SHARI BERENBACH

Thank you, John. When John reached out to me, he asked whether or not I could talk a bit about the microfinance field. Many of you know – it's good to be here, I'm Shari Berenbach. And I look out into the room, and I see so many old friends. Many of you know me in the sense that I had been the head of Calvert Foundation years past. And I have a number of my Calvert colleagues here. But before coming to Calvert Foundation in 1997, I really spent the early 80s onward working in the microfinance area. And often when people get together and talk about impact investing, the first thing they do will sort of say, well, we kind of want to do what microfinance did. And so the question is, well, what did microfinance do, because it was not just a quick and easy transition. Just real quick, to get a sense of the spectrum of institutions like the Grameen bank launched in the late 70s, 1976. And so there really was a continual stream of developments that sort of led to the formalization of microfinance, and the integration into the financial markets. And what I'd like to do is just unpack a little bit about what really happened when it was happening in real-time. First, I think it's important to recognize there are some specific characteristics of microfinance. And that is that pretty early on people realized that the need for financial services were so great, that it could only really be delivered if we were able to tap commercial, financial [?], standard capital markets that you really needed to be able to reach and link into the financial markets. And in order to do that, you needed local organization that could achieve sustainability, and grow to a significant scale. And you also needed the capacity to raise private capital, and to link to those capital markets. Otherwise you were never gonna be able to reach the billions of households that were looking for these services. And that the microfinance field actually benefited from a number of elements that is not necessarily true in the impact investing arena. In that there were a number of larger, non-governmental organizations, also called private voluntary organizations, that were receiving support from USAID and the World Bank. And so there was like a collection of individuals that were really all collectively working towards these objectives. And so what happened was that groups like USAID, or the World Bank, would give fairly substantial grants to some of these different NGOs to develop best practices. And to really be charged with disseminating those best practices around the globe. And at the same time, those same funders were actually funding academics to do research. And to verify different strategies and approaches and to publicize. So things like impact assessments weren't necessarily being done, funded by the individual NGO. They were being done by the academics that were being funded by the agencies. So all that was sort of unfolding. And then also what was important is that there's this whole network of international financial institutions such as International Finance Corporation. Or the International Investment Corporation, the IADB, or KFW from Germany, FMO from the Netherlands. And all those institutions became the early investors in this field. So you had a certain pre-qualified set of investors, institutional investors with substantial sums to invest. Who were sort of prime to kind of take the lead and help that market to get developed. So what happened, some of the things that for me were very, very important were steps that the NGO community took themselves in order to prepare themselves to grow to scale. And one is that there was a sort of a trade group called CEEP. I was actually there in 1983, when the organization was launched, and it continues to this day. And it was a trade association of the different organizations working the microfinance field. And as early as 1995, what they did is they actually came out with a primer of definitions in some standardized templates for financial statements. And so really, because as we know one of the things that happens with so many NGOs and non-profits in the impact investing space, is they each have their own way of describing themselves. And their financial statements are incredibly diverse. It makes it very difficult to compare them. But for example, just to drill down a moment because sometimes the granularity helps to make it clear. In order to determine portfolio at risk, back in the early 80s, people would use the term the delinquency rate. Or the repayment rate. And what would the repayment rate be? Well, the repayment rate would be looking at a given months, the interest that is do, and then is looking at how much they collected relative to the amount due. Well, one of the things that would happen that would kind of skew that number, is that often late payment might be coming in and really sort of taking the space of the payments that were due. And so you had all these MFIs were running around saying they had ninety-eight percent repayment rates. Well, what did that really mean? For example, so one of the things that this guide did was require organizations to report portfolio at risk. So they would have to list a full value of the outstanding loans that had a delinquent payment. It was just this whole notion of creating sort of standardized ways to begin to talk about performance. And that standardization became absolutely essential before you can start begin to compare apples to apples, and oranges