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# SPI4, the Universal Standards and Finance

Webinar

June 16, 2016

SP Fund 3<sup>rd</sup> round

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# CERISE

- Association focused on disseminating knowledge and tools for ethical finance
- **Founding members:** five French organizations specialized in microfinance
- **Partners:** MFIs, networks, TA providers, investors, donors, researchers, worldwide
- **Working areas:** impact and social performance, governance, rural and agricultural finance.

[www.cerise-microfinance.org](http://www.cerise-microfinance.org)

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# Social Performance Fund – 3<sup>rd</sup> round

## Who we target?

- MFIs, National networks, Local regulators, Investors

## SP Fund offer for Microfinance Stakeholders

- On-line trainings (in English, Spanish and Russian) for **network representatives, MFIs' managers, credit analysts** and **SPI4 auditors** on the data collection and use of SPI4
- Off site individual TA for selected MFIs, networks and credit analysts
- Scholarships to participate to SPTF annual meeting in 2016 and 2017

**First calls for proposals since January 2016**

More : <http://www.mfc.org.pl>

# Objectives of this webinar

1. **Discuss the key issues around Finance in SPM**
2. **Understand the key indicators related to Finance in the Universal Standards (and SPI4 filtering option)**
3. **See examples on how to improve practices on Finance**
4. **Identify technical resources**

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# What are the key issues around Finance in SPM?

# Dimension 4: Treat clients responsibly



- Finance to ensure transparent pricing for clients

# Dimension 6: Balance social and financial performance



## ■ Finance to manage:

- ❑ Growth target compatible with quality of services for clients
- ❑ Responsible funding strategy
- ❑ Fair compensation of managers aligned with social mission

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# How to assess practices on Finance?



# How to assess Finance issues with SPI4?

- Quick demo of filtering option for Finance: we find the key issues listed above.

Screenshot of Microsoft Excel showing the 'Révision' (Review) tab and the 'Ôter la protection de la feuille' (Remove sheet protection) dialog box. The 'Révision' tab is highlighted with a red box, and the 'Ôter la protection de la feuille' button is also highlighted with a red box. A red arrow points from the 'Révision' tab to the 'Ôter la protection de la feuille' button. Another red arrow points from the 'Ôter la protection de la feuille' button to the 'Plus' (+) button in the top right corner of the spreadsheet area. The spreadsheet content includes a 'Welcome ! Please fill out the questionnaire' message, a progress bar with steps Dim 2 to Dim 6, and a section titled 'INE AND MONITOR SOCIAL GOALS'.

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# Questions/Confusing or challenging indicators?

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# Examples on how to improve practices on Finance

# Reasonable Covenants, a Guideline developed by investors

- Investor Working group established in 2012
- Latest version of guidelines finalized in 2014
- 15 endorsers:

Actiam

Agence Française de Développement

AECID

Agora Microfinance N.V. and its affiliates

BNP-Paribas

Cordaid

Deutsche Bank Global Social Inv. Funds

Grameen Credit Agricole Foundation

Grassroots Capital

Incofin Investment Management

Oikocredit

OPIC

PROPARCO

Triodos Investment Management BV

Triple Jump

# Reasonable covenants, the content

- 7 financial covenants, e.g.
  - ❑ Solvency (CAR, leverage)
  - ❑ Portfolio quality (PAR30+ restructured; write off)  
Capital adequacy ratio:  $\text{Liabilities} / \text{Equity} < 5/1$
  - ❑ Net un-hedged foreign currency open position to equity
- 3 social undertakings
  - ❑ Maintain an average annual ROA level below 7.5%
  - ❑ Annual reporting of SP indicators to the Mix Market
  - ❑ Progressive Implementation of the Client Protection Principles.

