

**Finance United:
Impact Investors, Financial Service Providers and the SDGs**
Conference co-hosted by OECD and Cerise+SPTF
30 September 2020
Session Notes

<u>Name of session</u>	IFU-NMI-Svasti case study: Nordic Microfinance Initiative (NMI) integrates social performance management into its own investment management systems and into the governance structures of its investees. Speakers from the Investment Fund for Developing Countries (IFU), which invests in NMI, and from Svasti, an investee of NMI, will discuss how they collaborate with NMI to achieve their joint impact goals.
<u>Time</u>	2:30 pm – 3:30 pm
<u>Moderator</u>	Laura Foose , Executive Director, The Social Performance Task Force (SPTF)
<u>Speakers</u>	<p>Birgitte Bang Nielsen, Sustainability Director, Investment Fund for Developing Countries (IFU)</p> <p>Smriti Chandra, Board member, Svasti (via video - Svasti and NMI: Leveraging investor board participation to support social performance) This is a video produced by NMI to describe their role on the board of directors of Svasti, as equity investors. It outlines the role the universal standards and an assessment have in identifying current practice and gaps that can be addressed. NMI provides technical assistance funding to Svasti to help them improve practice. This video outlines a positive role that equity investors can play in getting FSPs to improve practice.</p> <p>Arunkumar Padmanabhan, CEO, Svasti</p> <p>Lone Søndergaard, Senior Investment Manager, Nordic Microfinance Initiative (NMI)</p>

Notes from the presentations and discussion:

Birgitte Bang Nielsen introduced IFU:

- IFU is one of the older DFI's – established in 1967.
- We are a self-governing fund.
- What we want to contribute to ultimately is building a green economy and a just and inclusive economy.

- In that overall goal, microfinance is a huge part. We want to see improved livelihoods, quality jobs, gender equality.

Lone Søndergaard introduced NMI:

- NMI represents public and private investors. 19 active investments.
- NMI invests with both the goal of positive social returns and good financial returns.
- With all its investments, NMI is an active partner. We sit on the boards of our investees and support them with NMI's technical assistance facility.
- Our mission is to empower people in developing countries.
- 4 topics we focus on in particular: governance, digitalization, sustainability, social performance
- The Universal Standards are particularly core to us because they help our partners practically translate their theory of change into practice and make it more likely they will achieve their social mission.

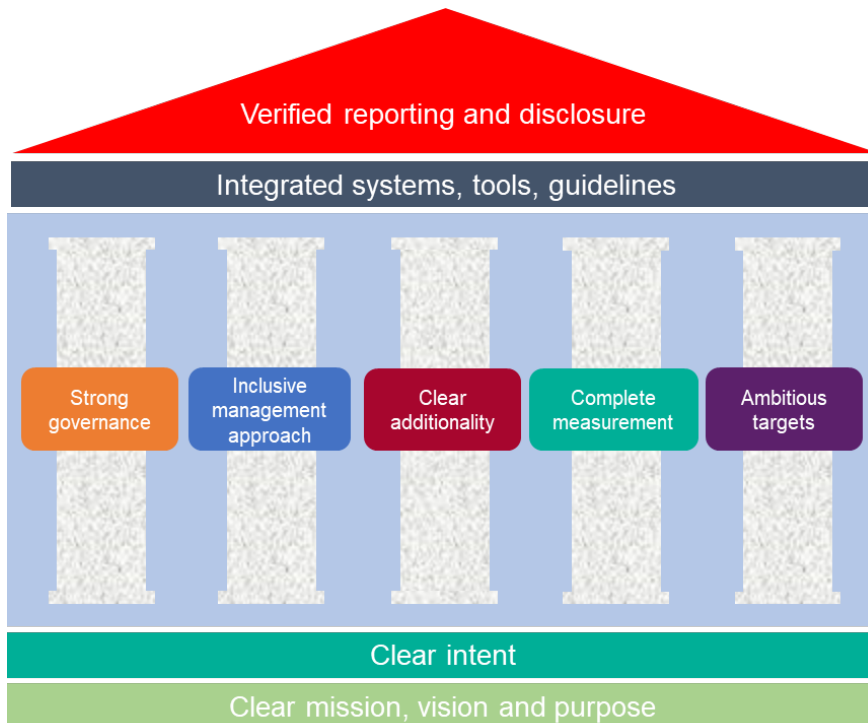
Arunkumar Padmanabhan introduced Svasti:

- Svasti is a financial service provider based in Mumbai.
- Arun began his career as a lawyer working at a bank in Mumbai. He used to volunteer in the slums outside of work. After six years, he felt more called to work on supporting entrepreneurship in the slums and pivoted into microfinance.
- Svasti's mission is to transform the lives of women. 100% of their borrowers are women, and their target is 10 million female borrowers by 2030.
- Svasti is in the middle of a journey with respect to its strategy. It changed its goals after input from the first social rating exercise Svasti underwent.
- Svasti's main goal now, in a single sentence is "To incorporate, in its entirety, the Universal Standards in letter and spirit"

Question 1 : How do standards help you achieve your goals?