to oranges. Also the whole thing about portfolio outstanding. They would be looking – a lot of groups would talk about, oh, well we've lent out a hundred million. Well, their portfolio at that time would [?] only be five million. And they revolved it. Once again, that was another place where you'd see these humongous numbers, but it really didn't correspond with the actual book of business, book of loans the organization had at the time. They even developed a couple of standards. The terminology that was very specific for the operational self-sufficiency, and financial self-sufficiency. Some of those kind of industry specific terms phased out over time. But it was really a very concerted effort at that very granule level, to kind of build consistency. And it was possible in part because, different than the impact investing world that we're dealing with now, microfinance everyone was doing pretty much the same line of business. So it was much easier to begin to compare performance from one to the next. And then also, since many organizations were funded by the same funders, it became much easier for those funders to all be requesting the same information in a consistent framework, which prompted the organizations, therefore, to track that information in [?] a consistent framework. Moving down the path, in 1995, CGAP, the Consultative Group to Assist the Poorest was launched. This is a big international effort housed at the World Bank. And to get a sense of their scale, just 2009 – I just pulled it off of Google, pulled it off of the website. Their budget in 2009 was sixteen million. So imagine this kind of money, ten, fifteen, twenty million, being plowed into infrastructure development year after year after year for more than a decade or two. I mean, it does start to create something. So some of the initiatives that they did, which I – you know, I was sort of out there working in the field while this was going on, just kind of watching it happen. For example, they did a whole stream around regulation. Really creating new regulatory models, convening regulators, advising regulators about how to go about creating the right kinds of laws and guidelines for microfinance institutions. They did a lot about market information. And for example, a gentleman named Bob Christian who's now at the Gates Foundation, launched something called the microbanking bulletin. And so what he was doing is getting MFIs to self-report their performance. And so you could begin to get hundreds of MFIs who are all using the same templates to report how they were performing. And then that allowed you to start to create some benchmarks. You worked very hard to create peers so that you were comparing rural MFIs to rural MFIs, and urban to urban---okay, auditors, once again, whole guidelines for auditors. How do you sample those portfolios? What are the best practices and requirements? Next came dedicated rating agencies. With those rating agencies, initially, the CGAPs and the American Development Bank would hire the raters, and that would give them a volume of business so they could really get off the ground and start to become financially sustainable. Then what would happen is they created a ratings pool. And individual MFIs could apply and get the grant dollars to be able to pay for the ratings. All this kind of market infrastructure. And then finally, and I guess this maybe is some of the places all, all end up. Is just this whole infrastructure around investment banking began to emerge. So the large houses became interested. But probably as significantly, there were all these kind of boutique fund managers that emerged, and were available to provide these services, to package the loans. You then had other firms like Triple Jump or Symbiotics that were just due diligence providers. So they could be contracted to provide the due diligence. There was different agencies that were involved in the very beginning, became fund managers themselves. So you had this whole evolution of a lot of the pieces that you need to make a market possible. So this is just what I was just talking to you, even though I didn’t slide it for you. And then this just breaks out in better detail. You can see a little bit about how this developed. The very first effort to create for the microfinance institutions to become formal, commercial banks. Recognition, if they’re gonna really tap the markets, they needed to be commercial banks.

There's been some of that going in the community development field. I thought there would be more of it, but certainly, it is very important. First Private Equity Fund was in 1995 for Blue Orchard. Dexia Fund got going in 1998. Local currency bonds. Copart [?] Thomas in 2001. NaBanco, 2002. [...?...] Securitization was in 2004. Big IPO, 2007, with Copart Thomas. I noticed that in 2009, they issued a hundred and fifteen million in debt offerings. While this institutional evolution, I do want to highlight that the individual social investors have been active ever since the beginning. So you have groups like [...?...] credit in the Netherlands that began in the late 70s. Partners for the Common Good was in the 80s. Calvert Mutual Fund Company got going, and doing this kind of investing in 1990. The Foundation was launched in '95. Responsibility, a large individual investor pool in Switzerland, was 2001. Microplace, the Ebay platform, 2007. So it's really been a long process. And I know that we're just getting started in the impact investing world. Thanks.