

## ***SPI Investor* – (im)proving your social performance**

**A new social audit tool just for investors**

**M**icrofinance’s success is drawing the attention of financial markets and for good reason. A powerful tool of poverty alleviation, microfinance is also proving resilient to the recent economic downturn. Not only do MFIs have limited exposure to systemic risk, they are significantly less affected by macroeconomic shocks than commercial banks<sup>1</sup>. MFIs themselves have long had faith in their profit potential; apparently many investors now do, too. By end 2007, microfinance investment vehicles (MIVs) had over US\$ 5 billion assets under management<sup>2</sup>.

### **Main Indicators, All MIVs**

<b>Indicator</b>	<b>Value</b>
Average MIV Assets (\$ Million)	80.6
Nb of Years Since Inception	4.4
Annual Total Asset Growth of all 58 MIVs (2006-2007)	71.7%
Financial Instruments (% Microfinance Portfolio)	
Microfinance Portfolio in Debt	77.5%
Microfinance Portfolio in Equity	21.0%
Geographic Distribution (% Microfinance Portfolio)	
Eastern Europe and Central Asia	44.5%
Latin America	31.8%
Funders (% Investor Type)	
Public Investors	18.8%
Institutional Investors	40.6%
Retail Investors	29.8%
MIV Jurisdiction (% Total Assets)	
Western Europe	81.4%
North America	11.5%

Source: CGAP MIV Survey Main Findings, 09/2008 ;<http://www.iamfi.com/research.html#mivs>

Social utility is the main argument for microfinance investment. Investors who cannot clearly demonstrate the social impact of their activities risk overstating microfinance’s benefits and seeing their own reputation discredited when “problematic” aspects are publicized. But, for investors to make decisions based on social value added, they must be able to measure it.

Social audit tools for MFIs have multiplied in recent years (SEEP, 2008), helping innumerable MFIs improve their social performance. While some of these tools have been used by investors, MIVs deserve an audit methodology adapted to their own concerns. Social auditing offers investors a way to make sure they are “doing good”, by assessing their own social performance practices and those of their investees. Building on its seminal Social Performance Indicators (SPI) tool for MFIs, CERISE has developed the *SPI Investor* with this in mind.

Designed for and with investors, the *SPI Investor* helps MIVs take stock of their strategy, products and social impact. It can also be used as a management tool: to guide investment decisions, encourage diversification, ultimately reducing risk. Finally, it is a transparent reporting tool with benchmarking

<sup>1</sup> Krauss, Nicolas A. and Walter, Ingo, Can Microfinance Reduce Portfolio Volatility?(February 2008). NYU Working Paper No. FIN-06-034. Available at SSRN: <http://ssrn.com/abstract=1300771>

<sup>2</sup> Eurosif Research, Matt Christensen, PowerPoint Presentation at the MIV Roundtable on Responsible Finance organized by CGAP, June 19, 2008, Paris.

potential, a welcome addition to a field that is mostly self-regulated, and the mere act of investing in microfinance garners the label “socially responsible.”

### A collaborative development process

Drawing on concepts of socially responsible investment, the United Nations’ Principles for Responsible Investment (PRI), CGAP’s work on aid effectiveness and the SPI, CERISE has designed a four-dimensional tool that analyzes MIVs’ capacity to 1) target MFIs that most need external funding, 2) adapt services to the needs of MFI investees, 3) build capacity of MFI investees and 4) demonstrate social responsibility to the microfinance sector, and to the environment. A dozen private and public MIVs provided feedback on the tool’s framework and helped refine the indicators. The result is a user-friendly methodology reflective of different investment approaches and rich in information.

### What does it look like?

Divided into three sections, *SPI Investor* is a questionnaire. It is designed to be administered internally by MIV managers and/or investment officers. Results can be verified by outside auditors, rating agencies, MFIs or even other MIVs to ensure quality control.

**Part 1: Strategy:** The tool assesses social performance against the MIV’s own objectives. Therefore, the first section focuses on the investor’s strategy and social mission as well as the vision of the different stakeholders.

**Part 2: Social Performance of Investees:** The second section focuses on the aggregated social performance of the MIV’s investees, an indicator of the quality of an MIV’s investment decisions and level of exposure. This data also helps MIVs make investment choices on which MFIs to support. Some funds already collect data from their partner MFIs, a task that has become easier with the Social Performance Standards (SPS). Developed by the Social Performance Task Force, SPS have recently been added to the MIX Market’s reporting format. Soon, MIVs will have access to standardized social performance data for MFI investees.

**Part 3: Social Responsibility of the MIV:** Section three analyzes the MIV’s practices using social responsibility criteria based on the PRI framework. CERISE has adapted the environmental, social and governance aspects, crossing them with issues specific to microfinance based on the four dimensions of SPI and related indicators. Taken altogether, the indicators measure MIVs’ efforts to invest effectively and responsibly.

With over 150 million clients worldwide and growing strong, microfinance is increasingly in the public eye. The enthusiasm has boosted capital flows, especially in recent years. The sector’s dynamic growth has not been without pitfalls, however. There is a need for prudence, especially in today’s financial context. It’s time to go back to the basics: client proximity, simple and well-designed services, risk accountability and the double bottom line.

Tools that track and report social and financial performance do just this. MFIs can take their pick when it comes to social auditing; by contrast, investors have been somewhat forgotten. Until now. Still under testing, the *SPI Investor* tool has already changed the way investors think about social performance. Join us today and see for yourself.

#### Examples of Questions

- What is your investment strategy and social mission?
- What are your reasons for investing in microfinance?
- What kind of MFIs do you target?
- What products do you offer?
- How do you choose where to invest?
- Do you have investment criteria to select MFI ?
- Does you have a policy for reinforcing the social mission of investees?
- Is environmental impact a criteria for selecting MFIs ?

#### Why test the *SPI Investor*?

- Verify your investment effectiveness
- Know your investees better
- Help guide investment decisions
- Improve your social impact
- Promote social performance
- Promote transparency

Join us! Contact CERISE to be a part of the *SPI Investor*  
[cerise@cerise-microfinance.org](mailto:cerise@cerise-microfinance.org)