Birgitte's response:

- We have had a new investment strategy since 2020 (see her slide of a house).
- IFU has integrated systems and governance structures to screen our investments against our strategy and goals. We have tools and guidelines according to the elements depicted in the graphic below and these elements has to trickle down to our investees. IFU cannot meet the performance criteria all by ourselves – the actions are with our clients. So, we now evaluate investees with this in mind, and look at the investees' intent. The investees don't have be all the way there yet, but they need to be on the journey to join us in the "ambitions of this house."



Lone's response:

What we do in our investment process is:

- a. Request our investees do an SPI4 assessment.
The results of the assessment aren't necessarily excellent at the start, but completion of the assessment demonstrates intent and provides a starting point. "And we can work with that." NMI has a TA facility to provide the support the investee needs to improve throughout our holding period.
- b. Incorporate it contractually:
The contract is where we spell out our expectations and put in writing that a social rating or a client protection certification is required.

Smriti's Response:

- NMI institutionalizes social performance within its investees. There are three main elements of our approach to doing this. First, at the time of investment, we ensure that the microfinance institutions (MFIs) are aligned on the mandate and commitment to implement a social performance framework within the company. Second, NMI provides ongoing support. We come onto the board, identify needs, and help with technical assistance. We monitor both social and commercial aspects of the business. Third, we check from time to time the progress the MFI has made toward the initial agreed upon goals.

Question 2: Arun, what has it been like to have a board member like Smriti from NMI, who really dives into social performance?

Arun's response:

- We work with the most vulnerable people. Our customers earn about \$300 a month on average, and we typically loan about \$300 to them. So, at first I thought, “We are already working with the poor. What more do I need to do?”
- My thinking over the years has changed. Initially, we only started using the Universal Standards because it was required by one of our initial funders.
- We looked at each element of the Universal Standards and figured out how to implement each of them.
- We started by getting some assessments done: a client protection assessment, a social rating, and a sustainability assessment. This gave us a very clear picture of where we stood.
- From that point, for each gap area, we identified exact field processes that we rolled out, with defined metrics associated with them. This meant we both knew where we stood on this path and were confident that we were going to make progress and do much better on our next assessment.
- At the time, we knew doing so would lead to at least some positive results for us, but I was surprised to find that everything we implemented made perfect business sense once it was up and running. That was a real lesson for me. Basically, there is a very close correlation between best business practices and these principles from the Universal Standards. For example, the Universal Standards had a positive impact on attrition. As the Universal Standards have really become part of our company's culture and values, customer surveys revealed that our employees began interacting with clients at a higher level, and that was why clients kept coming back to Svasti. Even sometimes if we don't offer the very lowest interest rate, clients stay with us because they appreciate the customer care.
- It's been favorable for us that investors requiring commitment to social performance is getting more prominent. We are clearly ahead of the curve, which is currently giving us an advantage in seeking funding from investors in this space.

Question from the audience 1: How specifically does Svasti integrate the Universal Standards into its operations?

Arun's response:

- The way we have implemented most of this is by weaving it into our normal processes. We don't have a separate department for it. We just extract social data at the same time that we extract financial data, and then it all goes in the same one system. From there, our built-in reports and dashboards report on all this data together.
- Once in a while, we do have some non-standard requests we have struggled with. But mostly we've just connected it all with the primary data in the business.

Question from the audience 2: New SFDR regulations are asking for indicators that are difficult to collect and puts an extra burden on the MFIs to improve reporting. Has this been an issue?

Arun's response:

- I'm not familiar with the regulation you mention, but our own regulations already require us to do complicated reporting completely outside our normal processes. Because we are already set up to handle those demands, if we have to produce a divergent type of reporting, it's not easy, but we can do it.

Question from the audience 3: Have you had experience sharing with other FSPs in India the value you found working with the Universal Standards?

