although social issues are discussed between the senior management and Board members on a one to one basis, no agenda of social significance figure during the formal Board meetings.” The Committee now oversees social programs and non-financial initiatives undertaken by Ujjivan and monitors economic and social impact on the customer.

The lessons of these pioneer committees are coming into focus. A SPM Committee needs members with diverse backgrounds that complement each other. Three profiles stand out: 1) knowledge and understanding of local context and culture, 2) experience in microfinance/social performance, 3) skills with statistical analysis. In general, they include Board members and independent members.

An SPM Committee is justified once MFI operations are well under way, with a sizable amount of clients, and critical mass of data that the Board cannot manage alone. If the Board cannot determine if the MFI is reaching its objectives with the current system, or does not see the value added of data collection, then it may be time to put a SPM Committee in place, analyze the data and make recommendations.

A SPM Committee may deal with private and confidential information which can have market value such as client profile, geographic targeting, product diversification. This information should be used for internal reporting first, as market intelligence. The information is only released to external stakeholders when it no longer represents a competitive advantage. Reporting on social performance management should be seen as a strategic issue.

It is worth noting that the development of social performance monitoring tools, such as social dashboards, is making it easier to incorporate and monitor social performance issues at the Board level. As indicators become increasingly standardized and SPM tools are refined, social performance may integrate Board level decision-making to the extent that separate social performance committees are no longer necessary.

**STRENGTHENING BOARD CAPACITIES**

Social performance assessments generally rely on a predefined set of indicators that take stock and evaluate a wide range of process, practices and results related to social mission. Nevertheless, when social performance is integrated into governance, it is necessary to monitor a reduced number of indicators, prioritized according to the MFI specific goals and strategy, context and MIS. Inc cofin has actively participated in the process of designing, testing and implementing social performance dashboards for its partners, as a way to ensure timely and relevant information to Board members to manage social performance.
The fund has also developed a self-assessment tool for Boards, to push members to reflect on their own decision-making mechanisms.

**BOX 13. SELF EVALUATION OF THE BOARDS – THE EXPERIENCE OF INCOFIN**

**Dimensions**

1. Board Responsibilities
2. Board composition
3. Board Meetings Organization
4. Ethical Principles and conflicts of interest

The tool is designed to be applied once a year during a Board meeting. The objective is to foster discussion and analysis amongst shareholder rather than grade. Responses instantaneously produce a radar graph that guides discussions and action plans towards improving the efficiency of the MFI governing body. The tool has been used for four years by Banco FIE and is gradually being rolled out to other Incofin partners in which the fund has equity stakes in Latin America. The goal is to introduce it to its partners worldwide.

**Governance Score**

**Fulfilment of Board Responsibilities**

**Board Composition**

**Ethical principles and conflicts of interest**

**Board Organization and running**

**Grade Ranges**

- 91 – 100: Excellent Performance
- 81 – 90: Very Good Performance
- 71 – 80: Good Performance
- 56 – 70: Fair Good performance
- < 55: Insufficient

Source: David Dewez, Promoting Good Corporate Governance in Microfinance, Presentation of a self-assessment tool for Board of Directors, Incofin, June 2011
As sector stakeholders work to define common principles and values for responsible investment, investors are rising to the challenge of strengthening sector governance through collaborative efforts to manage risk and diversify support to MFIs without overlapping. At the MFI level, they are coming up with new tools and approaches to help MFIs to integrate social performance management into their core activities. These tools are designed to enable MFIs to strike that delicate balance between financial and social bottom lines and take into account the perspectives of all those affected by the institution—owners and directors, management and staff, clients or members, the community and the environment. Together, these governance-building efforts are nourishing the development of a mature microfinance sector that is capable of managing risks and offering valuable services to an increasing number of poor people.
REFERENCES

RESPONSIBLE FINANCE / CASE STUDIES


www.cgap.org/gm/document-1.9.54128/FN73.pdf


www2.ids.ac.uk/impact/.../CaseStudy_Summary_AMK_2010.pdf

http://www.seepnetwork.org/Pages/SocialPerformance.aspx

EXAMPLES OF STUDIES ON OVER-INDEBTEDNESS

Finance in Motion, video interview on over-indebtedness - http://microlinks.kdid.org/learning-marketplace/blogs/mfc-interviews-2011-elvira-lefting-over-indebtedness

ww.cmf.uzh.ch/research.html

BlueOrchard News 2010, Special Edition on Over-indebtedness
www.blueorchard.com

WEBSITES

CGAP Blog
www.microfinance.cgap.org

Microfinance Transparency
www.mftransparency.org

Principles for Investors in Inclusive Finance

Smart Campaign
www.smartcampaign.org

Social Performance Task Force
www.sptf.info
THIS BRIEF WAS WRITTEN THANKS TO THE INPUT OF THE FOLLOWING PARTICIPANTS:

Florent Bédécarrats, CERISE - www.cerise-microfinance.org
Sabrina Beeler, FIDES - www.fidesgroup.org
Christophe Bochatay, Triple Jump - www.triplejump.eu
Bonnie Brusky, Focus Conseil & Traduction - www.focus-cet.fr
Thi Hanh Cao, FIDES - www.fidesgroup.org
David Dewez, Incofin - www.incofin.org
Ximena Escobar de Nogales, BlueOrchard - www.blueorchard.org
Joséphine Gonzalez, PlaNis/ResponsAbility - www.responsability.com
Philippe Guichandut, Grameen Credit Agricole Microfinance Foundation - www.grameen-credit-agricole.org
Annette Krauss, Center of Microfinance University of Zurich - www.cmf.uzh.ch
Cécile Lapenu, CERISE - www.cerise-microfinance.org
Quentin Lecuyer, ADA - www.microfinance.lu
Ging Ledesma, Oikocredit - www.oikocredit.org
Silvia Melendez, Apoyo Integral - www.mixmarket.org/fr/mfi/apoyo-integral
Dina Pons, Incofin - www.incofin.com
Olga Torres, Agora Microfinance - www.agoramicrofinance.com
Frances Sinha, EDA Rural Systems - www.edarural.com
Kaspar Wansleben, LMDF - www.lmdf.lu
The European Microfinance Platform (e-MFP) was founded formally in 2006. e-MFP is a growing network of over 130 organisations and individuals active in the area of microfinance. Its principal objective is to promote co-operation amongst European microfinance bodies working in developing countries, by facilitating communication and the exchange of information. It is a multi-stakeholder organisation representative of the European microfinance community. e-MFP members include banks, financial institutions, government agencies, NGOs, consultancy firms, researchers and universities. e-MFP’s vision is to become the microfinance focal point in Europe linking with the South through its members.

EXECUTIVE SECRETARIAT

Christoph Pausch, Executive Secretary
Niamh Watters, Information Officer
Juana Ramirez, Microfinance Expert
European Microfinance Platform (e-MFP)
2 rue Sainte Zéthe
L-2763 Luxembourg
Tel: +352 2627 1355
contact@e-mfp.eu
www.e-mfp.eu
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