# Usefulness Example#1

- **Indonesian MFI, USD 50m GLP, 400,000 clients**
- Six MIVs as debt providers with no harmonized covenants:
- Meanwhile the institution faced solvency issues:
  - Unconvincing equity increase plan from the MFI
  - Different “solvency” covenants: debt/equity vs CAR vs equity/assets
  - Complicated covenant monitoring and lack of understanding of covenants formula in general: Breach!
- Some lenders decided not to roll over, sending the wrong message to other investors.
- **A full harmonization of covenants could have potentially prevented this !**

# Usefulness Example#2

- **Myanmar MFI: USD 15m GLP, 30,000 clients, credit only financial institution:**
- One investor is discussing with the MFI, likely to be their first debt provider and is using the Guidelines for future negotiations with other MIVs
- One example: social undertaking – ROA < 7.5%
- MFI question: can we discuss the rationale for setting an upper limit on the ROA?
- Investor answer:
  - ❑ Linked to responsible growth and responsible pricing.
  - ❑ It is a “social undertaking”, thus a breach would only initiate a discussion.
- MFI feedback: No problem, our finance department does not foresee an ROA higher than 5% for the next five years.

# Usefulness Example#3

- Azerbaidjan microfinance : **foreign exchange** crisis !
  
- What if all MIVs had all implemented the Guidelines covenant on:
  - Net un-hedged foreign currency open position to equity
  - the Borrower shall commit not to pass FX risk on to its clients (ceiling of the level of hard currency loans extended to its clients as a % of its GLP).
  
- Would institutions and clients have been hit that hard?



# Role of these guidelines

## ■ A relevant tool in many different situations:

- ❑ For Tier II/III MFIs, in non regulated markets with little covenant understanding : learning tool
- ❑ For greenfields structuring their first debt deals: limiting multiple covenants reporting in the future
- ❑ For Tier I MFIs in high regulated competitive markets: bargaining power to request “responsible/needed” covenants
- ❑ In case of breach/default, it eases coordination during work-out groups

## The Guidelines was recently revised according to endorsers’ feedback:

- ❑ His format has changed to an “**Educational Tool**”: **final version to be released during the summer of 2016.**
- ❑ Have a look at the Guidelines and spread the word:  
[http://sptf.info/images/investor%20wg\\_2014%20lendersguidelines\\_reasonablecovenants\\_final\\_2014.pdf](http://sptf.info/images/investor%20wg_2014%20lendersguidelines_reasonablecovenants_final_2014.pdf)

## FIELD EXAMPLE 33. **EQUITAS MICRO FINANCE, INDIA SETS PROFIT POLICIES AND ALIGNS MANAGEMENT AND INVESTOR EXPECTATION**

Since 2007, [Equitas](#) has provided clients in Tamil Nadu, India with access to credit and other services. Equitas targets clients who are unable to access mainstream banks, and it prioritizes “transparency to clients, employees, society, regulators, government, lenders, and owners.”

Equitas takes the following measures to ensure that profit expectations are clear to management, the board, and funders:

- **Establish a cap for ROE:** When Equitas commenced lending, the institution set a ROE cap of 25% (the target ROE for the company is around 20%) which is based on the typical ROE range of 20 to 25% for nationalized Indian banks. The cap helps ensure that even after the company tapers off growth, benefits of efficiency gains from lower costs of scale will go to the clients through reduced rates or other services.
- **Establish a policy on the use of profits:** Equitas has a policy of allocating 5% of the company’s profits to fund social programs, including medical camps, skills development, and schools for clients’ children. Additionally, Equitas has approval to use up to 15% of the company’s net worth to create schools. These social programs are managed by an affiliated non-profit.
- **Establish social expectations:** In an attempt to align return expectations, the company clearly discloses the following to each potential investor prior to investment: the cap on ROE, use of profits to fund various social initiatives, and the Equitas philosophy on social interventions. Because the institution has been clear about its profit allocation policy from the onset, Equitas has been able to continue funding these programs to benefit its clients even in times of financial stress when ROE was under pressure.

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Any question on the Reasonable  
Covenants?

Experience to share ?