Arun's response:

- Many Indian companies are looking at the standards keenly, with a lot of discussion and activity. We've gone through devastating problems over the years, and it has forged us together. Some of the benchmark companies in the sector have adopted the standards too and are leading the way. By 2030, we will maybe have a major office in India.

Question from the audience 4: How do you explain to your other investors the importance of the Universal Standards? Do they understand that implementing them improves the value in their portfolio?

Birgitte's response:

- At IFU, it's important for us to work with internationally recognized standards. We don't do only microfinance, but when we're in microfinance, we use the Universal Standards because we want to have an international level of performance in our investees and that is a common goal among DFIs.

Lone's response:

- The last time we went fundraising was several years ago. We're about to do it again, and I'm curious to see what the requests will be from the investors this time. We don't try to adhere to everything. We have chosen to use the Universal Standards and to follow the SPTF in general for promoting financial inclusion.

Question from the audience 5: Arun, you were saying you did not have a separate department for social performance, but can you estimate the investment of resources you did have to make, despite the TA you received?

Arun's response:

- We took on someone in a consulting role. She had in-depth knowledge about the Universal Standards and was an expert in the space. That was just one resource and not even full-time. She helped define our entire strategy in this and worked closely with me for some time. We went through the document line by line.
- However, once that was done, it just moved into my normal project team, who picked it up from there. They already deal with implementing new processes and/or changing the way in which we are collecting data, and this was just one more project for them. A special allocation of resources wasn't needed.
- However, I think we'll want to devote more resources going forward. We're at a place where we can comfortably afford it (can always use more, of course!), and it's a priority.

Question from the audience 6: How do you ensure responsible exits? How do you ensure the good work you've been doing at the board level will be replaced with somebody else who will continue with the same optimism and good work?

Birgitte's response:

- With NMI, from the first they had a clear social mission. That's what we were looking for. But when we asked them, how does this work in practice? There were less structures when we started our cooperation. We've improved that together. And now we are asking, "What will we do when we exit?" We don't really know how to responsibly exit. We don't always know who will be taking over. We don't control who buys our shares.

Lone's response:

- For us too, it's still unknown. We are currently thinking about how to formalize the social mission while we are in the holding period – how to get all the systems in place and the purpose and social mission put into our guiding legal documents. But, beyond that, it's still to be decided.

Birgitte added:

- I do think the exit plan begins the day you get in. If you can change mindsets while you are there, there's a greater chance that they will continue after we've left.

Comment from Loïc De Canniere (Incofin IM):

At Incofin, what we developed is a procedure called "responsible exits." When we are in the process of selling shares, we don't always accept the highest bid. We look for someone aligned with the social mission.

Comment from Laura Foose (SPTF):

It is all about reinforcing good governance that is aligned with your strategy. In the Universal Standards we have an essential practice that stresses the importance of the financial service provider engaging with equity investors whose investment strategy is aligned with the provider's social goals. They do this by discussing planned investment timeframes and exit strategies to assess alignment. Further, it is good practice to have shareholder agreements specify commitment to social goals, expected level and use of profits, and expected investment timeline and exit strategy.

Birgitte added:

- I want to recognize the new dimension on environmental protection in the Universal Standards. If we are really interested in client protection, and our clients are the most vulnerable to climate change, then we really have to focus on environmental protection and climate risks. It has to be THE thing we focus on for the future. It's not that we have all the solutions yet; but we know we must focus on the climate risks to the clients and the business and build resilience. We have to come up with some solutions together. New products that address the issue.

Lone added:

- A challenge that we have now is the increasing reporting requirements in general. How do we live up to the reporting requirements? How do we not throw that burden on our investees?

Arun added:

- We started looking at environmental protection recently, and it's clear there's going to be a lot of work defining where we are on that. But the good news is that there is a fair amount of commercial work coming to that space naturally. People need products/services that respond to and protect them from climate change. And all these sales need financing, so that's an opportunity for us to be involved. There's an alignment there. I see our portfolio on water sanitation, irrigation, roofing, solar, etc. expanding. We already have a dedicated portfolio for that, with specific funding coming to it.
- At the end of the day, the Universal Standards, including the green dimension, have to make sense for the company itself. Our experience is that 88% of this, though, DOES make sense. That is the point we need to stress now. And we are learning more about the rest.

Comment from Laura Foose:

That is a great note to end on. We want to make sure that what is asked of the investees really makes sense for them and does not make them collect information that is not helpful to their objectives or daily work. Clearly the relationship between the stakeholders on this panel is productive and reinforcing – all the actors have actively participated in working towards common social objectives.