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# Technical resources for Finance department

# Where to find SPI4 and related resources?

[www.cerise-spi4.org](http://www.cerise-spi4.org)



[FAQ](#)

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DOWNLOAD SPI4



CONDUCT AN AUDIT



GET TRAINED



SPI4 IN NUMBERS

version 1.3 released FEB 2016

NEWSLETTER ALINUS  
SPI4 FOR INVESTORS

SPI4 BENCHMARKS OCT  
2015

QUALIFIED AUDITORS LIST

# Consult the SPTF Resource Center!

The screenshot shows the top navigation bar of the SPTF Resource Center website. It includes the Social Performance Task Force logo, a 'Contact Us' button, a 'Sign Up / Registerse / Inscrivez-vous' button, a search bar with a 'SEARCH' button, and a 'Select Language' dropdown menu. Below the navigation bar is a horizontal menu with links for 'Home', 'Universal Standards for SPM', 'Online Trainings', 'How Do I Start?', 'SP Tools', 'Resources', and 'SP Task Force'. The main content area features a 'Featured Items' section with four items: 'Universal Standards Implementation Guide', 'Human centered design toolkit', 'Microfinance index of market outreach and saturation', and 'SP4 Assessment Tool'. Below this is a section with four dimensions: 'Dimension 1: Define and monitor social goals', 'Dimension 2: Ensure board, management, and employee commitment to social goals', 'Dimension 3: Design products and services that meet clients' needs and preferences', and 'Dimension 4: Treat clients responsibly'. Each dimension has a corresponding icon and a list of resources.

**Featured Items**

- Universal Standards Implementation Guide**  
The Universal Standards Implementation Guide offers comprehensive guidance to financial institutions on how to implement the practices found in the Universal Standards for Social Performance Management.
- Human centered design toolkit**  
This open-source toolkit enables users through the human-centered design process and supports them in activities such as building listening skills, running workshops, and implementing ideas — all of which can generate insights into clients' lives that can be turned into effective product design.
- Microfinance index of market outreach and saturation**  
The Microfinance Index of Market Outreach and Saturation is an analysis of credit market capacity using the Global Findex dataset, offered by Findex Rating.
- SP4 Assessment Tool**  
The CERISE SP4 is a social audit tool that can be used for reporting and performance management, to assess level of implementation of the Universal Standards.

**Dimension 1: Define and monitor social goals**

- Strategic management toolkit handbook
- Imp-Act Indicators practice note

**Dimension 2: Ensure board, management, and employee commitment to social goals**

- Governance guidance

**Dimension 3: Design products and services that meet clients' needs and preferences**

- Portfolios of the poor

**Dimension 4: Treat clients responsibly**

- Avoidance of over-indebtedness: Guidelines
- Calculating transparent pricing tool
- Client complaint

<http://sptf.info/resources/resource-center>

# Specific resources for Finance

- **Universal Standards Implementation guide**
  - <http://sptf.info/spmstandards/universal-standards>
- **Smart operation:** see chapter on Finance: Appropriate roles for 11 areas of microfinance operations.
  - <http://www.smartcampaign.org/tools-a-resources/796>
- **Lenders' Guidelines for Setting Covenants in Support of Responsible Microfinance”**
  - [http://sptf.info/images/investor%20wg\\_2014%20lendersguidelines\\_reasnablecovenants\\_final\\_2014.pdf](http://sptf.info/images/investor%20wg_2014%20lendersguidelines_reasnablecovenants_final_2014.pdf)

# Specific resources for Finance

*SP Fund has developed a number of case studies for Finance and product development*

- [Case study "ABA Egypt Compliance with the Universal Standards in Dimension 2 and 6"](#)
- [How to set up a strategic alliance to improve financial and social performance based on example of partnership between the World Vision and FODEMI](#)



# If you need help ...

- SP Fund can offer off site TA in English, Spanish and Russian e.g.
  - Provide guidance in conducting an audit, understanding the indicators
  - Suggest existing tools which can help reduce SP gaps

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